



DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

22 January 1982

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London SW1 3EB

*JAD*  
Prime Minister

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Local

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*Dear Michael*

LOCAL GOVERNMENT FINANCE (NO 2) BILL

In my letter of 15 December, I asked for an assurance that you would not use in an unduly restrictive way your power to withhold consent to temporary borrowing by local authorities unable, under the Bill, to levy a supplementary rate.

2 You have not yet replied to my letter but your statement on 16 December appeared largely to meet my point, in that you omitted the reference to natural disasters which I had queried in the draft and mentioned commitments which had to be met. I am now concerned to see from your speech on the Second Reading (Col 50) on 18 January that you reverted there to something close to the original formulation which I questioned. In doing so you ran into criticism from nearly all our back-benchers who spoke in the Debate, and I doubt if Tom King's reply towards the bottom of Col 114 will have gone far to satisfy them.

3 This is a serious issue for local government in general and education, the largest service, in particular. Take the example of a local authority - say Suffolk or Kent - which budgets on the basis of the Government's inflation factors to spend next year at its GRE in order to avoid grant penalties. Those inflation assumptions already look optimistic - after the settlement for the manual workers the average for pay seems bound to be more than 4 per cent and we ourselves, in the latest Industry Act forecast, now put price increases at 10 per cent. By October 1982 the county may be facing a cash flow crisis. It will not be able to levy a supplementary rate. Can it borrow? Or must it cut services?

4 We have here a dilemma and I am anxious that we consider it now so that we are not caught unprepared.

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

*Tom King*



DEPARTMENT OF EDUCATION AND SCIENCE  
MAXWELL HOUSE, YORK ROAD, LONDON, SE1 8YB  
TEL: 01-235 8500  
FROM THE SECRETARY OF STATE

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