



10 DOWNING STREET

THE PRIME MINISTER

26 February 1980

Dear Home,

Thank you for your further letters of 31 January and 13 February about the Local Government Planning and Land Bill.

As far as your letter of 31 January is concerned, I understand that you met Tom King on 7 February, and he is awaiting a note from you on the GLC's current substantial capital schemes in order to examine further your fears about the GLC's position in regard to the proposed abolition of the Money Bill procedure and Ministerial control of schemes of "national or regional importance". I have asked Michael Heseltine and Tom King to look at this matter very closely and I know they will respond to you as soon as they have been able to study that extra information.

In your letter of 13 February about the Bill's block grant proposals, you say that the Government will be committing itself to stating what the level of expenditure and rates should be for each local authority. This is not how we intend block grant to work.

Block grant will meet the difference between an authority's actual expenditure and the product of a "standard rate poundage" on the authority's rateable resources. The appropriate standard rate poundage for an authority will be derived from a schedule of such poundages, which correspond to the relationship between local authorities' actual expenditure and assessed "standard expenditure".

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*cc DENVIR
Local govt*

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There is clearly some misunderstanding about what is meant by standard expenditure. This will replace the current expenditure needs assessments on which the needs element of RSG is distributed at present. It will not represent an arbitrary and subjective judgement about what each authority ought to be spending; it will be a formula-based assessment - worked out after consultation with the local authority associations - of the level of expenditure that all authorities with similar characteristics and circumstances would on average be likely to incur in order to provide a normal standard of service. So standard expenditure will not be a figure plucked out of the air. And it certainly will not constitute a directive from central government to a local authority telling it what it "should" spend; authorities will still be free to reach their own spending and rating decisions, as they do now. But the block grant mechanism - unlike the present system - will enable the Government to limit the national taxpayers' contribution by way of grant to authorities spending significantly beyond the level of standard expenditure.

Michael Heseltine has, as you know, indicated that he is willing to consider any reasonable scheme put forward jointly by the local authority associations which will achieve the above objective: he has now received from you and the associations your agreed alternative proposals. He is examining these as a matter of urgency and will be responding to you and the association chairmen as soon as possible.

Yours ever
Raymond

Sir Horace Cutler, O.B.E.