



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon M Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1

14 November 1980

*Stan Michael*

*7/4/80*

LOCAL AUTHORITY BORROWING

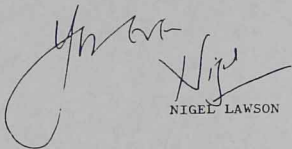
Thank you for your letter of 11 November.

I am glad that you share my concern about the level and volatility of local authority borrowing, although obviously I am disappointed that you find it impossible to reduce block borrowing allocations (as a proportion of capital allocations) or to adjust the terms of the RSG settlement in 1981-82. In the circumstances I reluctantly agree that we should not seek to use either of these mechanisms to influence local authority borrowing next year. I can therefore agree that the guidance note on the capital control scheme to local authorities should issue as drafted.

We should certainly explore what might be done to restrain local authority borrowing in the future. I should be glad to discuss the scope for further work with you as soon as the present activity related to the RSG settlement permits; I envisage, as a first step, an official working party under Treasury chairmanship to set out the options and their merits for our consideration, and to take account of the parallel Treasury/Bank work on possible measures to restrain market borrowing by the local authorities.

It seems inevitable that we will need to consider options requiring new and undoubtedly contentious legislation if any real progress is to be made. It will also be necessary to face the prospect that discipline of local authority borrowing will intensify the upward pressure on rates - an inevitable consequence of giving priority to controlling the PSBR. Rate increases will, of course, be moderated if local authorities achieve the substantial expenditure reductions envisaged in our expenditure plans, and in this the introduction of block grant should help. But I am under no illusion that we can consider local authority borrowing without taking into account its effects on the rest of local government finance.

I am copying this letter to the Prime Minister and to George Younger  
and Nicholas Edwards.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large, sweeping flourish extending to the left.

NIGEL LAWSON

14 NOV 1980

