



~~Prime Minister~~ ①

~~The Chief Secretary and  
Mr Heulhine have tried to settle  
this several times, with no success.~~

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq  
10 Downing Street  
London SW1

21 June 1982

~~Agree to a  
small meeting?~~

~~MLs  
21/6~~

Dear Michael,

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

E Committee invited the Chief Secretary and the Secretary of State for the Environment to try to agree bilaterally on the Chief Secretary's proposal for additional hold-back of £80 million Rate Support Grant in the current year. They met last week, but were unable to reach agreement.

The attached short paper sets out the problem and the solution proposed by the Chief Secretary. He wonders whether it might be possible to resolve the issues in a meeting of the Ministers directly concerned under the Prime Minister's Chairmanship, rather than take the whole thing back to E Committee again, and he hopes the Prime Minister will feel able to proceed in this way.

I am sending copies of this letter and the paper to David Edmonds and to David Wright.

Yours sincerely

Terry Matthews

T F MATHEWS  
Private Secretary

## LOCAL AUTHORITIES CURRENT EXPENDITURE 1982-83

Paper by the Chief Secretary

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Local authorities in England have budgetted to spend nearly £1½ billion more this year than we allowed for in the RSG settlement. Last autumn we agreed to raise our provision for this year by over £1 billion precisely in order to provide a realistic target. The £1½ billion excess over the increased figure has been the response to that decision.

2. We have already said that overspenders will lose rate support grant. We announced a scheme of penalties before we knew the size of the problem. This will impose cuts in the RSG of £312 million. That is an inadequate response to the overspending we now face. Local authorities have in any case allowed for these penalties in their budgets.

3. To do nothing further would be irresponsible. The press are already justifiably mocking us for our impotence.

4. We agreed in E Committee that any further reduction in grant must protect our supporters, and in particular those spending less than GRE, so far as possible. It must also not conflict with the undertakings we have given. I have now developed a scheme which would meet these requirements. It is described in the annex. It could only achieve a fairly small - £80 million - reduction in RSG. But it would focus the grant cut pretty precisely. For instance, shire counties and outer London boroughs would lose nothing.

5. I have discussed this with Michael Heseltine and Tom King. They agree that the scheme I propose would be feasible and consistent with their undertakings during the passage of the the Local Government Finance Bill. At the time they were made I specifically asked for those undertakings to be suitably limited, so that the action I am now proposing should be available to us. But

Michael and Tom are concerned that any further reduction in grant may appear contrary to the spirit, if not the letter, of what they promised. Allegations about the spirit of an undertaking can always be made, but in the context of a modest cut with the impact of the kind set out in the annex I do not think this would be well founded.

6. I appreciate that any measure to cut grant to local authorities will be unpopular. I also accept that the effect on local authority expenditure may only be marginal at this stage in their financial year. But that makes it more, rather than less tolerable, when its affect is so overwhelmingly on the worst overspenders.

L.B.

ANNEXProposal to Cut RSG in England for 1982-83 by £80 million

Local authorities' claims for RSG for 1982-83 amount to £81 million more than the cash limit. So the claims must be scaled down to fit the cash limit. This is called "close-ending".

2. There are several ways of doing this. Last year we arranged that each local authority lost RSG worth about 6p on the rates. This amounted to rough equality of misery. We could do the same again.

3. Alternatively, grant claims could be shaded down selectively. I propose that we follow this course. Thus we could deduct the £81 million from the high spenders. The others would lose nothing.

4. But even those who are not high spenders are at the moment expecting to lose something by the normal close-ending process. We could make them lose the amount they are expecting by simultaneously reducing the rate support grant across the board. The overspenders would lose from this as well as from the operation described in paragraph 3.

5. The net effect would be to leave low spenders where they expect to be and high spenders worse off.

6. To illustrate, the table below gives examples of how this proposal would alter local authorities' grant, compared to what they are currently expecting from close-ending:

	<u>Authority</u>	<u>£ million</u>
High spenders	GLC	-26.3
	Lambeth	- 2.4
	Greater Manchester	- 1.9
	South Yorkshire	- 4.7
	Newcastle	- 2.1
Others	Buckinghamshire	+ 0.01
	Croydon	+ 0.004
	Kensington	+ 0.002
	Wakefield	+ 0.003
	Southampton	-



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Local Govt

10 DOWNING STREET

*From the Private Secretary*

28 June, 1982.

Local Authority Current Expenditure 1982/83

Thank you for your letter of 21 June, and for the attached short paper on the proposal for additional hold-back of £80m Rate Support Grant in the current year.

I showed this to the Prime Minister. I also showed her David Edmonds' letter of 22 June to me, and the paper attached thereto. The Prime Minister was grateful for these two statements of the position, and has concluded that it will be necessary to raise this matter at E Committee again.

I am sending copies of this letter to David Edmonds (Department of the Environment), the Private Secretaries to the other members of E Committee, the Private Secretaries to the Secretaries of State for Scotland, Wales, Health and Social Services, the Attorney General, and Sir Robert Armstrong.

**M. C. SCHOLAR**

Terry Mathews, Esq.,  
HM Treasury.

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2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

22 June 1982

*Dear Nutall*

LOCAL AUTHORITY CURRENT EXPENDITURE 1982/3

I refer to Terry Mathews letter to you of 21 June. *with PM*

My Secretary of State does not believe that it is reasonable to discuss the issues raised in the Chief Secretary's paper without bringing in the other Ministerial colleagues who have been involved in the earlier discussions, and some of whom have a strong Departmental interest in the outcome. For example, part of the burden of further holdback would fall on the Metropolitan Counties with implications for police and transport. There are also, of course, wide implications for education authorities. Nor does my Secretary of State feel that the Chief Secretary's paper gives full weight to the arguments against further grant holdback in 1982/3. He has therefore prepared a short paper setting out these arguments. This is enclosed.

I am sending a copy of this letter and paper to the Private Secretaries to the Chief Secretary, all members of E Committee, the Secretaries of State for Scotland, Wales, Health and Social Services, the Attorney General, and to Sir Robert Armstrong.

*Yours sincerely  
D A Edmonds*

D A EDMONDS  
Private Secretary

*2 Marsham St 83-84*

Michael Scholar Esq - No 10

LOCAL AUTHORITIES' CURRENT EXPENDITURE 1982-83

PAPER BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. This paper complements Leon Brittan's (circulated on 21 June).
2. The arguments against further holdback this year are both political and legal. They are in my judgment overwhelming.
3. Tom King and I have given repeated assurances in the House, in terms agreed with Leon Brittan, that there will be no further differential holdback of grant this year. But Leon's scheme is differential because it takes more grant from the high spenders than from the low spenders.
4. Leon argues that there is no inconsistency between the assurances and his proposals. Technically he is right. But his argument rests on a fine technical distinction between differential holdback using multipliers - which we have formally ruled out - and differential holdback using a changed poundage schedule for the close-ending part of it - which is formally still an option.
5. I do not believe we could possibly defend Leon's proposals by appealing to abstruse distinctions of this kind. Our opponents would ridicule us. More important, many of our supporters would charge us - quite plausibly - with breach of faith. Grant holdback needs Parliamentary approval; I doubt whether we could command a majority in the House for Leon's proposals.

6. There is also a legal risk. Grant holdback has already been the subject of one successful legal challenge. We have tried to safeguard our position by taking further powers in the Local Government Finance (No 2) Bill. But we know that some authorities are already preparing further challenges. We must now proceed as quickly as possible to get Parliamentary approval for grant holdback of £200m for 1981-82 and of £312m for 1982-83. We have already agreed on these. But Leon's proposals could jeopardise the relevant Orders, both in the House, and - if we were to succeed in getting them through - in subsequent litigation. This is because they involve further discrimination between authorities; the very point on which further legal challenges are likely to concentrate. In this context I would advise colleagues most strongly against adopting proposals which can - and will - be attacked as inconsistent with assurances given in Parliament.

7. Leon admits that his proposals would be unpopular with local government and would probably have only a marginal effect on expenditure this year. I would add that they would bear particularly harshly on the metropolitan counties and hence on police. In my view they should not be pursued.

8. Of course we must pursue our policies for restraining local government expenditure. Some of this year's overspend is due eg to excessive transport subsidies, for which we are already discussing possible longer term remedies in MISC 79. We should now concentrate on those remedies and on a tough RSG settlement for 1983-4, with an announcement of the main elements in July. I have already outlined proposals to colleagues, and I shall shortly be putting a paper to E Committee.