



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

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

2nd July 1982

Prime Minister (2)

MUS 2/7

Dear Chief Secretary,

As you know, for 1981/82 we disregarded certain categories of local authority expenditure, including some urban programme expenditure, from the calculation of grant abatement. For the urban programme the exemption applies to any increase in Partnership and Programme authorities' expenditure on grant-aided projects between the 1978/79 base year and 1981/82.

I have had representations from the AMA and a number of authorities asking for further urban programme exemption for 1982/83. I think we must agree to this. It is indefensible for us to encourage urban programme expenditure on projects which we specifically approve, and then include such expenditure in the calculation of grant abatement. Having done it for 1981/82, I can see no justification for not exempting this expenditure this year too.

Because 1982/83 targets are based on authorities' 1981/82 budgets, they already take account of last year's level of urban programme spending. Consequently authorities can only claim to be unfairly penalised where the targets do not allow for their increased urban programme expenditure compared with last year. I would therefore propose to calculate the cash increase in Partnership and Programme authorities' revenue expenditure on urban programme projects, net of the 75% specific grant, between 1981/82 and 1982/83, and to deduct that amount from their total expenditure when comparing it with target or GRE for holdback purposes.

Only estimated figures are available for individual authorities' 1981/82 urban programme expenditure, and very approximate projections of their likely revenue expenditure in 1982/83. On this basis the total net increase in expenditure to be disregarded would be about £5½m. However, most Partnership and Programme authorities are budgeting to spend so far above target or GRE that deductions on the basis proposed would be insufficient to bring their overspend down to less than 5%, which is the maximum for holdback. This means that the actual reduction in the

amount of block grant withheld would not be more than about
 $\frac{1}{2}$ million - a very small price for disposing of a real
presentational difficulty.

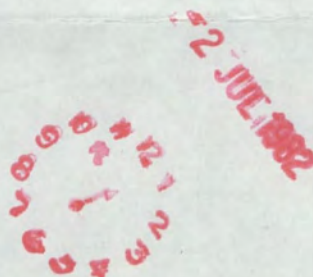
I would be grateful for your agreement to the proposed
exemption, if possible in time for an announcement during the
final stages of the Local Government Finance (No 2) Bill next
Wednesday.

/ I am copying this letter to members of E Committee.

Yours sincerely,

Lester Dick (Private Secretary)

for. TOM KING
(approved by the Minister and
signed in his absence)



*Lord Gah**see JV**Prime Minister**(4)**MUS 417*

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 SW1P 3EB

5 July 1982

*2 Tom,**[Handwritten mark]*

LOCAL AUTHORITY OVERSPENDING? 1982-83

Thank you for your letter of 2 July.

I am sorry, but I do not see how we could exempt urban programme expenditure from the calculation of local authorities' overspending against targets. To do so would weaken the force of our penalties, leaving the authorities with more rate support grant than they expect to get. It would also open the way for a very large number of fresh claims for exemption. As you know, I believe that we should be strengthening our penalties, so as to reduce the rate support grant.

I know that we exempted urban programme expenditure last year. But we established the penalty regime for local authorities late in the day. This year, local authorities have had fair warning of the targets and the grant penalty regime from the start. I really cannot see a case for introducing exemptions now.

I think we can reasonably expect local authorities to find off-setting savings in their budgets for priorities such as the urban programme. I see nothing inconsistent about offering subsidy for spending which we favour and at the same time penalising local authorities for aggregate overspending.

I am sending copies of this letter to the members of E Committee.

[Handwritten initials]

LEON BRITTAN



15 JUL 1992