



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

2 September 1981

*Dear Willie*

LOCAL AUTHORITY CURRENT EXPENDITURE 1981-82:  
REVISED BUDGETS

On the assumption that the Prime Minister is able to discuss with my Secretary of State and the Chief Secretary this afternoon the proposals set out in Mr Heseltine's letter of 14 August, the Prime Minister may find it helpful to have the attached summary of the salient figures.

The Secretary of State has asked me to say that the scale of response from a large number of individual local authorities hidden by the obdurate attitude of a small number makes it very difficult, he believes, to find any politically acceptable options other than those proposed in his earlier letter. The draft press notice (also enclosed) spells this out clearly.

I am copying this to Terry Mathews.

*Yours sincerely*  
*Jeff Jacobs*

J JACOBS  
Private Secretary

LOCAL AUTHORITY CURRENT EXPENITURE 1981-82:REVISED BUDGETS

E Committee decided (E(81)17th, Item 2) that "the Secretary of State for the Environment should warn that the Government was prepared to consider withholding grants totalling up to £450 million, should continued overspending make this necessary".

The call for revised budgets has produced a gross reduction of about £200 million (November 1980 prices), offset by an increase of about £210 million. Of the increase, £140 million is due to the decisions of two authorities, the GLC and the West Midlands Metropolitan County.

The effect of these changes is to reduce the prospective holdback from £450 million to about £360 million, on the basis of the "poundage schedule" referred to in the documents issued at the time of the statement of 2 June.

The Secretary of State proposed in his letter of 14 August an exemption from holdback for authorities spending at or below their GRE. This would reduce holdback from about £360 million to about £310 million.

He also proposed exemption for certain categories of expenditure, listed in Annex B to his letter. This would further reduce holdback to about £260 million.

Mr Pym's office have suggested informally that authorities spending a little way above GRE should be given partial protection from holdback. Depending on the detailed arrangements, this could reduce holdback by another £50 million or so. My Secretary of State is not at present proposing to announce a concession of this kind, but it may be necessary to do so if local authorities press for it. A decision on this point is not required today.

The Chief Secretary has suggested that the exemptions proposed might be acceptable if the total holdback were kept at £360 million. This could only be done by increasing the penalties for those who remain above their volume target to levels beyond those indicated in the statement of 2 June. This would be contrary to the Government's declared intentions and is in ~~the~~ Secretary of State's (Environment) view unthinkable.

The budget excess over Government targets now and compared with original budgets are as follows:

<u>Original Budgets</u>	(a) at Nov 80 prices	£880 m (5.8%)
	(b) at outturn prices	£1350 m (8.4%)
<u>Revised Budgets</u>	(a) at Nov 80 prices	£896 m (5.9%)
	(b) at outturn prices	£1432 m (8.9%)

## DRAFT PRESS NOTICE

## LOCAL AUTHORITY EXPENDITURE IN THE CURRENT FINANCIAL YEAR, 1981/82

Michael Heseltine, Secretary of State for the Environment, today announced the results of the revision of budgets for 1981/82 by local authorities. Speaking today he said: "The majority of local authorities (256) have made significant efforts to reduce their expenditure plans from their original budgets in line with the Government's request in June. But a small number of authorities have ignored the Government's request for economy and have actually increased their expenditure plans by a substantial amount so that overall the total of planned current expenditure remains above the Government's target by some 5.4%."

In the light of these results the Government will be obliged to propose reducing the total of block grant by means of a Supplementary Report to be presented to Parliament in the autumn. Authorities which meet the Government's target for the reduction in the volume of their expenditure or which spend below the typical level represented by the "Grant-Related Expenditure" (GRE) will however be exempted from the effects of this reduction. I am also proposing exemptions in respect of expenditure on the urban programme and certain other types of expenditure. [Copies of a Circular to local authorities announcing these proposals, and of tables exemplifying their effects for individual authorities are attached].

I am grateful to all those authorities who had made great efforts to secure reductions in their expenditure plans in line with the Government's overall targets. These results are a vindication of the tradition of voluntary co-operation between central and local government to ensure that local government expenditure as a whole remains within what the national economy can afford.

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The action of a few authorities which have made enormous increases in their expenditure could however imperil this relationship. I told local government in June that further legislation might be needed next session to bring home to authorities and their electorates the consequences of high-spending policies if the response to the call for revised budgets was unsatisfactory. The increased expenditure now proposed by certain authorities, which flies in the face of the economic realities and the urgent need to reduce the pressure of rates on commerce and industry, makes it very much more likely that such legislative measures would be needed."



2, *ms*

QUEEN ANNE'S GATE LONDON SW1H 9AT

September 1981

Prime Minister.

*Dear Michael*

*Mr Whitlam's approach is similar to the one which you took yesterday and on which the compromise between Mr Heseltine and*

LOCAL AUTHORITY CURRENT EXPENDITURE 1981-82: Mr Brittan was REVISED BUDGETS

*eventually reached.*

*There is also a letter from Mr Younger below which you should see*

I have now seen a copy of your letter of 14 August to Leon Brittan.

*MS  
3ix.*

My officials have also been able to study the revised budgets and advise me in the light of the concern I expressed to you in my letter of 8 July just after the Toxteth riot. I am grateful to your Department for making the material available.

I am content that you should proceed in the way you propose, since, although I recognise the concerns expressed by Nigel Lawson, your approach seems to me to give credit to those authorities who have made a genuine attempt to trim back on their expenditure. I also welcome your suggestion of exempting certain categories of expenditure, especially where it is related to the recent problems of the inner cities.

I am sending copies of this letter to the Prime Minister, to other members of the Cabinet and to Sir Robert Armstrong.

*[Handwritten signature]*

The Rt. Hon. Michael Heseltine, M.P.