

CONFIDENTIAL!

Told Ch Ex's office  
MS 1/3  
Chancellor

Prime Minister

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Econ Pol  
Budget

MS 26/2



Please look at -  
classification of

Treasury Chambers, Parliament Street, SW1P 3AG

When the current  
urgency

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

26 February 1982

R. Michael

MS

THE NATIONAL INSURANCE SURCHARGE AND THE RATE SUPPORT GRANT

Thank you for your letter of 25 February. - attached -

I understand your concern that any reduction in the national insurance surcharge would be indiscriminate. I am concerned that it should not be more indiscriminate than necessary. I therefore hold to my view that any benefit to the local authorities should be offset by a reduction in the rate support grant.

I take many of the other points in your letter. Certainly, I should be the last to pretend that reducing the rate support grant would be easy. Nonetheless, I believe the considerations to which you draw attention are outweighed by three main points:-

- (i) the purpose of reducing the NIS would be to help to moderate industrial costs, not to direct assistance to local authorities or their ratepayers;
- (ii) so long as overspending by local authorities on current account is such a huge problem, we simply cannot afford to increase the scope for it by giving local authorities a windfall gain;
- (iii) if the Chancellor finds he has any room for manoeuvre on local authorities at all, you and I are agreed that capital spending must have priority over current.

The only argument of yours with which I would take issue is the suggestion that allowing local authorities to retain the benefit of an NIS reduction might actually reduce their overspending. So far as I can see, this could only happen if we left their targets

unchanged despite the cut in NIS. My strong view is that we should reduce the targets against which overspending is measured - just as we should reduce the rate support grant - by the amount of any saving on national insurance surcharge.

If you would like a discussion, I should be happy to have one. I am sending copies of this letter to George Younger, Nicholas Edwards and Jim Prior. I am also sending a copy of the correspondence to the Prime Minister.



LEON BRITTAN