

PREM 19/835

confidential filing

Relations between central and local Government.

LOCAL GOVERNMENT.

Local authority expenditure.

Part 1 : May 1979

Local Authority Elections

Part 13 : July 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
19-7-82							
22.7.82							
23.7.82							
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4.10.82							
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15-10-82							
END							

PREM 19/835

PART 13 ends:-

M/S ENV to CST 15.10.82

PART 14 begins:-

s/s Transport to Pm

~~18.10.82~~ 69 18.10.82.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

HC Paper 127-1: Fifth Report from Transport
Committee, Session 1981-82 "Transport in
London"

HMSO, 28 July 1982

HC Paper 217-1: Second Report from
Environment Committee, Session 1981-82:
Enquiry into methods of financing local
government in context of Government's Green
Paper (Cmd. 8449)

Signed Wayland Date 27 September 2012

PREM Records Team



cc D

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT
AND ENVIRONMENTAL SERVICES

My Ref: H/PSO/16882/82

15th October 1982

Prime Minister (2)

Dear Leon

MT

MUS 75/10

RSG 1983/84: HOLDBACK IN WALES

I have seen Nicholas Edwards' letter to you of 8 October setting out the basis on which he proposes to consult the Welsh local authorities about holdback for next year. I am commenting in Michael Heseltine's absence.

The proposals are different in their approach from those we wish to put to the English authorities. I recognise, however that the different characteristics of the Welsh authorities - particularly their more uniform relative rateable values - make it possible to devise alternative schemes for Wales which would be inappropriate in England. We would not object therefore to what is proposed; provided it is understood that, if and when the time comes to implement any holdback proposal, there is some parity between the treatment of the Welsh and English authorities for equivalent levels of overspending. I note that for the time being the consultation proposal is broadly similar in its effect to the toughest option we propose to consult on in England.

I also note that it is proposed to "safety net" the maximum rate poundage effects. Michael Heseltine's letter of 5 October spelled out some of the problems which we have identified with upper limits on holdback if the limits are set too low to be effective or occur at too low a level of overspending, and I would urge Nick to look at this respect very carefully. I should anyway prefer to have these upper limits described as "maximum grant losses" rather than "safety nets", which have an altogether different connotation.

I am copying this letter to members of E and MISC 21.

TOM KING

The Rt Hon Leon Brittan QC MP

CONFIDENTIAL



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

✓ CC JV
Prime Minister (2)

1

MCS 15/10

FROM THE SECRETARY OF STATE

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

15 October 1982

Dear Secretary of State

RSG 1983-84: HOLDBACK

attached

MS

Thank you for your letter of 13 October.

It may be right, as you suggest, to consult the associations not only about your schemes A and B but also about a further variant without a gentle lead-in, on the lines of Leon Brittan's Scheme E.

But surely that requires an early decision, as Patrick Jenkin and I have both argued, to concede GRE exemption, and to announce it when we consult on the schemes. Otherwise Scheme E will be taken to mean not only a grant loss of 40-50p for the Conservative authorities (including Dudley, on whose education service I am publishing a critical report by HM Inspectors on Monday), whose GREs are 8-10% above target but also a loss of 20-25p for a string of important Conservative county education authorities whose GREs are only 4 or 5% above target.

Otherwise Patrick's "flood of protest from our own supporters" will become a tidal wave and our inevitable ultimate withdrawal from an untenable position will become even more embarrassing. I hope, therefore, that we can agree in MISC 21 next week to recommend GRE exemption to E Committee, to be announced when you consult the associations.

I am sending copies of this letter to the Prime Minister and to all Members of E and MISC 21 Committees, and to Sir Robert Armstrong.

Yours sincerely
N. Cornwall

Approved by the Secretary of State
and signed in his absence

CONFIDENTIAL



cf. 3V

Prime Minister (4)

Ms 13/10

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon N Edwards MP
Secretary of State
Welsh Office
Gwydyr House
Whitehall
SW1A 2ER

MS

13 October 1982

D. Nield,

RATE SUPPORT GRANT 1983-84: HOLDBACK IN WALES

Thank you for your letter of ^{TPM} 8 October.

I agree that it is important that you begin consulting Welsh local authorities about the target and penalty regime for next year. But I am concerned that the scheme you describe in your letter may be rather gentle on modest overspenders. Because Welsh local authorities' expenditure this year was so much closer to provision than local authorities elsewhere, I think it important to improve leverage on local authorities at the bottom end of the range you describe. I think that means penalties appreciably heavier for overspending up to say 4 or 5% above target.

I understand that officials have discussed an alternative scheme, which is to be included in consultation with local authority officers later this week. This defines a useful range within which we can undertake our subsequent discussions.

I am sending copies of this letter to recipients of yours.

Leon

LEON BRITTAN

13 OCT 1982

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CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prime Minister (2)

MUS 13/10

My ref: H/PSO/16866/82
Your ref: 13 October 1982

Dear Secretary of State

RATE SUPPORT GRANT 1983-4 - HOLDBACK

Thank you for your letter of 8 October.

It will not now be feasible to have a meeting this week to discuss my letter of 5 October to Leon Brittan. We shall need to discuss it at the meeting of MISC 21 next week. I shall be circulating a paper shortly.

Meanwhile I should like to comment briefly on the question of a GRE exemption. I recognise that there are arguments of principle for allowing a GRE exemption in 1983-4 as we have in 1982-3, and that some colleagues, including yourself, are already persuaded by them. I have a less firm view, and believe that we should at least complete our consultations with local government before taking a decision. So although I would welcome a preliminary discussion of this question at next week's meeting of MISC 21, I think we should defer a decision until after we have published the options for holdback and heard the views of local government. We shall of course want to look at a full set of exemplifications at that second stage.

The holdback options described in my letter of 5 October have been designed so as to take less grant away from authorities who exceed their targets by a small amount (ie up to 4%) than under this year's holdback scheme. This feature can be regarded as a substitute for a GRE exemption. (Most of the authorities which you mention would be likely to lose considerably less than 16p for spending up to GRE, even under Scheme A, on the latest figures). So if we were to decide on a GRE exemption, we might wish to adopt a different kind of holdback scheme, without the gentle lead-in for spending above the effective target of GRE. I shall therefore ask MISC 21 to agree that we should publish Schemes A and B, together with a further variant without a gentle lead-in.

I am sending copies of this letter to the Prime Minister and to all members of E and MISC 21 committees, and to Sir Robert Armstrong.

Your sincere

for MICHAEL HESELTINE
(approved by the Secretary of State and signed in his absence)

Rt Hon Sir Keith Joseph MP

CONFIDENTIAL

Local Govt. Relations, Pt 13

13 OCT 1982

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

12 October 1982

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

Prime Minister (2)

MT Mes 14/10

Dear Michael,

RATE SUPPORT GRANT 1983/4: HOLDBACK

Your letter to Leon Brittan dated 5 October proposes three alternative schemes for holdback, none of which provide for any exemption for those authorities spending above target but below GRE.

2 My belief is that we should think very carefully before proposing even as a basis for consultation schemes which will be seen by many of our own supporters as palpably failing to reward the very prudence and good-housekeeping which we have been so strongly urging upon them.

3 I believe these proposals will provoke a storm of protest from authorities sympathetic to our aims: evidence of the groundswell of opinion can already be felt.

4 Although I note that you do not rule out the possibility of a GRE exemption as something to be considered "in due course" I believe it would be a serious political mistake to be seen to be pushed into this as a result of a flood of protest from our own supporters.

5 I share fully your desire to make the 83/4 holdback scheme as effective as possible; but I cannot see that this objective is served by commencing to argue from an untenable position, and I very much welcome the opportunity to discuss the matter with colleagues next week.

6 I am copying this letter to members of E Committee and of MISC 21.

Your
Patrice

local Govt
Prime Minister ⁽²⁾

MUS 13/10



Treasury Chambers, Parliament Street, SW1P 3AG

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

12 October 1982

RATE SUPPORT GRANT 1983-84 - HOLDBACK

Thank you for your letter of 5 October. I agree that we should consult about holdback as soon as possible; that we should do so without exemplifications of overspending which could be described as government forecasts; and that we should leave final decisions until later.

I also agree with the bulk of your analysis. The one qualification I would make is that option A might not be quite as savage as you imply. The targets we have announced looked reasonable in the summer, when we agreed to go for very tough holdback without a GRE exemption. Since then, the outlook for inflation has improved, and this should help local authorities to moderate their spending. For modest overspenders, option A could actually be less severe than this year's penalty regime.

In any case, I think that we ought to straddle our target. Only option A is tough enough to satisfy the criteria you rightly advance; so we should not accept anything significantly weaker. But if A is the toughest option on which we consult, we shall leave ourselves no room for manoeuvre. This is especially so if we offer two weaker options.

I therefore suggest that we consult on two stiffer schemes as well.

Scheme D. For each percentage point of spending above target, the grant loss would be 3p, as in 1982-83 (without a ceiling on grant losses.)

Scheme E. For each percentage point of spending above target, the grant loss would be 5p, as in the steeper part of option A.

In neither of these options would there be a low start for penalties

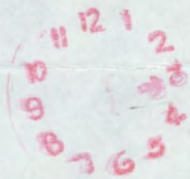
We might later want to combine elements of the different schemes. But, as you say, that is not something we need to settle now. The important thing is to get on the table a realistic range of options so that we retain flexibility, and the local authorities cannot say they have not been warned.

I am sending copies of this letter to George Younger, Nicholas Edwards, other members of E Committee and MISC 21, and Sir Robert Armstrong.

LEON BRITTAN

Local Govt, Relations, Pt 13

2 OCT 1982



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Linell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



The Rt Hon Nicholas Edwards MP

Prime Minister (2)

MUS 11/10

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

From The Secretary of State for Wales

8 October 1982

RATE SUPPORT GRANT 1983/84: HOLDBACK IN WALES

Michael Heseltine wrote to you on 5 October about possible schemes of grant holdback for England next year. I think it would be helpful to colleagues if I set out my views on how I intend to proceed in Wales if I set individual authority expenditure targets next year. As you know I do not intend to make my decision on targets until after I have consulted the Welsh local authority associations at the next meeting of the Welsh Consultative Council on 20 October. However I have already issued a consultation paper setting out how expenditure targets might be constructed if I do decide to have them: it develops the method I used in the revised budget exercise earlier this year.

My present view is that I shall probably set individual targets for 1983/84 because they seem to have influenced Welsh authorities to reduce their original planned expenditure in the revised budget exercise this year. However before taking a final decision I wish to hear the Associations' views and to give further consideration to the pros and cons of toughening up the basic block grant mechanisms as a means of influencing expenditure decisions compared to setting targets and withholding grant.

Whether I decide to set targets or not I must consult authorities on a potential grant withholding regime since not to do so before the Settlement would make it legally impossible for me to effect discriminate grant withholding next year in the event of an overspend. Because of timing constraints and the fact that I have not previously set targets or effected grant withholding, it is necessary for me to issue a consultation paper to the Welsh local authority associations very early next week. In fairness to the Associations they must have a few days in which to consider the kind of scheme I have in mind.

As regards the grant withholding scheme set out in the paper, unlike Michael I intend to consult on a single grant withholding option. This is deliberately set at levels of grant withholding which are almost certainly more severe than the scheme I would

/eventually

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
London SW1P 3AG



eventually introduce should that prove necessary. I think it important, especially at this stage when authorities are considering next year's budgets, to set out the most severe grant withholding option likely.

The scheme is broadly equivalent in its effect to scheme A shown in Michael's letter but is tailored to Welsh circumstances where I consider it unlikely that in aggregate authorities will be overspent by more than 4%. Thus it is rather more severe at levels of spending of up to 3% in excess of targets; broadly comparable for expenditure excesses between 4% and 7% and slightly less severe above 7%. Unlike Michael's scheme I am proposing to set safety nets to ameliorate the most severe rate poundage effects on very low resource authorities but the safety net limits I propose still impose very substantial rate poundage effects for overspending. The scheme ensures that for each authority only its own expenditure decisions determine the amount of grant it will lose and authorities which are not in excess of their targets will not be subject to either grant withholding or close ending. The following table shows the maximum grant loss which would follow expenditure excesses over target in rate poundage terms at the ratepayer level, after safety netting.

Cumulative Holdback in Rate Poundage

<u>% overspend over 1983/84 target</u>	<u>Pence</u>
1%	1.25p
2%	3.75p
3%	7.50p
4%	11.25p
5%	16.25p
6%	21.25p
7%	27.00p
8%	30.00p
9%	33.75p
10%	37.5p

I must stress that in my view the rate poundage effects of grant withholding for particular levels of overspend shown above are the absolute maximum which could be contemplated. In issuing the Consultation Paper I will of course make it clear that the scheme is put forward for consultation and that I have not taken any final decisions. If in the event the grant holdback regime applied is

/less



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less severe than that set out there will be no need to go back for further consultations with the local authority associations.

I have already informed the Welsh associations that I intend to discuss grant withholding at the next full Consultative Council on 20 October and the paper must go out early next week to allow preliminary discussions at official level.

I am copying this to members of E and MISC 21; I shall assume colleagues are content for the paper to be issued unless I hear otherwise by close of play on Monday 11 October.

1982 OCT 11



OUTLINE OF A SCHEME FOR WITHDRAWING GRANT IN 1983/84

(A Paper by the Welsh Office)

INTRODUCTION

1. On 28 July the Secretary of State announced proposals for some of the main elements of the RSG Settlement for 1983/84; but said he would defer his decision on setting individual authority expenditure targets and effecting discriminate grant withholding in respect of that year until after the next WCCLGF meeting. However, the Secretary of State said that the encouraging response of authorities to the call for revised budgets, and the requirements of the Local Government Finance Act 1982 were factors indicating that targets and discriminate holdback could be helpful in underpinning the normal block grant arrangements for next year. Subsequently, paper WCCLGF^(SWG)(82)(15), which outlines a possible target methodology for 1983/84 was circulated. The present paper deals with the closely related issue of grant holdback.

A POSSIBLE GRANT WITHHOLDING SCHEME

2. A possible scheme for withholding grant is set out below. It incorporates the following features:

(i) **Relative simplicity.** The more simple the scheme the easier it is for authorities to appreciate the financial consequences of any given budget strategy for both their own finances, and for their ratepayers;

(ii) **Equity.** Only authorities spending in excess of their targets should be liable for holdback and close-ending.

(iii) **Graduation.** The rate of holdback should increase as an authority's expenditure excess over its target increases, in order to provide an even greater incentive for authorities to contain their expenditure within a figure consistent with the Government's provision for Wales as a whole. This contrasts with the **standard rate of holdback approach** adopted for both 1981/82 and 1982/83.

(iv) **Safety nets.** A system of safety nets should be built into the scheme to ensure that very low resource authorities are not unduly penalised in poundage terms.

3. A scheme incorporating these features is set out below. Only one option has been exemplified, but others are, of course, possible. The scheme is graduated in effect, in accordance with 2(iii) above.

Band	Expenditure excess over target (%)	Rate of grant holdback expressed as a percentage of target
1	Under 1	0.25%
2	Over 1 but under 2	0.25% plus 0.50% for every 1% expenditure exceeds the lower limit of the band (1%)
3	Over 2 but under 4	0.75% plus 0.75% for every 1% expenditure exceeds the lower limit of the band (2%)
4	Over 4 but under 7	2.25% plus 1% for every 1% expenditure exceeds the lower limit of the band (4%)
5	Over 7	5.25% plus 0.75% for every 1% expenditure exceeds the lower limit of the band (7%)

4. The scheme's effect can be illustrated using a numerical example. If an authority with an expenditure target of £100 million were to exceed that figure by £3.78 million (3.78 per cent) it would calculate its holdback as follows:-

- i. it would select the appropriate band (Band 3)
- ii. it would add 0.75% to the product of 1.78 (3.78% excess minus lower limit of band, 2%) and the Band 3 rate of holdback, 0.75%. Thus its holdback percentage would be 2.085% (0.75% plus 1.335%).
- iii. it would apply this holdback percentage to its target (£100m) to derive its holdback, £2.085 million (2.085% of £100m).

5. The graduated nature of the scheme outlined is illustrated in Table 1 below which shows the rate of holdback, expressed as a percentage of target and excess respectively, for expenditure excesses of 1 per cent to 10 per cent.

Table 1

Expenditure excess over target (%)	Rate of holdback	
	As a per cent of target (%)	As a per cent of expend- iture excess (%)
1	0.25	25
2	0.75	37.5
3	1.50	50
4	2.25	56.25
5	3.25	65
6	4.25	70.83
7	5.25	75 (1)
8	6.00	75
9	6.75	75
10	7.50	75

(1) The maximum rate of holdback, expressed as a percentage of an authority's expenditure excess, is 75 per cent.

SAFETY NETS

6. Safety nets can be set at specified levels to moderate the rate poundage effects of holdback for low resource authorities. In the following table the county safety net has been set by applying a constant factor of four to the holdback percentage expressed as a percentage of the target, while in the case of districts the safety net equals (in pence terms) the actual rate of holdback for any given level of spending.

Table 2

Percentage expenditure excess over target (%)	Holdback as a percentage of target (%) (A)	Safety net (pence)	
		Counties (A x 4)	Districts (A x 1)
1	0.25	1	0.25
2	0.75	3	0.75
3	1.50	6	1.50
4	2.25	9	2.25
5	3.25	13	3.25
6	4.25	17	4.25
7	5.25	21	5.25
8	6.00	24	6.00
9	6.75	27	6.75
10	7.50	30	7.50

7. The procedure for calculating the safety net for any particular authority is thus straightforward. Using the figures in Table 2, a 3 per cent expenditure excess would give rise to a holdback percentage equivalent to 1.5 per cent of the target; and on the basis of a holdback percentage/safety net factor of 1, to a safety net of 1.5p in the case of districts. In the case of a county with the same percentage excess, the safety net would be 6p ie the holdback percentage of 1.5% multiplied by a factor of 4. Thus, at 3 per cent above target an authority would be safety netted against poundage losses exceeding 6p in the case of counties, and 1.5p in the case of districts.

EXEMPLIFICATIONS

8. A ready reckoner showing the effects of the grant withholding scheme outlined above is set out in the attached annex. Tables 1 and 2 in the Annex show the results, for each authority, of applying the holdback scheme outlined above to various levels of expenditure above the provisional target figures for 1983/84 presented in WCCLGF(82)(). Tables 1 and 3 show, in absolute terms, the amount of grant withheld at each level of overspend, while Table 2 and 4 give the poundage equivalents of these grant losses. The figures shown in Tables 1 and 2 are not safety-netted while those in Tables 3 and 4 are safety netted, as described above.

9. The Consultative Council is invited to comment on the scheme outlined in this paper.

Welsh Office
5 October 1982

HOLDBACK EXEMPLIFICATIONS FOR WELSH LOCAL AUTHORITIES
WITHOUT SAFETY NETS
(columns 2 to 13 are expenditure excess as a percentage of target)

	£000s												
	Target	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
Holdback as % of target		0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Holdback as % of excess		25	38	50	56	65	71	75	75	75	75	75	75
Alyn & Deeside	4,240	11	32	64	95	138	180	223	254	286	318	477	636
Colwyn	3,760	9	28	56	85	122	160	197	226	254	282	423	564
Delyn	5,410	14	41	81	122	176	230	284	325	365	406	609	812
Glyndwr	2,660	7	20	40	60	86	113	140	160	180	200	299	399
Rhuddlan	4,460	11	33	67	100	145	190	234	268	301	335	502	669
Wrexham Maelor	7,730	19	58	116	174	251	329	406	464	522	580	870	1,160
Carmarthen	3,220	8	24	48	72	105	137	169	193	217	242	362	483
Ceredigion	3,530	9	26	53	79	115	150	185	212	238	265	397	530
Dinefwr	1,870	5	14	28	42	61	79	98	112	126	140	210	281
Llanelli	5,980	15	45	90	135	194	254	314	359	404	449	673	897
Preseli	3,990	10	30	60	90	130	170	209	239	269	299	449	599
South Pembroke	2,590	6	19	39	58	84	110	136	155	175	194	291	389
Blaenau Gwent	8,400	21	63	126	189	273	357	441	504	567	630	945	1,260
Islwyn	5,030	13	38	75	113	163	214	264	302	340	377	566	755
Monmouth	4,350	11	33	65	98	141	185	228	261	294	326	489	653
Newport	11,010	28	83	165	248	358	468	578	661	743	826	1,239	1,652
Torfaen	7,570	19	57	114	170	246	322	397	454	511	568	852	1,136
Aberconwy	4,110	10	31	62	92	134	175	216	247	277	308	462	617
Arfon	4,590	11	34	69	103	149	195	241	275	310	344	516	689
Dwyfor	2,340	6	18	35	53	76	99	123	140	158	176	263	351
Meirionnydd	2,740	7	21	41	62	89	116	144	164	185	206	308	411
Yns Mon	5,070	13	38	76	114	165	215	266	304	342	380	570	761
Cynon Valley	5,630	14	42	84	127	183	239	296	338	380	422	633	845
Merthyr Tydfil	6,130	15	46	92	138	199	261	322	368	414	460	690	920
Ogwr	9,330	23	70	140	210	303	397	490	560	630	700	1,050	1,400
Rhondda	8,080	20	61	121	182	263	343	424	485	545	606	909	1,212
Rhyane Valley	8,450	21	63	127	190	275	359	444	507	570	634	951	1,268
Taff-Ely	7,220	18	54	108	162	235	307	379	433	487	542	812	1,083
Brecknock	1,950	5	15	29	44	63	83	102	117	132	146	219	293
Montgomery	2,580	6	19	39	58	84	110	135	155	174	194	290	387
Radnor	1,360	3	10	20	31	44	58	71	82	92	102	153	204
Cardiff	21,730	54	163	326	489	706	924	1,141	1,304	1,467	1,630	2,445	3,260
Vale of Glam	6,980	17	52	105	157	227	297	366	419	471	524	785	1,047
Afan	5,640	14	42	85	127	183	240	296	338	381	423	634	846
Lliw Valley	4,280	11	32	64	96	139	182	225	257	289	321	481	642
Neath	3,900	10	29	59	88	127	166	205	234	263	293	439	585
Swansea	18,140	45	136	272	408	590	771	952	1,088	1,224	1,361	2,041	2,721
Clwyd	142,340	356	1,068	2,135	3,203	4,626	6,049	7,473	8,540	9,608	10,676	16,013	21,351
Dyfed	120,270	301	902	1,804	2,706	3,909	5,111	6,314	7,216	8,118	9,020	13,530	18,041
Gwent	163,090	408	1,223	2,446	3,670	5,300	6,931	8,562	9,785	11,009	12,232	18,348	24,464
Gwynedd	86,880	217	652	1,303	1,955	2,824	3,692	4,561	5,213	5,864	6,516	9,774	13,032
Mid Glam	202,350	506	1,518	3,035	4,553	6,576	8,600	10,623	12,141	13,659	15,176	22,764	30,353
Powys	49,890	125	374	748	1,123	1,621	2,120	2,619	2,993	3,368	3,742	5,613	7,484
South Glam	140,230	351	1,052	2,103	3,155	4,557	5,960	7,362	8,414	9,466	10,517	15,776	21,035
West Glam	140,360	351	1,053	2,105	3,158	4,562	5,965	7,369	8,422	9,474	10,527	15,790	21,054
TOTAL WALES	1,261,460	3,154	9,461	18,922	28,383	40,997	53,612	66,227	75,688	85,149	94,610	141,914	189,219

HOLDBACK EXEMPLIFICATIONS FOR WELSH LOCAL AUTHORITIES
IN POUNDAGE EQUIVALENTS
WITHOUT SAFETY NETS
(columns are expenditure excess as a percentage of target)

	Pence											
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
Holdback as % of target	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Holdback as % of excess spending	25	38	50	56	65	71	75	75	75	75	75	75
Alyn & Deeside	0.13	0.40	0.80	1.20	1.74	2.28	2.81	3.21	3.61	4.02	6.02	8.03
Colwyn	0.18	0.55	1.09	1.64	2.37	3.10	3.83	4.37	4.92	5.47	8.20	10.93
Delyn	0.23	0.69	1.37	2.06	2.97	3.89	4.80	5.49	6.18	6.86	10.29	13.73
Glyndwr	0.20	0.59	1.17	1.76	2.54	3.33	4.11	4.70	5.29	5.87	8.81	11.75
Rhuddlan	0.19	0.57	1.14	1.71	2.46	3.22	3.98	4.55	5.12	5.69	8.53	11.37
Wrexham Maelor	0.18	0.53	1.06	1.59	2.30	3.01	3.71	4.24	4.77	5.31	7.96	10.61
Carmarthen	0.20	0.61	1.21	1.82	2.63	3.43	4.24	4.85	5.45	6.06	9.09	12.12
Ceredigion	0.18	0.54	1.07	1.61	2.32	3.03	3.75	4.28	4.82	5.35	8.03	10.70
Dinefwr	0.20	0.60	1.20	1.81	2.61	3.41	4.22	4.82	5.42	6.02	9.03	12.04
Llanelli	0.23	0.70	1.41	2.11	3.04	3.98	4.92	5.62	6.32	7.03	10.54	14.05
Preseli	0.14	0.41	0.82	1.23	1.77	2.32	2.86	3.27	3.68	4.09	6.14	8.18
South Pembroke	0.10	0.29	0.57	0.86	1.24	1.62	2.00	2.29	2.57	2.86	4.28	5.71
Blaenau Gwent	0.37	1.10	2.19	3.29	4.75	6.21	7.67	8.76	9.86	10.95	16.43	21.91
Islwyn	0.28	0.85	1.70	2.55	3.68	4.81	5.94	6.79	7.64	8.49	12.73	16.97
Monmouth	0.16	0.47	0.95	1.42	2.06	2.69	3.32	3.80	4.27	4.75	7.12	9.50
Newport	0.14	0.41	0.82	1.23	1.78	2.33	2.88	3.29	3.70	4.11	6.16	8.21
Torfaen	0.22	0.66	1.32	1.98	2.85	3.73	4.61	5.27	5.93	6.59	9.88	13.17
Aberconwy	0.19	0.58	1.15	1.73	2.50	3.26	4.03	4.61	5.19	5.76	8.64	11.52
Arfon	0.27	0.82	1.63	2.45	3.54	4.63	5.72	6.53	7.35	8.17	12.25	16.33
Dwyfor	0.24	0.71	1.42	2.13	3.07	4.02	4.96	5.67	6.38	7.09	10.64	14.18
Meirionnydd	0.17	0.52	1.03	1.55	2.24	2.92	3.61	4.13	4.64	5.16	7.74	10.32
Yns Mon	0.18	0.54	1.08	1.62	2.34	3.06	3.78	4.32	4.86	5.40	8.09	10.79
Cynon Valley	0.31	0.92	1.85	2.77	4.00	5.23	6.46	7.38	8.31	9.23	13.84	18.46
Merthyr Tydfil	0.33	0.99	1.97	2.96	4.27	5.58	6.90	7.88	8.87	9.85	14.78	19.71
Ogwr	0.23	0.68	1.36	2.04	2.94	3.85	4.76	5.44	6.11	6.79	10.19	13.59
Rhondda	0.52	1.57	3.14	4.71	6.81	8.90	11.00	12.57	14.14	15.71	23.57	31.42
Rhyonney Valley	0.29	0.87	1.74	2.61	3.77	4.92	6.08	6.95	7.82	8.69	13.03	17.38
Taff-Ely	0.21	0.62	1.24	1.86	2.69	3.52	4.35	4.97	5.59	6.21	9.32	12.42
Brecknock	0.14	0.43	0.86	1.29	1.87	2.44	3.02	3.45	3.88	4.31	6.46	8.62
Montgomery	0.16	0.48	0.97	1.45	2.10	2.74	3.39	3.87	4.35	4.84	7.26	9.68
Radnor	0.16	0.48	0.96	1.44	2.08	2.72	3.36	3.84	4.32	4.80	7.20	9.60
Cardiff	0.14	0.43	0.86	1.29	1.87	2.44	3.02	3.45	3.88	4.31	6.46	8.62
Vale of Glam	0.13	0.39	0.79	1.18	1.71	2.23	2.76	3.15	3.54	3.94	5.91	7.88
Afan	0.16	0.48	0.96	1.43	2.07	2.71	3.35	3.83	4.30	4.78	7.17	9.57
LLiw Valley	0.24	0.71	1.42	2.13	3.07	4.02	4.96	5.67	6.38	7.09	10.64	14.18
Neath	0.15	0.46	0.92	1.38	2.00	2.61	3.22	3.69	4.15	4.61	6.91	9.21
Swansea	0.25	0.74	1.48	2.22	3.20	4.19	5.17	5.91	6.65	7.39	11.08	14.77
Clwyd	0.91	2.72	5.45	8.17	11.80	15.43	19.06	21.79	24.51	27.24	40.85	54.47
Dyfed	0.95	2.84	5.68	8.52	12.31	16.09	19.88	22.72	25.56	28.40	42.60	56.80
Gwent	0.89	2.67	5.34	8.01	11.58	15.14	18.70	21.37	24.04	26.71	40.07	53.43
Gwynedd	0.94	2.82	5.65	8.47	12.24	16.01	19.77	22.60	25.42	28.24	42.37	56.49
Mid Glam	1.28	3.85	7.70	11.55	16.69	21.82	26.96	30.81	34.66	38.51	57.77	77.02
Powys	1.69	5.06	10.12	15.18	21.93	28.68	35.43	40.49	45.55	50.61	75.92	101.22
South Glam	0.69	2.06	4.12	6.17	8.92	11.66	14.40	16.46	18.52	20.58	30.87	41.15
West Glam	0.92	2.76	5.52	8.28	11.96	15.64	19.32	22.08	24.84	27.60	41.40	55.20

Table 3

HOLDBACK EXEMPLIFICATIONS FOR WELSH LOCAL AUTHORITIES
WITH SAFETY NETS INCLUDED
(columns are expenditure excess as a percentage of target)

£000s

	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
Holdback as % of target	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Holdback as % of excess spending	25	38	50	56	65	71	75	75	75	75	75	75
Alyn & Deeside	11	32	64	95	138	180	223	254	286	318	477	636
Colwyn	9	28	56	85	122	160	197	226	254	282	423	564
Delyn	14	41	81	122	176	230	284	325	365	406	609	812
Glyndwr	7	20	40	60	86	113	140	160	180	200	299	399
Rhuddlan	11	33	67	100	145	190	234	268	301	335	502	669
Wrexham Maelor	19	58	116	174	251	329	406	464	522	580	870	1,160
Carmarthen	8	24	48	72	105	137	169	193	217	242	362	483
Ceredigion	9	26	53	79	115	150	185	212	238	265	397	530
Dinefwr	5	14	28	42	61	79	98	112	126	140	210	281
Llanelli	15	45	90	135	194	254	314	359	404	449	673	897
Preseli	10	30	60	90	130	170	209	239	269	299	449	599
South Pembroke	6	19	39	58	84	110	136	155	175	194	291	389
Blaenau Gwent	14	43	86	129	187	244	302	345	388	431	647	863
Islwyn	11	33	67	100	144	189	233	267	300	333	500	667
Monmouth	11	33	65	98	141	185	228	261	294	326	489	653
Newport	28	83	165	248	358	468	578	661	743	826	1,239	1,652
Torfaen	19	57	114	170	246	322	397	454	511	568	852	1,136
Aberconwy	10	31	62	92	134	175	216	247	277	308	462	617
Arfon	11	32	63	95	137	179	221	253	285	316	474	632
Dwyfor	6	18	35	53	76	99	123	140	158	176	263	351
Meirionnydd	7	21	41	62	89	116	144	164	185	206	308	411
Yns Mon	13	38	76	114	165	215	266	304	342	380	570	761
Cynon Valley	11	34	69	103	149	194	240	275	309	343	515	686
Merthyr Tydfil	12	35	70	105	152	198	245	280	315	350	525	700
Ogwr	23	70	140	210	303	397	490	560	630	700	1,050	1,400
Rhondda	10	29	58	87	125	164	202	231	260	289	434	579
Rhymney Valley	18	55	109	164	237	310	383	438	492	547	821	1,094
Taff-Ely	18	54	108	162	235	307	379	433	487	542	812	1,083
Brecknock	5	15	29	44	63	83	102	117	132	146	219	293
Montgomery	6	19	39	58	84	110	135	155	174	194	290	387
Radnor	3	10	20	31	44	58	71	82	92	102	153	204
Cardiff	54	163	326	489	706	924	1,141	1,304	1,467	1,630	2,445	3,260
Vale of Glam	17	52	105	157	227	297	366	419	471	524	785	1,047
Afan	14	42	85	127	183	240	296	338	381	423	634	846
LLiw Valley	11	32	64	96	139	182	225	257	289	321	481	642
Neath	10	29	59	88	127	166	205	234	263	293	439	585
Swansea	45	136	272	408	590	771	952	1,088	1,224	1,361	2,041	2,721
Clwyd	356	1,068	2,135	3,203	4,626	6,049	7,473	8,540	9,608	10,676	16,013	21,351
Dyfed	301	902	1,804	2,706	3,909	5,111	6,314	7,216	8,118	9,020	13,530	18,041
Gwent	408	1,223	2,446	3,670	5,300	6,931	8,562	9,785	11,009	12,232	18,348	24,464
Gwynedd	217	652	1,303	1,955	2,824	3,692	4,561	5,213	5,864	6,516	9,774	13,032
Mid Glam	394	1,182	2,364	3,547	5,123	6,699	8,276	9,458	10,640	11,822	17,734	23,645
Powys	74	222	444	665	961	1,257	1,553	1,774	1,996	2,218	3,327	4,436
South Glam	351	1,052	2,103	3,155	4,557	5,960	7,362	8,414	9,466	10,517	15,776	21,035
West Glam	351	1,053	2,105	3,158	4,562	5,965	7,369	8,422	9,474	10,527	15,790	21,054
TOTAL WALES	1,383	4,154	8,308	12,462	18,001	23,539	29,078	33,232	37,386	41,540	62,309	83,079
	2,963	8,888	17,774	26,664	38,514	50,365	62,216	71,104	79,993	88,881	133,820	177,760

4

HOLDBACK EXEMPLIFICATIONS FOR WELSH LOCAL AUTHORITIES
IN POUNDAGE EQUIVALENTS
WITH SAFETY NETS INCLUDED
(columns are expenditure excess as a percentage of target)

	Pence											
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
Holdback as % of target	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Holdback as % of excess spending	25	38	50	56	65	71	75	75	75	75	75	75
Alyn & Deeside	0.13	0.40	0.80	1.20	1.74	2.28	2.81	3.21	3.61	4.02	6.02	8.03
Colwyn	0.18	0.55	1.09	1.64	2.37	3.10	3.83	4.37	4.92	5.47	8.20	10.93
Delyn	0.23	0.69	1.37	2.06	2.97	3.89	4.80	5.49	6.18	6.86	10.29	13.73
Glyndwr	0.20	0.59	1.17	1.76	2.54	3.33	4.11	4.70	5.29	5.87	8.81	11.75
Rhuddlan	0.19	0.57	1.14	1.71	2.46	3.22	3.98	4.55	5.12	5.69	8.53	11.37
Wrexham Maelor	0.18	0.53	1.06	1.59	2.30	3.01	3.71	4.24	4.77	5.31	7.96	10.61
Carmarthen	0.20	0.61	1.21	1.82	2.63	3.43	4.24	4.85	5.45	6.06	9.09	12.12
Ceredigion	0.18	0.54	1.07	1.61	2.32	3.03	3.75	4.28	4.82	5.35	8.03	10.70
Dinefwr	0.20	0.60	1.20	1.81	2.61	3.41	4.22	4.82	5.42	6.02	9.03	12.04
Llanelli	0.23	0.70	1.41	2.11	3.04	3.98	4.92	5.62	6.32	7.03	10.54	14.05
Preseli	0.14	0.41	0.82	1.23	1.77	2.32	2.86	3.27	3.68	4.09	6.14	8.18
South Pembroke	0.10	0.29	0.57	0.86	1.24	1.62	2.00	2.29	2.57	2.86	4.28	5.71
Blaenau Gwent	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Islwyn	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Monmouth	0.16	0.47	0.95	1.42	2.06	2.69	3.32	3.80	4.27	4.75	7.12	9.50
Newport	0.14	0.41	0.82	1.23	1.78	2.33	2.88	3.29	3.70	4.11	6.16	8.21
Torfaen	0.22	0.66	1.32	1.98	2.85	3.73	4.61	5.27	5.93	6.59	9.88	13.17
Aberconwy	0.19	0.58	1.15	1.73	2.50	3.26	4.03	4.61	5.19	5.76	8.64	11.52
Arfon	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Dwyfor	0.24	0.71	1.42	2.13	3.07	4.02	4.96	5.67	6.38	7.09	10.64	14.18
Meirionnydd	0.17	0.52	1.03	1.55	2.24	2.92	3.61	4.13	4.64	5.16	7.74	10.32
Yns Mon	0.18	0.54	1.08	1.62	2.34	3.06	3.78	4.32	4.86	5.40	8.09	10.79
Cynon Valley	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Merthyr Tydfil	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Ogwr	0.23	0.68	1.36	2.04	2.94	3.85	4.76	5.44	6.11	6.79	10.19	13.59
Rhondda	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Rhymney Valley	0.25	0.75	1.50	2.25	3.25	4.25	5.25	6.00	6.75	7.50	11.25	15.00
Taff-Ely	0.21	0.62	1.24	1.86	2.69	3.52	4.35	4.97	5.59	6.21	9.32	12.42
Brecknock	0.14	0.43	0.86	1.29	1.87	2.44	3.02	3.45	3.88	4.31	6.46	8.62
Montgomery	0.16	0.48	0.97	1.45	2.10	2.74	3.39	3.87	4.35	4.84	7.26	9.68
Radnor	0.16	0.48	0.96	1.44	2.08	2.72	3.36	3.84	4.32	4.80	7.20	9.60
Cardiff	0.14	0.43	0.86	1.29	1.87	2.44	3.02	3.45	3.88	4.31	6.46	8.62
Vale of Glam	0.13	0.39	0.79	1.18	1.71	2.23	2.76	3.15	3.54	3.94	5.91	7.88
Afan	0.16	0.48	0.96	1.43	2.07	2.71	3.35	3.83	4.30	4.78	7.17	9.57
LLiw Valley	0.24	0.71	1.42	2.13	3.07	4.02	4.96	5.67	6.38	7.09	10.64	14.18
Neath	0.15	0.46	0.92	1.38	2.00	2.61	3.22	3.69	4.15	4.61	6.91	9.21
Swansea	0.25	0.74	1.48	2.22	3.20	4.19	5.17	5.91	6.65	7.39	11.08	14.77
Clwyd	0.91	2.72	5.45	8.17	11.80	15.43	19.06	21.79	24.51	27.24	40.85	54.47
Dyfed	0.95	2.84	5.68	8.52	12.31	16.09	19.88	22.72	25.56	28.40	42.60	56.80
Gwent	0.89	2.67	5.34	8.01	11.58	15.14	18.70	21.37	24.04	26.71	40.07	53.43
Gwynedd	0.94	2.82	5.65	8.47	12.24	16.01	19.77	22.60	25.42	28.24	42.37	56.49
Mid Glam	1.00	3.00	6.00	9.00	13.00	17.00	21.00	24.00	27.00	30.00	45.00	60.00
Powys	1.00	3.00	6.00	9.00	13.00	17.00	21.00	24.00	27.00	30.00	45.00	60.00
South Glam	0.69	2.06	4.12	6.17	8.92	11.66	14.40	16.46	18.52	20.58	30.87	41.15
West Glam	0.92	2.76	5.52	8.28	11.96	15.64	19.32	22.08	24.84	27.60	41.40	55.20

Local Govt, Relations, PHB.



17th OCT 1982



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

FROM THE SECRETARY OF STATE

Local Govt
Prime Minister (2)

1

Mus 8/10

CONFIDENTIAL

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

8 October 1982

Dear Michael.

RATE SUPPORT GRANT 1983-84 - HOLDBACK

Thank you for sending me a copy of your letter to Leon Brittan of 5 October. *pm's Box*

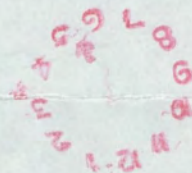
As you know from Rhodes Boyson's letter of 6 September (to which you sent an interim reply on 21 September), I have always taken the view that authorities spending below GRE in 1983-84 should be exempt from holdback, as in 1982-83. Now that I have seen comparisons between provisional GREs and the targets which you published in July, my view is strengthened. Amongst education authorities there are about 40 whose GREs next year are likely to be higher than their targets. They include all but a handful of shire counties (most of the exceptions, like Cleveland and Durham, are Labour-controlled); Bromley, Croydon, Kingston and Redbridge; and 9 metropolitan districts, among them Birmingham, Dudley, Solihull, Sefton, Stockport and Trafford. (Some of these authorities even have targets for 1983-84 which are below their GREs for 1982-83.) Even on your most moderate Scheme C these authorities would lose up to 16p in grant for spending at GRE in 1983-84. Other authorities would suffer no holdback for spending at (or in some cases well above) GRE. This would be indefensible.

I agree with you that our objective should be to impose a more severe regime than in 1982-83; but it should bite on the most flagrant overspenders. It follows that I would be inclined to go for something like your Scheme A coupled with GRE exemption. But we cannot form a firm view about this until we have the exemplifications of the various schemes to which you refer in paragraph 5 of your letter; and I should like these to illustrate also the likely effects of GRE exemption. Perhaps you could circulate this information before the meeting with colleagues next week which you envisage. I am sure that we should form a view amongst ourselves before we make any approach to the local authority associations.

I am sending copies of this letter to the Prime Minister, other members of E Committee and MISC 21 and Sir Robert Armstrong.

Yours ever,

Keir



8 OCT 1982

CONFIDENTIAL

Prime Minister (2) *cc JB*



Mus 2 MARSHAM STREET
LONDON SW1P 3EB

5/10 01-212 3434

My ref:

Your ref:

5 October 1982

Dear Chief Secretary

ms

RATE SUPPORT GRANT 1983-4 - HOLDBACK

Misc 21 will start its annual round of meetings on the RSG settlement later this month. Before that, we need to complete the round of consultations with the local authority associations.

The most controversial feature of the settlement is likely to be the scheme of grant holdback for authorities which exceed their expenditure targets. I am therefore writing to you and colleagues about the options on which we should consult the local authority associations. This consultation will not of course commit us; we shall take substantive decisions in due course in MISC 21. But it should have a powerful effect in influencing local authorities' plans and expectations.

The 1982-3 holdback scheme provides for grant abatement at the rate of 3p for every 1% of spending above the higher of target or Grant Related Expenditure (GRE) up to a maximum of a 15p reduction at 5% overspend. Thus there is no holdback for any authority spending below its GRE, no matter how much it has increased its expenditure. And whatever the size of an authority's overspend, the loss of grant cannot be greater than 15p. This means that for those spending much more than 5% above their effective target there is too little grant pressure to reduce expenditure. This year's scheme seems likely to produce a holdback of about £310m.

My statement to the local authority associations on 27 July said that we were considering a grant holdback for 1983-4 that would be significantly more severe than for 1982-3. This is a significant further pressure if we are to make further progress in cutting back local authority expenditure. The best outcome would of course be for local authorities all to meet their targets, in which case there would be no holdback of grant. The larger the threatened grant losses for overspending, the greater the chance of local authorities cutting back, though some authorities will certainly prefer to increase rates rather than cut expenditure. As a matter of fact a more severe holdback scheme is needed next year just to maintain the present degree of grant pressure. This is because authorities losing grant this year have already allowed for these losses in their rates for 1982-3. So a scheme of the same severity as this year would exert no extra pressure.

The effects of the scheme we choose will depend on each authority's expenditure decision. We cannot predict how individual authorities will respond to a tough RSG settlement. I do not think that we should put ourselves in the position of publicly exemplifying holdback options for individual authorities on hypothetical expenditure

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assumptions. However we presented the figures they would be misinterpreted as a Government prediction about the outcome. This would be highly misleading and damaging to our relations with our own supporters, who would inevitably be shown as overspenders regardless of their actual intentions.

Last year we did not produce hypothetical exemplifications but consulted on the basis of the scheme of holdback which would attach to different levels of overspending. I suggest we follow this approach again.

I have been considering 3 possible schemes which we might put to the associations.

Scheme A For each of the first two percentage points of spending above target, the grant loss would be 1p. For every percentage point thereafter the grant loss would be 5p. So, for spending 5% above target, for instance, the grant loss would be 17p.

Scheme B For each of the first two percentage points of spending above target, the grant loss would be 1p. For every percentage point thereafter, the grant loss would be 3p. So, for spending 5% above target, for instance, the grant loss would be 11p.

Scheme C For each of the first four percentage points of spending above target, the grant loss would be 1p. For every percentage point thereafter, the grant loss would be 2p. So, for spending 5% above target, for instance, the grant loss would be 6p.

In all 3 schemes (and in particular Scheme C) there is a gentle lead in for those authorities budgetting just above target. This would in particular help those coming into holdback for the first time. In none of the 3 schemes are there any exemptions for spending below GRE, or any upper limit to holdback.

The following table shows the grant loss which would arise on each scheme for various levels of overspending on the higher of targets or GRE in 1982-3.

CUMULATIVE HOLDBACK IN RATE POUNDAGE TERMS

% OVERPEND ON 1983/4 TARGET	SCHEME A	SCHEME B	SCHEME C	1982/3
1%	1p	1p	1p	3p
2%	2p	2p	2p	6p
3%	7p	5p	3p	9p
4%	12p	8p	4p	12p
5%	17p	11p	6p	15p
6%	22p	14p	8p	15p
7%	27p	17p	10p	15p
8%	32p	20p	12p	15p
9%	37p	23p	14p	15p
10%	42p	26p	16p	15p

In considering the impact of these schemes we should bear in mind that most shire counties, a number of the metropolitan districts, and some of the London boroughs are being allowed a cash increase in their 1982-3 budgets of 4%. To the extent that these authorities come into holdback at all it would be reasonable to expect them to appear only at the bottom end of the holdback structure. Other authorities, for whom the 1983-4 targets are generally a 1% cash reduction on this year's budgets, are more likely to face the higher levels of holdback.

There is no doubt that Scheme A is very severe. We need to weigh its likely influence on plans and expectations against the certainty of a strongly critical reaction from local government - and our supporters in particular - and the higher rates that will follow if certain local authorities decide to continue with their spending plans regardless.

Scheme B is a compromise. But there are cases where it will not put sufficient pressure on local authorities to heed the penalties and cut back on their expenditure. For instance, an overspending authority like Avon has already rates 12.6p to cover its 1982-3 holdback. Scheme B would allow overspending well in excess of 6% before any significant additional pressure appeared.

Scheme C exerts less pressure on authorities to cut back than the present 1982-3 scheme.

We do not have to decide substantively between these schemes at this stage. In due course we may wish to consider other options. We could for instance reintroduce a GRE exemption; we could vary the point at which the steeper holdback begins; we could set a maximum figure for grant loss. But all such concessions would weaken the effectiveness of the scheme and undermine the chances of securing the economies in 1983-4 which we have agreed should be sought.

For the purposes of consultation I believe that we should put forward the schemes outlined above. This should be on the basis that the schemes are put forward for consultation, and that the Government have not taken any final decisions. This will both enable us to gauge the reactions of local government (particularly of the shire counties) before we make final decisions, and exert early pressure on authorities to restrain their 1983-4 expenditure plans, on which critical decisions will in many cases be taken during the next few weeks.

Given the sensitivity of these proposals colleagues may feel it would be helpful to meet to discuss them. Time is short if we are to meet our objective of a pre-Christmas settlement. Any meeting would therefore have to be early next week so that the proposals could be put to the Associations in the week beginning 18 October.

I am sending copies of this letter to members of E Committee and of Misc 21.

yours sincerely,
Helen Ghosh

Local Govt, Centre/Local Relations,
P+13

Local Govt

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JHP



cc Cabinet
Min for L.G.
CO
CPRS
Mr Vaneke

10 DOWNING STREET

From the Private Secretary

4 October 1982

Dear John.

THE GREATER LONDON COUNCIL (GLC) AND THE
METROPOLITAN COUNTY COUNCILS

The Prime Minister was grateful for the Home Secretary's progress report on the discussions on the Ministerial Group on Local Government Organisation and Finance (MISC 79).

The Prime Minister thinks it would be premature for an announcement to be made this week that the Government is seriously considering the abolition of the GLC and metropolitan counties. She has asked that this matter, along with the other recommendations of MISC 79, should be reported to Cabinet at the due time.

I am sending a copy of this letter to the Private Secretaries to the other members of the Cabinet, to the Minister for Local Government and Environmental Services and to Gerry Spence (CPRS) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

J.F. Halliday, Esq.,
Home Office.

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6

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cc J.V.

Prime Minister

Content? This is a
decision
major announcement, and may
well leak if not announced.

PRIME MINISTER

FERS

4.10.

THE GREATER LONDON COUNCIL (GLC) AND THE
METROPOLITAN COUNTY COUNCILS

The Minister for Local Government and Environmental Services is due to give the Party Conference an account of the Government's position on local government finance and related issues. The Ministerial Group on Local Government Organisation and Finance (MISC 79) yesterday discussed the outline of his speech.

It would be premature to say anything about our decisions on rating reform. This will be disappointing to many of our supporters. However, MISC 79 agreed that there was one important matter on which we should give an indication of our thinking.

The Secretary of State for the Environment has proposed that the GLC and the metropolitan counties (West Midlands, Merseyside, Greater Manchester, Tyne and Wear, West Yorkshire and South Yorkshire) should be abolished. MISC 79 agreed that there was an overwhelming political case for the abolition of these authorities: they account for a large proportion of excessive local authority expenditure; they are all too ready to try and expand their "strategic role" in a way which brings them into conflict with central Government; they are deeply unpopular not only with our own supporters but also among the public and within local government.

MISC 79 will need to consider at a subsequent meeting the detailed implications of abolishing the GLC and metropolitan counties for the various services which they carry out at present. A good deal of work has already been done on this. So far as transport in London is concerned, the Group will consider a proposal by the Secretary of State for Transport that a Metropolitan Transport Authority should be set up with the objectives of improving the efficiency and cost-effectiveness of public transport in London and in particular, bringing more order into the relationship between British Rail's commuter services and the Underground. The Group will also consider the future of the Inner London Education Authority.

It is already clear, however, that the Group will recommend in its eventual report to the Cabinet that the GLC and the metropolitan counties should be abolished. Subject to your views, therefore, the Minister for Local Government and Environmental Services intends to indicate in his speech to the Party Conference that the Government is seriously consider the abolition of these authorities. He will make it clear that we do not intend to reorganise the shire counties or shire districts.

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2.

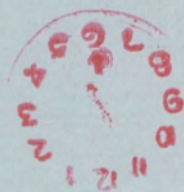
I am copying this minute to members of the Cabinet,
the Minister for Local Government and Environmental
Services, Mr. Sparrow and Sir Robert Armstrong.

W/LW.

3 October 1982

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91-31



4 OCT 1982



MB

10 DOWNING STREET

(2)

Prime Minister

, with Treasury agreement

Mr Heseltine now proposes

direct controls on local authority

expenditure ; he will set a maximum

rate for selected authorities, following

Whitehall scrutiny of their draft

budgets. For implementation in 1985-86

following legislation in 1983-84.

I understand that it was

principally, your comment on his earlier

paper which has led him to this

change of heart.

MUS 27/9



Jc JV
Prime Minister (2)

To note.

MUS 21/9

PRIME MINISTER

LOCAL AUTHORITY CURRENT EXPENDITURE 1983-84

We agreed at E on 20 July to raise our plans for English local authority current expenditure relevant for the RSG by £19.5 billion. We also decided that only £18.8 billion of this total would be allocated to services and used in calculating GREs.

I have discussed how that should be done with those of our colleagues immediately concerned. We were able to reach agreement on the figures in the attached table. We decided that we could achieve a more satisfactory distribution among departmental provisions by increasing the GRE total by £6 million to £18,806 billion. We can present this very slight change as de minimis. The general thrust of our policy is unchanged.

I am sending copies of this minute to the Secretaries of State for the Environment, Education, Health, Transport, Employment and Trade, to the Ministers for Health and Consumer Affairs, and also to the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong for information. I am grateful to those of our colleagues concerned for helping settle this outstanding feature of the RSG for next year. I hope that we shall be able to continue the momentum and achieve an early RSG settlement.

L.B.

LEON BRITTAN

17 September 1982

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LOCAL AUTHORITY RELEVANT CURRENT EXPENDITURE 1983-84

£m cash	Baseline	Adjustment	New total
DES	9368)	+ 65	(9433
OAL*	308)		(308
PSS	1957	+ 63	2020
HO	2945	+ 72	3017
DTp	1480	-	1480
DoE incl housing	2322	+ 26	2348
D Trade	49	+ $\frac{1}{2}$	49.5
DEm	65	+ 1	66
MAFF	80	+ $4\frac{1}{2}$	84.5
Total	18574	+232	18806

* DES are to allocate part of their increase to OAL

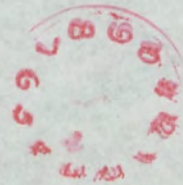
Local Govt
 Relations pt 13

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LOCAL GOVT RELATIONS CURRENT ESTIMATE 1982-84

Row	Local Govt	Adjustment	Baseline	Local Govt
1	(2433)	+ 61	(2372)	100
2	(303)		(303)	100
3	2020	+ 63	2083	100
4	3017	+ 22	3039	100
5	1430	-	1430	100
6	2343	+ 20	2363	100
7	40	+ 1	41	100
8	66	+ 1	67	100
9	84	+ 1	85	100
10	1208	+ 33	1241	100
				Total

Do not allocate part of their increase to G/L



17 SEP 1982

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W. W. R.
28/7



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

28 July 1982

Dear Michael

LOCAL GOVERNMENT EXPENDITURE, WALES

...

I enclose a copy of the text of the oral statement to be made by my Secretary of State later today.

I am sending copies to the Private Secretaries to the Leader of the House, the Paymaster General, the Chief Whip (Lords and Commons), the Lord Privy Seal, the Secretaries of State for the Environment, Scotland, Education, Transport, Health and Social Services, Trade, the Chief Secretary, the Home Secretary, Sir Robert Armstrong and the Chief Press Officer at No 10.

Yours ever
Adam Peat

A E PEAT

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1



PARLIAMENTARY STATEMENT BY SECRETARY OF STATE FOR WALES 28 JULY 1982

LOCAL AUTHORITY EXPENDITURE IN WALES

The Government is determined that local authority current expenditure should be reduced. In Wales local authorities generally have made efforts to meet the Government's expenditure targets, and I pay tribute to them for the efforts they have made. Unfortunately, however, there still remained an overspend of some £13 million on their 1981-82 target, which was expressed in volume terms. In 1982-83 revised budgets suggest an overspend of some £25 million on total expenditure, £36 million on current.

Against this background I have decided that there should be a grant penalty of £2.5 million in respect of 1981-82 and grant holdback of £5 million in respect of 1982-83. I have previously made it clear that the holdback in respect of 1982-83 will be applied differentially, with exemption for those authorities spending at or below their targets. Supplementary Reports to give effect to these decisions will be presented to Parliament in due course.

This background has also influenced the proposals I have decided to make in respect of 1983-84.

First of all, I have reviewed the plans for Welsh local authority current expenditure set out in the last Public Expenditure White Paper. I propose that the plans should be adjusted to £1205 million. This will be an increase of £19 million. It will allow local authorities to spend nearly 4% more than the total of this year's revised budgets. Since authorities collectively may spend, if past trends are repeated, in the region of 1% less than their budgets, it will be equivalent to about a 5% increase. In addition, I intend to increase the amount

/...



planned for local authority capital spending by £17 million.

In support of the increased level of current spending I propose a total Aggregate Exchequer Grant in Wales of £975m in 1983-84. The amount actually distributed will depend on whether Welsh local authorities spend in accordance with the target I am proposing. If they do, it should mean many authorities will find they need no rate increases at all to finance their current expenditure. In those circumstances our present estimate is that Aggregate Exchequer Grant would amount to about 70% of relevant expenditure.

I shall be discussing these proposals with the local authority associations within the framework of the Welsh Consultative Council on Local Government Finance. I shall also be discussing with them the part individual authority spending targets might play in securing our target for next year.

Local Government Expenditure (Wales)

3.37 pm

The Secretary of State for Wales (Mr. Nicholas Edwards): The Government are determined that local authority current expenditure should be reduced. In Wales local authorities generally have made efforts to meet the Government's expenditure targets, and I pay tribute to them for the efforts that they have made. Unfortunately, however, there still remained an overspend of some £13 million on their 1981-82 target, which was expressed in volume terms. In 1982-83 revised budgets suggest an overspend of some £25 million on total expenditure, £36 million on current.

Against that background I have decided that there should be a grant penalty of £2.5 million in respect of 1981-82 and grant holdback of £5 million in respect of 1982-83. I have previously made it clear that the holdback in respect of 1982-83 will be applied differentially, with exemption for those authorities spending at or below their targets. Supplementary reports to give effect to these decisions will be presented to Parliament in due course.

That background has also influenced the proposals that I have decided to make in respect of 1983-84. First, I have reviewed the plans for Welsh local authority current expenditure set out in the last public expenditure White Paper. I propose that the plans should be adjusted to £1,205 million. That will be an increase of £19 million. It will allow local authorities to spend nearly 4 per cent. more than the total of this year's revised budgets. Since authorities collectively may spend, if past trends are repeated, in the region of 1 per cent. less than their budgets, it will be equivalent to about a 5 per cent. increase. In addition, I intend to increase the amount planned for local authority capital spending by £17 million.

In support of the increased level of current spending I propose a total aggregate Exchequer grant in Wales of £975 million in 1983-84. The amount actually distributed will depend on whether Welsh local authorities spend in accordance with the target that I am proposing. If they do, it should mean that many authorities will find that they need no rate increases at all to finance their current expenditure. In those circumstances our present estimate is that aggregate Exchequer grant would amount to about 70 per cent. of relevant expenditure.

I shall be discussing these proposals with the local authority associations within the framework of the Welsh consultative council on local government finance. I shall also be discussing with them the part that individual authority spending targets might play in securing our target for next year.

Mr. Alec Jones (Rhondda): Is the Secretary of State aware that this statement will be greeted with dismay by local authorities in Wales, which are already finding it increasingly difficult to maintain their services, and also with a feeling of bitterness? The first paragraph of the statement refers to the efforts that the local authorities have made. The Secretary of State paid tribute to them for their attempts to co-operate. Does not the Secretary of State believe that it is a shabby reward for their efforts to be penalised to the extent of £2.5 million for 1981-82? Does he not think that such treatment is hardly conducive to

good co-operation between himself and local authorities in future? For 1982-83, the right hon. Gentleman talks about an overspend of £25 million. Will he confirm that that overspend contains some payments that may be made to the advanced further education pool? Therefore, is there a possibility that the overspend figure will be less?

For 1983-84, does the Secretary of State agree that he is painting too rosy a picture when he says that if local authorities spend in accordance with his demands there will be no need for any rate increases? The Secretary of State talked about a 4 per cent. increase in public expenditure. Is not that really a cut in public expenditure? That 4 per cent. is surely insufficient to meet the Government's assumptions of pay increases of 4 per cent. and price increases of 7½ per cent? If those assumptions are wrong, the cut will be greater. That unreasonable assessment of local authority needs, plus the 2½ per cent. reduction in grant, represents a cut in cash terms of about £60 million. That £60 million can be met only by increased rates or by cuts in services.

Will the Secretary of State confirm that this is the third consecutive year in which he has proposed cuts in the percentage of grants when the domestic ratepayers in Wales have already suffered a loss of 18½p of domestic relief? Does the Secretary of State agree that that settlement must mean rate increases, job losses or reduced services in the local government sector or a combination of all three?

Mr. Edwards: The reason why I am imposing penalties for 1981-82 and 1982-83 is that expenditure exceeds provision. I have always made it clear to the authorities that if they could not reduce their expenditure I should have to consider taking this course. The local authorities have reduced their expenditure. That means that the withholding that I have had to apply is less and at a later stage than it would otherwise have been. Penalties on the scale of those in England, where overspending has been greater, have not been incurred.

The right hon. Gentleman referred to the way in which local authorities have responded over a period. I pay tribute to them for that. However, the steady progress that they have made has meant that we have been able to give them an easier target at each stage than in England. They have not had to start from such a difficult position. For example, in England the provision shows a 2 per cent. increase over current plans compared with a 4½ per cent. increase in Wales. This year, as last year, I have been able to make extra capital provision available to local authorities. That shows the direct relationship between cutting current expenditure and getting extra money for capital spending.

The right hon. Gentleman made a specific point about education. Today I have given the local authorities the figures for holdback in 1982-83, but we shall have to lay measures in Parliament in the autumn and I shall consider any general representations that are made on the detail before we do so.

As to rate increases and the assumptions made, it should be clearly understood that the assumptions are realistic. The authorities must understand that they have a choice. If they can hold their wage increases and the total level of their wage costs in low single figures and reach the targets that I have set, there is no reason why there should be more than minimal rate increases. They have a direct choice whether they put an extra burden on their

[Mr. Edwards]

ratepayers or whether they make a real effort to cut expenditure as they can. There is no doubt that the numbers employed in local government in Wales, which were reduced by only 2 per cent. last year and by nothing at all in the last quarter, leave room for further improvement.

Mr. Ian Grist (Cardiff, North): Is my right hon. Friend aware of the welcome that Conservative Members give his efforts to control local government expenditure and the resulting increase in rates, which affects jobs and the livelihood of the people of Wales? Are South Glamorgan council and Cardiff city council among the councils that have overspent and are any penalties to be borne by them as a result?

Mr. Edwards: I think that I am right in saying that Cardiff is one of the councils that have overspent. My hon. Friend is absolutely right that additional rates are a direct disincentive to job creation and a direct penalty on productive companies. I must be the prime objective of local authorities to seek to hold down rate bills. That is why I made the switch in the domestic rate last year, to which the right hon. Member for Rhondda (Mr. Jones) referred.

Mr. Edward Rowlands (Merthyr Tydfil): Has not the Secretary of State been unable to deny what my right hon. Friend the Member for Rhondda (Mr. Jones) said, which is that there will be a burden of £60 million on ratepayers as a result of the cuts and changes that he is proposing to make? Is he aware that if he continues to turn the screw on some aspects of local authority expenditure, for example in Mid-Glamorgan, education for the under-fives in the county which we have had for over 60 years could be destroyed? Does the right hon. Gentleman want to go down in history as the Secretary of State who reduced educational opportunities for young people?

Mr. Edwards: It is not a cut but an increase in provision. It is money that has to be found. If the local authorities can control their expenditure, they can maintain services. Which services they provide is a choice for them. Many local authorities have shown by their policies that they can maintain services and make cuts. For example, Dyfed county council has just issued a statement saying that it will not be penalised because it is the only county in Wales that has fully met the target. It is fully maintaining services. However, I have to say even to that council that I wish that it had made further cuts in current expenditure rather than making them out of capital and by altering the excessive assumptions that it made previously about wage increases and the level of inflation.

Mr. Roy Hughes (Newport): Does the Secretary of State believe that he is adequately considering local

authorities' problems, bearing in mind the tremendous social problems that they are experiencing as a result of mass redundancies, especially, in areas such as mine, in the steel industry? Far from threatening them as he is doing and putting ever more stringent tax limits on them, does he agree that he should be treating them far more generously?

Mr. Edwards: I have tried, by working closely with local authorities, to achieve their co-operation to avoid many of the complexities and difficulties that have arisen in England. At each stage, Welsh local authorities have had reasonable targets and have come fairly close to reaching them in the past. I hope that they will continue to do that and remember that the greatest single contribution that they can make to reducing unemployment is to keep rates down.

Mr. Tom Ellis (Wrexham): Is the Secretary of State aware that in some Welsh counties, parents are being asked to spend up to one-seventh of their weekly incomes to transport their children two and a half miles or more along busy main roads to school? When he makes his rate support grant allocation, will he bear in mind that what is happening is the ending of 100 years of universal free education?

Mr. Edwards: The choice of how to spend resources remains with local authorities. As the hon. Gentleman knows, there is a substantial reduction in pupil numbers that has not yet been reflected in reduced local authority spending. I hope that he will note that Wrexham Maelor is one of the largest over-spenders and will incur severe penalties. That will encourage it to take the action that other Welsh local authorities with similar problems have succeeded in taking without making reductions in services.

Mr. Ioan Evans (Aberdare): Is the Secretary of State aware that Welsh local authorities' services have been cut to the bone and that his statement will entail not the worsening of services but the possibility of their ending? As unemployment has doubled since the Government took office, does the Secretary of State agree that, as in the 1930s, public works schemes should be set up to get unemployed building workers, for example, involved in local authority works rather than having to take the dole, as they must do now?

Mr. Edwards: It is absurd talk about the ending of local authority services when the level of provision in real terms is still roughly what it was in the mid-1970s. No one talked in those terms then. I repeat that, because of the cuts that Welsh authorities have achieved in current expenditure, I have been able in two consecutive years to make additional capital allocations for them to spend. That is just what the hon. Gentleman urges me to do.

Local Government Expenditure (Scotland)

4.23 pm

The Secretary of State for Scotland (Mr. George Younger): With permission, Mr. Speaker, I shall make an announcement about the rate support grant settlement for Scotland for 1983-84. I shall also refer briefly to 1982-83.

Local authorities' budget estimates for 1982-83 are more than £200 million higher than was proposed in the rate support grant settlement, and I have already indicated to the convention that authorities will have to restrict their expenditure to something nearer to what the country and their ratepayers can afford.

I have initiated selective action against Lothian regional council and Stirling district council. Lothian has proposed an expenditure reduction of £30.7 million commensurate with the very welcome cut of 16p in the rate poundage already implemented by it. In the light of this proposal, I do not propose to proceed with selective reduction in grant payable to Lothian. On 22 July the House approved my proposal to reduce grant payable to Stirling district council by £1.2 million.

As I do not propose to set in hand further selective action, this still leaves about £170 million of excessive spending which cannot simply be ignored and I therefore have no option but to make a general abatement to cover at least a part of this overspending. I have, however, decided to limit this to £27 million, which amounts to only about 16 per cent. of the total overspend, and is no greater than the general abatement that I had to impose last year.

I shall bring an order before the House about Christmas with proposals for the rate support grant settlement for 1983-84. The proposals will take into account the need for reductions in the present level of current expenditure by local authorities. To enable authorities to plan expenditure accordingly in good time I am making this statement now. The Minister with responsibility for home affairs and the environment will be meeting the Convention of Scottish Local Authorities on 29 July.

The figure which I propose provisionally as the public expenditure provision for local authority current expenditure in 1983-84 is £2,635 million. That is £120 million more than provision in the public expenditure White Paper (Cmnd. 8494). After considering the views of the convention as expressed to me in preliminary consultations, I have concluded that this increase should be made. It will not be fully allocated to provision for individual services: £100 million will be treated as an undifferentiated addition made solely because authorities need more time to bring spending into line with the Government's plans, and I shall take this into account before deciding the basis of current expenditure guidelines for 1983-84.

The total of relevant expenditure for the rate support grant settlement will be derived from the figure of £2,635 million in the normal way by the addition of non-current expenditure, including loan charges and capital financed from revenue.

I propose aggregate Exchequer grant of £1,925 million, giving a rate of grant of some 61½ per cent. But I must make it clear that this will be liable to reduction if authorities budget for expenditure significantly above the Government's planning figure. This figure of £1,925

[*Mr. George Younger*]

million represents a cash increase of 3.5 per cent. over the 1982-83 grant figure. If authorities budget for expenditure in line with the Government's planning figure, it should be possible to keep rate increases next year very low. I shall be consulting the convention on these proposals in more detail before presenting the rate support grant order to Parliament in the usual way.

Mr. Bruce Millan (Glasgow, Craigton): Is the right hon. Gentleman aware that this is another sad and depressing statement about local government, and that it is not inappropriate that it should be made on the same day that another extremely depressing statement has been presented to the House? For 1982-83 we have reached the absurd position that the Government's so-called guidelines have been offended by 56 of the 65 local authorities in Scotland. Action, however, is being taken only against Stirling while a general penalty is being imposed on the other authorities.

It is even more absurd that Lothian region's expenditure, which has been reduced by £30 million, will still be more than 12 per cent. above the Government's guidelines, although we have been told by Lothian Tories and the Secretary of State that the guidelines are perfectly easy for any local authority with good will to meet. I repeat that Lothian will still be 12 per cent. above the guidelines while the Scottish average is about 8 per cent. above them. The business of guidelines is an utter farce and the sooner the right hon. Gentleman abandons attempts to dragoon local authorities in Scotland the better.

Consultations have been non-existent. It is farcical to meet the local authorities tomorrow at extremely short notice. I inquired of COSLA yesterday and apparently it was only yesterday that the meeting was arranged. All the major decisions about expenditure and grant have been taken. What is the purpose of the negotiations tomorrow? Is it intended merely to convey the bad news to local authorities and not to enter into any genuine discussions with them?

Is the right hon. Gentleman aware that the usual presentation for 1983-84, with cash figures confused with real figures, does not obscure the fact that the new figure of relevant expenditure for 1983-84 of £2,635 million is only about £15 million more than the adjusted budgets for the current year 1982-83? As the 1983-84 figure is in cash terms, there will have to be a reduction in real expenditure by Scottish local authorities of between 6 and 7 per cent. in 1983-84 to reach the relevant expenditure figures? The Secretary of State knows that he has no hope of getting that sort of reduction, and that even if it took place it would be at the expense of a drastic curtailment of basic local authority services.

Is the Secretary of State also aware that he has added insult to injury by a further 2.7 per cent. reduction in the rate of Exchequer grant, so that during the past three years the rate of grant will have fallen from 68½ per cent.—the figure that he inherited—to only 61½ per cent? The burden of that falls on the ratepayers, for whom the Secretary of State always expresses such deep and artificial concern. The net result of the settlement—that is what it is, because there are no real negotiations—will be to add to the difficulties and burdens of local authorities and ratepayers



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

*PA,
Came too late to show
the PM. Told
Wales no objection
MS 28/7*

28 July 1982

Dear Michael

LOCAL GOVERNMENT EXPENDITURE, WALES

...

I enclose a copy of the text of the oral statement to be made by my Secretary of State later today.

I am sending copies to the Private Secretaries to the Leader of the House, the Paymaster General, the Chief Whip (Lords and Commons), the Lord Privy Seal, the Secretaries of State for the Environment, Scotland, Education, Transport, Health and Social Services, Trade, the Chief Secretary, the Home Secretary, Sir Robert Armstrong and the Chief Press Officer at No 10.

*Yours ever
Adam Peat*

A E PEAT

Michael Scholar Esq
Private Secretary
10 Downing Street
LONDON SW1



PARLIAMENTARY STATEMENT BY SECRETARY OF STATE FOR WALES 28 JULY 1982

LOCAL AUTHORITY EXPENDITURE IN WALES

The Government is determined that local authority current expenditure should be reduced. In Wales local authorities generally have made efforts to meet the Government's expenditure targets, and I pay tribute to them for the efforts they have made. Unfortunately, however, there still remained an overspend of some £13 million on their 1981-82 target, which was expressed in volume terms. In 1982-83 revised budgets suggest an overspend of some £25 million on total expenditure, £36 million on current.

Against this background I have decided that there should be a grant penalty of £2.5 million in respect of 1981-82 and grant holdback of £5 million in respect of 1982-83. I have previously made it clear that the holdback in respect of 1982-83 will be applied differentially, with exemption for those authorities spending at or below their targets. Supplementary Reports to give effect to these decisions will be presented to Parliament in due course.

This background has also influenced the proposals I have decided to make in respect of 1983-84.

First of all, I have reviewed the plans for Welsh local authority current expenditure set out in the last Public Expenditure White Paper. I propose that the plans should be adjusted to £1205 million. This will be an increase of £19 million. It will allow local authorities to spend nearly 4% more than the total of this year's revised budgets. Since authorities collectively may spend, if past trends are repeated, in the region of 1% less than their budgets, it will be equivalent to about a 5% increase. In addition, I intend to increase the amount

/...



planned for local authority capital spending by £17 million.

In support of the increased level of current spending I propose a total Aggregate Exchequer Grant in Wales of £975m in 1983-84. The amount actually distributed will depend on whether Welsh local authorities spend in accordance with the target I am proposing. If they do, it should mean many authorities will find they need no rate increases at all to finance their current expenditure. In those circumstances our present estimate is that Aggregate Exchequer Grant would amount to about 70% of relevant expenditure.

I shall be discussing these proposals with the local authority associations within the framework of the Welsh Consultative Council on Local Government Finance. I shall also be discussing with them the part individual authority spending targets might play in securing our target for next year.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

g/c sv

Prime Minister ⁽¹⁾

CONFIDENTIAL

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

CF

(1) Tow

Mr Younger's

office

I understand Mr Younger
feels that the Treasury have
driven a very hard bargain.

27 July 1982

Agree this statement
tomorrow?

(2) PA

Yes not

rus 27/7

Dear Leon,

RATE SUPPORT GRANT SETTLEMENT 1983-84: GRANT REDUCTIONS 1982-83

At our meeting yesterday we provisionally agreed the main features of the statement on these subjects which I am due to make on Wednesday 28 July. Our agreement was subject to further consideration of your proposal that I should introduce in Scotland in 1983-84 something similar to the arrangement agreed for England under which part of the extra provision to be made in the interests of realism will be withheld from provision for individual services and form the basis of a two-tier system of guidelines to individual authorities.

As was made clear at yesterday's meeting, this last minute proposal puts me in a difficulty. Because of the difference between the English and Scottish systems, it will be very difficult for me to explain or justify, and I shall be accused of applying English measures of no relevance to the Scottish arrangements. Nevertheless, I must make a statement tomorrow, so I reluctantly agree that, of the total by which provision in Cmnd 8494 is enhanced, £100 million should not be allocated to individual services in the next White Paper. I also agree that this new arrangement will need to be taken into account before we issue current expenditure guidelines, possibly leading to a 2-tier guideline system similar to GREs and targets in England. Neither tier would however affect distribution of the needs element of grant since, under the Scottish system, that is done by applying a demographic formula directly to grant. I could not commit myself to any particular form of 2-tier guideline system without further consideration and I suggest that we ask officials to examine the possibilities and let us have a report before we reach a decision.

My other proposals are:

1983-84 Relevant Expenditure

The Scottish block should be enhanced by £106 million representing, in accordance with the territorial formula, 10/85ths of the amount (£900 million) by which relevant expenditure in England is to be enhanced. I see a strong case for enhancing the figure used in the settlement by £138 million to give the same percentage target reduction from 1982-83 budgets as in England. You said that provided we could agree on arrangements to avoid full commitment of the enhancement figure (the point dealt with in the foregoing paragraph) you would not object if I increased the figure used in the settlement by up to £138 million on the basis that anything beyond £106 million would be found from within the block. A final decision on the figure to be incorporated in the settlement will need to be deferred until later in the year. Meantime I propose to indicate in my statement on Wednesday that the provisional figure is £2,635 million implying enhancement by £120 million.

1983-84 Grant

I endorse the figure of £1,925 million provisionally agreed at your meeting on 27 July with Allan Stewart.

1982-83 Grant Reductions

With great reluctance I agreed to make a general abatement of grant of £27 million in addition to the selective action already taken against Lothian Regional Council and Stirling District Council. I am afraid that I regard this as a most unsatisfactory outcome liable to cause us considerable political difficulties in Scotland. As was recognised on all sides during our recent discussions of the measures to be adopted in England, general abatements are inequitable and counter-productive in provoking opposition to Government policy by authorities as a whole. In addition, I remain strongly of the view that rate reduction should be counted as equivalent to grant reductions in computing the total penalty. In later years I shall feel free to pursue the argument on both points. In the meantime I accept your figure of £27 million for 1982-83.

I enclose a draft of the statement which I propose to make on these matters. Since time is now very short I must ask for any comments by 10am on Wednesday.

I am sending copies to the Prime Minister, the members of E Committee, Nicholas Edwards and to Sir Robert Armstrong.

Wansley,
George.

RATE SUPPORT GRANT SETTLEMENT (SCOTLAND) 1983-84: DRAFT STATEMENT

With permission, Mr Speaker, I will make an announcement about the Rate Support Grant settlement for Scotland for 1983-84. I will also refer briefly to 1982-83.

Local authorities budget estimates for 1982-83 are more than £200 million higher than was proposed in the Rate Support Grant Settlement and I have already indicated to the Convention that authorities will have to restrict their expenditure to something nearer to what the country and their ratepayers can afford.

I have initiated selective action against Lothian Regional Council and Stirling District Council. Lothian have proposed an expenditure reduction of £30.7 million commensurate with the very welcome cut of 16p in the rate poundage already implemented. In the light of this proposal I do not propose to proceed with selective reduction in grant payable to Lothian. On 22 July the House approved my proposal to reduce grant payable to Stirling District Council by £1.2 million.

As I do not propose to set in hand further selective action, this still leaves about £170 million of excessive spending which cannot simply be ignored and I therefore have no option but to make a general abatement to cover at least a part of this overspending. I have however decided to limit this to £27 million which amounts to ^{only} /about 16% of the total, ^{overspend} and is no greater than the general abatement which I had to impose last year.

I shall bring an Order before the House about Christmas with proposals for the Rate Support Grant Settlement for 1983-84. The proposals will take into account the need for reductions in the present level of current expenditure by local authorities. To enable authorities to plan expenditure accordingly in good time I am making this statement now. My hon Friend, the Minister for Home Affairs and the Environment, will be meeting the Convention of Scottish Local Authorities on 29 July.

The figure which I propose provisionally as the public expenditure provision for local authority current expenditure in 1983-84 is £2,635 million. That is £120 million more than provision in the Public Expenditure White Paper Cmnd 8494. After considering the views of the Convention as expressed to me in preliminary consultations I have concluded that this increase should be made. It will not be fully allocated to provision for individual services: £100 million will be treated as an undifferentiated addition made solely because authorities need more time to bring spending into line with the Government's plans, and I shall take this into account before deciding the basis of current expenditure guideline for 1983-84.

The total of relevant expenditure for the Rate Support Grant settlement will be derived from the figure of £2,635 million in the normal way by the addition of non-current expenditure (including loan charges and capital financed from revenue).

I would propose aggregate Exchequer Grant of £1,925 million but I must make clear that this will be liable to reduction if authorities budget for expenditure significantly above Government's planning figure. That represents a cash increase of 3.5% over the 1982-83 grant figure.

If authorities budget for expenditure in line with the Government's planning figure, it should be possible to keep rate increases next year very low.

I will be consulting the Convention on these proposals in more detail before presenting the rate support grant order to Parliament in the usual way.

1927-1991 1982



Local Government Expenditure

3.31 pm

The Secretary of State for the Environment (Mr. Michael Heseltine): With permission, Mr. Speaker, I should like to make a statement on local authority expenditure.

The Government's overriding objective is to reduce the level of current spending by local authorities and thus to secure the low level of rate increases that are now possible and desirable. For 1981-82 I can tell the House that I shall be tabling a supplementary report later this week to reduce by £201 million the total of grant available for distribution. This holdback will fall on those authorities that did not meet the Government's targets in 1981-82. For 1982-83 it is also necessary to reduce grant for overspending authorities.

Authorities will this week be sent details of the proposed grant reductions, which on the basis of their budget returns will total £312 million. I propose to make a supplementary report in the autumn.

For 1983-84 I am now giving local government the earliest possible indications of the Government's plans for local government spending and our proposals for the next year's rate support grant settlement. This will give all local authorities ample time to plan their budgets now and make what changes are necessary.

As in 1982-83, I propose to give expenditure guidance to individual local authorities. There will be two basic rules. For those authorities which are budgeting to meet their targets there will be a 4 per cent. increase on their budgets for this year. After allowing for a difference of 1 per cent. between those budgets and likely outturn, that means an effective 5 per cent. increase on this year's cash.

For the remaining authorities, we shall only assume that extra 5 per cent. on the targets that we set for this year. I am today sending to local authorities exemplifications for each authority together with a memorandum explaining how we propose to calculate the expenditure guidance figures. Copies are being placed in the Library of the House.

The targets represent an increase in the public expenditure provision of 5 per cent. or £900 million to £19.5 billion. In aggregate, this is 2 per cent. more than provided in local authorities' budgets for 1982-83. It is probably 3 per cent. more than outturn, allowing for the possibility of a 1 per cent. difference between budget and outturn. The figure of £19.5 billion does not reflect the Government's view of what ought to be spent. It rather reflects the problems of securing economies faster than local government has ever achieved.

Accordingly, I propose that the current expenditure total on which grant related expenditure assessments will be calculated, should be substantially lower at £18,800 million. That is £800 million above the total current expenditure component of GREAs for 1982-83. Authorities that exceed those guidance figures will risk a more severe loss of grant than in this year.

The rate levels in each authority depend not only on the expenditure levels but also on the level of grant. I propose that the amount of aggregate Exchequer grant should be £11.8 billion on the basis of local authorities spending at the level of their guidance figures. This is over £300 million or almost 3 per cent. more in cash than in the 1982-83 settlement. Our present estimate is that the

aggregate Exchequer grant will be about 53 per cent. I shall announce details of grant distribution arrangements and of the grant abatement scheme later in the year.

I shall be meeting representatives of local government in the Consultative Council for Local Government Finance later today to discuss these proposals.

The decision about the level of rates is now entirely a matter for each authority. If they budget to spend within the guidance figures I have proposed, many authorities may find that they need no rate increases at all. That is the prize. With moderate pay settlements, and careful budgeting, it can be achieved.

Mr. Gerald Kaufman (Manchester, Ardwick): Why does the right hon. Gentleman constantly make a practice of presenting figures with the deliberate intention of misleading the House? Why does he claim that he is increasing public expenditure provision for local authorities by 4 per cent. when that claim makes no provision whatever for inflation? Is it not a fact that, even on the Government's unrealistic assumptions of 4 per cent. pay increases and 7.5 per cent. price increases, what he has just announced means a cut of 2 per cent. in local authority expenditure? On realistic assumptions of pay and price increases, will there not be a reduction of 3.4 per cent. in local authority expenditure?

Why does the right hon. Gentleman pretend that he is increasing rate support grant by 5 per cent. when in fact he is cutting it by 2 per cent.—a reduction of £258 million? On the basis of this year, the reduction will be particularly bad for the inner city areas which get only 18.6 per cent. of rate support grant.

Why does the right hon. Gentleman pretend that rates will not rise? Last year he said that increases would be low and they went up by 20 per cent. This year he said that increases would be reasonable and they went up by 15 per cent.—in both cases because of his rate support grant reductions. If he proposes to blame overspending for those rate increases, may I remind him that 61 per cent. of last year's overspenders were Tory councils and 56 per cent. of this year's overspenders are Tory councils? When Conservative Members cheered the penalties that he is bringing in for overspending just now, they were cheering penalties that he is imposing on Tory councils in their constituencies.

Mr. Geoffrey Dickens (Huddersfield, West): We are very fair.

Mr. Kaufman: The hon. Gentleman has a reputation for appreciating what is fair.

Is it not a fact that in the past three years the Secretary of State has cut rate support grant as a proportion of expenditure from 61 per cent. to 53 per cent. and that in cash terms he has cut rate support grant by more than £2 billion? Has not the Secretary of State's baneful meddling in and harassment of local authorities meant, and will it not continue to mean, record high rates, worse services and over 100,000 job losses to add to the present total of 3¼ million? The right hon. Gentleman has inflicted unparalleled damage on our system of local government. We must hope that this rate support grant settlement will be his last.

Mr. Heseltine: The right hon. Gentleman should be careful when accusing me of misleading the House when he tries to pretend that the cash facilities that I have

Monetary Fund starts in Toronto on 6 September, will the Government put forward proposals to the world's central banks to encourage even greater co-operation and stricter supervision of their commercial banks?

The Prime Minister: I am very much aware of that and of the danger that any default would produce, not only for one group of banks in one country, but, by a domino effect, for a number of banks. We are very much aware of what is happening, and the matter is frequently discussed at international meetings. We shall, of course, keep the matter very much in mind and make any proposals that we think fit at the time. It is vital not to lend too much, and undoubtedly a number of banks have been overlending, although not in this country.

Q4. **Mr. Dormand** asked the Prime Minister if she will list her official engagements for 27 July.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Dormand: I support my right hon. Friend the Leader of the Opposition in urging the Prime Minister to give further consideration to meeting the additional costs involved in having the "Atlantic Conveyor" replacement built in Britain. Does the right hon. Lady realise that there is overwhelming support in Britain for such a decision? In view of the fine phrases that the right hon. Lady used only a few weeks ago about our ships during the Falklands

crisis, what possible justification can there be for the Government's narrow-minded and niggardly attitude, particularly when the Tyneside workers met every demand that was made of them during the crisis?

The Prime Minister: The Government have already offered a subsidy of 30 per cent. on the British Shipbuilders' price. That is a considerable subsidy. We are now considering what further can be done. It seems to me to be reasonable, both for the future of the shipbuilding industry, as well as to obtain that order, to ask for co-operation from all three parties involved. The Government are co-operating and will continue to co-operate, because we want that ship to be built in Britain. We look for some co-operation from Cunard, and we are entitled to look for some more co-operation from British Shipbuilders and all who supply it, particularly to reduce costs.

Commander Michael Trestrail

Mr. Thomas Torney (Bradford, South): On a point of order, Mr. Speaker. I seek your guidance on an incident about which newspapers say that the House has been misled. I refer to the Home secretary giving the impression that Commander Trestrail had been the subject of proper security clearance, whereas we now know that he had not.

Mr. Speaker: That is clearly not a point of order. It must be pursued in some other way.

announced, both in grants and targets, are reductions. We are providing more cash for local authorities next year, not less. The entire basis of his case had been to assert harshness when in reality he knows as well as I do that over the past few years there has been one of the best pupil-teacher ratios ever in local government. The police force now has one of the largest strengths that it has ever had.

When the right hon. Gentleman refers to rate increases and suggests that they arose from the Government's decisions he fails to say that in the shire counties the Conservative-controlled authorities have made rate increases of about 10 per cent. while providing the same services whereas Labour-controlled authorities have made rate increases of about 30 per cent. That proves beyond peradventure that it was the decision of the Labour Party and its supporters in local government that created high levels of rating.

It seems that the Labour Party cannot understand that, when unemployment is created as a result of high rate increases because of high local authority expenditure policies, that situation can be reversed only if its supporters in local government will do what others have done in Conservative-controlled authorities and which has been proved to be possible.

Mr. Charles Morrison (Devizes): As it is my right hon. Friend's continuing and understandable desire that local authorities should limit their expenditure, will he give further consideration to reducing the number of local authority mandatory responsibilities? Some local authorities have been cutting consistently since 1974 and they could cut more and more easily if they had wider discretion on spending rate income and grants.

Mr. Heseltine: I understand my hon. Friend's anxiety. However, he will be aware that there are many authorities in each class of authority, with perhaps the exception of metropolitan counties, which are fulfilling their statutory duties within the Government's guidelines. That proves that it can be done.

Mr. Christopher Price (Lewisham, West): Some local authorities have been told by inspectors of the Secretary of State for Education and Science that their education provision is dangerously low and might be breaking the law as passed by the House. How are those authorities to face the dilemma of trying to please the Secretary of State for Education and Science in fulfilling their statutory responsibilities and trying to fulfil the arbitrary guidelines of the Secretary of State for the Environment? What are they to do?

Mr. Heseltine: Obviously the question is largely for my right hon. Friend the Secretary of State for Education and Science.

Mr. Christopher Price: No, it is solely for you.

Mr. Heseltine: It is obvious from an examination of the reports that substantial improvements can be achieved in teaching standards and the quality of education without increasing the cost of education.

Mr. Stephen Ross (Isle of Wight): I congratulate the right hon. Gentleman on making his views known to us at an early stage. However, does he accept that a cut of about 3 per cent. in central Government rate support grant for local authorities next year, when coupled with a 9 per cent. inflation rate and wage settlements, which are a fact of life, of about 7 per cent. for a 39-hour week, will make

local authorities' problems extremely difficult? Will the right hon. Gentleman accept also that in reality his announcements today will mean that cuts are bound to be made in services, some of which local authorities are obliged statutorily to provide, and that consequently the general public must expect to see cuts in social services, education and other services?

Mr. Heseltine: I am grateful to the hon. Gentleman for recognising that we have tried to meet the legitimate concern of local government to be given as early an indication of our ideas as is possible. That is what we have tried to do. The hon. Gentleman's approach, which is to assume that settlements that are taking place now, often at lower levels than he has mentioned, will be reached at the same levels next year, is one which I find self-defeating and encourages the inflationary cycle. As inflation falls, there must be an ongoing process in which the level of wage increases is below the level of inflation.

Mr. Edward du Cann (Taunton): I support my right hon. Friend's general objective of limiting expenditure throughout the nation and bringing it under better control. However, will he be prepared to give exceptional consideration to counties which have exceptional difficulties? I have in mind Somerset, which has suffered greatly from local government reorganisation and boundary alterations.

Mr. Heseltine: I am more than prepared to listen to my right hon. Friend's representations. However, he will understand that there are 412 authorities, all of which have special difficulties. In pursuing public expenditure constraint, it is difficult to single out one from another.

Mr. T. W. Urwin (Houghton-le-Spring): In preparing this further harmful statement for local authorities, has the right hon. Gentleman made any estimate of how many of those currently employed in local government will lose their jobs as a consequence of his decisions? Has he taken into account the injurious effects on social services that are operated by local government as a result of this further devastating cut in local government funding?

Mr. Heseltine: I think that the hon. Gentleman will on reflection recognise that the prospect of the low rating increases that I am talking about is probably one of the greatest incentives to job creation in the area that he represents that the Government could provide. To repeat the statements of pressure groups that urge more public expenditure as a means of avoiding job losses on an unacceptable scale is to disregard the invariable difference between what people say in advance and what happens in practice.

Mrs. Angela Rumbold (Mitcham and Morden): Will my right hon. Friend assure the House that authorities which in the past met their grant related expenditure targets will not be penalised in future in favour of authorities which have flagrantly overspent?

Mr. Heseltine: My hon. Friend will want to study the individual exemplifications, copies of which are available to the House. I must ask all local authorities to look for further economies in pursuit of the Government's public expenditure targets.

Mr. Clinton Davis (Hackney, Central): Will the right hon. Gentleman say how desperately deprived inner city areas—the borough that I represent is one—can

[Mr. Clinton Davis]

conceivably be helped by his announcement? Is not his real desire to see help cut for the aged and the infirm and to see help cut for the young unemployed and to add in every possible way to the burden of areas such as those which are already undergoing terrible deprivation? Are not his policies those of a miserable ideologue?

Mr. Heseltine: I am sorry that the hon. Gentleman should dismiss the largest urban programme ever as the policy of an ideologue. We are bringing more urban aid to areas such as the one that the hon. Gentleman represents than has ever been introduced by any Government in the past. He will be equally aware that for the first time since 1975 we have reversed the downward trend of capital housing allocations, to be greeted by a number of Labour authorities underspending significantly. The hon. Gentleman will realise that the best thing that we can do for the borough that he represents is to secure the rate increases there that industry can find in many Conservative-controlled authorities throughout the country.

Mr. John Cartwright (Woolwich, East): Will the right hon. Gentleman accept that the freedom for local authorities about which he spoke so glowingly is no more than freedom to choose between still further cuts in services and still further rate increases, especially in hard-pressed inner city areas where social problems are obvious? Will he confirm that cuts in rate support grant that goes to the inner city and inner urban areas more than wipe out the special help that is afforded by the urban programme, for which he has taken so much credit?

Mr. Heseltine: No, I do not accept that. A significant number of authorities of the sort to which the hon. Gentleman has referred have budgeted to ensure that they get substantial benefit from the programmes that we have on offer. If they decide to overspend on current expenditure, that carries a penalty that they know in advance. Today they know even further in advance and they will be able to budget so as not to incur a penalty. The hon. Gentleman will be aware that the Labour Government were prepared to introduce draconian cuts in local authority current expenditure and to halve the capital programme of local authorities because they found no other way of running the economy.

Mr. Michael Shersby (Uxbridge): Will my right hon. Friend expand on his statement by telling the House how his 1981-82 supplementary report will affect the massive political advertising expenditure of the GLC?

Mr. Heseltine: The GLC has lost its entitlement to grant because its expenditure is so far above the Government's guidelines. I dare to venture the view that is commonly held that the GLC is now indulging in extravagant and unnecessary expenditure at the ratepayer's expense.

Mr. Arthur Lewis (Newham, North-West): The Secretary of State mentioned reasonable or low wage increases. As the police are to receive a 10.7 per cent. pay increase, and as the London boroughs and the GLC are confronted with the prospect of a police precept which will increase because of expenditure on Buckingham Palace security, may we be assured that the borough councils that have no say in how economies can be made will not be

penalised? My local authority receives no extra police assistance but it must pay for it. Now there are to be cuts. Will the Secretary of State examine that aspect of the matter?

Mr. Heseltine: The method by which the Metropolitan Police precept is levied has not changed under the Government. I recognise that there is a problem with the Government's priorities. We have discussed it with the local authorities, especially the metropolitan counties. We bear the matter in mind and, as this is a consultative document, it will be considered carefully. The hon. Gentleman will be aware that the same position applies to the Inner London Education Authority, where substantial increases in expenditure must be faced by the London boroughs and the GLC.

Mr. John Heddle (Lichfield and Tamworth): Does my right hon. Friend agree that a large proportion of local government expenditure is in salaries and wages? Can he produce a comparison between the number of people employed per thousand population in Conservative-controlled and in Labour-controlled authorities? Does he agree that the ratepayers would get much better value for money if more ancillary services were transferred to the private sector?

Mr. Heseltine: My hon. Friend's question goes to the heart of the matter. The privatisation of refuse collection in Southend has led to the dustmen earning more money, the citizens obtaining a better service, the company making a profit and the ratepayers saving £½ million a year. As to a comparison between one authority and another, the treasurers of local government have published their own statistics which are freely available. They show beyond peradventure that the relative difference of cost of service provision between one authority and another enables substantial economies to be made without a serious reduction in services.

Mr. R. B. Cant (Stoke-on-Trent, Central): Is the Secretary of State aware that even local authorities which are anxious to cut expenditure in order to get off the hook of the penalties and holdbacks are faced with logistical problems? Speaking as the chairman of an education committee, I can say that the problem of school closures is paramount. Will the Secretary of State have a word with the Department of Education and Science? We shall know nothing about the advanced further education pool, which will have an enormous impact on our finances. One cannot get rid of polytechnic lecturers at less than 12 months notice.

Mr. Heseltine: The hon. Gentleman's question is relevant to the search for cuts. The fact that it takes time to make those cuts is one reason why we now have the best pupil-teacher ratio that we have ever had in Britain. Since I have been asking for the economies, pupil rolls have fallen by 7 per cent., which is far in excess of the reduction in teachers. I shall certainly draw the hon. Gentleman's point to the attention of my right hon. Friend the Secretary of State for Education and Science.

Mr. Anthony Grant (Harrow, Central): Is my right hon. Friend aware that the historic yardstick on which the previous rate support grant was based worked unfairly on authorities such as Harrow borough council, which tried in earlier years responsibly to restrain spending? Can that be taken into consideration? Is he further aware that in the

really spendthrift Socialist authorities, the lunacy still prevails whereby those who pay the rates do not have a vote and those who have a vote do not pay the rates? When will he do something about that?

Mr. Heseltine: I know of my hon. Friend's interest in the problems faced by Harrow borough council. I examined carefully the effect of the rate support grant settlements on authorities by class and the London boroughs come within that category. As to our longer-term plans for the formal abolition of domestic rates, we have now concluded the consideration period and we hope to make a decision and announcement on those matters as soon as possible.

Mr. David Stoddart (Swindon): Is the Secretary of State aware that he is getting a bad reputation as an itinerant axeman? Is he further aware that there is great resentment in Swindon following his visit to my constituency when he incited Wiltshire county council to make further cuts? It has made further cuts in the police and fire services and has cut £3.2 million from education, although it was named in the HMI reports as being at the lower end of the scale of education authorities. Does not his announcement mean that people in Wiltshire, especially children, will be deprived?

Mr. Heseltine: No, it does not. It means simply that the local authorities—I am sure that Wiltshire county council will wish to do this—should take into account the effect of the recession on the rest of the economy in judging the economies that they can make. The employees of Wiltshire county council will doubtless reckon that if they bid for larger wage increases they will provide a less satisfactory service. The answer is to go for low wage increases.

Mr. Nigel Forman (Carshalton): Is my right hon. Friend sure that the expenditure control mechanisms to which he referred are sufficiently precise to avoid the unfair penalisation of economical and responsible local authorities, such as the London borough of Sutton, in my constituency? Is he aware that an early measure that he could take to reduce many of the problems would be to abolish the GLC?

Mr. Heseltine: My hon. Friend would be the first to recognise that, when one is distributing the best part of £20 billion over 400 authorities and 20 different services, there is bound to be recourse to general rules. It has always been central Government's view that one should not expect minute accuracy in the rate support grant settlement. However, the settlement now reflects broadly the needs of the authorities in each area, depending on the service that they provide, and the consultation process that I am beginning early will enable me to satisfy myself more about the position.

I have no proposals to put to the House today on the future of the GLC, but the GLC argues the most eloquent case that one can imagine for its own demise.

Mr. A. E. P. Duffy (Sheffield, Attercliffe): Is the Secretary of State aware that unemployment in inner Sheffield is 20 per cent. and that male unemployment, at 24 per cent., is twice the national average? With the deprivation and urban-related problems to which that gives rise, Sheffield must be typical of our inner cities. Is he further aware that the Secretary of State for Industry

justified his adjusted regional policy on the ground that he was concentrating assistance at the point of need? Why is the right hon. Gentleman reversing that policy?

Mr. Heseltine: Few authorities pursue policies more likely to create unemployment than the metropolitan district of Sheffield, which, by its rating and expenditure policies, increasingly absorbed private sector resources that could otherwise go into profitable investment and job creation.

Mr. David Madel (Bedfordshire, South): As much of local authority expenditure is on education, including the fresh statutory requirements under the new training initiative, does my right hon. Friend feel that in the autumn the Government will be able to say something about an education block grant or an alternative way of financing heavy expenditure on education?

Mr. Heseltine: I am grateful to my hon. Friend for that question, but he will understand that an educational block grant must be dealt with in the consultative process about rates and their future. If he will bear with me, I should prefer it to be dealt with in that way.

Mr. Jack Straw (Blackburn): Is the Secretary of State aware that not even the most optimistic of economic forecasts estimates inflation of less than 7 per cent. next year? Therefore, will the Secretary of State break the habit of a lifetime and give us a straight answer to a simple question? If inflation is above 5 per cent., does that not inevitably mean that local authorities must cut their present level of provisions?

Mr. Heseltine: No, Sir. It will depend far more on the level of the wage settlements in local government.

Mr. John Townend (Bridlington): Does my right hon. Friend agree that he will have the support of industry and commerce in his continuing efforts to bring pressure to bear on high spending councils such as Humberside to make the economies that industry has had to make in the past two years?

Mr. Heseltine: I am grateful to my hon. Friend. He has highlighted something that is widely recognised throughout the country, which is that industry and commerce have had to make substantial sacrifices in the light of the recession. That consequence has been resisted by the Labour Party whenever it has had an opportunity to influence decisions. The fact is that such resistance leads to higher rate increases and makes the task of industry harder.

Several Hon. Members rose—

Mr. Speaker: Order. This is a Supply day. Many right hon. and hon. Members have intimated that they hope to speak in the debate on unemployment. I shall call two more hon. Members from each side, although that will take time from the debate.

Mr. Greville Janner (Leicester, West): Before the Secretary of State made his decision, did he consider how many local authority jobs were likely to be lost? If so, what conclusion did he arrive at?

Mr. Heseltine: I am sure that the hon. and learned Gentleman will realise that, as I have announced a 5 per cent. increase in cash availability for next year, it must follow that if wage settlements are low that should have little effect on the number of jobs. However, if wage

[Mr. Heseltine]

settlements are high, fewer people will be employed. However, that is a matter for the local authorities and the unions and not for me.

Sir Brandon Rhys Williams: What are my right hon. Friend's intentions for the future of the Inner London Education Authority, particularly with regard to the ways in which its expenditure could be brought under firmer control and scrutiny?

Mr. Heseltine: I should like to be able to answer my hon. Friend's question. As with so many other matters on local government, we are having to consider that matter carefully. I am sure that the House will appreciate that it is not the appropriate moment for me to go wider than I have gone in today's announcement.

Mr. Dennis Skinner (Bolsover): What is the economic sense of the Government telling the local authorities that, if wage settlements are around the rate of inflation, that will mean about 100,000 people not receiving wages from the local government office per the rate support grant and the rates but having to go down the road to another central Government office to draw unemployment pay? Some of them will have to go back to the local authority to draw rent and rate rebates and take advantage of some of the other benefits that remain despite the Government's record. What business sense is there in adopting such a policy?

The Secretary of State should not accuse my right hon. Friend the Member for Manchester, Ardwick (Mr. Kaufman) of having accused him of misleading the House. The right hon. Gentleman will go to the Tory Party conference in October and make a speech that is different from what he has said today. He will preach to the Tory faithful and will want to sound like the great big axeman. Therefore, what is he complaining about?

Mr. Heseltine: I was not complaining.

Mr. Michael Colvin (Bristol, North-West): Will my right hon. Friend tell the House whether, since coming to power, the Government have increased or decreased in real cash terms, allowing for inflation, the statutory obligations placed by Government on local authorities to spend money?

Mr. Heseltine: There have been a number of legislative changes but no significant change of which I am aware that should lead to substantial increases in expenditure. There are always consequences of Government legislation that could lead to some increases in expenditure, but they are as nothing compared with what could have been achieved if local authorities had much more effectively managed their resources.

Adult Education

4.4 pm

Mr. Frank Haynes (Ashfield): I beg to move,

That leave be given to bring in a Bill to require all local education authorities to provide adult education for persons registered as unemployed; and for connected purposes.

I shall preface my remarks by making reference to the present economic situation, bearing in mind its effect on education, particularly adult education. Over 3 million people are unemployed. We are constantly told by Treasury Ministers that that figure will increase as time goes by. Therefore, the situation becomes worse.

Because of the problems of adult education, we saw fit to organise a body of hon. Members from all parties to meet regularly and discuss adult education. We were concerned about the breaking down and destruction of adult education. Across the country many representations have been made to that body. Many educational bodies throughout the country have made representations to me. I received a letter from the Adult Literacy and Basic Skills Unit. I shall quote from it to put the matter in perspective. It states:

"The estimated number of adults (16+) who are considered 'functionally illiterate' is 2 million (6%) and this is considered to be a conservative estimate . . . As far as numeracy is concerned a recent Gallup Poll sponsored by the Advisory Council on Adult and Continuing Education found that one in ten could not cope with simple addition, three in ten could not cope with simple subtraction, multiplication and division, three in ten could not cope with simple percentages or a simple graph and four in ten cannot cope with a simple timetable."

That spells-out what is happening, what should be happening and where we should direct our finance in the interests of the adults of tomorrow. I recognise that there is the new training initiative. However, it does not come in until September 1983. The Prime Minister, at Question Time, said that many youngsters who have been out of school for a year have not yet found a job. At least in September 1983 some youngsters will benefit under the new training initiative. The Secretary of State for Employment told us that all school leavers will enjoy 12 months' training under that scheme.

However, we must consider the other side of the coin. In my constituency, as well as in others, many adults are illiterate. I mentioned the figures. The Government have a duty to do something about that problem.

Last year Her Majesty's Inspectorate published a report on education with particular reference to adult education. It made a scathing attack on the Government for their destruction of adult education. The Government should be ashamed of what they have done to adult education. I hope that the Government are taking note of what I am saying today so that we can make some progress and give some of the people who are now standing in the dole queues every week the opportunity to get away from their illiteracy and be prepared for the future.

We are constantly told that the economy will pick up. We shall need workers in future, but they must be able to read and write. If not, they will be sent away when they apply for jobs that happens frequently. The Government have betrayed the present generation of youngsters. They have also betrayed the generation before them who form today's dole queues. They will continue to stand there until the Government change direction.

The community enterprise programme has been mentioned. The Chancellor of the Exchequer goes on



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

27 July 1982

CF
PA.

Dear Michael

LOCAL GOVERNMENT EXPENDITURE

/ I enclose a copy of the text of the oral statement to be made by my Secretary of State later today.

I am sending copies to the Private Secretaries to the Leader of the House, the Paymaster General, the Chief Whip, the Secretaries of State for Education, Wales, Scotland, Transport, Health and Social Services, Trade, the Chief Secretary, the Home Secretary, and to Sir Robert Armstrong; and to the Chief Press Secretary at No. 10.

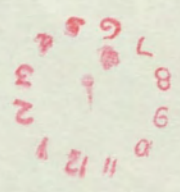
The statement is, of course, subject to minor drafting changes and I will let Murdo MacLean have his additional copies for the Opposition later on.

for em
D A Edmonds

D A EDMONDS
Private Secretary

Michael Scholar Esq
No 10

UNITED STATES
POSTAL SERVICE



27 JUL 1982

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT
27 JULY 1982 - HOUSE OF COMMONS
LOCAL GOVERNMENT EXPENDITURE

With permission, Mr Speaker, I should like to make a statement on local authority expenditure.

The Government's overriding objective is to reduce the level of current spending by local authorities and thus to secure the low level of rate increases that are now possible and desirable.

For 1981-2 I can tell the House that I shall be tabling a Supplementary Report later this week to reduce by £201m the total of grant available for distribution.

This holdback will fall on those authorities that did not meet the Government's targets in 1981-2.

For 1982-3 it is also necessary to reduce grant for overspending authorities.

Authorities will this week be sent details of the proposed grant reductions, which on the basis of their budget returns will total £312m.

I propose to make a Supplementary Report in the autumn.

For 1983-4 I am now giving local government the earliest possible indications of the Government's plans for local government spending and our proposals for the next year's rate support grant settlement.

This will give all local authorities ample time to plan their budgets now and make what changes are necessary.

Expenditure Provisions

As in 1982-3 I propose to give expenditure guidance to individual local authorities.

There will be 2 basic rules: for those authorities who are budgetting to meet their targets: a 4% increase on their budgets for this year.

After allowing for a difference of 1% between these budgets and likely outturn this means an effective 5% increase on this year's cash.

For the remaining authorities, we shall only assume that extra 5% on the targets that we set for this year.

I am today sending to local authorities exemplifications for each authority together with a memorandum explaining how we propose to calculate the expenditure guidance figures.

Copies are being placed in the Library of the House.

These targets represent an increase in the public expenditure provision of 5% or £900m to £19.5 bn.

In aggregate this is 2% more than provided in local authorities' budgets for 1982-3.

It is probably 3% more than outturn allowing for the possibility of a 1% difference between budget and outturn.

£19.5 bn does not reflect the Government's view of what ought to be spent.

It rather reflects the problems of securing economies faster than local government has ever achieved.

Accordingly, I propose that the current expenditure total on which Grant Related Expenditure assessments will be calculated should be substantially lower at £18,800m.

This is £800m above the total current expenditure component of GRES for 1982-3.

Grant Abatement

Authorities which exceed these guidance figures will risk a more severe loss of grant than in this year.

Aggregate Exchequer Grant

The rate levels in each authority depend not only on the expenditure levels but also on the level of grant.

I propose that the amount of Aggregate Exchequer Grant should be £11.8 bn on the basis of local authorities spending at the level of their guidance figures.

This is over £300m or almost 3% more in cash than in the 1982-3 settlement.

Our present estimate is that the Aggregate Exchequer Grant will be about 53%.

I shall announce details of grant distribution arrangements and of the grant abatement scheme later in the year.

Consultation

I shall be meeting representatives of local government in the Consultative Council for Local Government Finance later today to discuss these proposals.

The decision about the level of rates is now entirely a matter for each authority.

If they budget to spend within the guidance figures I have proposed, many authorities may find that they need no rate increases at all.

That is the prize.

With moderate pay settlements, and careful budgetting, it can be achieved.



Prime Minister (2)

fc JV BI

Mus 27/7 2 MARSHAM STREET LONDON SW1P 3EB

My ref: H/PSO/15220/82

Your ref: 26 July 1982

See list

Handwritten mark

I have seen your letter of 20 July to Leon Brittan.

My principal concern is that whatever arrangements are arrived at for Wales there should be seen to be broad parity of treatment with what we have agreed for England. This means that, while I appreciate the arguments you make about how close Welsh authorities have come to their 1981/2 volume targets, I think it would be difficult for me if the overspend in that year is completely disregarded in fixing grant reductions. This is particularly so since I am preparing to publish the English Supplementary Report for 1981/2.

I am generally content with your suggested criterion for fixing the amount of the reduction to be made. We calculate this gives the following results for the 2 years:

	(1) English Overspend	(2) English Holdback	(3) (2) as % of (1)	(4) Welsh Overspend	(5) Welsh Holdback
1981/2	£813m (Nov '80)	£202m	24.8%	£21m	£5.2m
1982/3	£1431 (cash)	£312m (cash)	21.8%	£25	£5.4m

You will see that I think it appropriate to estimate the gross liability to holdback in respect of 1981/2 using the £21m figure for the overspend in Wales. This is because the figure for English overspend in that year is gross of expenditure on clearing up the severe winter and it is necessary to compare like with like. Of course in applying the holdback to individual authorities some will have their actual winter expenditure disregarded as we have agreed and their liability to holdback will be reduced. But we should start from the right baseline.

I am copying this letter to those who received copies of yours.

Yours ever
Handwritten signature

MICHAEL HESELTINE

CONFIDENTIAL



Prime minister 2

To be aware. You saw the
earlier draft.

2 MARSHAM STREET
LONDON SW1P 3EB

lh
26/7
My ref:

Your ref:

26 July 1982

mt

Dear Terry

RATE SUPPORT GRANT 1983-4

/ As I said in my letter on Friday, I am now able to attach a first draft of the Secretary of State's proposed Parliamentary statement for tomorrow afternoon. It is, of course, subject to further amendment, but the Secretary of State envisages that the final form will be pretty much on the lines of the attached draft.

I am copying this to the recipients of my letter of Friday, 23 July.

Could I have any comments by 6.00 pm today?

Your very
D A Edmonds

D A EDMONDS
Private Secretary

Terry Mathews Esq

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

27 JULY 1982 - HOUSE OF COMMONS

LOCAL GOVERNMENT EXPENDITURE 1983-4

With permission, Mr Speaker, I should like to make a statement on local authority expenditure.

The Government's overriding objective is to reduce the level of current spending by local authorities and thus to secure the low level of rate increases that are now possible and desirable.

In view of the importance of this I am giving local government the earliest possible indications of the Government's plans for local government spending in 1983-4 and our proposals for the 1983-4 rate support grant settlement.

This will give all local authorities ample time to plan their budgets now and make what changes are necessary over the longest possible practical timescale.

Expenditure Provisions

As in 1982-3 I propose to give expenditure guidance to individual local authorities.

There will be 2 basic rules: for those authorities who have co-operated: a 4% increase on this year's budget.

After allowing for a difference of 1% between budget and likely outturn this means an effective 5% increase on this year's cash.

For those who have not: a continuation of this year's target, uprated by rather less than the likely rate of inflation.

This is a tough but achievable target.

To set anything lower could lead to redundancies that would offset any savings.

As a consequence the Government propose to increase the public

expenditure provision by 5% or £900m to
£19.5 bn.

In aggregate this is only 2½% more than provided in local
authorities' budgets for 1982-3.

It is probably 3½% more than outturn allowing for the
possibility of a 1% difference between budget and outturn.

I must make it clear that this figure reflects the problems of
securing economies faster than local government has ever achieved.

It does not reflect the Government's views of what ought to be
spent

Accordingly, I propose that the current expenditure total on which
Grant Related Expenditure assessments will be calculated should be
substantially lower at £18,800m.

This is more than £900m, or 5%, above the total current expend-
iture component of GRES for 1982-3.

Grant Abatement

Authorities which exceed these guidance figures will risk a more
severe loss of grant than in this year.

Aggregate Exchequer Grant

The rate increases in each authority depend not only on the
expenditure levels but also on the level of grant.

I propose that the amount of Aggregate Exchequer Grant should be
£11.8 bn on the basis of local authorities spending at the level
of their guidance figures.

This is over £300m or 2½% more in cash than in the 1982-3 settle-
ment.

However all grant abated under the severe holdback arrangements

which I envisage will be withheld.

The amount actually distributed will, therefore, depend on local authorities own spending decisions.

I shall announce details of grant distribution arrangements and of the grant abatement scheme later in the year.

Consultation

I shall be meeting representatives of local government in the Consultative Council for Local Government Finance later today to discuss these proposals.

The decision about the level of rates is now entirely a matter for each authority.

If they budget to spend within the guidance figures I have proposed, many authorities may find that they need no rate increases at all.

That is the prize.

And it can be achieved in many of those authorities that have co-operated with the Government with little change in staff levels.

Those that continue to ignore our guidelines will come under increasing pressure from their ratepayers who will be forced to pay avoidable bills necessitated only by policies that run counter to the best interests of both the local community and the national economy.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

2 pms 9/5/82
Prime Minister (2) Local Govt

A long way from agreement

23 July 1982 MUs 23/7

CONFIDENTIAL

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

Dear Chief Secretary,

1. LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83: GRANT REDUCTIONS
2. RATE SUPPORT GRANT SETTLEMENT 1983-84: PROVISIONAL PROPOSALS

Allan Stewart has reported to me the outcome of the meeting you and he had on 22 July. I am sorry that I was prevented by indisposition from meeting you myself.

Before dealing with the outstanding issues I should make two general points.

First, I understand that you were unhappy because Allan Stewart thought it necessary to reserve my position on certain points. I had to ask him to take the meeting on my behalf at very short notice. I would have been content for him to reach finality if he had judged that your proposals would have been acceptable to me. He was absolutely right in his judgement that your proposals on two important points would not have been acceptable. Failure to make progress was due to the nature of your proposals rather than to any inhibition placed on Allan's freedom to negotiate. I hope in the circumstances you will accept that it was right for the meeting to proceed.

Second, as regards grant reductions in 1982-83 I accept that you have a clear interest in the amount of the total grant penalty even if you and I do not yet agree on the size of the penalty. I am very willing to consider your views on the division of the agreed total between selective action and general abatement but the decisions in relation to individual authorities which turn on reasoned judgement on individual cases in the light of statutory requirements, are mine and must remain so.

The major difference between us relates to grant reductions in response to the 1982-83 budgets. In England, the differential grant penalty proposed at present represents in round terms some 25% of the expenditure

excess. There are no plans for general abatement. Our colleagues in E had strong objection to general abatement on grounds of equity and the effect on our supporters. The arguments in Scotland are every bit as strong as in England and I do hope we can avoid general abatement here.

I think it is wholly unreasonable to suggest that we should not count rate reductions as equivalent to grant reductions. It would seem sheer madness to those who have wrested precarious control of Lothian Region from Labour. More generally, I have introduced and defended the provision for rate reductions in the Local Government (Miscellaneous Provisions) (Scotland) Act 1981 and the further provision in the current Bill on that basis. You cannot reasonably expect me to go back on that now. I must insist on further collective discussion if you maintain your view that the grant penalty should be calculated on the basis of a revised expenditure excess after deduction of the savings produced by rate reduction.

Turning to 1983-84, I understand that you would be content for the Scottish expenditure block to be enhanced by £107m, the amount produced by applying the territorial formula to the enhancement figure agreed for England. You would not object if I chose to enhance provision for relevant current expenditure by a higher amount in order to give Scottish local authorities a similar target reduction from year to year to that proposed for English authorities. I understand that you would be prepared to fix the grant quantum at £1,925m.

Your approach to relevant expenditure causes me considerable difficulty because at present I see no scope within the block for transfers to local authority current expenditure. I should be severely criticised for setting Scottish local authorities more stringent expenditure targets than those proposed for English authorities. I want to discuss this point further with you but, subject to that I believe that we should be able to agree quickly at least on the reference to the 1983-84 settlement to be included in any early statement.

Time is now very short if a statement is to be made on Wednesday and the press exposure of what Michael Heseltine may be telling his Consultative Council on Tuesday adds to the pressure on me from Scottish authorities. We must discuss the outstanding issues as soon as possible. My office is in touch with yours about arrangements for a meeting.

I am sending copies of this letter to the Prime Minister, the Members of E Committee, Nick Edwards and to Sir Robert Armstrong.

Yours sincerely

A. S. W. D.

Approved by the Secretary of State
and signed in his absence



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Handwritten red ink markings, possibly a signature or date.

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CONFIDENTIAL

ee JV

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Local gov

10 DOWNING STREET

From the Private Secretary

23 July 1982

Dear John,

Ministerial Group on Local Government Organisation and
Finance : Future Work

The Prime Minister was grateful for the Home Secretary's minute of 20 July which sets out the conclusions of the Ministerial Group on Local Government Organisation and Finance (MISC 79) and outlines a programme for the Group's future work.

The Prime Minister is content with the general approach outlined in the minute; and, in particular, with the timetable set out in its penultimate paragraph.

I am sending a copy of this letter to the Private Secretaries to the other members of Cabinet, the Attorney General, John Sparrow and Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

J.F. Halliday, Esq.,
Home Office.

CONFIDENTIAL

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CSV

Mr Vercher

Pl see para 10

MUS 23/7

pa.

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:
23 July 1982

Dear Terry

STATEMENT TO CONSULTATIVE COUNCIL: 27 JULY 1982

I attach a revised version of the statement originally circulated by my Secretary of State on 21 July. This contains the amendments agreed between Ministers.

The statement has been expanded to refer to 1981-2 and 1982-3. The paragraph about 1981-2 indicates that a Supplementary Report will be laid before Parliament on the day of the statement. The paragraph about 1982-3 makes it clear that there will be no further holdback this year in addition to that already announced by the Government.

The addition to paragraph 10 about pay has been included at the suggestion of No 10.

I can confirm that the statement to Parliament (which will be much briefer and which we will circulate on Monday) will now be given at 3.30 pm on Tuesday 27 July. We have arranged the CCLGF meeting at 4.30 pm in Room P3/160, with a pre-meeting for Ministers in Room N16/02. We have so far heard that Mr Brittan, Mr Fowler, and Dr Vaughan are attending - could colleagues please inform Sue Ayrton in this office as quickly as possible - given the Prime Minister's summing up of E(82)19th - which Ministers will be coming?

I am copying this to Michael Scholar (No 10), and the Private Secretaries to all Members of E Committee, the Lord President, the Secretaries of State for Scotland, Wales, Health and Social Security, the Chief Whip, and Sir Robert Armstrong.

Yours ever,
D A Edmonds

D A EDMONDS
Private Secretary

CONFIDENTIAL

LOCAL GOVERNMENT EXPENDITURE AND EXCHEQUER GRANT, STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT TO THE CONSULTATIVE COUNCIL ON LOCAL GOVERNMENT FINANCE - 27 JULY 1982

1. This statement concerns local government expenditure and Exchequer grant in 1981-82, 1982-83 and 1983-84.

1981-82

2. I announced last September and repeated in January that because of overspending I proposed to make a Supplementary Report to reduce the total of grant for the year. Authorities which had complied with the Government's expenditure guidance would be protected. I have now reconsidered the matter following the enactment of the Local Government Finance Act earlier this month, and in the light of representations received. I have decided to go ahead with the proposals and am today tabling a Supplementary Report to give effect to them. It will reduce the total of grant available for distribution in England by £201 million.

1982-83

3. I announced at the time of the Rate Support Grant settlement in January that if authorities exceeded the Government's guidance figures I proposed to make a Supplementary Report to reduce the total of grant. Authorities which had complied would again be protected. In May I indicated that because of the extent of the overspending revealed by local authorities' budget returns I should be going ahead with those proposals, which would result in a total reduction of grant of £312m. Authorities will be sent details of the proposed grant reductions this week. I intend making a Supplementary Report to implement these proposals in the autumn. I can now also confirm that in that Supplementary Report I intend to close-end the grant by a uniform poundage reduction for all authorities as foreshadowed in last December's announcement.

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1983-84

4. The Government is determined that the search for economy in local authority current expenditure should continue . Failure to do so will lead to increasing rate burdens and mounting costs on individual householders and the wealth creating sector of the economy. Some progress has been made in the last 2 years, but not enough. As in previous years, I have decided to give local authorities an early indication of the Government's thinking about the rate support grant settlement for next year, so that they are aware of our determination and have plenty of time to frame their own spending plans accordingly. This year I am able to give more detail of the Government's intentions than has been possible before, and to do so at a time sufficiently ahead of the next year to leave no excuse for those authorities that fail to take the necessary action to avert significant rate increases.

5. As in 1982-3, I propose to give expenditure guidance to every local authority. The guidance figure will again relate to the total expenditure falling to be met from the rate fund.

6. Authorities which exceed their guidance figure will risk a loss of block grant, on a scale which will be significantly more severe than this year's.

7. The overriding need for economy means that all authorities must restrain their expenditure. But the high spending authorities that have so far failed to respond to the Government's request for economy will be asked for more restraint than those which have already made efforts to spend in line with the Government's plans.

8. On this basis, I propose that the guidance figures should be constructed as follows:

- a) For authorities which have budgetted in 1982-3 to spend not more than 1% above their expenditure target or grant

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related expenditure assessment (GRE), whichever is the higher: a 4% increase (in cash) on their budgets for this year. Since authorities collectively are likely to spend less than provided for in their budgets by perhaps 1%, this is equivalent to about a 5% increase on this year's cash.

b) For authorities which have budgetted in 1982-83 to spend at a higher level: a basic 5% increase (in cash) above their 1982-83 expenditure target or GRE, whichever is the higher. To allow for the fact that some of these authorities are still planning to spend this year at levels well above their targets or GREs, I propose a modification of the basic rule so that most authorities will not be asked to reduce their 1982-83 budgetted expenditure by more than 1% in cash - which of course will mean a substantial reduction in "real terms" after allowing for inflation. The only exception to this is that no authority should be entitled to increase its expenditure from the 1981-82 level by more than 20%; in this case I consider that a cash reduction of more than 1% from 1982-83 to 1983-84 would be justified.

9. I am today sending to all local authorities a set of exemplifications of expenditure guidance figures constructed on this basis.

10. These guidance figures imply a public expenditure provision for local authority current expenditure in 1983-84 of £19,500m. This is £900m more than currently provided in the Public Expenditure White Paper Cmnd 8494. This increase will be financed in ways which are consistent with the Government's fiscal and monetary policies. The Government considers that an increase in the provision is necessary and appropriate, but only in recognition of the

fact that local government still needs more time to bring its spending into line with Government plans. The increase in available cash carries no implication for pay, and the effect of the RSG settlement will be to leave local authorities in a position where pay settlements will have to be in low single figures if rates are not to increase disproportionately. The total of relevant expenditure for the rate support grant settlement under section 54(5) of the Local Government Planning and Land Act 1980 will be derived from the figure of £19,500m by the addition of the normal items of non-current expenditure.

11. Different considerations apply to GREs, which form the basis for the distribution of block grant. In 1982-83 the total current expenditure component of GREs is £17,880m. The Government propose to increase that figure by 5% to £18,800m.

12. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later. There will be a difference of £700m between GREs and the public expenditure provision. This will not be allocated by the Government to services. It will be a global sum needed to recognise the fact that local authorities are going to be spending more in 1983-84 than the Government believes to be desirable. It will be for local authorities to determine how this additional amount is spent, but it would be reasonable to assume that each service will receive a share broadly consistent with the present pattern of expenditure and Government policies.

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13. I propose an Aggregate Exchequer Grant of £11,800m if local authorities spend at their guidance figure. This is an increase of £316m more cash by way of grant from 1982-83. Arrangements for grant distribution will be announced later. For authorities which exceed their guidance figures I propose that grant should be abated. All grant abated will be withheld from distribution so that the amount of grant actually distributed will depend on the level of spending by local authorities. If local authorities spend at their guidance figure rate increases next year can be kept very low. For many authorities there need be no rate increases at all. If however they fail to achieve their targets the consequences for rates will be serious.

14. The Government will now be consulting local government on these proposals before presenting a rate support grant settlement to Parliament. To that extent the figures are provisional. But the Government will certainly maintain its policy of trying to secure the greatest possible restraint of local government expenditure, and to promote economy, efficiency, and effectiveness in the provision of local government services.

CONFIDENTIAL



Prime Minister

2

jc sv

You will wish to
be aware of the
outcome of these discussions.

QUEEN ANNE'S GATE LONDON SW1H 9AT

July 1982

Mus 23/7

Dear David

ms

PUBLIC TRANSPORT IN LONDON AND THE METROPOLITAN COUNTIES

Thank you for your letter of 20 July.)

As Chairman of MISC 79, I have only one comment on the draft written reply attached to your letter. The second sentence of the last paragraph might be taken to imply that we have already decided to change the existing arrangements for transport in the GLC and metropolitan counties. As you know, MISC 79 has yet to reach a considered judgment on whether the GLC's and the metropolitan counties' transport responsibilities should be removed or altered.

I should therefore be grateful if you could either delete the whole of the penultimate sentence of the draft, or in order to retain a reference to the Select Committee report, replace it and the preceding sentence by:

"I am still considering whether more far-reaching changes in the arrangements for public transport are needed; and will examine carefully the report of the Select Committee on Transport which I understand will be published in the next few days."

I am copying this letter to the Prime Minister, other members of the Cabinet, the Attorney General, Mr Sparrow and Sir Robert Armstrong.

Yours
Latter

The Rt. Hon. David Howell, MP.

23 JUL 1982

11 12 1 2 3 4
5 6 7 8 9



Prime Minister (2)

Local Gov

MUS 2 MARSHAM STREET
LONDON SW1P 3EB
22/7

My ref:

Your ref:

22 July 1982

ms

Dear Attorney General, att

I wrote to you on 26 February about my proposals to appoint private sector accountants as additional district auditors to audit the 1981/2 accounts of 14 local authorities. Three of the local authorities led by Derby challenged my power to do so in the High Court but my view was upheld. I have subsequently reappointed the same auditors to audit the 1982/3 accounts of the 14 authorities.

I am convinced that the private sector auditors can do much to help our general campaign for better value for money in local government and I wish to secure a substantial increase in private sector participation in local government audit. I, therefore, propose to appoint private sector auditors as additional district auditors to audit the accounts of about 100 further local authorities in England. This will bring private sector participation in local government audit up to 35-40%, and I shall be looking to the proposed Audit Commission to increase this to 50% in 1983/4.

Although the judgement in the Derby case was clearly in my favour my lawyers advise that there is a risk of legal challenge on this proposed new exercise, possible on the grounds that the appointments are unnecessary or unreasonable. I attach a note by my legal advisers which sets out the legal issues in more detail.

I would like to give each authority the opportunity to comment on the identity of the auditor I propose to allocate to it, as the Commission will be required to do under the Local Government Finance Act. But I did not do this on the previous occasion, on the grounds that it was not the practice to consult on the appointment of District Auditors, and will not do so now if there is any danger that this would in any way weaken my position in law. I should welcome your opinion on this point.

More generally, I would be grateful for your opinion on whether it is open to me to proceed in the way I have described. I need to announce this exercise before Parliament rises so I am afraid I must ask you for an answer by Monday.

I am copying this to Barney Heyhoe - whose approval I would require to these appointments - and to the Prime Minister and Geoffrey Howe for information.

yours sincerely
Helen Ghosh

MICHAEL HESELTINE
Rt Hon Sir Michael Havers QC MP (approved by the Secretary of State and signed in his absence)

ADDITIONAL DISTRICT AUDITORS 1982/3 - LEGAL ISSUES

1. This note does not rehearse the arguments dealt with in previous correspondence between this Department and the Attorney General's Chambers, relevant extracts from which are attached, or which are covered in Forbes J's judgment in Derby City Council v Secretary of State, a transcript of which is also attached. It is however necessary to note, by way of background, that since that judgment was given there has been enacted the Local Government Finance Act 1982, Part III of which establishes (as from a day to be appointed) the Audit Commission for Local Authorities in England and Wales, which will take over most of the Secretary of State's functions in relation to local government audit. The Commission is likely to be in being in order to appoint auditors for the 1983/4 accounts; and take over the residue of audits of previous years' accounts on 1 April 1983. (A copy of the final Bill print is attached; the Act has not yet been printed, having received Royal Assent on 13 July).
2. Section 156 of the Local Government Act 1972 (c.70) enables the Secretary of State, with the consent of the Minister for the Civil Service, to "appoint such number of district auditors as he thinks necessary for the purpose of auditing accounts required to be audited in accordance with this part of this Act..."
3. The enabling power appears, as regards numbers, to confer a limited discretion. It does not merely state that the Secretary of State may appoint district auditors, or such number of district auditors as he sees fit or thinks desirable: it introduces the concept of necessity. There are two related arguments to which this could now give rise, neither of which was presented in the Derby case:-
 - (i) that the discretion to appoint district auditors is to be exercised having sole regard to the need for further district auditors and not to extraneous considerations such as the "value for money" expertise of the private sector (this was the point which appeared most to trouble Simon Brown in advance of the Derby case going to court, but in the result was not argued by Derby);
 - (ii) that, having regard to the previous history of the organisation of the district audit service and the past and present numbers of district auditors (currently 13), to appoint an additional number such as, in total, one hundred and twenty, is an unreasonable exercise of the power.

4. If there should be a challenge of this use of the power, it will have to be shown that only considerations which a court would regard as relevant were brought to bear in making the decision. Given the nature of the power, one would expect those considerations to be primarily of an organisational nature. It is in this context that anticipating the implementation of the 1982 Act becomes troublesome. A statutory power must be exercised for the purposes of the statute in which the power is conferred: in this case, broadly stated, the audit of accounts required to be audited in accordance with Part VIII of the 1972 Act. It is extremely doubtful whether in justifying greatly increased private sector involvement in Part VIII audits, any weight can legitimately be put on considerations of policy as to how the Audit Commission will go about discharging its functions (subject if necessary to the Secretary of State's connections) under the 1982 Act. In exercising functions under the 1972 Act the Secretary of State should, in the light of Padfield, have regard to the purposes of that Act and not anticipate its successor.

22 JUL 1982
1 2 3 4 5

22 JUL 1982

1 2 3 4 5



To associate with copy
2 MARSHAM STREET
LONDON SW1P 3EE

letter from MH to Attorney
General of 22/7, as
requested

My ref:
Your ref:

26 February 1981

L.H.L.

SCRUTINY OF LOCAL AUTHORITY EXPENDITURE

You will know that, faced with the prospect of substantial increases in water charges, I have recently arranged for a team of private accountants to examine the basis on which the Water Authorities in England had prepared their budgets for 1981-82. This exercise was conducted very rapidly and at short notice, and with the co-operation of the Chairmen; and it has succeeded in pointing the way to significantly lower increases in charges than had been intended.

I want now to do something analogous in local government. I am convinced that in many local authorities there are areas of expenditure the need for which is never adequately questioned, and that very substantial savings could be produced by rigorous reviews of assumptions and accepted practice. I have already been able to arrange in a couple of cases for an independent short-term scrutiny by private accountants on the kind of informal and non-statutory basis on which the water industry exercise rested, and I intend to repeat this in further cases where the political relationships make it possible. But I need to be able to mount similar investigations on a statutory basis where the voluntary approach is not available; and I believe that my powers in relation to district audit under the Local Government Act 1972 enable me to do this. The District Audit service is of course fully stretched with routine work; and while I have the greatest respect for the District Auditors' expertise, I believe that in present circumstances there would be some benefit in introducing, alongside them, the distinct skills and experience of the private sector accountant. What I have in mind therefore is in a number of selected cases to appoint, under Section 156 of the 1972 Act, either as district auditor or as a person to assist him, members of private accountancy firms. The person appointed would of course have all the duties and powers of the District Auditor under sections 157-161 of the 1972 Act and might operate either as part of the normal audit cycle or, if the circumstances so required, on a direction from me under the extraordinary audit provisions of section 165.

This action would, of course, be a departure from the way in which the 1972 Act powers have been used in the past, and would without doubt generate opposition in local government. But the public concern about rate levels and our concern about both rates and public expenditure justify me in taking all reasonable steps to secure value for money and economy. I would be grateful for your

CONFIDENTIAL

opinion on whether it is open to me to proceed under these powers in the way that I have described. I attach a note by my Legal Adviser which sets out the legal issues in more detail.

I am copying this letter to Christopher Soames - whose approval I would require to these appointments under Section 156 - and to the Prime Minister and Geoffrey Howe for information.

you saw
MLL

MICHAEL HESELTINE

Rt Hon Sir Michael Havers QC MP
Attorney General

2F

Legal Issues

1. There would not appear to be any legal objection to the Secretary of State (with the consent of the Minister of the Civil Service) supplementing the District Audit Service by making appointments under S.156 of the Local Government Act 1972 (c. 70) of private sector accountants.

Section 156 replaces in an abbreviated form section 220 of the Local Government Act 1933 (c.51) where there was, in subsection (3), a specific reference to appointments of assistant district auditors and persons to assist district auditors.

2. It is thought prudent that such appointments should be on an individual basis rather than appointments of firms of private sector accountants to be district auditors or persons to assist district auditors. The reason for this is that the powers given to a district auditor by Sections 158 - 161 seem to pre-suppose that the district auditor will be an individual and not a firm.

3. It is, of course, open to a county or district council under S.154 of the 1972 Act to appoint an "approved" auditor as an alternative to having their accounts subject to district audit. The approved auditor must be a member, or a firm all the persons wherein are members, of one or more of the professional bodies listed in S.164(2) of the Act. This provision mirrors to some extent S.239 of the 1933 Act which empowered a borough council to resolve to adopt either district audit or a system of "professional audit". An approved auditor does not have such wide powers as a district auditor. Thus, under S.159(3), it is only a district auditor who may hear objections to a local authority's accounts made by a local government elector; under S.161, it is only the district auditor who may make applications to the court for a declaration that an item of accounts is contrary to law. An approved auditor, if he believes that an item of account is contrary to law, is required by S.162 to report the matter to the Secretary of State who may then direct an extraordinary audit under S.165. An extraordinary audit under the terms of that section has to be conducted by a district auditor. Under S.158(5) an approved auditor is

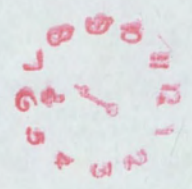
subject to a criminal penalty if he discloses (other than in the course of performing his functions) to any person any information obtained by him in carrying out a statutory audit. There is no corresponding provision in relation to district auditors.

4. The Chief Inspector of Audit has suggested that if the Secretary of State uses his power under S.156 to appoint, on a temporary basis, private sector accountants as district auditors or persons to assist district auditors, it might be argued on the basis of Padfield v Minister of Agriculture [1968] A. C. 997 that he was not carrying out the policy of the Act in that he was imposing on local authorities approved auditors in the guise of district auditors.

5. It is ^{thought} doubtful whether an argument on such lines would be likely to prevail unless it was pressed to the point of accusing the Secretary of State of mala fides.

6. In Asher v. Secretary of State for the Environment [1974] Ch.208, the Court of Appeal held that the Secretary of State's decision to hold an extraordinary audit could not be questioned in the courts "so long as he acts in good faith" (Lord Denning MR at p.228); "unless it was made in bad faith or was frivolous or vexatious" (Lawton L J at p.227). It is thought that the Secretary of State's discretion to appoint district auditors (or persons to assist them) under S.156 is in the same category. His power is to appoint "such number as he thinks necessary". If he suddenly made a large number of temporary appointments from the private sector, it is thought that it might be argued that his decision was prompted by some indirect purpose, namely, that he wished, under the guise of district audit, to have something different. On this basis, the question of the legal risk attached to the exercise by the Secretary of State of his power under S.156 in the way proposed in paragraph 1 of this note would be one of degree rather than of kind.

12 2 JUL 1982



cc-5V

Handwritten notes in top left corner, including a large 'X' and illegible scribbles.



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Prime Minister (2)

Mr Heseltine is

convening a meeting
to discuss these points.

MUS 22/7

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

21 July 1982

Handwritten signature or initials in blue ink.

Handwritten signature: "Mr Michael"

RSG SETTLEMENT 1983-84

- with PM

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

I have three major reservations on your draft statement which means that we ought to have a meeting.

PARAGRAPH 8

Given the difference between the public expenditure total and the GRE total, we shall be embarrassed if we continue to claim that GREs "represent the assessed need for local authority spending". Can you not find an alternative phrase? We shall have to swallow all that we have said about the objective basis of GRE - or change the name.

PARAGRAPH 9

As other colleagues and I explained to E Committee, we must be able to set out clearly the total expenditure figures for our services if we are not to be accused of seeking unreasonable reductions in them. Unless you declare that the £700m will be allocated between services, we shall find ourselves having to state that the White Paper figures require for instance a fall in

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teacher numbers by 30-40,000 over the next 12 months. I accept the need to leave a margin between the total of GREs and the public expenditure total; but, as the Minutes of E Committee put it, the best solution might be for us to indicate how this margin "would be distributed among services if local authorities followed the same pattern of spending as had prevailed in recent years", a suggestion I think endorsed by the Prime Minister in her summing up. On this basis I suggest that paragraph 9 should read:-

"9. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later. There will be a difference of £700m between GREs and the public expenditure provision. This will also be allocated between services in the Public Expenditure White Paper, broadly in accordance with the past pattern of expenditure by local authorities".

PARAGRAPH 10

The fourth sentence means that authorities spending below GREs but above the guidance figure will suffer holdback. Need you be so masochistic? We know that there will be strong pressure from our supporters in Parliament and in the country for the continuation of the present GRE exemption, which we may well have to concede. I suggest that you omit the sentence and leave the issue open, resting on the more general statement in paragraph 3.

I agree with what you say in your letter about holdback in 1982-83.

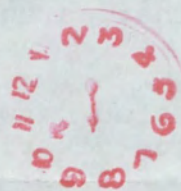
I am copying this letter to the Prime Minister, other members of E Committee, John Biffen, George Younger, Nicholas Edwards, Norman Fowler, Michael Jopling and to Sir Robert Armstrong.

Younger,

Keir

CONFIDENTIAL

21 JUL 1982



OK TV
N

PA.

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

21 July 1982



Dear Terry

RSG SETTLEMENT: STATEMENT AND CCLGF

in post box

My Secretary of State wrote to the Chief Secretary earlier today with a copy of the proposed statement which it had been intended to make on Wednesday 21 July.

This letter is to inform you and colleagues that the CCLGF meeting will now be held in Room P3/160, 2 Marsham Street at 4.30 pm on Tuesday 27 July. There will be a short Ministerial pre-briefing in Room N16/02 at 4.15 pm. The Secretary of State's statement to Parliament will be made, of course, at 3.30 pm.

I should be grateful if colleagues could please let Sue Ayrton in this office know which Ministers will be attending.

I am copying this to Michael Scholar, No 10, Nick Huxtable (Lord President's office), Murdo MacLean (Chief Whip's office) and to the Private Secretaries to all Members of E Committee, the Secretaries of State for Scotland, Health and Social Services, Wales, and to Sir Robert Armstrong.

Yours ever
D A Edmonds

D A EDMONDS
Private Secretary

Terry Mathews Esq
PS/Chief Secretary

21 JUL 1968

9 8 7 6 5
4 3 2 1



CONFIDENTIAL

ZPPS

OK JV
BT

Prime Minister

①

2 MARSHAM STREET
LONDON SW1P 3EB

Agree, subject to
colleagues, to this draft
Statement?

My ref:

Your ref:

21 July 1982

See here

I understand that the Chief
Secretary was involved in the drafting, and
agrees. Plus 21/7

Told Mr
Edmonds
plus 22/7
Yes no

RSG SETTLEMENT 1983-4/CCLGF: PROPOSED FOR WEDNESDAY 28 JULY

Following our discussion in E Committee yesterday I enclose the draft of a statement that I would propose to make to a meeting of the Consultative Council. I would also propose to make a Parliamentary statement on similar but shorter lines, and I understand that the Leader of the House is content with the date. The timing and presentation is crucial. Given the sensitivity of Parliament, it would be necessary to make an oral statement first at 3.30 pm, followed by a meeting of the Consultative Council at 4.30 pm. We agreed at E Committee that all Cabinet colleagues with relevant responsibilities would be present at the CCLGF and I should, therefore, be grateful if the date and time could now be written into Ministerial diaries.*

I was particularly asked to agree with colleagues the treatment of the £700m difference between the £18,800m total for the current expenditure component of GREs and the £19,500m public expenditure provision. We agreed that it should not be formally allocated to individual services, but that we should publicly recognise that it will in practice cover service expenditure additional to that included in the GREs. Paragraph 9 is drafted accordingly.

If colleagues are generally content with this approach we shall not need to meet again. But if anyone has any major reservation I should be glad to know by close of play today so that I can arrange a meeting for later this week.

In addition to the statement about 1983-4, I would propose to tell the Consultative Council next week that we have now decided not to impose any holdback in 1982-3 additional to the £312m which we have already announced.

I am sending copies of this letter to the Prime Minister, other members of E Committee, George Younger, Norman Fowler, Nick Edwards, John Biffen and Michael Jopling, and to Sir Robert Armstrong.

yes em

MICHAEL HESELTINE

* Since drafting this we have learned that this day may not be suitable. My office will be in touch later.

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RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND 1983-4 DRAFT STATEMENT

1. The Government is determined that the search for economy in local authority current expenditure should continue. Failure to do so will lead to increasing rate burdens and mounting costs on individual homeowners and the wealth creating sector of the economy. Some progress has been made in the last 2 years, but not enough. As in previous years, I have decided to give local authorities an early indication of the Government's thinking about the rate support grant settlement for next year, so that they are aware of our determination and have plenty of time to frame their own spending plans accordingly. This year I am able to give more detail of the Government's intentions than has been possible before and to do so at a time sufficiently ahead of the next year to leave no excuse for those authorities that fail to take the necessary action to avert significant rate increases.

2. As in 1982-3, I propose to give expenditure guidance to every local authority. The guidance figure will again relate to the total expenditure falling to be met from the rate fund.

3. Authorities which exceed their guidance figure will risk a loss of block grant, on a scale which will be significantly more severe than this year's.

4. The overriding need for economy means that all authorities must restrain their expenditure. But the high spending authorities that have so far failed to respond to the Government's request for economy will be asked for more restraint than those which have already made efforts to spend in line with the Government's plans.

5. On this basis, I propose that the guidance figures should be constructed as follows:

- a) For authorities which have budgetted in 1982-3 to spend not more than 1% above their expenditure target or grant

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related expenditure assessment (GRE), whichever is the higher: a 4% increase (in cash) on their budgets for this year. Since authorities collectively are likely to spend less than provided for in their budgets by perhaps 1%, this is equivalent to about a 5% increase on this year's cash.

b) For authorities which have budgetted in 1982-83 to spend at a higher level: a basic 5% increase (in cash) above their 1982-83 expenditure target or GRE, whichever is the higher. To allow for the fact that some of these authorities are still planning to spend this year at levels well above their targets or GREs, I propose a modification of the basic rule so that most authorities will not be asked to reduce their 1982-83 budgetted expenditure by more than 1% in cash - which of course will mean a substantial reduction in "real terms" after allowing for inflation. The only exception to this will be authorities which have increased their expenditure since 1981-82 by more than 20%; in this case I consider that a cash reduction of more than 1% from 1982-83 to 1983-84 would be justified.

6. I am today sending to all local authorities a set of exemplifications of expenditure guidance figures constructed on this basis.

7. These guidance figures imply a public expenditure provision for local authority current expenditure in 1983-84 of £19,500m. This is £900m more than currently provided in the Public Expenditure White Paper Cmnd 8494. The Government considers that an increase in the provision is necessary and appropriate, ^{but only} in recognition of the

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fact that local government still needs more time to bring its spending into line with Government plans. The total of relevant expenditure for the rate support grant settlement under section 54(5) of the Local Government Planning and Land Act 1980 will be derived from the figure of £19,500m by the addition of the normal items of non-current expenditure.

8. Different considerations apply to GREs. These represent the assessed need for local authority spending. In 1982-83 the total current expenditure component of GREs is £17,880m. The Government propose to increase that figure by 5% to £18,800m.

9. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later.

There will be a difference of £700m between GREs and the public expenditure provision. This will not be allocated by the Government to services. It will be a global sum needed to recognise the fact that local authorities are going to be spending more in 1983/4 than the Government believes to be desirable. It will be for local authorities to determine how this additional amount is spent, but it would be reasonable to assume that each service will receive a share broadly consistent with the present pattern of expenditure.

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10. I propose an Aggregate Exchequer Grant of £11,800m if local authorities spend at their guidance figure. This is an increase of £316m more cash by way of grant from 1982-3. Arrangements for grant distribution will be announced later. For authorities which exceed their guidance figures I propose that grant should be abated. All grant abated will be withheld from distribution so that the amount of grant actually distributed will depend on the level of spending by local authorities. If local authorities spend at their guidance figure rate increases next year can be kept very low. For many authorities there need be no rate increases at all. If however they fail to achieve their targets the consequences for rates will be serious.

11. The Government will now be consulting local government on these proposals before presenting a rate support grant settlement to Parliament. To that extent the figures are provisional. But the Government will certainly maintain its policy of trying to secure the greatest possible restraint of local government expenditure, and to promote economy, efficiency, and effectiveness in the provision of local government services.

CONFIDENTIAL

SE. JV.



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon William Whitelaw CH MC MP
Home Secretary
Home Office
50 Queen Anne's Gate
LONDON
SW1

20 July 1982

Dea Willie

PUBLIC TRANSPORT IN LONDON AND THE METROPOLITAN COUNTIES

When the Ministerial Group on Local Government Organisation and Finance discussed my proposals for new legislation to regulate the amount of subsidy that can be paid to public transport by the GLC and the metropolitan county councils, I was asked to pursue some detailed points further with the Chief Secretary, Treasury, the Secretary of State for the Environment, the Attorney-General and the Central Policy Review Staff. (MISC 79(82)4th meeting.)

The outstanding points have now been resolved as follows. The guidance on subsidy levels can be given greater force by enabling me to set a lower guideline if I consider an authority's proposal excessive. The sanction of surcharge and disqualification for incurring unlawful expenditure is a powerful one and councillors will know they are at risk if they ignore a statutory duty to have regard to my guidance. The main value of cost-benefit techniques lies in preventing excessive claims being made for the benefits of subsidies and in helping to eliminate over-provision of bus services. There will be no question of subsidies being automatically justified by a cost benefit calculation. I do not propose to pursue the proposal for authorities to have a separate power to

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pay subsidies for reduced fares for children provided that it proves possible to draft the legislation so that reductions for children can continue as part of the normal fares structure. I have agreed that I should take power to employ consultants to look at authorities' subsidy plans and receive the cost from them. I accept the need to provide for appeals against refusal of private sector tenders, and I am exploring further how to do this without involving the complexity of public inquiry procedures.

I am arranging for Instructions to go to Parliamentary Counsel. I propose to announce the decision to introduce legislation on subsidies on 26 July. I attach a draft written reply to an arranged Parliamentary Question for this purpose. I would be grateful for any comments by the weekend. I am also preparing an explanatory note setting out the proposals in more detail which I could send to the local authorities.

I understand that the Select Committee on Transport hope to publish their report on the organisation of transport in London on 28 July. We shall be considering further my proposals for longer-term changes. In the meantime my statement makes it clear that control of London Transport will be taken out of the GLC's hands if they do not behave responsibly. I hope that we shall be in a position to announce a decision on the longer term by the time the legislation on subsidies is introduced.

Finally, you should know that I have heard from the GLC that they are now no longer putting such a restrictive interpretation on the House of Lords judgement on "Fares Fair". They have got new legal advice. It is not at all clear how far they would be prepared to go in taking forward this new interpretation, or whether they will get further and different legal advice. They could well decide to keep all their options open, and blame us for the uncertainty. It is in my view therefore all the more important to regulate the amount of subsidy that can be paid, as our legislation proposes.

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I am copying this to the Prime Minister, other members of the Cabinet, the Attorney-General, Mr Sparrow and Sir Robert Armstrong.

Yours
in

David

DAVID HOWELL

CONFIDENTIAL

CONFIDENTIAL

DRAFT PQ ON SUBSIDY LEGISLATION

TO ASK THE SECRETARY OF STATE FOR TRANSPORT, IF HE WILL INTRODUCE
NEW LEGISLATION ON PUBLIC TRANSPORT IN LONDON AND THE CONURBATIONS

I have been concerned with two major issues on public transport ^{in London} over
the past year. One is what level of subsidy is reasonable, the second
is whether the organisation is right.

The Government believe that subsidy is essential to maintain the
key public transport systems in our cities. But it must be wisely
and thoughtfully spent, based on the real needs for transport in their
areas rather than the dictates of dogma and it must have regard to the
resources available and who is to provide them.

The legislation on subsidy has stood us in good stead for many years,
but regrettably some authorities have been using it
irresponsibly. Excessive subsidies by the metropolitan county councils
are a significant part of total overspending by local authorities this
year, and it is already clear from the details of the draft Transport
Plans that are beginning to emerge that some authorities may still be
contemplating unrealistic subsidy policies for next year. These could

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lead to challenge from ratepayers, uncertainty and damage for the transport undertakings concerned and those who work on them and confusion and disruption for the general travelling public. I therefore intend to take the earliest opportunity to introduce legislation that will provide clear guidances for their policies.

The objectives are to improve efficiency, obtain better value for money and maintain a reasonable balance between travellers, ratepayers and taxpayers. The proposals will define the basis for the payment of subsidies both in London and the metropolitan counties. Powers and duties will be re-defined to make it clearer what subsidies are buying, to require the structure of the transport executives to be reviewed, and to allow a greater choice to authorities providing subsidies in how the services they desire should be provided. In reaching their decisions on subsidies, authorities will have to have proper regard to guidance which I shall give them on what is an appropriate amount. I shall be issuing advice to local authorities on how the proposals affect their current plans and the appropriate action this autumn. [A copy of this is available in the Library of the House.]

I am still considering whether more far-reaching changes in the arrangements for public transport are needed. Some of the organisational

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arrangements in our cities are unsatisfactory, particularly in London, and I will consider carefully the report of the Select Committee on Transport which I understand will be published in the next few days. In the meantime the legislation will include reserve powers which will enable me to step in if the GLC continue to behave irresponsibly and play politics with the future of London Transport.

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Prime Minister

(1)



This is a round-up minute.

Do you agree to the general approach and to the timetable in the penultimate paragraph?

PRIME MINISTER

Yes Mr

MINISTERIAL GROUP ON LOCAL GOVERNMENT ORGANISATION AND FINANCE:
FUTURE WORK

MCS 20/7

The Ministerial Group on Local Government Organisation and Finance (MISC 79) was set up to consider, and report to Cabinet, on the following matters which have been under study within Government.

- (i) Alternatives to domestic rates;
- (ii) Financing of education;
- (iii) Financing and organisation of transport in the conurbations;
- (iv) The future of the Greater London Council (GLC) and the Metropolitan Counties;
- (v) Relationships between central and local government.

The last of these was not a matter for independent decision but a framework for decisions on the first four items.

This minute recalls the decisions that have been taken on the matters mentioned above, indicates the preliminary conclusions of MISC 79 on others, and outlines a programme of future work. It does not seek further decisions at this stage.

Alternatives to Domestic Rates

Local Govt. May 79 Future of the Rating System

My minute of 18 June reported to you and other members of the Cabinet our conclusion that future work should concentrate on reform of domestic rates, and that the alternatives which have previously been considered (assigned revenues, local income tax, local sales tax, poll tax) should be discarded. This conclusion has been accepted.

We shall accordingly be concentrating our future work on the possibilities for improving the domestic rating system; we shall also consider possible changes in non-domestic rates. At this stage, it seems unlikely that it will be appropriate to legislate in the 1982-83

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Session. But we have not excluded the possibility that we may be able to identify one or more attractive reforms, which could be the subject of relatively short and simple legislation.

Control of Local Authority Current Expenditure

In this context, I should recall that we also intend to study the possibility of exercising more effective control of local authority current expenditure by limiting the total current expenditure of individual authorities.

Financing of Education

We have given careful consideration to the proposal put forward by the Secretary of State for Education and Science that there should be a separate Exchequer grant to help finance local authority education. This would replace the present system, whereby Exchequer financial assistance for local authority education is part of the block grant. The Secretary of State for Education and Science argued that this would give him a degree of influence over education expenditure by local authorities more in keeping with his statutory responsibilities; it could also be a way of reducing domestic rates if it were used to increase the aggregate Exchequer grant, to local authorities.

Nevertheless, MISC 79 did not favour the proposal. The Group judged that it would tend to increase total expenditure by local authorities; that it would lead to pressure for similar arrangements in other services, which would involve greater intervention in local affairs by central government; and that it would be strongly opposed by local authorities. It is even doubtful whether we would carry the necessary legislation through Parliament.

However, MISC 79 did accept that the Secretary of State for Education and Science should explore the idea of new specific education grants, within the agreed total of aggregate Exchequer grant, to encourage activity in areas of particular importance, such as training more teachers for mathematics, physics, or other shortage subjects. He will be arranging for this idea to be considered further, and may bring forward proposals in the appropriate forum in due course.

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Financing and Organisation of Transport in the conurbations

My minute of 8 July to you reported the conclusions of MISC 79 on legislation to regulate subsidies by local authorities to public transport. These conclusions have been accepted; the Secretary of State for Transport is discussing with the colleagues most closely concerned the outstanding details of the legislation.

We have also invited the Secretary of State for Transport to report on possible longer-term changes in the organisation of transport in London. There are clear attractions in fundamental reform, including removing control of London Transport from the GLC; but it will not be practicable to legislate on these matters in 1982-83. We also need to make sure that any new arrangements will be a genuine and significant improvement. Substantial changes would have implications for the very future of the GLC; again, as noted below, any changes in local government organisation would have to be introduced on a longer time-scale.

Future of the GLC and the Metropolitan Counties

There are strong political arguments in favour of abolishing the GLC and the Metropolitan Counties. However, before a decision in that sense can be taken it will be necessary to consider in detail how the various services currently administered at the level of London or the Metropolitan County would subsequently be run. I myself have some reservations from the Home Office standpoint because of the implications for police authorities. The Secretary of State for the Environment is bringing forward a comprehensive study for MISC 79 to consider. It is quite clear that legislation could not possibly be introduced before the 1983-84 Session.

Local Elections

MISC 79 has also commissioned a study by officials of possible changes in local authority electoral arrangements (for example, to require all local authorities to have annual elections for a third of their members or to hold elections for all members every second year) with the aim of making local authorities more accountable to their electorate. We have, however, reached no view at this stage on the merits of possible changes.

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Timetable

The decisions outlined in this minute have dealt satisfactorily with the two topics on which it was essential to make progress before the summer recess: transport subsidies and alternatives to domestic rates. For the rest it is clear that we have a heavy programme of further study before us. Most of the issues interlock, so that decisions on one will affect decision on others. Although we shall press ahead with our studies, it is not realistic, in my view, to think of further discussion in Cabinet before the recess. Instead, MISC 79 hopes to bring forward a full report for consideration by colleagues in the autumn. It would then be possible, if we so decided, to announce our proposals in the field of local government organisation and finance by about the turn of the year.

I am sending copies of this minute to the other members of Cabinet, the Attorney General, Mr. Sparrow and Sir Robert Armstrong.

Wills

20. July 1982

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Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-2336106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

WELSH OFFICE
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

Dear Chief Secretary

20 July 1982

GRANT WITHHOLDING IN WALES 1981/82 AND 1982/83

We discussed grant withholding briefly after this morning's meeting and I said I would let you have my proposals in writing.

1982/83

This year Welsh local authorities' original budgets showed a total expenditure excess in cash terms of £57 million or about 4.8% above the Settlement provision. I therefore asked all authorities to revise their budgets, at the same time setting them individual authority total expenditure targets based on principles applying to all authorities. The results have now been analysed and as reported in my minute of 16 July to the Prime Minister, the performance has been most creditable. The original excess has been cut by more than half: the total expenditure excess remaining is now £25 million or about 2.1% over the Rate Support Grant total expenditure provision. We know that further technical adjustments are likely to reduce this figure by about £3m to £5m and of course budget drift will reduce it even further.

I know that the Welsh local authority associations will urge me to take no action in the light of the revised budget figures, especially given their superior performance compared to English and Scottish authorities. I have some sympathy with that view but nonetheless believe that some withholding is required to demonstrate my firm intention to see that Government expenditure targets are met and also as a means of exerting maximum influence on authorities' budget planning for next year.

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

/In England



In England, the holdback already agreed amounts to 22% of the cash excess; if the additional holdback you argue for is added, this rises to about 28%. This gives the following matrix:

Holdback in England	Welsh excess	
	20m	25m
22%	4.4m	5.5m
28%	5.6m	7m

In the light of this my view is that a holdback of £5m would be appropriate in Wales unless you succeed in persuading Michael to increase the rate of holdback to more than 25%.

As regards the method of withholding I have said on previous occasions that grant withholding at the individual authority level should bear a direct relationship to that authority's contribution to the total expenditure excess. Additionally, however, I am considering whether it would be possible to take into account the actual performance of authorities in reaching their expenditure targets and how close their final planned expenditure is to the target set. At this stage I am not sure whether this is legally or technically possible this year but if it proves to be so I shall want to do it. In any case, of course, it remains my firm intention to protect authorities who have met their targets.

1981/82

We agreed to set targets for 1981/82 in volume terms, on a November 1980 price base. In those terms I told Welsh authorities that their current expenditure in aggregate should be 4.6% below their 1978/79 out-turn. The latest provisional out-turn figures indicate that in the event their current expenditure was about £21 million or 2.2% above this target, but that figure includes about £8 million for emergency snow expenditure which we have already said would be disregarded in assessing current expenditure performance. The residual excess is thus about £13 million or 1.4%. We can expect a further reduction between provisional and final out-turn of say 0.5%.

/As you ...



As you know, we agreed in E Committee last year that any authority in England meeting its volume target would be exempt from grant withholding. I am sure that Welsh authorities will argue to me that a final out-turn likely to be within 1% of the target is so close as to justify such exemption across the board in Wales, where the target was set in terms of an aggregate for all authorities.

I have said to my local authority associations that a decision on 1981/82 would be taken in the light of the results of the 1982/83 revised budget exercise. In that light, and taking account of the other factors above, I think it would be appropriate to refrain from imposing a grant penalty in Wales in respect of 1981/82.

I am meeting the Welsh Consultative Council on Local Government Finance on 29 July and there is a meeting of the matching Official Committee on Thursday of this week. I should like to be able to announce at the full meeting decisions on the matters covered in this letter, and it would be extremely helpful if we were in a position to give some prior indication to the Official Committee. I would therefore be most grateful if you could let me have a response to this letter as soon as possible.

I am copying this to Michael Heseltine, George Younger, all members of E Committee and Sir Robert Armstrong.

Yours sincerely

Carys Evans

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



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19 July 1982

Policy Unit

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PRIME MINISTER

Prime Minister

MS

To see how I will bring

Misc forward to you again when you

THE LOCAL GOVERNMENT IMPASSE

1. The Home Secretary has already let you know of the difficulties which MISC 79 has encountered in coming up with workable proposals.

Alternatives to domestic rates have been ruled out for the time being. MISC 79 is now working on a package of reforms of the rates which could be presented as an acceptable substitute. Some of these proposals are attractive, but even here there are prospective vote losses as well as vote gains. One person's rate discount is likely to be another person's rate supplement.

Misc 79's
conclusions,
Misc 14/7

Keith Joseph's proposal for an education grant was deemed to be too difficult to mesh into the present system, although a similar arrangement works well in the case of the police and gives Willie substantial influence over provincial police forces - as he himself points out. The effect of keeping education within the block grant is to ensure that the size of local government finance will, for the time being, remain as unchanged as the system of local government finance.

In short, we have reached an impasse. There is a danger that the Government may be spurred into ill-advised action by a desire to break out of that impasse and "do something". The most tempting route is once again to attempt reform of the structure and powers of local authorities.

2. MISC 79 is now being asked to consider a proposal from the Secretary of State for the Environment to abolish the GLC and the Metropolitan Counties.

This proposal looks superficially attractive. The GLC and the Metropolitan Counties are not much loved. The Acts which established them are widely held to have been misconceived.

Moreover, the GLC under its present control is a continuous nuisance. Ken Livingstone is a sophisticated political operator who knows how to use the London Labour Party as a power base, much in the way that Herbert Morrison at the opposite end of the spectrum used the London Labour Party in the 1930s to build up a personal

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authority vis-à-vis a divided, chaotic and poorly-led national party.

3. I am anxious, however, that we should not saddle ourselves for the duration of the next Parliament with a commitment whose virtues and defects are not fully explored, as in the case of the promise to abolish the rates. Mr Heseltine accepts that legislation on abolition could not be introduced earlier than 1984/5. In other words, this would be a Manifesto commitment, as our commitment on the rates was.
4. It ought, therefore, to be placed on record now that there appears to be a considerable divergence between the Environment Secretary's general enthusiasm for abolition, and the Official Group's assessment of the advantages and disadvantages in the case of individual services.
5. Only in the fields of housing, assistance to industry, provincial airports and building control do officials detect much positive benefit in the proposed new arrangements. None of these is a major function of the top tier.
6. In several other services, the balance of advantage is either approximately equal or unclear. These include the arrangements for flood protection, coroners and magistrates courts, weights and measures, food and drugs, support for the arts, tourism, parks, smallholdings.

However, the undoubted economy and simplicity of single-tier urban government may permit us to class these services as to be counted on the side of abolition. But again, they are relatively minor functions.

7. The difficulty comes when we consider the major functions of the GLC and the Metropolitan Counties.

Transport: MISC 79 has pronounced in favour of the status quo, particularly with regard to the strategic traffic management function. In virtually every case, the official advice is against change.

Land Use: It is generally agreed that any strategic conception of land use should belong to an upper tier with a large area. Indeed,

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the GLC Conservative leaders on the GLC would like their area to stretch considerably wider, beyond the M25 orbital route.

Education: Keith Joseph has come down in favour of a single authority for Central London, although one controlled by borough councillors, rather than dominated by GLC councillors as in the present structure of ILEA.

Police: The Home Secretary and many other interested parties strongly oppose change.

Fire: A departmental committee has reported in favour of reasonably large fire authorities.

With other lesser functions - Waste Disposal, Civil Defence, the Probation Service, Animal Health, Historic Buildings - the balance of advantage is felt to be with the status quo.

In the case of historic buildings, the conservation organisations would be furious and they are now experts in making trouble. Indeed, the conservation record of many borough councils is scarcely impressive.

8. Some of these arguments may give undue weight to bureaucratic, stick-in-the-mud considerations. At the same time, the fact that these are the arguments which are thought to preponderate does suggest that:
 - (a) the case for reform is non-proven;
 - (b) reform would stir up fierce opposition from a variety of interests.

9. For London there is one other consideration. Can it be right to dispense with some kind of directly-elected council for Greater London which speaks for all citizens who regard themselves as Londoners, and which has some real powers over the quality of life in a great city?

Can we imagine any continental city tamely accepting legislative extinction?

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"London pride" is not, I think, a quality which could be expressed in a merely ceremonial body, but requires a genuinely representative and substantial parliament and government. The fact that the GLC does not at present fulfil that role satisfactorily is a conclusive reason not for abolishing the GLC, but for examining how London government can be improved.

The same argument does not apply to the Metropolitan Counties, which are administrative conveniences and must be assessed from a purely practical viewpoint. But whatever we do about the Metropolitan Counties, Birmingham, Newcastle and Liverpool would continue to have legislative existence at some level. Only London's legislative existence is threatened.

10. The best general sanction on bad councils and on unreasonable behaviour is surely fear of electoral retaliation. This is likely to be especially strong in cases where support is quite evenly balanced between Conservative and Labour, as it is in Greater London. Fixed four-year terms, combined with the power to mobilise the council's reserves to keep the rates down in the pre-election year (a practice not confined to the Labour Party) encourage sloth and dogma.

MISC 79 is considering the possibility of more frequent elections, in particular the old option of electing one third of the council each year. In some versions, this option includes a fourth "fallow" year in which the elections for the GLC and the Metropolitan Counties would be held.

But the more thoroughly effective - and the simplest - pressure would be to extend election-by-thirds to all councils. This would, in particular, help to remove the confusion in many voters' minds as to whether this is the year in which they are meant to be voting.

Regular elections ought to mean high turn-outs and low expenditure.

Previous efforts at structural reform by Conservative Governments have had unhappy results. It is hard to see much better prospects for another effort. To concentrate instead on improving electoral control would be simple and popular. And if MISC 79 can produce

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workable proposals along these lines, I believe we should give them a fair wind.

I am sending a copy of this paper to the Home Secretary and the other members of MISC 79.

FM

FERDINAND MOUNT



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Local Government

P.0812

PRIME MINISTER

Rate Support Grant Settlement 1983-84

(E(82)59)

BACKGROUND

The discussion in 1981 of the Public Expenditure Survey, Local Authority Current Expenditure and Rate Support Grant (RSG) was long drawn out. The RSG settlement for 1982-83 was not announced until very late - too late to influence local authority budgets. It was therefore agreed earlier this year between the Chief Secretary, Treasury, the Secretary of State for the Environment, and other Ministers with local government responsibilities that the Government should try to announce in July its intentions for local government finance in the following financial year - in particular, the total of current expenditure which it thought reasonable, and the likely amount of aggregate Exchequer grant (RSG, plus specific grants for certain services, such as the police). The memorandum by the Secretary of State for the Environment (E(82)59) has been produced in accordance with that agreement.

Flag

2. The memorandum by the Secretary of State for the Environment (E(82)59) therefore seeks authority for an early statement to the local authorities covering the total provision for local authority current expenditure, expenditure targets for each authority, the amount of aggregate Exchequer grant before holdback, and a promise of a severe holdback scheme (unspecified) for overspending local authorities.

Class

3. In a minute to you of 16 July the Secretary of State for Wales seeks broad agreement for the approach to Welsh local authorities, subject to discussion of detailed points with the Chief Secretary. In a letter of 19 July to the Chief Secretary, the Secretary of State for Scotland says that he is not yet ready to circulate proposals for Scotland but makes two general points - that Scottish authorities should be set a similar reduction from current levels of expenditure to that proposed for authorities in England and that a decision should be delayed on the amount of aggregate grant not just in Scotland but in England and Wales as well.

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Description of the existing system

4. The RSG system in England is exceedingly complicated. Essentially, it is based on:

- a. an assessment of each local authority's need to spend on current account; and
- b. an attempt to equalise resources between local authorities.

Need to spend is measured by the so-called grant related expenditure assessments (GRES). RSG is then paid in support of local authority expenditure in a way which compensates for disparities in rateable resources so that, broadly speaking:

- i. authorities spending at the level of their GRE can levy the same rate poundage; and
- ii. authorities spending similar amounts more than their GRE can do so by levying similar additions to their rate poundage.

5. The system is also operated so as to discourage local authorities from increasing their expenditure too far above GRE. This is done by ensuring that, as a local authority's expenditure rises above GRE, the Exchequer contribution is progressively less and the contribution from the rates progressively greater.

6. To help contain public expenditure, a system of expenditure targets and grant holdback has been superimposed on the system described above. Each local authority is given an expenditure target; if it spends more than that target it may suffer a reduction in grant additional to whatever effect may flow from the basic system.

7. There is no reason why the GRE and the expenditure target of an individual local authority should always be identical: in particular, it may be unrealistic to expect an authority spending much more than its GRE immediately to reduce expenditure to match GRE; and targets have been set below GRE, though this has been criticised, and the Government has been forced to concede that local authorities spending above target, but at or below GRE, will not be penalised in 1982-83. In 1982-83 however, the totals of individual GRES, and individual expenditure targets,



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were made identical, and equated, allowing for differences in definition, to the public expenditure provisions. These totals do not have to correspond, unless the Government wants them to, because they are constructed for different purposes, ie:

The total of GREs indicates what the local authorities need to spend.

The total of expenditure targets indicates the level above which the Government will impose grant penalties.

The public expenditure provision is the Government's publicly announced view of what local authorities will actually spend (although they usually spend more).

8. The Government also has to take a view at some stage of the distribution between services of local authority current spending, both to build up the public expenditure figures and to serve as a foundation for the calculation of GREs. (For example, if the Government wants to encourage expenditure on education, and therefore makes more generous provision for it than for some other services, a local authority with high education needs will have a correspondingly high element in its GRE). But the service distribution can, if necessary, be treated as a second-stage process after the relevant totals have been set.

9. The other important element in the system is fixing the grant total. The amount of grant paid to local authorities collectively depends on the size of the Aggregate Exchequer Grant, the cash limited total of RSG and most other grants paid to local authorities. In the past the Aggregate Exchequer Grant has been discussed and presented as a percentage of the relevant local authority expenditure provision in the Government's public expenditure plans - "the RSG percentage". The Secretary of State for the Environment with the support of the Chief Secretary and the other Ministers concerned propose this year to emphasise the cash total of grant, in line with the Government's general emphasis on cash planning. The amount of grant received by any individual local authority, for a given level of expenditure relative to GRE, depends on its rateable resources, with wide variations around the average.

10. The Welsh RSG system is constructed on the same principles as the English,



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though with some differences of detail. Expenditure targets for individual Welsh authorities have been set for 1982-83 although overspending has been less marked in Wales than in England.

11. The Scottish RSG system is different from that in England and Wales in several respects. The Scottish RSG includes separate elements to compensate authorities for low resources and to assist them in meeting expenditure needs (the system which prevailed in England and Wales until 1980). The system does not provide for automatic reductions in Government support for high spenders; but the Secretary of State for Scotland has the power to take strong selective action against individual authorities (as in the case of Lothian).

The Secretary of State for the Environment's proposals

12. This year the Secretary of State for the Environment's proposals start from consideration of the system of expenditure targets. He divides authorities into three groups depending on the relationship between their 1982-83 budget and "effective targets" (the higher of target and GRE):

a. 1982-83 budget no greater than 101 per cent of 1982-83 effective target:
1983-84 target = 104 per cent of 1982-83 budget

b. 1982-83 budget between 101 and 106 per cent of 1982-83 effective target:
1983-84 target = 105 per cent of 1982-83 effective target

c. 1982-83 budget greater than 106 per cent of 1982-83 effective target:
1983-84 target = 105 per cent of effective target subject to:

i. no authority having to reduce expenditure in cash terms by more than 1 per cent year-on year; provided that

ii. no target is more than 20 per cent in cash terms above the lower of their original and revised budgets for 1981-82.

The virtue of this system is that it tries to strike an appropriate balance between realism and discouraging overspending for each local authority. The exemplifications at Annex A show how it would work in practice.



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13. The Secretary of State assumes that in aggregate authorities will spend at the level of their targets. The total of targets for 1983-84 is £20.1 billion; allowing for differences of definition, this translates into public expenditure provision of £19.5 billion, £0.9 billion more than the provision in the White Paper on the Government's Expenditure Plans 1982-83 to 1984-85 (Cmnd 8494).

14. £19.5 billion is 9 per cent more than the expenditure provision for 1982-83. The Secretary of State does not wish to increase the total of GREs by 9 per cent, since to do so would imply that local authorities needed to increase expenditure by that amount. He suggests that total GREs should instead be increased by 5 per cent. This entails a gap of £700 million between total provision and total GREs. The Secretary of State suggests that this should be treated as an unallocated provision for realism.

15. The Secretary of State suggests that Exchequer grant should be set at a level which will permit authorities on average, if they adhere to their targets, to require little or no increase in rates. He recommends aggregate Exchequer grant of £11.8 billion (implying RSG of 53.2 per cent of relevant expenditure, compared with 56.1 per cent in 1982-83). In order to deter authorities from increasing rates and using the extra revenue to increase expenditure, he proposes a 'severe' holdback scheme for 1983-84, but does not offer details.

16. The Secretary of State proposes that an announcement of the Government's decisions should be made later this month, and should be followed up by meetings with the major Conservative local authorities to press for maximum cooperation.

MAIN ISSUES

17. The main issues appear to be as follows:

- i. targets and total provision;
- ii. service distribution and the unallocated margin;
- iii. amount of Exchequer grant;



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- iv. holdback arrangements;
- v. announcement and tactics.

Targets and total provision

18. It is important to realise that, as the Secretary of State conceives his proposals, the target system and the total provision for current expenditure are inextricably linked: a different system of targets would affect authorities differently; and their expenditure would change in consequence. Hence a decision that the target system should be significantly changed would require reconsideration of the proposed expenditure provision.

19. Some of your colleagues may well criticise the proposed system of targets. Because it is related to budgets in 1982-83 it gives higher targets to authorities who are actually spending more now, rather than authorities needing to spend more. It takes the whole RSG system further away from the assessment of needs. On the other hand, high-spending authorities will be required to make substantial reductions - a reduction in cash as well as real terms. It can be argued that to ask for more is simply not realistic. We understand that the Chief Secretary is content that the proposed system of targets is about right.

20. As for the amount itself (£19.5 billion), we understand that it is acceptable to the Chief Secretary. The increase of £0.9 billion over Cmnd 8494 is less than the £1.3 billion which the Secretary of State for the Environment previously indicated as his likely bid, on grounds of realism, for local authority current expenditure in 1983-84. The danger, in fact, may be that it is too low for genuine realism. It is unlikely that the local authorities collectively will spend no more than the sum of individual targets. The chances depend partly on how severe and effective the holdback scheme for 1983-84 turns out to be.

Service distribution and the unallocated margin

21. If Ministers approve both the system of targets and the total for the current expenditure provision, there may then be some discussion of distribution between services. The first point to establish will be whether Ministers agree that the total for GREs should be less than the total current expenditure provision. There

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is a good argument for leaving this unallocated margin for realism which we believe that the Chief Secretary is likely to accept.

22. Some Ministers may then argue that it would be desirable to settle the distribution between services before moving on to announce decisions about the expenditure provision. In practice however it is extremely unlikely that this could be done quickly and something should be said very soon to local authorities to influence their budgets for 1983-84. The right course would therefore be to invite the Chief Secretary to arrange for further discussion of these questions, and the service distribution, with spending Ministers. Some Ministers, notably the Secretary of State for Education and Science, will be reluctant to have decisions taken about the local authority element in his programme in isolation from the programme as a whole. At some stage, in the autumn, the Home Secretary's Group, MISC 21, will probably have to be convened to settle these and other detailed aspects of local authority expenditure.

Amount of Exchequer grant

23. The Secretary of State for the Environment proposes aggregate Exchequer grant of £11.8 billion, on the grounds that if local authorities collectively stick to their expenditure targets they will then need no increase in domestic rates (in fact, according to Annex D to E(82)59, they should be able to reduce them). The implied grant percentage is 53.2 per cent compared with this year's 56.1 per cent. There is however a risk that local authorities will in practice increase rates and use the extra cash to increase expenditure - particularly expenditure on pay. As the Secretary of State recognises, to avoid this will need a severe holdback system. This may prove impossible to get accepted when the time comes. You may therefore wish to explore the possibility of a lower amount of Exchequer grant, which would allow average rate increases in line with, or a little below, inflation if authorities collectively stick to their targets. On the other side of the argument the Secretary of State for Scotland in his letter of 19 July suggests that the proposed level of grant is too low and that the Government will be blamed for putting up rates.

24. Since the decision on the level of grant is a difficult one, some Ministers may doubt the wisdom of announcing a figure for Exchequer grant at this stage. Clearly to

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do so will set a floor below which it will be very difficult indeed to go. On the other hand, it should be a particularly effective way of concentrating the minds of local authorities on the need for economy in 1983-84. You may think it right to endorse the idea of announcing a figure provided that the Committee is satisfied:

- a. that the amount of Exchequer grant is low enough, and the holdback scheme can be made severe enough, to achieve the expenditure targets; and
- b. that it can be made clear to the local authorities that this is not a decision that the Government has any intention of reopening.

25. If, on the otherhand, the Committee decides that no figure should be announced, there is little point in taking a decision on the figure; it would serve no immediate operational purpose, and might well leak.

Holdback arrangements

26. As noted above, the Secretary of State for the Environment is pinning a good deal on being able to install a severe holdback scheme, though he gives no details. You may wish to ask the Secretary of State for a clearer outline of what he has in mind, and whether he is confident that it will command the necessary political support.

27. One specific point on holdback has been left open - whether local authorities who exceed their targets but not their GRE should, as this year, be immune from holdback. Mr Heseltine suggests that one option might be a gradual scale of holdback for such authorities. If Ministers consider that it is not politically possible to impose holdback at all on local authorities in this category, it would be better to face up to this now, since it will mean in effect that expenditure is likely to be about £150 million higher. This might, as Mr Heseltine suggests, argue for a lower grant total.

Scotland and Wales

28. You will not wish at this meeting to deal with Scotland and Wales. The respective Secretaries of State might be invited to have discussions with the Chief Secretary with a view to arrangements which, allowing for the differences in their systems, are broadly consistent with those adopted for England.



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Announcement

29. If the Committee agrees on the substance of the proposals, there is everything to be said for an early announcement. You will not doubt wish to invite the Secretary of State for the Environment to clear a draft with the Committee.

HANDLING

30. You will wish to ask the Secretary of State for the Environment to introduce his memorandum and the Chief Secretary, Treasury to comment. All Ministers with substantial responsibilities for local government services can be expected to comment (Home Secretary, Secretaries of State for Scotland, Wales, Education and Science, Transport, Social Services, Employment); but you will wish to encourage them to concentrate on the general issues, rather than narrow departmental matters. The Lord President and the Chancellor of the Duchy may have more general political points to make.

CONCLUSIONS

31. You will wish the Committee to reach conclusions on the following:

- i. whether expenditure targets for 1983-84 should be as proposed in paragraph 8 of E(82)59;
- ii. whether the public expenditure provision for local authority current expenditure in 1983-84 should be £19.5 billion;
- iii. whether the total of GREs should be £18.8 billion, with the remaining £700 million left unallocated to services;
- iv. whether the total of Aggregate Exchequer Grant should be £11.8 billion before holdback;
- v. whether the proposals at i. to iv. above should be announced as soon as possible;

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vi. whether, in addition, anything should be said about holdback in 1983-84, apart from the promise that it will be severe;

vii. whether the question of distribution between services should be left to be pursued by the Chief Secretary with individual spending Ministers;

viii. whether the Chief Secretary should be invited to discuss with the respective Secretaries of State arrangements for Scotland and Wales broadly consistent (allowing for the usual differences) with those adopted for England.

PLG

P L GREGSON

19 July 1982



CONFIDENTIAL

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

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Prime Minister

MCS 19/7

19 July 1982

Dear Chief Secretary

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-84

1. We are to discuss at E Committee on 20 July the proposals for the 1983-84 rate support grant settlement in England set out in E(82)59.
2. These proposals are very detailed and there is insufficient time for me to circulate corresponding proposals for Scotland before the meeting. If colleagues agree, I suggest that I should discuss with you bilaterally the arrangements for the Scottish settlement in the light of the decisions reached on Tuesday about the English settlement. Any major difference of view which we could not resolve would have to be brought back to the Committee.
3. I thought however that it would be helpful for me to circulate in advance a note of my views on two important features common to both settlements.
4. I am glad to note that Michael Heseltine considers it essential that we should enhance the provision made for local authority current expenditure in Cmnd 8494. We must continue to press authorities to make substantial reductions in expenditure levels as rapidly as possible. But no purpose is served by publication of unrealistic figures. I believe we are more likely to maintain public support if we set realistic targets and take decisive action against authorities which act irresponsibly. That was the basis of the successful action which I have taken in both 1981-82 and 1982-83 against Lothian Regional Council.
5. An important issue in our bilateral discussions will be how to calculate the Scottish equivalent of the measure of enhancement agreed for England. Use of the territorial formula would produce a figure implying a significantly more severe target reduction from expenditure levels in the current year for Scottish authorities. I see no basis on which that course could be justified. I hope therefore that you will be able to agree that the right course is to set Scottish authorities a similar reduction from current levels of expenditure to that proposed for authorities in England.
6. Although broadly in agreement with Michael Heseltine's proposals for enhancement I have strong reservations about his approach to aggregate grant. He proposes a substantial cut, of 2.9 percentage points, in the rate of grant in England. I believe

that we would be heavily criticised for this further shift in the balance between central and local taxation which would be represented as inconsistent with the concern repeatedly expressed by the Government over rate levels. I believe that there will be widespread disappointment over our inability, which must be publicly acknowledged in the near future, to find an acceptable alternative to domestic rates. In the meantime there is considerable resentment among ratepayers in all sectors over rate levels and considerable apprehension about the prospect of further increases. We should pay particular attention to the views increasingly expressed by industry and commerce that the increasing rates burden constitutes a severe impediment to industrial and commercial recovery.

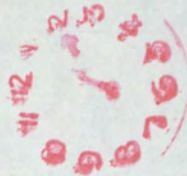
7. I am in no doubt that any significant increase in rate levels will be attributed to us, not to local authorities, if we make a significant cut in the grant percentage. I do not think we need make an early announcement about the grant quantum and I believe that we would stand a better chance of getting the figure right if we postponed a decision until later in the year when it will be possible to make firmer forecasts of expenditure levels in 1983-84. I shall develop the case for delaying a decision in the course of Tuesday's meeting.

8. Copies of this letter go to the Prime Minister, other members of E Committee, the Secretary of State for Wales and Sir Robert Armstrong.

For use
Alfred Kennedy

Approved by the Secretary of State
and signed in his absence

14 99 JUL 1982





B
Prime Minister

MS 16/7

PRIME MINISTER

RATE SUPPORT GRANT SETTLEMENT (WALES) 1983-84

Colleagues will have seen E(82)59 from the Secretary of State for the Environment about the 1983-84 RSG Settlement in England. I think it might be helpful if I set out in advance of our discussion of that paper on Tuesday my views on the issues it covers, insofar as Wales is concerned.

I shall be meeting the Welsh Consultative Council on 29 July. The background to that meeting will be the response of Welsh local authorities to my request for revised budgets for 1982-83. I shall have the final figures with me on Tuesday, but it looks as though the 4.8% excess on total expenditure indicated by the original budgets will have been reduced by more than half. With some technical adjustments to GREs and the element of budget drift which is bound to occur, Welsh local authorities will argue that this is as near to target as could be reasonably expected. It is indeed a most creditable performance.

It will be from that starting point that we shall begin discussing the 1983-84 settlement.

Targets

I shall want to discuss this subject fully and frankly with the local authorities. Up to now they have resolutely opposed individual expenditure targets, and I must say I have every sympathy with them. There is an argument, however, that targets have helped in achieving the satisfactory outcome to the revised budget exercise. I need to consider very carefully what will be most effective in securing our aggregate target next year. If the answer is to set targets then I shall wish to do what I did this year and not allow any authority an exemption on the grounds that it is spending at or below GRE. I am very glad to see that Michael is proposing to start the consultations with English authorities on a similar basis.

Public Expenditure Provision

As colleagues will know from my letter of 22 June to Michael Heseltine I agree with the general case for an adjustment to the local authority aggregate current expenditure provision on grounds of realism. Whatever is agreed I expect the usual formula consequential to apply in respect of Wales. The amount

/this would ...

PRIME MINISTER

E (82) 59

The Chief Secretary has had no less than 5 meetings with Mr. Heseltine about this paper. In the end they have together agreed (against, I understand, DOE officials' advice) on the conclusions in para. 22.

The Chief Secretary wants you to know this; and that, if colleagues will join Mr. Heseltine and him in this approach, he is inclined to give way gracefully on 1982-83 - given the assurances which Tom King has given to the House.

It is worth noting that this will mean a £900 m increase above the Public Expenditure White Paper's provision for 1983-84.

But it wouldn't necessarily make impossible the achievement of the Chief Secretary's aim for the 1983-84 total: the contingency CR for 1983-84 presently stands at £4 b compared to £2.4 b for the present year, and the "inescapable" bids - e.g., Falklands, statutory social security increases, this local authority increase - could just about be found within the difference between these two figures.

MCS

16 July, 1982.



Treasury Chambers, Parliament Street, SW1P 3AG

16 July 1982

Dear Michael

Here, as promised, is Robert Culpin's note
on the proposals for local authority
current expenditure next year. I was
wrong to say that targets will be less
in total than PES provision - see 2 b.

That is the case this year, and is one of
the advantages in these new proposals.

You might also like to have the enclosed
aide memoire on the CST's PES proposals
- the bids/reserve arithmetic (such as it is) is
in paragraph 2.

14/7/82

Yours ever
Terry Matthews

FROM: ROBERT CULPIN
 DATE: 14 July 1982

MR MATHEWS

cc PPS
 FST
 EST
 MST(C)
 MST(R)
 Sir A Rawlinson
 Mr Barratt
 Miss Kelley
 Mr Kitcatt
 Mr Monger
 Mr Mountfield
 Mr Faulkner
 Mr Goldman
 Mr F K Jones
 Mr Spackman
 Mrs Diggle
 Mr Dyer
 Mr Ridley
 Mr Harris

J. Th...
 W

LOCAL AUTHORITY CURRENT SPENDING AND THE RATE SUPPORT GRANT IN
 1983-84

The Chief Secretary reached agreement yesterday on a proposal which Mr Heseltine will put to colleagues. This gets us over a major hurdle - though there are more to come.

2. Some elements are unchanged from the provisional agreement reached a fortnight ago.
 - a. The public expenditure provision for local authority current spending in England in 1983-84 should be £19.5 billion (rounded).
 - b. The targets for individual local authorities should sum to this figure.
 - c. GREs should be lower - probably about £18 $\frac{3}{4}$ billion.
 - d. The difference between targets and GREs should be scored as a margin unallocated to services.

e. Aggregate exchequer grant should be £11.8 billion.

3. The new elements are that:-

f. Different rules/^{should} govern the targets for different authorities.

g. Penalties should be imposed on all authorities which overspend their targets, even if their targets are below their GREs.

h. Penalties should be relatively modest for slight overspending and of "unparalleled severity" for severe offenders.

4. The rules for targets - f - should be as follows:-

(i) For authorities which are spending less than this year's GREs or targets, whichever is higher, the target for next year should be 4% more than this year's budget.

(ii) For the rest, next year's targets should be 5% more than this year's GRE or target, whichever is higher, except that

(iii) No target should be more than 1% below this year's budget.

5. In case Ministers are unable to carry g. through the House, GREs should be held as low as possible. This should minimise the cost if those spending below GREs have later to be exempted from penalties. That cost should be reduced if at all possible to £150 million or so; but it has to be accepted that it cannot be reliably predicted. If a concession has to be made, AEG should be cut below £11.8 billion, though the government would not say so now to the local authorities.

6. The specifics of h. have yet to be worked out.
7. Mr Heseltine should make as detailed an announcement as possible to local authorities before the recess.

Next Steps

8. Mr Heseltine will put this package to E Committee: we don't yet know when. He may or may not minute the Prime Minister beforehand. I am meeting DOE officials later this morning to discuss drafts.
9. As soon as we know how Mr Heseltine intends to proceed, we shall have to consider how and when to consult other departments, especially about the service distribution of GREs.
10. Mr Heseltine is aiming for ^aspecial meeting of the Consultative Council on Local Government Finance at the end of this month, or early in August.

Warning

11. This agreement could come unstuck in many ways, at many stages. Mr Heseltine could have further thoughts. He could be persuaded into further thoughts by ^{his}officials. Colleagues responsible for local authority services could rebel. The local authorities could force concessions on the government.
12. Whatever provision is made, the local authorities will almost certainly overspend.

ROBERT CULPIN

AIDE-MEMOIRE ON THE CHIEF SECRETARY'S PAPER FOR CABINET ON 15 JULY 1982
(C(82)28)

Aims of the paper

The aim set out in the Chief Secretary's paper is to hold to the present planning totals for 1983-84 (£120.5 billion) and 1984-85 (£127.7 billion). Consistently with this, for 1985-86, he is aiming for the total now shown in the PESC baseline (£133.3 billion).

The arithmetic for 1983-84

2. For 1983-84, there is at present a reserve of £4 billion, of which a substantial proportion must be kept back for genuine contingencies during the year. Altogether, bids for new money add up to about £6½ billion. Within this total, there are claims on grounds of 'realism' for increases in local authority current expenditure (perhaps £1 billion), statutory commitments to social security (£0.6 billion on present estimates), the Falklands (not yet finally quantified), and other demand-led increases, all of which will be very hard to resist. So, even if part of the contingency reserve is allocated to programmes, if we are to hold to the planning totals, there will have to be modest cuts in some programmes to cover these demands; but nothing in the least draconian.

The second year - 1984-85

3. It is equally necessary to hold to the planning total for 1984-85. The difficulties of 1983-84 cannot be solved simply by deferring additional expenditure to the following year. Moreover, the decisions reached on 1983-84 will have a "knock-on" effect on later years. It is important to take firm but realistic decisions now so that the planning totals can be held in both years.

Main arguments in support

4. The integrity of the plans. The planning totals were agreed only last November and were published as recently as 4 months ago. Apart from the Falklands, nothing has happened since then which might seriously invalidate the earlier judgements. If anything, the position has in some ways improved, because inflation is coming down slightly faster than expected and pay settlements appear to be moderating. The cash plans embodied the increases of £7 billion (for 1983-84) and £5 billion (for 1984-85) which were agreed in last year's Survey.

They also contained large contingency reserves (£4 billion for 1983-84; £6 billion for 1984-85). They ought, therefore, to be enough for most eventualities. It makes a nonsense of the planning process if the totals are constantly pushed up at annual intervals.

5. Tax reductions. Holding to the planning totals is the only way to leave room for some modest tax reductions next year to help industry and aid economic recovery. Conceding anything like the present bids would require increases in taxation. There is no escape route through increased borrowing. That would only push up interest rates and set back the recovery of industry.

6. Long-term effects of increasing public expenditure. The Government is committed to a long-term reduction in the burden of public expenditure. However, the ratio of public expenditure to GDP was 44½ per cent in 1981-82 - higher than in any year since 1975-76 and 3½ percentage points above what it was at the time the Government took office. The Government cannot both continue on this path for public expenditure and meet its other objectives of lower taxation, lower interest rates and a transfer of resources to the private sector. So it is essential at least to hold steady in 1985-86 and not to enter into new commitments for the future which can only make things worse.

Realism of the planning totals

7. It may be suggested that the planning totals are unrealistically low and, in particular, that they provide too little for inflation. They were, however, published only 4 months ago and there has been very little change in the economic background since then. The 1983-84 total included an overall inflation provision (pay and prices) of 6 per cent. The latest forecast for overall inflation is about 7 per cent in 1983-84 and the intention for pay is to go for something well under 6 per cent. On this evidence, there are no grounds for any general revaluation of the cash programmes. The planning totals also provided generous contingency reserves, both to cover genuinely unforeseen items and to guard against any underestimate of inflation of the kind represented by the bids for "realism" in local authority current expenditure. There is no case for adding yet more to the totals now.

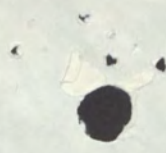
Achieving the Chief Secretary's proposal

8. The Chief Secretary's proposal is achievable if:

- (a) the increase in local authority current expenditure is held at no more than £1 billion;
- (b) colleagues accept his proposal to cut the nationalised industry baseline by £0.5 billion (this is crucial and has^s, of course, now been agreed);
- (c) "optional" as distinct from "essential" bids are withdrawn;

- (d) public service pay is held to lower figures than last year; and
- (e) some cuts are accepted in other programmes to offset the minimum of inescapable additions.

These are tough but not unattainable objectives: they now need to be explored further in bilateral discussion of individual programmes.



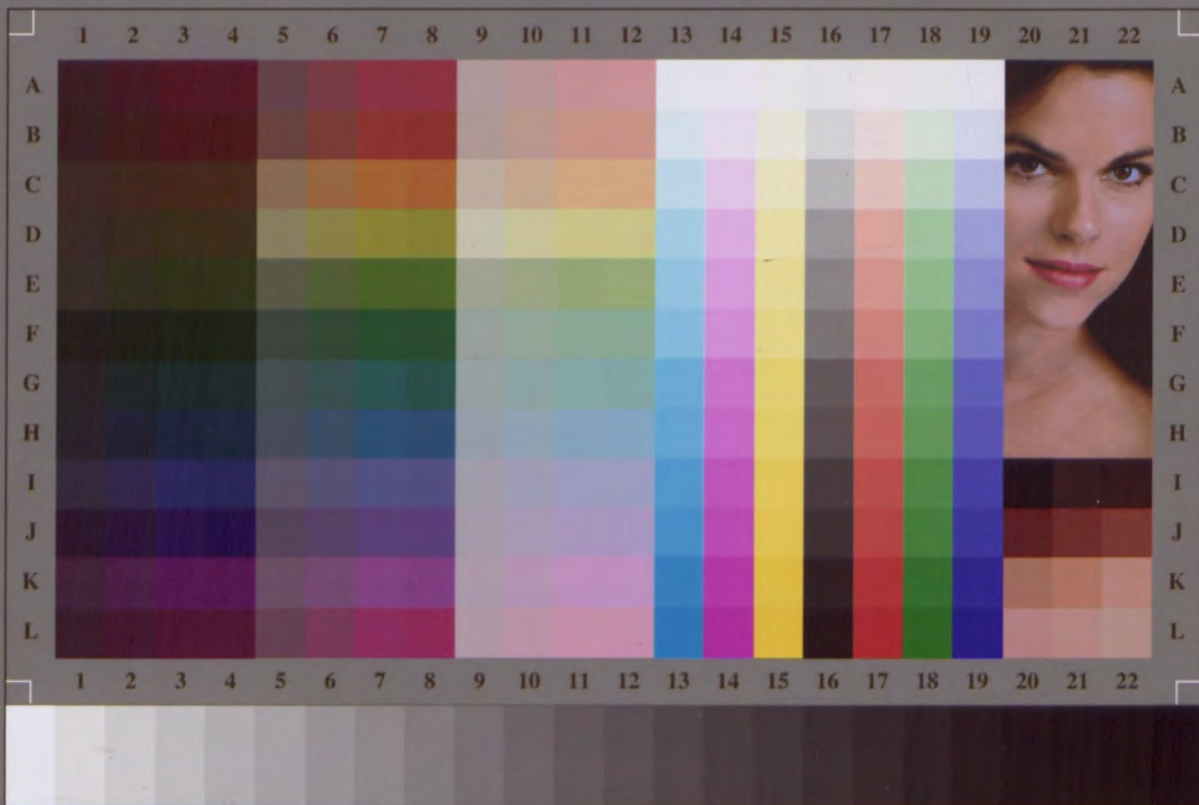
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PART 12 ends:-

15-7-82

PART 13 begins:-

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