

Prime Minister

1 assume MH has been
told? — no

There are two matters which are exercising our backbenchers, and which were reflected in my Fox and Goose group. They are Michael Heseltine's statement on holdback and the Enterprise Package. I believe that both have serious political implications for our supporters in the country. The main points are as follows:-

Holdback

It would appear that the basis for DOE calculations for its holdback provisions are based on 1978-79 outturn prices. This has very serious implications for many of our Conservative-controlled counties for two reasons. Firstly, in an endeavour to meet the Labour Government's requirements they cut back on spending in 1978/79 and therefore the outturn was lower than the estimate. Secondly, in that year the RSG was shifted in favour of the boroughs by the Labour Government for electoral reasons. Therefore, the outturn base selected by DOE for holdback purposes is doubly disadvantageous to Conservative counties who have sought to keep their expenditure down.

There is a further complication for some counties, for example, Cambridgeshire, which has had substantial population increases and for which no allowance is being made in the latest provisions.

Politically, there are serious implications for the future control of the Association of County Councils, which we still retain due to arrangements in five counties where there is no overall control. If as a result of the Secretary of State's holdback statement three of the NOC counties, which are Conservative led are voted down in making further cuts, Conservatives could be replaced by others and we could lose control of the ACC for the first time ever.

Even where we have control, if steps are taken to meet DOE requirements it could mean that counties which do not have a large per capita amount will be faced with further staff cuts which could impair the quality of services and a supplementary rate increase. These would be announced presumably from the end of July onwards. One point made strongly is that a device which sought to restrict big spending Labour authorities was in practice "going to clobber" prudent Conservative authorities and this surely could not be right.

Enterprise Package

Do the new proposals meet these criticisms? no

There is widespread and growing backbench criticism of the package. Lord Thorneycroft has also written to you in some detail and his letter is in your weekend box also.

The political points made by the backbenchers are that everyone wants the enterprise to succeed. However, the strong feeling is that the conditions laid down by the Inland Revenue are too rigid. Indeed, professional advice being given to prospective applicants by accountants, consultants etc is "Don't". Their

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chief reason seems to be that if people take up the offer of help under the package they could find themselves liable to tax clawbacks years later.

The feeling of the group is that it would be far better to reduce the IR conditions, at least temporarily, on the basis that it would better to get some operations started and jobs created than to worry initially about possible loopholes, which could be blocked as necessary.

Derek

Derek Howe

4th June 1981

DEREK HAS SHOWN THIS NOTE TO ME.

I AGREE, ENTIRELY, WITH HIS ANALYSIS.

P. Am.

4/6/1981