



CSV

Mr Vercher

Pl see para 10

MUS 23/7

pa.

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:  
23 July 1982

Dear Terry

STATEMENT TO CONSULTATIVE COUNCIL: 27 JULY 1982

I attach a revised version of the statement originally circulated by my Secretary of State on 21 July. This contains the amendments agreed between Ministers.

The statement has been expanded to refer to 1981-2 and 1982-3. The paragraph about 1981-2 indicates that a Supplementary Report will be laid before Parliament on the day of the statement. The paragraph about 1982-3 makes it clear that there will be no further holdback this year in addition to that already announced by the Government.

The addition to paragraph 10 about pay has been included at the suggestion of No 10.

I can confirm that the statement to Parliament (which will be much briefer and which we will circulate on Monday) will now be given at 3.30 pm on Tuesday 27 July. We have arranged the CCLGF meeting at 4.30 pm in Room P3/160, with a pre-meeting for Ministers in Room N16/02. We have so far heard that Mr Brittan, Mr Fowler, and Dr Vaughan are attending - could colleagues please inform Sue Ayrton in this office as quickly as possible - given the Prime Minister's summing up of E(82)19th - which Ministers will be coming?

I am copying this to Michael Scholar (No 10), and the Private Secretaries to all Members of E Committee, the Lord President, the Secretaries of State for Scotland, Wales, Health and Social Security, the Chief Whip, and Sir Robert Armstrong.

Yours ever,  
D A Edmonds

D A EDMONDS  
Private Secretary



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## LOCAL GOVERNMENT EXPENDITURE AND EXCHEQUER GRANT, STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT TO THE CONSULTATIVE COUNCIL ON LOCAL GOVERNMENT FINANCE - 27 JULY 1982

1. This statement concerns local government expenditure and Exchequer grant in 1981-82, 1982-83 and 1983-84.

### 1981-82

2. I announced last September and repeated in January that because of overspending I proposed to make a Supplementary Report to reduce the total of grant for the year. Authorities which had complied with the Government's expenditure guidance would be protected. I have now reconsidered the matter following the enactment of the Local Government Finance Act earlier this month, and in the light of representations received. I have decided to go ahead with the proposals and am today tabling a Supplementary Report to give effect to them. It will reduce the total of grant available for distribution in England by £201 million.

### 1982-83

3. I announced at the time of the Rate Support Grant settlement in January that if authorities exceeded the Government's guidance figures I proposed to make a Supplementary Report to reduce the total of grant. Authorities which had complied would again be protected. In May I indicated that because of the extent of the overspending revealed by local authorities' budget returns I should be going ahead with those proposals, which would result in a total reduction of grant of £312m. Authorities will be sent details of the proposed grant reductions this week. I intend making a Supplementary Report to implement these proposals in the autumn. I can now also confirm that in that Supplementary Report I intend to close-end the grant by a uniform poundage reduction for all authorities as foreshadowed in last December's announcement.

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1983-84

4. The Government is determined that the search for economy in local authority current expenditure should continue . Failure to do so will lead to increasing rate burdens and mounting costs on individual householders and the wealth creating sector of the economy. Some progress has been made in the last 2 years, but not enough. As in previous years, I have decided to give local authorities an early indication of the Government's thinking about the rate support grant settlement for next year, so that they are aware of our determination and have plenty of time to frame their own spending plans accordingly. This year I am able to give more detail of the Government's intentions than has been possible before, and to do so at a time sufficiently ahead of the next year to leave no excuse for those authorities that fail to take the necessary action to avert significant rate increases.

5. As in 1982-3, I propose to give expenditure guidance to every local authority. The guidance figure will again relate to the total expenditure falling to be met from the rate fund.

6. Authorities which exceed their guidance figure will risk a loss of block grant, on a scale which will be significantly more severe than this year's.

7. The overriding need for economy means that all authorities must restrain their expenditure. But the high spending authorities that have so far failed to respond to the Government's request for economy will be asked for more restraint than those which have already made efforts to spend in line with the Government's plans.

8. On this basis, I propose that the guidance figures should be constructed as follows:

- a) For authorities which have budgetted in 1982-3 to spend not more than 1% above their expenditure target or grant



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related expenditure assessment (GRE), whichever is the higher: a 4% increase (in cash) on their budgets for this year. Since authorities collectively are likely to spend less than provided for in their budgets by perhaps 1%, this is equivalent to about a 5% increase on this year's cash.

b) For authorities which have budgetted in 1982-83 to spend at a higher level: a basic 5% increase (in cash) above their 1982-83 expenditure target or GRE, whichever is the higher. To allow for the fact that some of these authorities are still planning to spend this year at levels well above their targets or GREs, I propose a modification of the basic rule so that most authorities will not be asked to reduce their 1982-83 budgetted expenditure by more than 1% in cash - which of course will mean a substantial reduction in "real terms" after allowing for inflation. The only exception to this is that no authority should be entitled to increase its expenditure from the 1981-82 level by more than 20%; in this case I consider that a cash reduction of more than 1% from 1982-83 to 1983-84 would be justified.

9. I am today sending to all local authorities a set of exemplifications of expenditure guidance figures constructed on this basis.

10. These guidance figures imply a public expenditure provision for local authority current expenditure in 1983-84 of £19,500m. This is £900m more than currently provided in the Public Expenditure White Paper Cmnd 8494. This increase will be financed in ways which are consistent with the Government's fiscal and monetary policies. The Government considers that an increase in the provision is necessary and appropriate, but only in recognition of the



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fact that local government still needs more time to bring its spending into line with Government plans. The increase in available cash carries no implication for pay, and the effect of the RSG settlement will be to leave local authorities in a position where pay settlements will have to be in low single figures if rates are not to increase disproportionately. The total of relevant expenditure for the rate support grant settlement under section 54(5) of the Local Government Planning and Land Act 1980 will be derived from the figure of £19,500m by the addition of the normal items of non-current expenditure.

11. Different considerations apply to GREs, which form the basis for the distribution of block grant. In 1982-83 the total current expenditure component of GREs is £17,880m. The Government propose to increase that figure by 5% to £18,800m.

12. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later. There will be a difference of £700m between GREs and the public expenditure provision. This will not be allocated by the Government to services. It will be a global sum needed to recognise the fact that local authorities are going to be spending more in 1983-84 than the Government believes to be desirable. It will be for local authorities to determine how this additional amount is spent, but it would be reasonable to assume that each service will receive a share broadly consistent with the present pattern of expenditure and Government policies.

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13. I propose an Aggregate Exchequer Grant of £11,800m if local authorities spend at their guidance figure. This is an increase of £316m more cash by way of grant from 1982-83. Arrangements for grant distribution will be announced later. For authorities which exceed their guidance figures I propose that grant should be abated. All grant abated will be withheld from distribution so that the amount of grant actually distributed will depend on the level of spending by local authorities. If local authorities spend at their guidance figure rate increases next year can be kept very low. For many authorities there need be no rate increases at all. If however they fail to achieve their targets the consequences for rates will be serious.

14. The Government will now be consulting local government on these proposals before presenting a rate support grant settlement to Parliament. To that extent the figures are provisional. But the Government will certainly maintain its policy of trying to secure the greatest possible restraint of local government expenditure, and to promote economy, efficiency, and effectiveness in the provision of local government services.

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ZPPS

OK JV  
BT

Prime Minister

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2 MARSHAM STREET  
LONDON SW1P 3EB

Agree, subject to  
colleagues, to this draft  
Statement?

My ref:

Your ref:

21 July 1982

*See here*

I understand that the Chief  
Secretary was involved in the drafting, and  
agrees. Mrs 21/7

Told Mr  
Edmonds  
plus 22/7  
Yes no

RSG SETTLEMENT 1983-4/CCLGF: PROPOSED FOR WEDNESDAY 28 JULY

Following our discussion in E Committee yesterday I enclose the draft of a statement that I would propose to make to a meeting of the Consultative Council. I would also propose to make a Parliamentary statement on similar but shorter lines, and I understand that the Leader of the House is content with the date. The timing and presentation is crucial. Given the sensitivity of Parliament, it would be necessary to make an oral statement first at 3.30 pm, followed by a meeting of the Consultative Council at 4.30 pm. We agreed at E Committee that all Cabinet colleagues with relevant responsibilities would be present at the CCLGF and I should, therefore, be grateful if the date and time could now be written into Ministerial diaries.\*

I was particularly asked to agree with colleagues the treatment of the £700m difference between the £18,800m total for the current expenditure component of GREs and the £19,500m public expenditure provision. We agreed that it should not be formally allocated to individual services, but that we should publicly recognise that it will in practice cover service expenditure additional to that included in the GREs. Paragraph 9 is drafted accordingly.

If colleagues are generally content with this approach we shall not need to meet again. But if anyone has any major reservation I should be glad to know by close of play today so that I can arrange a meeting for later this week.

In addition to the statement about 1983-4, I would propose to tell the Consultative Council next week that we have now decided not to impose any holdback in 1982-3 additional to the £312m which we have already announced.

I am sending copies of this letter to the Prime Minister, other members of E Committee, George Younger, Norman Fowler, Nick Edwards, John Biffen and Michael Jopling, and to Sir Robert Armstrong.

*yes em*

MICHAEL HESELTINE

\* Since drafting this we have learned that this day may not be suitable. My office will be in touch later.



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## RATE SUPPORT GRANT SETTLEMENT FOR ENGLAND 1983-4 DRAFT STATEMENT

1. The Government is determined that the search for economy in local authority current expenditure should continue. Failure to do so will lead to increasing rate burdens and mounting costs on individual homeowners and the wealth creating sector of the economy. Some progress has been made in the last 2 years, but not enough. As in previous years, I have decided to give local authorities an early indication of the Government's thinking about the rate support grant settlement for next year, so that they are aware of our determination and have plenty of time to frame their own spending plans accordingly. This year I am able to give more detail of the Government's intentions than has been possible before and to do so at a time sufficiently ahead of the next year to leave no excuse for those authorities that fail to take the necessary action to avert significant rate increases.

2. As in 1982-3, I propose to give expenditure guidance to every local authority. The guidance figure will again relate to the total expenditure falling to be met from the rate fund.

3. Authorities which exceed their guidance figure will risk a loss of block grant, on a scale which will be significantly more severe than this year's.

4. The overriding need for economy means that all authorities must restrain their expenditure. But the high spending authorities that have so far failed to respond to the Government's request for economy will be asked for more restraint than those which have already made efforts to spend in line with the Government's plans.

5. On this basis, I propose that the guidance figures should be constructed as follows:

- a) For authorities which have budgetted in 1982-3 to spend not more than 1% above their expenditure target or grant

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related expenditure assessment (GRE), whichever is the higher: a 4% increase (in cash) on their budgets for this year. Since authorities collectively are likely to spend less than provided for in their budgets by perhaps 1%, this is equivalent to about a 5% increase on this year's cash.

b) For authorities which have budgetted in 1982-83 to spend at a higher level: a basic 5% increase (in cash) above their 1982-83 expenditure target or GRE, whichever is the higher. To allow for the fact that some of these authorities are still planning to spend this year at levels well above their targets or GREs, I propose a modification of the basic rule so that most authorities will not be asked to reduce their 1982-83 budgetted expenditure by more than 1% in cash - which of course will mean a substantial reduction in "real terms" after allowing for inflation. The only exception to this will be authorities which have increased their expenditure since 1981-82 by more than 20%; in this case I consider that a cash reduction of more than 1% from 1982-83 to 1983-84 would be justified.

6. I am today sending to all local authorities a set of exemplifications of expenditure guidance figures constructed on this basis.

7. These guidance figures imply a public expenditure provision for local authority current expenditure in 1983-84 of £19,500m. This is £900m more than currently provided in the Public Expenditure White Paper Cmnd 8494. The Government considers that an increase in the provision is necessary and appropriate, <sup>but only</sup> in recognition of the

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fact that local government still needs more time to bring its spending into line with Government plans. The total of relevant expenditure for the rate support grant settlement under section 54(5) of the Local Government Planning and Land Act 1980 will be derived from the figure of £19,500m by the addition of the normal items of non-current expenditure.

8. Different considerations apply to GREs. These represent the assessed need for local authority spending. In 1982-83 the total current expenditure component of GREs is £17,880m. The Government propose to increase that figure by 5% to £18,800m.

9. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later.

There will be a difference of £700m between GREs and the public expenditure provision. This will not be allocated by the Government to services. It will be a global sum needed to recognise the fact that local authorities are going to be spending more in 1983/4 than the Government believes to be desirable. It will be for local authorities to determine how this additional amount is spent, but it would be reasonable to assume that each service will receive a share broadly consistent with the present pattern of expenditure.

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10. I propose an Aggregate Exchequer Grant of £11,800m if local authorities spend at their guidance figure. This is an increase of £316m more cash by way of grant from 1982-3. Arrangements for grant distribution will be announced later. For authorities which exceed their guidance figures I propose that grant should be abated. All grant abated will be withheld from distribution so that the amount of grant actually distributed will depend on the level of spending by local authorities. If local authorities spend at their guidance figure rate increases next year can be kept very low. For many authorities there need be no rate increases at all. If however they fail to achieve their targets the consequences for rates will be serious.

11. The Government will now be consulting local government on these proposals before presenting a rate support grant settlement to Parliament. To that extent the figures are provisional. But the Government will certainly maintain its policy of trying to secure the greatest possible restraint of local government expenditure, and to promote economy, efficiency, and effectiveness in the provision of local government services.

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2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

21 July 1982



*Dear Terry*

RSG SETTLEMENT: STATEMENT AND CCLGF

*in post box*

My Secretary of State wrote to the Chief Secretary earlier today with a copy of the proposed statement which it had been intended to make on Wednesday 21 July.

This letter is to inform you and colleagues that the CCLGF meeting will now be held in Room P3/160, 2 Marsham Street at 4.30 pm on Tuesday 27 July. There will be a short Ministerial pre-briefing in Room N16/02 at 4.15 pm. The Secretary of State's statement to Parliament will be made, of course, at 3.30 pm.

I should be grateful if colleagues could please let Sue Ayrton in this office know which Ministers will be attending.

I am copying this to Michael Scholar, No 10, Nick Huxtable (Lord President's office), Murdo MacLean (Chief Whip's office) and to the Private Secretaries to all Members of E Committee, the Secretaries of State for Scotland, Health and Social Services, Wales, and to Sir Robert Armstrong.

*Yours ever*  
*D A Edmonds*

D A EDMONDS  
Private Secretary

Terry Mathews Esq  
PS/Chief Secretary



21 JUL 1968

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4 3 2 1



cc-5V

*Handwritten initials/signature in top left corner.*



DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH  
TELEPHONE 01-928 9222  
FROM THE SECRETARY OF STATE

Prime Minister (2)

Mr Heseltine is  
convening a meeting  
to discuss these points.

MUS 22/7

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
LONDON SW1 3EB

21 July 1982

*Handwritten signature/initials.*

*Handwritten signature: Ken Michael*

RSG SETTLEMENT 1983-84

*cc-1/1 PM*

Thank you for sending me a copy of your letter of today to Leon Brittan.

I have three major reservations on your draft statement which means that we ought to have a meeting.

PARAGRAPH 8

Given the difference between the public expenditure total and the GRE total, we shall be embarrassed if we continue to claim that GRES "represent the assessed need for local authority spending". Can you not find an alternative phrase? We shall have to swallow all that we have said about the objective basis of GRE - or change the name.

PARAGRAPH 9

As other colleagues and I explained to E Committee, we must be able to set out clearly the total expenditure figures for our services if we are not to be accused of seeking unreasonable reductions in them. Unless you declare that the £700m will be allocated between services, we shall find ourselves having to state that the White Paper figures require for instance a fall in



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teacher numbers by 30-40,000 over the next 12 months. I accept the need to leave a margin between the total of GREs and the public expenditure total; but, as the Minutes of E Committee put it, the best solution might be for us to indicate how this margin "would be distributed among services if local authorities followed the same pattern of spending as had prevailed in recent years", a suggestion I think endorsed by the Prime Minister in her summing up. On this basis I suggest that paragraph 9 should read:-

"9. The total of £18,800m will be allocated between services in the usual way, and the service distribution will form the basis for calculating the GREs for individual authorities. Details will be announced later. There will be a difference of £700m between GREs and the public expenditure provision. This will also be allocated between services in the Public Expenditure White Paper, broadly in accordance with the past pattern of expenditure by local authorities".

PARAGRAPH 10

The fourth sentence means that authorities spending below GREs but above the guidance figure will suffer holdback. Need you be so masochistic? We know that there will be strong pressure from our supporters in Parliament and in the country for the continuation of the present GRE exemption, which we may well have to concede. I suggest that you omit the sentence and leave the issue open, resting on the more general statement in paragraph 3.

I agree with what you say in your letter about holdback in 1982-83.

I am copying this letter to the Prime Minister, other members of E Committee, John Biffen, George Younger, Nicholas Edwards, Norman Fowler, Michael Jopling and to Sir Robert Armstrong.

*Younger,*

*Keir*

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21 JUL 1982

