

cc Adyund*MAJ local govt.*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Tom King MP
 Minister for Local Government
 and Environmental Services
 Department of the Environment
 2 Marsham Street
 London SW1

1 February 1982

Dear Minister,

LOCAL GOVERNMENT FINANCE (NO 2) BILL: CLAUSE 4

Thank you for your letter of 28 January explaining your difficulties with clause 4 in Committee. I have also seen Janet Young's letter of 27 January.

Of course I am sorry that you feel that it would be impossible to carry clause 4 as it stands. That would be my preference since it would leave us with greatest flexibility. But I accept your judgement that some concession is required.

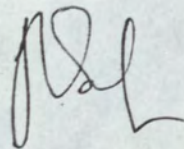
I also accept, with reluctance, your judgement that the two amendments you propose would give us the least bad package. Given a free choice I should prefer to leave us with freedom both to increase the severity of the grant penalty arrangements within predetermined limits and to make overspenders bear most or all of the cost of keeping grant within the cash limit. Of these, I think the former superior, as I believe my officials indicated to yours. We would make our intentions explicit from the start of each year, and local authorities would be able to plan within a known margin of risk about grant. I suspect that confining this margin within limits would meet the main worry of the ACC.

If we go along with the concession you propose, we must be very clear among ourselves that if circumstances arise in which overspending is severe, readjusting the grant distribution by differential close-ending may be not a sufficiently strong response. We might have to cut grant overall too - even though that might be represented as unfair (depending a bit on how, if at all, we would adjust the poundage schedules). Selectively imposed adjustments to keep grant within the cash limit would, if coupled with a grant cut, have much the same effect as my preferred course of limited adjustments to the grant holdback regime.

If this last point causes you difficulty, perhaps we could meet to discuss it before your next Committee meeting, on Tuesday. I should in any case be grateful if your officials would agree with mine a draft of what you might say in Committee.

I am sending copies of this letter to the recipients of yours, and to the Secretaries of State for Scotland and Wales.

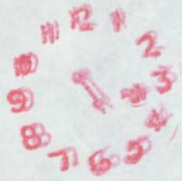
yours sincerely



pp LEON BRITTAN

(appeared by the Chief Secretary
& signed - his absence).

1 FEB 1982



✓ CC AD



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

28th January 1982

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MS

Prime Minister

MUS 28/1

Dear Leon,

LOCAL GOVERNMENT FINANCE (NO. 2) BILL - CLAUSE 4

Thank you for your letter of 25 January.

I have noted carefully the points that you make and, of course, I well understand the argument of the desirability, if possible, of being able to operate any reduction of grant in a discriminating way rather than across-the-board. I had a preliminary meeting on Monday with our own members on the Standing Committee to ensure that there would be full support throughout Committee Stage. It was then clear that three colleagues had serious reservations about the mid-year hold-back provision; this was expressed at Second Reading by Tony Durant, Robin Squire and Michael Shersby (as well as other colleagues who are not on the Committee). I took the opportunity at this private meeting to point out the merits of the discriminating as opposed to the across-the-board approach, but it was clear that they maintained their strong reservations on this mid-year aspect of holdback. Indeed, Robin Squire has tabled amendments to make this impossible. I understand these were in fact prepared by the ACC. It is my judgement therefore that we shall not be able to carry Clause 4 without amendment following defeat of the Government.

I know also that Janet Young has similar concerns about the pressures that will develop in the Lords on this matter. The ACC have privately informed us that they would if necessary be seeking to achieve these amendments through their spokesmen in the Lords.

I would add that one must recognise their reservations are not without merit. There is clearly a risk that the possibility of mid-year holdback would lead to higher main rate provision

by Treasurers and hence higher rate bills in the coming year. If we are to give reassurance on this point it is obviously desirable to give it at the earliest possible time, so that it can be taken into account in the budget/rate fixing process.

I now have a further reason for urgency in determining this issue, since we are already in Committee. I came under great pressure during today's Debate to make clear the Government's attitude to an amendment to Clause 4 since it has such an obvious connection with the banning of supplementary rates. While we were able to make progress today, the Opposition have made clear that they will not be willing to make further progress next Tuesday if I am not able to make a statement about our position on Clause 4.

I would therefore like to recommend the following. I would propose to give an assurance that the Government would table amendments, either in Committee or at Report Stage, that would require us to state at the time of the main RSG Report for any year the principles on which any holdback scheme for that year would operate, but which would therefore not allow us the power to introduce more severe holdback scheme during the course of the year except on an across-the-board basis. (We shall, of course, still be retaining the powers to either reduce the total of grant or to shift the slope of the main schedule or the taper as you pointed out.) This would mean we accept the spirit of the Squire amendment, but I would couple it with a proposal to enable us to do 'close-ending' in a discriminating way, ie. to make over-spending authorities pay for the close-ending that they had caused. This would also require the use of multipliers, and would, I think, need an amendment to Clause 4 to give us express powers.

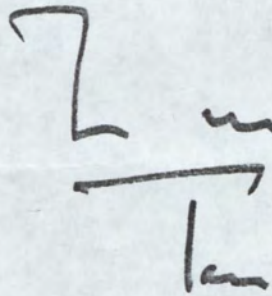
I understand this latter proposal has been discussed informally between our officials, but that they also suggested the possibility that we could retain the power to vary a holdback scheme during the year, but only up to a specific limit. I have not felt able to support this further proposal, since I believe it will still be objectionable to our own colleagues and, indeed, could even exacerbate the problem I have referred to with the main rate, in that the definition in advance of a specific figure could well encourage Treasurers to provide contingency funds for it.

You will also have seen two letters from Wyn Roberts and Nicholas Edwards, of the 26 and 28 January respectively, about the Welsh position. There has clearly been some misunderstanding about the position, but I can confirm that I am satisfied that my proposal fully meets Nicholas Edwards' point in his letter of 28 January that nothing in it would commit the Welsh to the setting of individual targets, to which Nicholas is clearly opposed.

I apologise for having to come back to you on this, and to ask for such a quick response, but I know you appreciate the problems

of a Standing Committee on a Bill of this nature, and why it is essential that I am in a position to make a statement about the Government's position on Tuesday morning.

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

A handwritten signature in black ink, appearing to read 'Tom King'. The signature is stylized, with a large 'T' and 'K' and a cursive 'm'.

TOM KING