



Prime Minister

159 AD

(2)

Mus 24/1

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:  
21 January 1982

ms

Dear Chief Secretary

LOCAL GOVERNMENT FINANCE BILL - CLAUSE 4

During the Second Reading of the Local Government Finance Bill on 18 January I came under strong pressure on all sides of the House to make some limitation on the way in which Clause 4 could be operated.

As you know this is the Clause giving me explicit powers to set multipliers in order to vary the grant entitlements of authorities according to the degree of their compliance with any expenditure guidance or targets I have issued. It is this Clause which we need in order to implement the grant holdback schemes for 1981-2 and 1982-3.

The opponents of this Clause, who have been briefed by the ACC on this matter, want it to be made subject to the requirement that any grant holdback scheme for overspending authorities for future years should always be specified in advance of the year to which it related in the main RSG Report for that year. In this way authorities would know in advance the scale of penalties that would operate for overspending and could budget and rate accordingly. There would be much greater certainty in the budgeting process. They are afraid that without this restriction a Secretary of State might impose a holdback scheme after the start of a financial year when authorities have already budgeted and rated; since they would no longer be able to levy a supplementary rate (because of Part I of the Bill) they would then have no alternative but to make painful cuts at short notice (unless their balances were sufficient to tide them over). The critics claim that this would maximise undesirable uncertainty, and would ensure large rate increases in the next year or two while authorities try to build up protective balances.

I am naturally reluctant to limit my powers in this way, since it would necessarily involve forgoing the possibility of operating in the way in which George Younger dealt with the Lothian situation using powers comparable to those in Clause 4. On the other hand we must recognise the force of the argument about uncertainty, and the real danger that authorities will rate up to try to build up protective balances in the next year or two.

Moreover I think we must recognise the strength of feeling among our own supporters on this matter, and the likelihood that a concession will in any case be forced on us in Committee. In the circumstances I believe that our best tactic will be to announce a concession on this point right at the start of the Committee proceedings in order to create a better atmosphere at the outset, and to have the greatest chance of influencing rating decisions for 1982-3. Any such concession would of course be limited to future years, and would not affect the

present holdback schemes for 1981-2 and 1982-3 which would go ahead as announced once the Bill is through (though the restrictions would prevent us from contemplating any increase in the penalties for 1982-3 as a possible response to any overspending revealed by authority budgets in 1982-3.) I have the private assurance of the ACC leaders that they accept the inevitability of this, and would seek to damp down any further opposition to the Bill on our side if this one concession were made.

I hope you will be able to agree to an early announcement of a concession on the lines I have indicated. There are no identifiable public expenditure costs; and although I shall lose some flexibility I think it is arguable that the greater certainty that will be created will improve public expenditure control rather than the reverse. We should of course still retain the power to impose an across-the-board grant reduction or a steepening of the poundage schedule or taper as a possible response to any overspending developing during the course of a year.

It would be very helpful to have your agreement by midday on Monday. Tom King will be seeing our supporters on Standing Committee on that day, and he will need to know whether we are prepared to make this concession - if circumstances indeed make it necessary - before he meets them.

I am copying this letter to the Prime Minister, the members of E Committee, the business managers, and Sir Robert Armstrong and Parliamentary Counsel.

*John Major*  
*D.M.H.S.*

for MICHAEL HESELTINE

*(letter approved by the  
Secretary and signed  
in his absence)*



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JAN 21 1968

JAN 21 1968



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Prime Minister

MCS 25/1

Treasury Chambers, Parliament Street, SW1P 3AG

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

25 January 1982

ms

Dear Secretary of State,

LOCAL GOVERNMENT FINANCE BILL: CLAUSE 4

TPM

Thank you for your letter of 21 January suggesting how we might amend clause 4 of the Bill so as to ensure its safe passage in Committee.

I am sorry that you feel it necessary to offer a radical change in this vital clause. What you propose would deny us the option of further reductions in grant to high spenders beyond those implicit in the schedule set at the time of the RSG settlement, irrespective of the level or distribution of the overspend as it emerged. I would add that clause 4(ii) does no more than restore the position to what we thought obtained under the Local Government Planning and Land Act 1980.

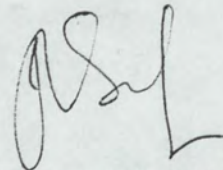
Naturally I understand ACC's desire for certainty in their grant determinations. But absolute security in this respect for local authorities could be bought only at the risk of higher public expenditure with potential inflationary consequences. Because we cannot foresee the distribution of overspending at the time of the RSG settlement, we cannot set a tariff with completely predictable results to relate overspending to penalties. Nor can we foresee all possible economic developments over the eighteen months until the end of the year. So, although none of us would relish it, if we do what you propose we might have to contemplate cutting aggregate RSG or sharpening the poundage schedule, which would be even worse for most of our supporters than using the power in clause 4.

May I suggest, therefore, that you and Tom King present our supporters on the Bill Committee with the stark choice: if the worst comes to the worst, would they prefer the government to respond to overspending by cutting grant selectively or generally? I find it hard to believe that anyone would favour making all local authorities suffer for the profligacy of a few. Moreover, the Bill as drafted would not deny Parliament the right to consider any in-year grant holdback since Supplementary Reports are subject to affirmative resolution procedure.

Of course I would expect to couple these arguments with assurances - to be repeated in Committee if necessary - about the government's good faith in applying general principles and not acting capriciously in determining grant penalties. The outlook is uncertain for central as well as local government, and we cannot afford to rule out all possibility of acting selectively if need be. Only if we fail to marshal sufficient support for clause 4 of the Bill should we consider a concession and I hope we need not go as far as the substantial limitation to our powers you suggest. Our officials should discuss the alternatives, and we may want to discuss them extensively if some concession does appear necessary.

I am copying this letter to the recipients of yours.

yours sincerely



LEON BRITTAN

kg

(approved by the Chief Secretary & signed in his absence.)

25 JUN 1982



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*Oddi wrth yr is-Ysgrifennydd Seneddol*



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*From The Parliamentary Under-Secretary*

26 January 1982

*Dear Tom,*

LOCAL GOVERNMENT FINANCE (No 2) BILL - CLAUSE 4

Further to our conversation yesterday about the Welsh position in relation to Bill amendments dealing with expenditure targets, I think I must set out quite clearly where we stand on this issue.

For reasons which I am sure you understand, we do not wish to set individual local authority expenditure targets in Wales if this can be avoided. For 1981/82 we seem to have succeeded in constraining local authority expenditure generally without setting targets. For 1982/83 Nicholas Edwards has made it clear that he expects Welsh authorities as a whole to meet his aggregate expenditure target and no individual authority expenditure targets have been set or details given of possible means of effecting any withholding of grant. If of course 1982/83 budgets indicate a substantial overspend in aggregate is likely, then grant holdback would have to be considered and that will almost certainly require us to set individual expenditure targets: but there is no question of our setting such targets before that stage is reached, ie before we have been able to consider authorities' 1982/83 budget plans later this year.

The primary purpose of any Bill amendment on this matter is, presumably, to ensure that individual authorities do not suffer a grant penalty before they have a chance to take into account the possible grant penalty before setting their budgets. Whilst I do not necessarily oppose an amendment with this aim, it must cover the position we might be in in Wales in 1982/83. If expenditure in aggregate exceeds Nicholas' overall target we will probably need to call for revised budgets, making it clear at that stage that an unsatisfactory response would mean grant holdback. The call for revised budgets would of course need to be accompanied by details of the holdback scheme, including any individual targets which might be set. Clearly as Robin Squire's amendments stand at the moment, this would not be possible.

/I do appreciate ...

Rt Hon Tom King MP  
Minister of State, Local Government  
Department of the Environment  
2 Marsham Street  
London SW 1



I do appreciate the reason why Michael wishes to offer this concession. But I know you will appreciate too the need for any amendment, to give the concession Michael wishes to make, to take account of Welsh circumstances. I am sure that a suitable form of words can be devised by officials and lawyers to this end. Clearly this needs quick resolution.

These comments would have been made in response to Michael's letter of 21 January to the Chief Secretary but unfortunately that letter was not copied to the Welsh Office. I would be most grateful if you could ensure that we are kept fully in the picture on any future matters relating to the Bill.

I am copying this to the Chief Secretary and the other recipients of Michael's letter and to George Younger.

*James ...*

*Wyn Roberts*

WYN ROBERTS

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*Oddi wrth Ysgrifennydd Gwladol Cymru* The Rt Hon Nicholas Edwards MP *From The Secretary of State for Wales*

28<sup>th</sup> January 1982

*Dear Secretary of State*

LOCAL GOVERNMENT FINANCE (NO 2) BILL - CLAUSE 4

I have seen on my return from Brussels your letter of 21 January to the Chief Secretary (which was not copied to me) about the concession you wish to make on the Bill. As you know the position in Wales is wholly different from that in England. I have not set individual local authority targets; and I have to make it absolutely clear that I do not intend to set such targets. I would not therefore agree to any statement in Committee much less an amendment to the Bill which would commit me in any way to so doing.

I appreciate that you may still want to say something in respect of England. However I must ask you to clear the terms of any such statement with me and to involve my officials in the drafting of any consequential amendment to the Bill to ensure that my position is fully safeguarded.

/ I am sending copies to those who received copies of your letter.

*Your sincerely*

*A. J. C. Evans*

Approved by the Secretary of State  
and signed in his absence

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



CONFIDENTIAL

Prime Minister

Local Govt

(2)

MUS 15/11

2 MARSHAM STREET  
LONDON SW1P 3EB



My ref: H/PSO/100240/81

Your ref:

14 January 1982

*De la*

*[Handwritten signature]*

RSG SETTLEMENT 1982-83

Thank you for your letter of 14 December.

*at top p 2*

I agree that if we were unable to abate grant from high spenders, we should need to consider the scope for additional pressure generally through the grant percentage and the poundage schedule. If these had already been determined in the main Rate Support Grant Report, any decision to change one or the other would require a Supplementary Report. We cannot, of course, canvass this possibility publicly, but I accept that we must leave our options open, and say nothing meanwhile to foreclose them.

Any reduction in the grant total or toughening of the grant mechanisms would of course have implications for rates, and would have to be considered in the light of the position at that time on supplementary rates, which, of course, we are proposing to abolish.

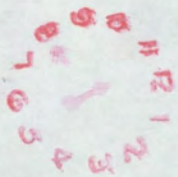
I am copying this letter to the Prime Minister and members of MISC 21.

*Yes am*

*[Handwritten signature]*

MICHAEL HESELTINE

CONFIDENTIAL



15 JAN 1962