



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-2336106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

WELSH OFFICE
GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

Dear Chief Secretary

20 July 1982

GRANT WITHHOLDING IN WALES 1981/82 AND 1982/83

We discussed grant withholding briefly after this morning's meeting and I said I would let you have my proposals in writing.

1982/83

This year Welsh local authorities' original budgets showed a total expenditure excess in cash terms of £57 million or about 4.8% above the Settlement provision. I therefore asked all authorities to revise their budgets, at the same time setting them individual authority total expenditure targets based on principles applying to all authorities. The results have now been analysed and as reported in my minute of 16 July to the Prime Minister, the performance has been most creditable. The original excess has been cut by more than half: the total expenditure excess remaining is now £25 million or about 2.1% over the Rate Support Grant total expenditure provision. We know that further technical adjustments are likely to reduce this figure by about £3m to £5m and of course budget drift will reduce it even further.

I know that the Welsh local authority associations will urge me to take no action in the light of the revised budget figures, especially given their superior performance compared to English and Scottish authorities. I have some sympathy with that view but nonetheless believe that some withholding is required to demonstrate my firm intention to see that Government expenditure targets are met and also as a means of exerting maximum influence on authorities' budget planning for next year.

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

/In England



In England, the holdback already agreed amounts to 22% of the cash excess; if the additional holdback you argue for is added, this rises to about 28%. This gives the following matrix:

Holdback in England	Welsh excess	
	20m	25m
22%	4.4m	5.5m
28%	5.6m	7m

In the light of this my view is that a holdback of £5m would be appropriate in Wales unless you succeed in persuading Michael to increase the rate of holdback to more than 25%.

As regards the method of withholding I have said on previous occasions that grant withholding at the individual authority level should bear a direct relationship to that authority's contribution to the total expenditure excess. Additionally, however, I am considering whether it would be possible to take into account the actual performance of authorities in reaching their expenditure targets and how close their final planned expenditure is to the target set. At this stage I am not sure whether this is legally or technically possible this year but if it proves to be so I shall want to do it. In any case, of course, it remains my firm intention to protect authorities who have met their targets.

1981/82

We agreed to set targets for 1981/82 in volume terms, on a November 1980 price base. In those terms I told Welsh authorities that their current expenditure in aggregate should be 4.6% below their 1978/79 out-turn. The latest provisional out-turn figures indicate that in the event their current expenditure was about £21 million or 2.2% above this target, but that figure includes about £8 million for emergency snow expenditure which we have already said would be disregarded in assessing current expenditure performance. The residual excess is thus about £13 million or 1.4%. We can expect a further reduction between provisional and final out-turn of say 0.5%.

/As you ...



As you know, we agreed in E Committee last year that any authority in England meeting its volume target would be exempt from grant withholding. I am sure that Welsh authorities will argue to me that a final out-turn likely to be within 1% of the target is so close as to justify such exemption across the board in Wales, where the target was set in terms of an aggregate for all authorities.

I have said to my local authority associations that a decision on 1981/82 would be taken in the light of the results of the 1982/83 revised budget exercise. In that light, and taking account of the other factors above, I think it would be appropriate to refrain from imposing a grant penalty in Wales in respect of 1981/82.

I am meeting the Welsh Consultative Council on Local Government Finance on 29 July and there is a meeting of the matching Official Committee on Thursday of this week. I should like to be able to announce at the full meeting decisions on the matters covered in this letter, and it would be extremely helpful if we were in a position to give some prior indication to the Official Committee. I would therefore be most grateful if you could let me have a response to this letter as soon as possible.

I am copying this to Michael Heseltine, George Younger, all members of E Committee and Sir Robert Armstrong.

Yours sincerely

Carys Evans

(Approved by the Secretary of State and signed in his absence.)



21 JUL 1982

5
6
7
8
9
10
11
12
13
14

100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120



Prime Minister (2)

JV
BI

Mus 27/7 2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/15220/82

Your ref:
26 July 1982

See list

MH

I have seen your letter of 20 July to Leon Brittan.

My principal concern is that whatever arrangements are arrived at for Wales there should be seen to be broad parity of treatment with what we have agreed for England. This means that, while I appreciate the arguments you make about how close Welsh authorities have come to their 1981/2 volume targets, I think it would be difficult for me if the overspend in that year is completely disregarded in fixing grant reductions. This is particularly so since I am preparing to publish the English Supplementary Report for 1981/2.

I am generally content with your suggested criterion for fixing the amount of the reduction to be made. We calculate this gives the following results for the 2 years:

	(1) English Overspend	(2) English Holdback	(3) (2) as % of (1)	(4) Welsh Overspend	(5) Welsh Holdback
1981/2	£813m (Nov '80)	£202m	24.8%	£21m	£5.2m
1982/3	£1431 (cash)	£312m (cash)	21.8%	£25	£5.4m

You will see that I think it appropriate to estimate the gross liability to holdback in respect of 1981/2 using the £21m figure for the overspend in Wales. This is because the figure for English overspend in that year is gross of expenditure on clearing up the severe winter and it is necessary to compare like with like. Of course in applying the holdback to individual authorities some will have their actual winter expenditure disregarded as we have agreed and their liability to holdback will be reduced. But we should start from the right baseline.

I am copying this letter to those who received copies of yours.

Yours ever
MH

MICHAEL HESELTINE