

Local Govt



Copy to Mr. [unclear]

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2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister

My ref: H/PSO/10584/82

*MS
22*

Your ref:
22 February 1982

Dear Ruth

[Handwritten mark]

LOCAL GOVERNMENT FINANCE (NO 2) BILL

AS

Thank you for your letter of 22 January about temporary borrowing by local authorities in the context of Part I of the Bill. I am sorry not to have picked up the point as raised in your earlier letter to me of 15 December, commenting on my draft statement to the House about the Green Paper and the new Bill.

In your letter you express concern about the cash flow difficulties an authority might get into, in view of the ban on supplementary rates and precepts, if it budgeted in line with Government inflation assumptions which subsequently turned out to be over-optimistic. You asked for my assurance that I would not adopt too restrictive an approach if authorities in such circumstances sought my approval for temporary borrowing. You also suggested that what Tom King and I said in the Second Reading Debate on the Bill gave the impression that we would adopt a hard line in the face of approaches of this nature.

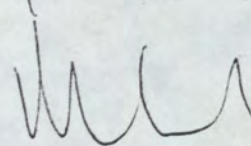
The pay and price assumptions used by Government in the RSG settlement are of course as much a guideline and a discipline for authorities as a forecast - inevitably so, since pay lies in the hands of the authorities themselves. The traditional approach of successive Governments has been that pay awards in excess of the guidelines must mean savings elsewhere; they are not to be regarded simply as a licence to increase expenditure still further. In the fight against inflation and in our efforts to maintain the downward pressure on local authority expenditure and to stimulate economies and the elimination of waste it is essential that we do nothing to undermine this position.

Together with the need to re-assure the money markets that the Bill would not precipitate a jump in local authority borrowing, this is one of the main reasons why our public pronouncements on the possibility of temporary borrowing have necessarily been tough. It would have defeated the object of the exercise if we were ever to hint that there existed an easy way out for authorities if pay or price increases exceeded expectations. This was why we instanced in public only natural disasters as a case where an authority might seek temporary borrowing approval.

This does not, however, imply that a natural disaster is necessarily the only situation in which temporary borrowing approval would be granted. In the event of any application for approval I intend to take each case as I find it, reaching my decision - after due

consideration and consultation with colleagues as necessary - in the light of all the relevant circumstances. As I have made plain in various statements, I do indeed intend to adopt a rigorous and critical approach in scrutinising such applications; but I can assure you that it would not be my intention to push a local authority into serious difficulties, either in relation to its finances or to the fulfilment of its statutory obligations, by deciding to withhold or to modify the borrowing approval it sought, if it were clear that this would be the inevitable consequence of such a decision. But as far as public pronouncements on this matter are concerned I think it would be most unwise to say any more than has been said already.

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

Yes


MICHAEL HESELTINE

2 FEB 1982

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FROM THE SECRETARY OF STATE

SECRET

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

25 February 1982

Dear Michael,

LOCAL GOVERNMENT FINANCE (NO 2) BILL

TPMD

Thank you for your letter of 22 February.

Tom King said in Standing Committee on the Bill on 9 February (Col 168) that the categories dealt with in the amendment under discussion - which included "Any circumstances over which it [The local authority] had no control" - might be of a kind to "sustain a case for a local authority to come to the Secretary of State to try to borrow". I take your point about the need to avoid a firmer public pronouncement than this, and am therefore content with what you say in your penultimate paragraph.

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

Yours,
King