PART 4

SECRET

MT

Confidential Filing

Relations between central and local government. Local Authority Expenditure.

ACCOUNTS COMMISSION FOR LOCAL AUTHORITY AUDIT

LOCAL GOVERNMENT

Part 1: May 1979

Part 4: Sept 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~10.10.80~~		2.6.81					
~~27.10.80~~		-ENDS-					
~~29.10.80~~							
~~14.11.80~~							
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~~13.3.81~~							
~~15.5.81~~							
~~20.5.81~~							
~~27.5.81~~							

PREM 19/514

PART 4 ends:-

MAP to D/Env

2.6.87

PART 5 begins:-

SO to MAP

4.6.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (80) 107	29.9.80
E (80) 35th Meeting, Minute 2	2.10.80
E (80) 130	14.11.80
E (80) 40th Meeting, Minute 1	18.11.80
E (EA) (80) 60 and 61	28.11.80
L (80) 22nd Meeting, Minute 1	3.12.80
E (EA) (80) 22nd Meeting, Minute 2	3.12.80
1E (81) 52	8.5.81
E (81) 54	8.5.81
E (81) 56	11.5.81
E (81) 16th Meeting, Minutes 1 and 2	13.5.81
E (81) 55	15.5.81
E (81) 59	15.5.81
E (81) 17th Meeting, Minutes	19.5.81
E (81) 60, with Annex B	20.5.81
E (81) 18th Meeting, Minutes	21.5.81

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OWayland Date 30 June 2011

PREM Records Team

cc CDLO
SO
WO
CWO
HO
HMT

Local Govt

10 DOWNING STREET

From the Private Secretary

2 June 1981

CF 4/6

CF Kay This is for to keep!

Thank you for your letter of 1 June with which you circulated a revised version of your Secretary of State's oral statement for this afternoon, following his discussion with the Prime Minister yesterday afternoon.

As I told you on the telephone, the Prime Minister is content with this version. She has commented that, in the last sentence, emphasis must be on the "considering".

I am sending copies of this letter to David Heyhoe (Chancellor of the Duchy of Lancaster's Office), Godfrey Robson (Scottish Office), John Craig (Welsh Office), John Halliday (Home Office), Richard Tolkien (HM Treasury) and Murdo Maclean (Chief Whip's Office).

M. A. PATTISON

D.A. Edmonds, Esq.,
Department of the Environment.

DSS

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

Local Govt

My ref:

Your ref:

2 June 1981

See

Dear Tim

LOCAL AUTHORITY CURRENT EXPENDITURE

I enclose a copy of the final version of my Secretary of State's statement. I am copying this to the Private Secretaries to the Leader of the House of Commons, the Leader of the House of Lords, the Secretaries of State for Scotland and Wales, the Chief Whip (6 copies), and to the Chief Press Secretary at No 10.

Yours ever
David

D A EDMONDS
Private Secretary

Tim Lankester Esq, No 10

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

TUESDAY 2 JUNE 1981

LOCAL AUTHORITIES CURRENT EXPENDITURE

With permission, Mr Speaker, I will make a statement on current expenditure by local authorities.
My Rt Hon Friend the Secretary of State for Wales will be making a statement later today, and my Rt Hon Friend the Secretary of State for Scotland will be making a statement shortly.

My Department has now analysed the revised estimates of local authorities in England and Wales for the volume of their current expenditure in 1980/81 and the budget plans of English local authorities for 1981/82.
In the light of this analysis I have today put proposals to the Consultative Council on Local Government Finance.

Hon Members will recall that when local authorities in England and Wales originally submitted their budgets for 1980/81 these suggested a planned excess in the volume of current expenditure by local government as a whole of some £740 million at November 1979 prices.
This was 5.6% above the Government's public expenditure plans.
As a consequence, in June last year I called for revised budgets which led local authorities to reduce this planned excess to

some £350 million at 1979 prices, or 2.6% above the government targets.
In order further to reduce this remaining excess, the Government asked the House to approve the witholding of £200 million from the Increase Order for England and Wales made in January 1981 on the understanding that we would be prepared to restore all or part of that sum if the outturn figures for 1980/81 showed an acceptable reduction.

The analysis of the revised estimates for 1980/81 indicates that there will still be a volume excess, which the Local Authority Associations estimate could range from £50 million to £250 million in England.
Final figures for the outturn expenditure in 1980/81 are however not yet available.
I shall have to wait therefore until more accurate outturn figures are available in the autumn before considering restoration of grant.

Budgets of local authorities in England for this year - 1981/82 - indicate a volume of current expenditure about £800 million or 5.3% above the Government's target level at November 1980 prices. Local authorities have also made provision for higher pay and price increases than allowed for in the cash limits, and have thus budgeted for a cash excess of £1250 million above the amount assumed for current expenditure in the RSG settlement.

I am placing in the Library detailed figures showing how this proposal would affect individual authorities.
I shall be inviting detailed consultations about these proposals with local government.

I must emphasise that it lies entirely in the hands of local government to revise its plans so as to achieve the necessary reduction of public expenditure and thus to avoid loss of grant.

The House will want to know that over one third of all local authorities, responsible for about 11% of local authority expenditure, have already budgeted within the Government's volume targets and thus will lose no grant from this reduction if they stick to their present plans.
Over half of all local authorities, responsible for over one third of local authority expenditure, would already be protected wholly or in part from holdback.

The Government has not only to consider the consequences of excessive expenditure, but also the extent of the inequities in the way in which local revenue is raised through the rates.
The Government therefore intends to issue a consultation document on the alternatives to domestic rates in the autumn.

In the meantime we are considering further measures, including legislation next session, which are needed to bring home to individual local authorities and their electorates the consequences of high-spending policies.

4F

This is an inadequate response to the Government's request for lower public expenditure and protects the current consumption and staffing levels of local government at the expense of ratepayers whose ability to pay is already seriously diminished by the present recession.

The traditional relationship between central and local government rests on the clear understanding that local government keeps within the overall financial policies of the central government.

The Government believes that this understanding must be upheld.

I am therefore asking all local authorities to review their budgets for 1981/82 by the end of July in order to achieve levels of expenditure consistent with the Government's public expenditure plans.

If the call for revised budgets does not produce a satisfactory response, I propose to ask the House in the autumn to approve a reduction in the total amount of grant available this year.

I cannot be certain until I know the results of the revised budgets what would be an appropriate figure.

But if the present spending plans remain unchanged the Government considers that £450 million would be the appropriate amount to withold in grant.

Authorities which achieve the Government's volume targets will not suffer from this reduction in grant.

I also intend that those close to their volume targets will be partially exempted.

020 cc Press

[obscured by punch hole]WYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
PREIFAT YSGRIFENNYDD
GWLADOL CYMRU

Y DDRAIG GOCH DDYRY CYCHWYN

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 8545 (Direct Line)

FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

CONFIDENTIAL

2 June 1981

Dear Mike

MP 2/vi

STATEMENT TO THE HOUSE: LOCAL GOVERNMENT FINANCE - WALES

... I enclose three copies of the statement which my Secretary of State will make in the House this afternoon.

/ I am sending copies of this letter and the statement to the Private Secretaries to members of E Committee who attended the 21 May meeting, and to the Private Secretaries to the Chancellor of the Duchy of Lancaster and the Secretaries of State for Scotland, Social Services, Education and Science and Transport, to the Government Chief Whips in both Houses, the Minister for Local Government, Robin Ibbs (CPRS) and David Wright (Cabinet Office). A copy also goes to the Chief Press Secretary at No 10.

Yours ever

John Craig

J F CRAIG
Private Secretary

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

SECRETARY OF STATE ORAL STATEMENT TO THE HOUSE - 2 JUNE 1981

With permission Mr Speaker I will make a statement on current expenditure by Local Authorities in Wales in 1981/82.

My Department has analysed the local authorities budget plans for 1981/82 and these show that in aggregate planned current expenditure will exceed the Government's target by about 2.2% or £21 million at November 1980 prices.

Any current expenditure excess is a matter of serious concern and I have given very careful consideration to the need for corrective action. In doing so I have taken account first of the fact that in recent years budgets have in aggregate over-stated the actual volume of current expenditure by proportions not dissimilar from the present indicated excess and secondly the considered view of the Welsh Local Authority Associations that the Government's current expenditure target will be met.

In view of these considerations and noting that in aggregate Welsh local authorities have clearly made efforts to meet the Government's current expenditure targets I have decided not to call for revised budgets or to withhold grant at supplementary report stage this Autumn.

/In adopting

In adopting this course my determination to see that current expenditure is kept at the level allowed for in the RSG Settlement is in no way lessened, rather I am deferring judgement on the need to withhold grant. If despite the Local Authority Associations views there is an overspend this year, I will take action to reduce the total amount of grant available by the amount of that excess. In so doing I would protect authorities who have made an appropriate contribution to the necessary expenditure reductions.

This decision reflects my trust that Welsh local authorities will meet our expenditure target. It is entirely up to them both individually and collectively whether I will need to withhold grant at a later stage.

I have communicated this decision to the Welsh Consultative Council on Local Government Finance. I have also told them that I shall be consulting them in due course about the matters concerning the rating system to which my rt hon Friend the Secretary of State for the Environment referred at the end of his statement this afternoon.

Econ Pol

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

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

1 June 1981

Dear Secretary of State,

TL 1/6

LOCAL GOVERNMENT FINANCE

Thank you for sending me a copy of your minute of 22 May to the Prime Minister. I have also seen your Private Secretary's letter of 28 May to Number Ten (its enclosures); and the Chancellor's minute of 28 May. I am sorry that absence from London has prevented me from responding sooner.

I am content with the draft statement and accompanying memorandum, revised in each case to incorporate a number of amendments that I understand have been agreed between our officials. For my part I am also content with your proposed procedure. I endorse what you say in your minute about looking again when the revised budgets are in with an eye, in our final decisions as reflected in November's supplementary report, to exempting local authorities spending below their GRE. It is essential that the wording of both the statement and the accompanying memorandum are such as to leave us with the necessary room for manoeuvre to do this. On what we say about action for the future, I agree with Geoffrey Howe: we must be careful not to arouse unrealistic expectations.

I am sending copies of this letter to recipients of yours.

Yours sincerely

P A Shaw

pp MARK CARLISLE
Approved by the Secretary of State and signed in his absence

cc Press

Prime Minister
Content with this version?

- Yes but the emphasis keeps on the consistency in the last sentence

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

MAP 1/vi

1 June 1981

Dear Tim

ORAL STATEMENT BY THE SECRETARY OF STATE
2 JUNE 1981

Following the discussion which the Prime Minister had with my Secretary of State earlier this afternoon, at which a compromise was suggested with regard to the reference to legislation in the next session, I attach a revised statement*. This takes account, so far as is possible, of Departmental comments. Perhaps I should draw to your attention the restoration to the statement of the £1,250 million cash figure. My Secretary of State feels that this is important to avoid allegations by the Opposition of being deliberately misleading. However, we have sought in the draft to make clear the meaning.

My Secretary of State has also considered the point raised by the Industry Department about omitting the word "domestic" but feels, given the reasons I have explained to you and Ian Ellison, that the word should be retained.

Copies go to the recipients of the earlier draft.

Yours ever

D A Edmonds

D A EDMONDS
Private Secretary

* which is, of course, still subject to drafting changes

Tim Lankester Esq No 10

AT.

7.00 pm.

DRAFT - 1 JUNE 1981

ORAL STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT
Tuesday 2 JUNE 1981

With permission, Mr Speaker, I will make a statement on current expenditure by local authorities.

My Rt Hon Friend the Secretary of State for Wales will be making a statement later today, and my Rt Hon Friend the Secretary of State for Scotland will be making a statement shortly.

My Department has now analysed the revised estimates of local authorities in England and Wales for the volume of their current expenditure in 1980/81 and the budget plans of English local authorities for 1981/82.

In the light of this analysis I have today put proposals to the Consultative Council on Local Government Finance.

Hon Members will recall that when local authorities in England and Wales originally submitted their budgets for 1980/81 these suggested a planned excess in the volume of current expenditure by local government as a whole of some £740 million at November 1979 prices.

This was 5.6% above the Government's public expenditure plans.

As a consequence, in June last year I called for revised budgets which led local authorities to reduce this planned excess to some £350 million at 1979 prices, or 2.6% above the Government targets.

In order further to reduce this remaining excess, the Government asked the House to approve the witholding of £200 million from the Increase Order for England and Wales made in January 1981 on the understanding that we would be prepared to restore all or part of that sum if the outturn figures for 1980/81 showed an acceptable reduction.

The analysis of the revised estimates for 1980/81 indicates that there will still be a volume excess which the Local Authority Associations estimate could range from £50 million to £250 million in England.

Final figures for the outturn expenditure in 1980/81 are however not yet available.

I shall have to wait therefore until more accurate outturn figures are available in the autumn before consideing restoration of grant.

Budgets of local authorities in England for this year - 1981/82 - indicate a volume of current expenditure of about £800 million or 5.3% above the Government's target level at November 1980 prices.

Local authorities have also made provision for higher pay and price increases than allowed for in the cash limits, and have thus budgeted for a cash excess of £1250 million above the amount assumed for current expenditure in the RSG settlement.

This is a quite inadequate response to the Government's request for lower public expenditure and seeks to protect the current consumption and staffing levels of local government at the expense of ratepayers whose ability to pay is already seriously diminished by the present recession.

The traditional relationship between central and local government rests on the clear understanding that local government keeps within the overall financial policies of the central government.

The Government believes that this understanding must be upheld.

I am therefore asking all local authorities to review their budgets for 1981/82 by the end of July in order to achieve levels of expenditure consistent with the Government's public expenditure plans.

If the call for revised budgets does not produce a satisfactory response, I propose to ask the House in the autumn to approve a reduction in the total amount of grant available this year.

I consider that on present spending plans £450 million would be the appropriate reduction in grant.

Authorities which achieve the Government's volume targets will not suffer from this reduction in grant.

I also intend that those close to their volume targets will be partially exempted.

I am placing in the Library detailed figures showing how this proposal would affect individual authorities.

I must emphasise that it lies entirely in the hands of local government to revise its plans so as to achieve the necessary reduction of public expenditure and thus to avoid loss of grant.

The House will want to know that over one third of all local authorities responsible for about 11% of local authority expenditure have already budgeted within the Government's volume targets and thus will lose no grant from this reduction if they stick to their present plans.

Over half of all local authorities responsible for over one third of local authority expenditure would be protected wholly or in part from holdback.

The Government has not only to consider the consequences of excessive expenditure, but also the unfairnesses of the way in which local revenue is raised through the rates.

The Government therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn.

In the meantime we are considering further measures, including legislation next session, which are needed to bring home to individual local authorities and their electorates the consequences of high-spending policies.

4F

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

29 May 1981

David Edmonds Esq
Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
London SW1

PM has seen, and I have told her that Sir Keith feels strongly. She is not prepared to intervene. TL 2/6.

Dear Dave

LOCAL GOVERNMENT FINANCE

We spoke by telephone about the draft statement attached to your Secretary of State's minute to the Prime Minister of 27 May.

2 I have consulted my Secretary of State, who is in America, and he has no objection to the proposed procedure for making the statement. He is, however, concerned about the last paragraph of the draft, which, by concentrating on domestic rates, could give industry (and the non-domestic sector generally) the impression that their interests are not being considered. He hopes that the draft statement could be amended so as to avoid giving the impression, at least at this stage, that the consultative document will not take account of manufacturing industry's growing concern about the rate burden.

3 Although it is not a matter for this Department, Mr Tebbit has asked whether it is wise to say that the Government expects the £800 million budgeted excess to be reduced to £400 million "since actual expenditure normally falls short of budget". He thinks this suggests an absence of financial discipline and might prove to be a hostage to fortune if the current pressures on expenditure ensure that the normal underspend does not arise in practice.

4 I am copying this letter to the Private Secretaries of the recipients of your Secretary of State's minute.

Yours ever

Ian

I K C ELLISON
Private Secretary

Seen VB

CF

PRIME MINISTER

Mr. Heseltine is to make his oral statement on Local Government Finance on Tuesday. I assume that you would like to be on the bench for this, which will mean postponing Mr. Ridley's talk with you once again.

Agree?

MAP

29 May 1981

O19

SECRETARY OF STATE
FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

29 May 1981

Dear Tim

LOCAL GOVERNMENT FINANCE: STATEMENT ON 2 JUNE '81

Thank you for your letter of earlier today. We have also seen copies of minutes or letters to you from Wales, Scotland and the Chancellor. A number of telephone comments on the draft statement have also reached us during the day.

I attach a new draft statement, taking account where possible of Departmental comments. My Secretary of State will be looking at this draft over the weekend, and will, of course, have very much in mind the Prime Minister's belief that it can be improved so as to make it more persuasive in political terms.

For the benefit of those colleagues whose Ministers attend the Consultative Council could I confirm the arrangements set up during today? There will be a briefing in Room N16/02, 2 Marsham Street, at 1.45 pm; the Consultative Council will begin at 2.00 pm; and the statement will be made in the House at 3.30 pm.

I am copying this to the Private Secretaries who received your letter.

Yours ever

D A EDMONDS
Private Secretary

Tim Lankester Esq No 10

ORAL STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT, TUESDAY 2 JUNE 1981

Wtih permission, Mr Speaker, I will make a statement on current expenditure by local authorities.
My Rt Hon Friend the Secretary of State for Wales will be making a statement later today, and my Rt Hon Friend the Secretary of State for Scotland will be making a statement on the Scottish situation in a little while.
My Department has now analysed the revised estimates of local authorities in England and Wales for the volume of their current expenditure in 1980/81 and the budget plans of English local authorities for 1981/82.
In the light of this analysis I have today put proposals to the Consultative Council on Local Government Finance.

Hon Members will recall that when local authorities in England and Wales originally submitted their budgets for 1980/81 these suggested a planned excess in the volume of current expenditure by local government as a whole of some £740 million at November 1979 prices.
This was 5.6% above the Government's public expenditure plans.
As a consequence, in June last year I called for revised budgets which led local authorities to reduce this planned excess to some £350 million at 1979 prices, or 2.6% above the Government targets.

In order further to reduce this remaining excess, the Government asked the House to approve the witholding of £200 million from the Increase Order for England and Wales made in November 1980 on the understanding that we would be prepared to restore all or part of that sum if the outturn figures for 1980/81 showed an acceptable reduction.
The analysis of the revised estimates for 1980/81 indicates that there will still be a volume excess which the Local Authority Associations estimate could range from £50 million to £250 million in England.
Final figures for the outturn expenditure in 1980/81 are however not yet available.
I shall have to wait until the outturn figures are available in the autumn before considering restoration of grant.

Budgets of local authorities in England for 1981/82 indicate current expenditure of about £800 million or 5.2% above the Government's target level at November 1980 prices.
Since actual expenditure normally falls short of budget it is reasonable to argue that the £800 million budgeted volume excess could in the outturn reduce to about £400 million (2.7%).

The Government believes that although we have made some progress in reducing local authority current expenditure we must stick to the targets we have already set.

I am therefore asking all local authorities to review their budgets for 1981/82 by the end of July in order to achieve levels of expenditure consistent with the Government's public expenditure plans.

If the call for revised budgets does not produce a satisfactory response, I propose to ask the House in the autumn to approve a reduction in the total amount of grant available this year by about £450 million on present spending plans.

I have made it clear that authorities which achieve the Government's volume targets will not be affected by these reductions in grant.

Those close to their volume targets will be partially exempted.

Details of these proposals as they would affect individual authorities are in the Library.

It lies entirely in the hands of local authorities both collectively and individually to revise their plans so as to achieve the necessary reduction of public expenditure and thus to avoid loss of grant.

So far more than a third of all local authorities have already ensured that they are within the Government guidelines and thus on their present plans would not lose any grant.

The traditional relationship between central and local government rests on the convention that local government keeps within the overall financial policies of the central government.

The Government believes that this convention must be upheld.

We are therefore considering further measures which are needed to bring home to individual local authorities and their electorates the consequences of high-spending policies.

We shall be announcing proposals on these measures in the next few weeks with a view to legislation next session.

But in any consideration of local government finance, we cannot ignore the problems of the rating system and their consequences.

The Government therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn.

1.

Y SWYDDFA GYMREIG
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01-233 8545 (Llinell Union)

ODDI WRTH YSGRIFENNYDD
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GWLADOL CYMRU

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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

MO

CONFIDENTIAL

29 May 1981

Prime Minister (through T/L)

You have agreed that Mr Heseltine should make an oral statement next week. Here is the draft of Mr Edwards' consequential statement on Wales the same day.

Content?

MAP 29/v

Dear Mr. Pattison

LOCAL GOVERNMENT FINANCE

... Further to my letter of 28 May I now attach a draft of the oral statement which my Secretary of State will be making (subject to confirmation that he and the Secretary of State for the Environment should so proceed) in the House on Tuesday, 2 June.

I should add that it has not yet been cleared by my Secretary of State but I would not expect substantive changes to be made to it.

/ Copies of this letter and enclosure go to the recipients of my letter of 28 May.

Leighton Davies

for J F CRAIG
Private Secretary

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

Spoke Welsh Office: PM content

MAP 1/vi

cc P rw

DRAFT STATEMENT TO THE HOUSE BY SECRETARY OF STATE FOR WALES

"With permission Mr Speaker I will make a statement on current expenditure by Local Authorities in Wales in 1981-82.

My Department has analysed the local authorities budget plans for 1981/82 and these show that in aggregate planned current expenditure will exceed the Government's target by about 2.2% or £21 million at November 1980 prices.

Any current expenditure excess is a matter of serious concern and I have given very careful consideration to the need for corrective action. In doing so I have taken account first of the fact that in recent years budgets have in aggregate over-stated the actual volume of current expenditure by proportions not dissimilar from the present indicated excess and secondly the considered view of the Welsh Local Authority Associations that the Government's current expenditure target will be met.

In view of these considerations and noting that in aggregate Welsh local authorities have clearly made efforts to meet the Government's current expenditure targets I have decided not to call for revised budgets or to withhold grant at supplementary report stage this Autumn.

In adopting this course my determination to see that current expenditure is kept at the level allowed for in the RSG Settlement is in no way lessened, rather I am deferring judgement on the need to withhold grant. If despite the Local Authority Associations views there is an overspend this year, I will take action to reduce the total amount of grant available by the amount of that excess. In doing so I would protect authorities who have made an appropriate contribution to the necessary expenditure reductions.

This decision reflects my trust that Welsh local authorities will meet our expenditure target. It is entirely up to them both individually and collectively whether I will need to withhold grant at a later stage.

I have communicated this decision to the Welsh Consultative Council on Local Government Finance. I have also told them that I shall be

/consulting them

consulting them in due course about the matters concerning the rating system to which my RHF the Secretary of State for the Environment referred at the end of his Statement this afternoon."

CC ~~Mr. Walters~~
~~Mr. Duguid~~

Ocarth

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

29 May 1981

Dear Michael,

R 29/5

PUBLIC EXPENDITURE GUIDELINES: SUPPLEMENTARY REMIT FOR LOCAL AUTHORITY EXPENDITURE GROUPS

Thank you for your letter of 21 May about supplementary guidelines to local authority expenditure groups.

I understand that though you refer to both inflation assumptions and option cuts, you are actually concerned about the latter.

It is of course already public knowledge that option cuts are being discussed for all public expenditure programmes, and the level is also known. In these circumstances, I wonder whether an "in-house" exercise of the kind you propose could really be kept between ourselves for very long. And, if it emerged that we were indeed considering option cuts for local authorities without consulting them, I suspect we could receive far worse publicity than if we were open from the start - with consequences which I cannot imagine would be welcome to colleagues responsible for local authority services.

My own interest so far as the substance is concerned is chiefly in the impact your proposal would have on the ability to deliver our public expenditure plans - both in relation to local authorities and across the board. Where local authorities are concerned, we must surely expect a worse response if we are seen to have failed to consult than if we have tried to do so. More generally, I would be most reluctant to give the erroneous impression that any area of public expenditure was exempt from the option cuts exercise.

The points you raise about realism are, it seems to me, quite separate from the considerations outlined above. They would apply if we were seeking to impose cuts of the level suggested: they do not seem to be to be relevant in the context of a study of options - a procedure which is, after all, customary and well understood.

I understand that you will need to clear the terms of a supplementary remit with the CCLGF before it is issued to expenditure groups, and that the latter are already being held back by the absence of the remit. If the groups' reports are delayed, this could put the whole Survey timetable at risk.

I would therefore urge you to decide now to issue the remit in time for Tuesday's CCLGF meeting. I recognise of course that it is most unlikely to be discussed then: but once it is on the table, it should be possible to get the process of consultation under way. I see every advantage in doing so as soon as possible, and think that we must abide by the decision of the Cabinet that the recommendations in the Chancellor's paper should be accepted. (CP(81)20 Para 19(iv)).

Copies of this letter go to recipients of yours.

Leon

LEON BRITTAN

CONFIDENTIAL

VLS

FILE

10 DOWNING STREET

cc HO MAFF WO
FCO D/T DHSS
D/I D/N DES
LPO CST D/Tpt
D/M CDLO CWO
MOD SO DOE M/S
CPRS
CO

From the Private Secretary

29 May 1981

Dear David,

Government Finance

The Prime Minister has considered your Secretary of State's minute of 27 May with which he enclosed a draft Parliamentary Statement which he intends to make next Tuesday. She has also seen the Chancellor of the Exchequer's minute of 28 May, the Secretary of State for Scotland's minute of 28 May, and the Welsh Office letter of the same date.

The Prime Minister, first of all, accepts that the Statement should be oral, notwithstanding the points raised by the Secretary of State for Scotland. She has noted Mr. Younger's and Mr. Edwards' view that, if your Secretary of State is to make an oral Statement, they will have to make oral Statements as well. She would be grateful if they would reach agreement on the timing of their Statements with the Leader of the House.

As for the draft Statement itself, the Prime Minister agrees its basic substance, except that she goes along with the Chancellor on the question of committing the Government to legislation on longer-term alternatives to domestic rates in the 1982/83 Parliamentary Session: she believes it would be unwise to make such a commitment until Ministers have made further progress in considering what alternatives are desirable and feasible.

/ The Prime Minister

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The Prime Minister understands that Mr. Heseltine will be working on a final draft over the weekend. She has asked me to say that she believes it can be improved so as to make it more persuasive in political terms. She also hopes that the figuring can be made less confusing. As we discussed on the telephone yesterday, it is hard for those who are not totally immersed in the detail of local authority finance to understand how an £800 million budgeted excess in volume terms converts into a £1250 million excess in cash terms - especailly when the implied rationale for the threatened £450 million clawback in cash terms is that it would be equivalent to the volume excess of £400 million which you expect in the out-turn. We agreed that it might be better to take out the figure of £1250 million altogether; or if not, to explain it a little more fully.

I am sending a copy of this letter to the Private Secretaries to members of E Committee who attended the 21 May meeting, and to the Private Secretaries to the Chancellor of the Duchy of Lancaster and the Secretaries of State for Scotland, Wales, Social Services, Education and Science and Transport, to the Chief Whip, the Minister for Local Government, Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Tim Lankester

D. A. Edmonds, Esq.,
Department of the Environment.

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WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SWIA 2ER
Tel. 01-233 3000 (Switchboard)
01-233 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

CONFIDENTIAL

29 May 1981

Rt Hon Leon Brittan MP
Chief Secretary to the Treasury
Parliament Street
LONDON SW1P 3AG

R 1/6

Dear Leon

1982 RSG SETTLEMENT: EXPENDITURE GROUPS SUPPLEMENTARY REMIT

I have seen a copy of the letter to you from the Secretary of State for the Environment about the supplementary remit to the local authority expenditure groups.

The option cuts we are considering in the context of this year's Public Expenditure Survey have already been reported in the Financial Times with, I am told, confirmation by the Treasury. The local authorities must be well aware of what is afoot, therefore. If we do not consult them about the options through the established machinery it seems to me we shall expose ourselves to well-justified criticism. Whether or not we can expect much useful to come out of the consultation is not really important: it is the good faith exhibited by it which is. An appearance of dark scheming in our own closet will do nothing to help our relationship with local authorities.

For these reasons I wish to issue a supplementary remit to my Welsh Expenditure Sub-group on the lines of the attached draft.

I am copying this to Michael Heseltine and the other recipients of his letter to you.

Yours ever

Nick

WCLGF(81)10

WELSH CONSULTATIVE COUNCIL ON LOCAL GOVERNMENT FINANCE

WORK OF THE EXPENDITURE SUB GROUP IN 1981 - SUPPLEMENTARY REMIT

1. On 16 April 1981 the Welsh Consultative Council on Local Government Finance agreed a remit which it was proposed should form the basis for initial routine groundwork by the Expenditure Sub Group during April and May. In addition to asking the Group to begin work on its task of assessing expenditure for future years, it was suggested that it should examine the assumptions in the RSG settlement about inflation during 1981/82, in the light of the actual level of pay and price increases being experienced. This supplementary remit completes the instructions to the group for 1981.

2. In addition to reporting on the matters covered by the remit of 16 April, the Expenditure Sub Group is now asked to express its views on the implications for each service of containing expenditure within a cash figure for each year calculated as indicated below.

3. For the years covered by the White Paper the figures will be based on the Government's planned totals in Cmnd 8175; for 1984/85 the figures should be constructed on the basis of paragraph 4 below. To arrive at cash figures the following inflation factors will be used as provisional working assumptions:-

- between November 1980 and outturn 1981/82, the assumptions contained in the 1981/82 RSG settlement;
- between 1981/82 and 1982/83, 7 per cent;
- between 1982/83 and 1983/84, 6 per cent;
- between 1983/84 and 1984/85, 5 per cent.

4. The figures for 1984/85 should be constructed on the basis of existing Government policies embodied in Cmnd 8175, taking account of demographic trends and the provisional inflation factor indicated above. Where existing policies and trends do not clearly indicate figures beyond 1983/84, figures for 1984/85 should be no more than 5 per cent higher than 1983/84 cash figures. The Expenditure Sub Group is invited to specify and comment on the basis on which its figures have been constructed.

LOWER OPTIONS

5. The group is also asked to present costed options showing the implications of reductions of 3 and 5 per cent in 1982/83, and of 5 and 7½ per cent in each of 1983/84 and 1984/85, below the cash figures for each service derived as indicated above.

WELSH OFFICE
May 1981

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
London SW1A 2AU

29 May 1981

Dear George,

CF

Can I see this

TPM

LOCAL GOVERNMENT FINANCE

Thank you for sending me a copy of your minute of 28 May to the Prime Minister, about the action you propose to take to reduce rate support grant in Scotland.

We agreed at E last week that we should devise an approach for Scottish local authorities consistent with that adopted by Michael Heseltine for English local authorities. I understand that our officials have been unable to agree upon a policy which both sides felt would impose commensurate penalties. I am afraid that I too find your proposed response weaker than the very poor expenditure prospect in Scotland warrants. The requirement is for action in line with that Michael Heseltine will be taking, not only because of the need to get Scottish local authorities to take our public expenditure plans seriously, but also because it would seriously risk undermining Michael's stance in England.

What I propose is very much in line with the Treasury views stated in E(81)55. The £450 million cut in grant agreed for English RSG is approximately equal to the expected outturn excess expenditure, at November 1980 prices. So I think the right size of RSG reduction in respect of Scottish overspending would be about £140 million (in line with the estimated outturn quoted in E(81)55).

Nor do I think we can overlook overspending by Scottish local authorities in 1980-81. We can be fairly certain that they exceeded the White Paper plans by at least £80 million at 1980 Survey prices and this would indicate an RSG cut of about £60 million if your action is to be commensurate with that taken in England and Wales.

To sum up, I propose that an overall reduction of some £200 million would be appropriate if Scottish local authorities do not moderate their spending plans. I appreciate that it may not be possible to exact all of this selectively, or even in 1981-82. As much of this penalty as cannot be imposed selectively should be obtained by a general reduction in RSG, and the rest should be deducted from the grant settlement for 1982-83 to be announced in the Autumn.

It seems to me that failure to take this or equivalent action would court ever increasing defiance from Scottish local authorities, many of whom are already behaving as if they have nothing to fear if they overspend. We must demonstrate that that is not the case.

I should welcome an opportunity to discuss this with you and Michael Heseltine, as we agreed at E last week. In the meantime, I must ask that you do not make any public statement until we have had a chance to agree an appropriate action in Scotland.

I am copying this to the Prime Minister and Michael Heseltine and to Sir Robert Armstrong.

Leon

LEON BRITTAN

CONFIDENTIAL

2 pps

CMA

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

TL

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

29 May 1981

Dear Secretary of State

LOCAL AUTHORITY EXPENDITURE: REMIT TO EXPENDITURE GROUPS

Thank you for sending me a copy of your letter of 21 May to Leon Brittan.

I agree that there are real difficulties in asking the local authority associations to comment sensibly on the options for reducing expenditure compared with our Cmnd 8175 targets for 1982-83 and subsequent years at the same time as their members are demonstrating the difficulty of meeting those targets in 1981-82. But it seems to me that there are even greater difficulties in not doing so. The associations know that, as in previous years, we are bound to be reviewing our expenditure plans over the coming months. They and their officials are used to the idea of presenting "illustrative" options for reducing expenditure; and they value the involvement that this gives them in the process by which we reach our annual expenditure decisions. The associations could well feel aggrieved were they now to be excluded from this process when any decisions that flow from it will bear directly on their members. We for our part equally need to subject expenditure proposals as they evolve to the critical scrutiny of those who may have responsibility for implementing them in due course.

Accordingly I would suggest that we should proceed on the basis proposed by our officials in the light of our consideration of CP(81)20. One of the items for discussion at Tuesday's meeting of the Consultative Council is a paper from the associations complaining that the interim remit was issued to expenditure groups this year without discussions at Consultative Council, and requesting an opportunit to discuss the supplementary remit before it is issued. If at all possible - and notwithstanding the much weightier matters we have on the agenda for Tuesday - I think it would be helpful if we tabled for discussion the supplementary remit on the basis proposed (ie including consideration of options for reducing expenditure and our provisional inflation assumptions).

I am copying this letter to all members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

Yours sincerely, CM Eagles (Private Secretary)

pp MARK CARLISLE
Approved by the Secretary of State and signed in his absen

CONFIDENTIAL

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

29 May 1981

seen

Dear Mike,

LOCAL GOVERNMENT FINANCE

As I have indicated to you already on the telephone, the Chancellor of the Duchy has seen the Secretary of State for the Environment's minute of 27 May to the Prime Minister and accepts that, as proposed, matters should now proceed by means of an oral Statement on Tuesday, 2 June. He is strongly of the view, however, that references to legislation next Session and in 1982/83 should be omitted from the Statement and that no commitments should be given at this stage.

I am sending copies of this letter to the Private Secretaries to recipients of the earlier correspondence.

Yours ever,

David.

D C R HEYHOE
Private Secretary

M Pattison Esq
10 Downing Street

CONFIDENTIAL

File in Local Govt   cc MS Dugund walters

B

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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PRIME MINISTER

LOCAL GOVERNMENT FINANCE

I refer to Michael Heseltine's minute of 27 May, about the possible form and content of his announcement on 2 June.

I would strongly support the preference expressed by E Committee on 21 May for decision to be announced by a Written Answer. In my view, an oral statement will lead to undue complications with the announcements for Scotland and Wales and I must make it clear again, as I did at E Committee on 21 May, that if there is to be an oral statement for England there would have also to be one for Scotland (although not necessarily on the same day) if the Leader of the House is to be spared a Parliamentary row.

I should add that I do not now propose to make a statement on 1 or 2 June, pending resolution of the issue remitted to me by E Committee, in consultation with the Environment Secretary and the Chief Secretary, to decide on the action to be taken in Scotland. I would propose to incorporate my announcement in a Written Answer as soon as possible, so that appropriate action may be put in hand, well before my next meeting with the Convention of Scottish Local Authorities on 15 June.

On the draft statement itself, I note that the proposed reduction of £450m is not, as it need not be, directly related to the various preceding measures of overspend. Because of the approach described in E(81)55, I do not propose to announce any particular target for Scotland at this stage, because of the need to exercise discretion in individual cases. It would, however, be consistent with the E Committee decision if I were to aim for a withholding of £100m in respect of 1981-82, a proposal which I shall discuss with colleagues as soon as possible.

At the end of the draft statement, Michael proposes to refer to further measures for the medium and the longer term. I suggest that in the final sentence of the last two paragraphs the statement should be to the effect that "the Government" will be announcing consultative proposals for the medium term and a consultative document on the alternatives to domestic rates, in that many of these proposals will be made in a Great Britain context.

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I am sending copies of this minute to colleagues who attended the meeting of E Committee on 21 May, to Geoffrey Howe, Francis Pym, to Michael Jopling and to Sir Robert Armstong.

(Approved by the Secretary of State and signed in his absence.)

28 MAY 1981

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SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

28 May 1981

Seen

LOCAL GOVERNMENT FINANCE 1981/82

My Secretary of State circulated yesterday evening a minute and draft statement on current expenditure by local authorities. As promised in paragraph 4 of that minute I now enclose a short memorandum and accompanying tables showing the effects of holdback.

I am copying this to the Private Secretaries of the Ministers who received my Secretary of State's minute of yesterday, and to Sir Robert Armstrong.

D A EDMONDS
Private Secretary

Tim Lankester Esq
No 10

LOCAL GOVERNMENT EXPENDITURE

MEMORANDUM ON A STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. The tables attached to this memorandum illustrate the implications of a decision to holdback approximately £450 million for individual authorities. The tables are based on what is presently known about authorities budgets.

TABLE A Performance Against Current Expenditure Volume Targets

Col 1 shows the current expenditure volume targets notified to each authority in November 1980 prices. The targets are 5.6% below actual expenditure in 1978/79 in real terms.

Col 2 shows the actual volume of expenditure for which authorities have budgeted in the same prices as notified by authorities to the Department of the Environment

Col 3 shows the percentage differences between Cols 1 and 2.

Col 4 indicates whether, on the basis of their present performance against the volume target, authorities would quantify for full, partial or no protection from holdback on the present proposals.

TABLE B

Col 1 shows local authorities 1981/82 cash budgets for total expenditure. The figures are in estimated 1981/82 outturn prices.

Col 2 shows the latest estimate on the basis of the expenditure figures in Col 1 of authorities grant entitlements. These figures have been calculated on the assumption that the total of grant claims is matched to the original total of grant in the way described in the Appendix.

Col 3 shows the potential amount of grant holdback each authority might face at their present planned levels of expenditure taking account of any protection they may so far be entitled to.

Col 4 expressed Col 3 as a rate poundage equivalent.

A separate technical background note explaining how in practical terms a holdback would be effected is attached.

COMPARISON OF LOCAL AUTHORITY VOLUME TARGETS AND BUDGETS. TABLE A.

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback Protection (4)
AVON	£238.082m	£246.289m	3.4%	Partial protection
Bath	£2.795m	£2.677m	-4.2%	Full protection
Bristol	£19.489m	£24.311m	24.7%	No protection
Kingswood	£1.933m	£2.228m	15.3%	No protection
Northavon	£2.453m	£2.761m	12.6%	No protection
Wansdyke	£2.254m	£2.293m	1.7%	Partial protection
Woodspring	£5.674m	£5.671m	-.1%	Full protection
BEDFORDSHIRE	£143.136m	£148.617m	3.8%	Partial protection
North Bedfordshire	£4.502m	£4.335m	-3.7%	Full protection
Luton	£4.849m	£4.892m	.9%	Partial protection
Mid Bedfordshire	£2.062m	£1.989m	-3.5%	Full protection
South Bedfordshire	£3.614m	£4.092m	13.2%	No protection
BERKSHIRE	£168.376m	£178.370m	5.9%	No protection
Bracknell	£2.471m	£2.657m	7.5%	No protection
Newbury	£3.011m	£3.530m	17.2%	No protection
Reading	£6.937m	£7.961m	14.8%	No protection
Slough	£4.410m	£4.010m	-9.1%	Full protection
Windsor and Maidenhead	£3.724m	£3.958m	6.3%	No protection
Wokingham	£2.994m	£2.986m	-.3%	Full protection
BUCKINGHAMSHIRE	£136.268m	£153.455m	12.6%	No protection
Aylesbury Vale	£3.239m	£3.201m	-1.2%	Full protection
South Buckinghamshire	£1.862m	£1.683m	-9.6%	Full protection
Chiltern	£2.575m	£2.562m	-.5%	Full protection
Milton Keynes	£3.486m	£3.733m	7.1%	No protection
Wycombe	£3.762m	£3.754m	-.2%	Full protection
CAMBRIDGESHIRE	£140.907m	£154.812m	9.9%	No protection
Cambridge	£2.920m	£2.863m	-2.0%	Full protection
East Cambridgeshire	£1.289m	£1.295m	.5%	Partial protection
Fenland	£1.896m	£1.843m	-2.8%	Full protection
Huntingdon	£2.575m	£2.561m	-.5%	Full protection
Peterborough	£5.013m	£5.510m	9.9%	No protection
South Cambridgeshire	£2.049m	£2.101m	2.5%	Partial protection
CHESHIRE	£260.527m	£274.405m	5.3%	No protection
Chester	£3.777m	£4.602m	21.8%	No protection
Congleton	£2.775m	£2.772m	-.1%	Full protection
Crewe and Nantwich	£4.174m	£4.038m	-3.3%	Full protection
Ellesmere Port and Neston	£3.232m	£3.579m	10.7%	No protection
Halton	£4.705m	£5.210m	10.7%	No protection
Macclesfield	£5.333m	£5.249m	-1.6%	Full protection
Vale Royal	£4.170m	£4.173m	.1%	Partial protection
Warrington	£6.931m	£6.449m	-7.0%	Full protection

(N.B. As column headings will be carried forward to each page on the table.)

CONFIDENTIAL

Table B

Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
CLEVELAND	£176.906m	£187.006m	5.7%	No protection
Hartlepool	£3.781m	£4.256m	12.6%	No protection
Langbaurgh	£7.296m	£8.338m	14.3%	No protection
Middlesbrough	£8.167m	£9.040m	10.7%	No protection
Stockton-on-Tees	£6.877m	£7.795m	13.3%	No protection
CORNWALL	£103.643m	£112.747m	8.8%	No protection
Caradon	£1.767m	£1.908m	8.0%	No protection
Carrick	£2.349m	£2.496m	6.3%	No protection
Kerrier	£2.448m	£2.322m	-5.1%	Full protection
North Cornwall	£1.657m	£2.098m	26.6%	No protection
Penwith	£2.224m	£2.201m	-1.0%	Full protection
Restormel	£2.611m	£2.546m	-2.5%	Full protection
CUMBRIA	£135.684m	£141.298m	4.1%	No protection
Allerdale	£3.662m	£3.102m	-15.3%	Full protection
Barrow in Furness	£3.075m	£3.225m	4.9%	No protection
Carlisle	£3.952m	£4.525m	14.5%	No protection
Copeland	£3.079m	£3.069m	-.3%	Full protection
Eden	£1.142m	£.856m	-25.0%	Full protection
South Lakeland	£3.447m	£3.443m	-.1%	Full protection
DERBYSHIRE	£237.435m	£249.427m	5.1%	No protection
Amber Valley	£3.321m	£3.306m	-.5%	Full protection
Bolsover	£1.913m	-	10.0%	No protection
Chesterfield	£3.487m	£3.885m	11.4%	No protection
Derby	£8.940m	£10.139m	13.4%	No protection
Erewash	£3.631m	£3.517m	-3.1%	Full protection
High Peak	£3.226m	£3.097m	-4.0%	Full protection
North East Derbyshire	£3.149m	£3.479m	10.5%	No protection
South Derbyshire	£1.569m	£1.568m	-.1%	Full protection
West Derbyshire	£2.100m	£2.235m	6.4%	No protection
DEVON	£230.652m	£246.314m	6.8%	No protection
East Devon	£3.502m	£3.041m	-13.2%	Full protection
Exeter	£2.806m	£2.636m	-6.1%	Full protection
North Devon	£2.753m	£2.889m	4.9%	No protection
Plymouth	£5.953m	£5.991m	.6%	Partial protection
South Hams	£2.308m	£2.293m	-.6%	Full protection
Teignbridge	£3.092m	£3.137m	1.5%	Partial protection
Mid Devon	£1.583m	£1.578m	-.3%	Full protection
Torbay	£3.755m	£4.670m	24.4%	No protection
Torridge	£1.415m	£1.460m	3.2%	Partial protection
West Devon	£.909m	£1.063m	16.9%	No protection
DORSET	£139.819m	£139.800m	-	Full protection
Bournemouth	£6.548m	£5.995m	-8.4%	Full protection
Christchurch	£1.296m	£1.341m	3.5%	Partial protection
North Dorset	£.950m	£1.019m	7.3%	No protection
Poole	£4.045m	£3.548m	-12.3%	Full protection
Purbeck	£.945m	£1.002m	6.0%	No protection
West Dorset	£2.057m	£1.943m	-5.5%	Full protection
Weymouth and Portland	£1.996m	£2.084m	4.4%	No protection
Wimbourne	£1.644m	£1.683m	2.4%	Partial protection

CONFIDENTIAL

Table B

Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
DURHAM	£170.873m	£182.049m	6.5%	No protection
Chester-le-Street	£1.696m	£1.839m	8.4%	No protection
Darlington	£4.215m	£4.206m	-.2%	Full protection
Derwentside	£3.352m	£4.094m	22.1%	No protection
Durham	£3.291m	£3.597m	9.3%	No protection
Easington	£3.750m	£3.879m	3.4%	Partial protection
Sedgefield	£4.494m	£4.651m	3.5%	Partial protection
Teesdale	£.672m	£.710m	5.7%	No protection
Wear Valley	£3.274m	£3.569m	9.0%	No protection
EAST SUSSEX	£160.993m	£162.425m	.9%	Partial protection
Brighton	£10.768m	£10.594m	-1.6%	Full protection
Eastbourne	£4.453m	£4.792m	7.6%	No protection
Hastings	£3.691m	£3.584m	-2.9%	Full protection
Hove	£3.432m	£3.420m	-.3%	Full protection
Lewes	£2.941m	£2.870m	-2.4%	Full protection
Rother	£2.931m	£2.930m	-	Full protection
Wealden	£3.171m	£3.173m	.1%	Partial protection
ESSEX	£347.743m	£372.434m	7.1%	No protection
Basildon	£6.898m	£7.358m	13.9%	No protection
Braintree	£2.911m	£3.178m	9.2%	No protection
Brentwood	£1.759m	£1.900m	8.0%	No protection
Castle Point	£3.027m	£2.970m	-1.9%	Full protection
Chelmsford	£3.108m	£3.191m	2.7%	Partial protection
Colchester	£3.492m	£3.457m	-1.0%	Full protection
Epping Forest	£3.852m	£4.032m	4.7%	No protection
Harlow	£4.216m	£5.023m	19.1%	No protection
Maldon	£1.221m	£1.231m	.8%	Partial protection
Rochford	£2.182m	£2.214m	1.5%	Partial protection
Southend-on-Sea	£7.188m	£7.850m	9.2%	No protection
Tendring	£4.411m	£4.260m	-3.4%	Full protection
Thurrock	£5.320m	£5.238m	-1.5%	Full protection
Uttlesford	£1.680m	£1.724m	2.6%	Partial protection
GLOUCESTERSHIRE	£129.503m	£133.975m	3.5%	Partial protection
Cheltenham	£3.199m	£2.912m	-9.0%	Full protection
Cotswold	£1.816m	£1.809m	-.4%	Full protection
Forest of Dean	£1.770m	£1.845m	4.2%	No protection
Gloucester	£2.510m	£2.516m	.2%	Partial protection
Stroud	£2.873m	£2.755m	-4.1%	Full protection
Tewkesbury	£2.031m	£2.090m	2.9%	Partial protection
HAMPSHIRE	£366.394m	£376.378m	2.7%	Partial protection
Basingstoke and Deane	£4.415m	£3.856m	-12.7%	Full protection
East Hampshire	£2.658m	£2.965m	11.6%	No protection
Eastleigh	£2.247m	£2.098m	-6.6%	Full protection
Fareham	£2.368m	£2.789m	17.8%	No protection
Gosport	£2.201m	£2.251m	2.3%	Partial protection
Hart	£1.930m	£2.356m	22.1%	No protection
Havant	£3.344m	£3.114m	-6.9%	Full protection
New Forest	£3.950m	£4.105m	3.9%	Partial protection
Portsmouth	£9.104m	£9.752m	7.1%	No protection
Rushmoor	£2.370m	£2.361m	-.4%	Full protection
Southampton	£9.530m	£9.254m	-2.9%	Full protection
Test Valley	£2.516m	£2.576m	2.4%	Partial protection
Winchester	£2.412m	£2.387m	-1.0%	Full protection

CONFIDENTIAL

Table B

Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
HEREFORD AND WORCESTER	£154.393m	£166.163m	7.6%	No protection
Bromsgrove	£2.177m	£2.177m	-	Full protection
Hereford	£1.519m	£1.734m	14.2%	No protection
Leominster	£.841m	£1.051m	25.0%	No protection
Malvern Hills	£2.299m	£2.312m	.6%	Partial protection
Redditch	£2.569m	£2.754m	7.2%	No protection
South Herefordshire	£1.155m	£1.200m	3.9%	Partial protection
Worcester	£2.542m	£3.012m	18.5%	No protection
Wychavon	£3.757m	£3.647m	-2.9%	Full protection
Wyre Forest	£3.988m	£5.009m	25.6%	No protection
HERTFORDSHIRE	£255.590m	£263.410m	3.1%	Partial protection
Broxbourne	£2.975m	£3.537m	18.9%	No protection
Dacorum	£4.979m	£4.487m	-9.9%	Full protection
East Hertfordshire	£3.338m	£3.603m	7.9%	No protection
Hertsmere	£4.334m	£4.241m	-2.1%	Full protection
North Hertfordshire	£3.717m	£3.687m	-.8%	Full protection
St Albans	£3.849m	£3.835m	-.4%	Full protection
Stevenage	£4.223m	£4.267m	1.0%	Partial protection
Three Rivers	£3.629m	£3.633m	.1%	Partial protection
Watford	£4.149m	£4.506m	8.6%	No protection
Welwyn Hatfield	£4.130m	£3.936m	-4.7%	Full protection
HUMBERSIDE	£236.545m	£250.152m	5.8%	No protection
Beverley	£2.345m	£2.663m	13.6%	No protection
Boothferry	£1.853m	£2.313m	24.8%	No protection
Cleethorpes	£3.065m	£3.110m	1.5%	Partial protection
Glanford	£1.935m	£2.340m	20.9%	No protection
Great Grimsby	£3.048m	£3.417m	12.1%	No protection
Holderness	£1.234m	£1.214m	-1.6%	Full protection
Kingston upon Hull	£10.685m	£13.022m	21.9%	No protection
North Wolds	£2.941m	£3.040m	3.4%	Partial protection
Scunthorpe	£2.870m	£3.819m	33.1%	No protection
ISLE OF WIGHT	£28.243m	£30.925m	9.5%	No protection
Medina	£2.193m	£2.337m	6.6%	No protection
South Wight	£1.974m	£1.990m	.8%	Partial protection
KENT	£366.473m	£385.535m	5.2%	No protection
Ashford	£2.371m	£2.303m	-2.9%	Full protection
Canterbury	£3.999m	£4.479m	12.0%	No protection
Dartford	£3.994m	£4.157m	4.1%	No protection
Dover	£4.608m	£4.647m	.8%	Partial protection
Gillingham	£1.618m	£1.944m	20.1%	No protection
Gravesham	£3.412m	£3.288m	-3.6%	Full protection
Maidstone	£4.527m	£4.429m	-2.2%	Full protection
Rochester upon Medway	£4.343m	£4.252m	-2.1%	Full protection
Sevenoaks	£5.286m	£4.236m	-19.9%	Full protection
Shepway	£4.153m	£4.104m	-1.2%	Full protection
Swale	£4.421m	£3.744m	-15.3%	Full protection
Thanet	£6.951m	£6.632m	-4.6%	Full protection
Tonbridge and Malling	£3.978m	£3.909m	-1.7%	Full protection
Tunbridge Wells	£3.367m	£3.522m	4.6%	No protection

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Table B

Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
LANCASHIRE	£365.855m	£384.282m	5.0%	No protection
Blackburn	£7.595m	£7.879m	3.7%	Partial protection
Blackpool	£7.032m	£7.198m	2.4%	Partial protection
Burnley	£4.172m	£4.718m	13.1%	No protection
Chorley	£2.421m	£3.100m	28.0%	No protection
Fylde	£2.751m	£2.740m	-.4%	Full protection
Hyndburn	£3.341m	£3.882m	16.2%	No protection
Lancaster	£5.761m	£5.581m	-3.1%	Full protection
Pendle	£4.144m	£4.632m	11.8%	No protection
Preston	£4.861m	£5.131m	5.6%	No protection
Ribble Valley	£1.714m	£1.750m	2.1%	Partial protection
Rossendale	£3.576m	£3.470m	-3.0%	Full protection
South Ribble	£2.565m	£2.545m	-.8%	Full protection
West Lancashire	£4.024m	£4.017m	-.2%	Full protection
Wyre	£3.578m	£3.708m	3.6%	Partial protection
LEICESTERSHIRE	£217.127m	£222.380m	2.4%	Partial protection
Blaby	£1.731m	£1.718m	-.8%	Full protection
Charnwood	£3.598m	£3.515m	-2.3%	Full protection
Harborough	£1.420m	£1.647m	16.0%	No protection
Hinckley and Bosworth	£1.742m	£1.918m	10.1%	No protection
Leicester	£12.301m	£15.276m	24.2%	No protection
Melton	£.942m	£1.090m	15.7%	No protection
North West Leicestershire	£1.988m	£2.220m	11.7%	No protection
Oadby and Wigston	£1.171m	£1.257m	7.3%	No protection
Rutland	£.705m	£.818m	16.0%	No protection
LINCOLNSHIRE	£143.706m	£151.439m	5.4%	No protection
Boston	£1.814m	£1.810m	-.2%	Full protection
East Lindsey	£3.243m	-	10.0%	No protection
Lincoln	£3.305m	£3.344m	1.2%	Partial protection
North Kesteven	£2.136m	£2.289m	7.2%	No protection
South Holland	£2.203m	£2.327m	5.6%	No protection
South Kesteven	£2.920m	£2.914m	-.2%	Full protection
West Lindsey	£2.004m	£2.385m	19.0%	No protection
NORFOLK	£165.643m	£175.509m	6.0%	No protection
Breckland	£2.549m	£2.458m	-3.6%	Full protection
Broadland	£2.348m	£2.296m	-2.2%	Full protection
Great Yarmouth	£3.540m	£3.628m	2.5%	Partial protection
North Norfolk	£2.387m	£2.379m	-.3%	Full protection
Norwich	£5.181m	£6.058m	16.9%	No protection
South Norfolk	£1.776m	£1.776m	-	Full protection
West Norfolk	£3.746m	£3.548m	-5.3%	Full protection
NORTHAMPTONSHIRE	£133.213m	£133.206m	-	Full protection
Corby	£2.426m	£1.942m	-20.0%	Full protection
Daventry	£1.356m	£1.355m	-.1%	Full protection
East Northamptonshire	£1.366m	£1.363m	-.2%	Full protection
Kettering	£2.266m	£2.372m	4.7%	No protection
Northampton	£5.696m	£5.420m	-4.8%	Full protection
South Northamptonshire	£1.093m	£1.191m	9.0%	No protection
Wellingborough	£1.024m	£1.239m	21.0%	No protection

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Volume of expenditure and targets

Table B

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
NORTHUMBERLAND	£83.588m	£85.385m	2.1%	Partial protection
Alnwick	£.853m	£.848m	-.6%	Full protection
Berwick-upon-Tweed	£.807m	£.792m	-1.9%	Full protection
Blyth Valley	£2.863m	£2.962m	3.5%	Partial protection
Castle Morpeth	£1.266m	£1.262m	-.3%	Full protection
Tynedale	£1.655m	£1.676m	1.3%	Partial protection
Wansbeck	£3.248m	£3.241m	-.2%	Full protection
NORTH YORKSHIRE	£177.239m	£186.309m	5.1%	No protection
Craven	£1.673m	£1.710m	2.2%	Partial protection
Hambleton	£1.918m	£1.859m	-3.1%	Full protection
Harrogate	£4.892m	£7.102m	45.2%	No protection
Richmondshire	£1.557m	£1.634m	4.9%	No protection
Ryedale	£2.163m	£2.219m	2.6%	Partial protection
Scarborough	£5.012m	£4.411m	-12.0%	Full protection
Selby	£2.649m	£2.754m	4.0%	Partial protection
York	£3.362m	£3.342m	-.6%	Full protection
NOTTINGHAMSHIRE	£263.897m	£278.484m	5.5%	No protection
Ashfield	£2.959m	£3.347m	13.1%	No protection
Bassetlaw	£3.346m	£3.719m	11.1%	No protection
Broxtowe	£3.071m	£3.164m	3.0%	Partial protection
Gedling	£2.657m	£3.068m	15.5%	No protection
Mansfield	£2.821m	£3.313m	17.4%	No protection
Newark	£2.523m	£2.897m	14.8%	No protection
Nottingham	£12.777m	£13.522m	5.8%	No protection
Rushcliffe	£3.037m	£3.008m	-1.0%	Full protection
OXFORDSHIRE	£129.890m	£132.360m	1.9%	Partial protection
Cherwell	£2.915m	£2.951m	1.2%	Partial protection
Oxford	£3.575m	£3.383m	-5.4%	Full protection
South Oxfordshire	£3.466m	£3.350m	-3.3%	Full protection
Vale of White Horse	£2.705m	£2.577m	-4.7%	Full protection
West Oxfordshire	£2.006m	£2.025m	.9%	Partial protection
SHROPSHIRE	£95.452m	£101.578m	6.4%	No protection
Bridgnorth	£1.229m	£1.218m	-.9%	Full protection
North Shropshire	£1.425m	£1.382m	-3.0%	Full protection
Oswestry	£.898m	£.938m	4.5%	No protection
Shrewsbury and Atcham	£2.512m	£2.455m	-2.3%	Full protection
South Shropshire	£1.065m	£1.165m	9.4%	No protection
The Wrekin	£4.650m	£5.280m	13.5%	No protection
SOMERSET	£104.227m	£108.115m	3.7%	Partial protection
Mendip	£1.956m	£1.958m	.1%	Partial protection
Sedgemoor	£3.207m	£2.909m	-9.3%	Full protection
Taunton Deane	£2.441m	£2.398m	-1.8%	Full protection
West Somerset	£.772m	£.856m	10.9%	No protection
Yeovil	£3.088m	£3.124m	1.2%	Partial protection

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Table B

Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
STAFFORDSHIRE	£264.974m	£274.641m	3.6%	Partial protection
Cannock Chase	£1.953m	£2.470m	26.5%	No protection
East Staffordshire	£2.300m	£2.397m	4.2%	No protection
Lichfield	£2.240m	£2.275m	1.6%	Partial protection
Newcastle-under-Lyme	£3.868m	£4.400m	13.8%	No protection
South Staffordshire	£2.196m	£2.449m	11.5%	No protection
Stafford	£3.026m	£3.262m	7.8%	No protection
Staffordshire Moorlands	£2.449m	£2.941m	20.1%	No protection
Stoke-on-Trent	£8.546m	£9.247m	8.2%	No protection
Tamworth	£1.951m	£1.878m	-3.7%	Full protection
SUFFOLK	£140.067m	£147.227m	5.1%	No protection
Babergh	£1.848m	£2.274m	23.1%	No protection
Forest Heath	£1.332m	£1.182m	-14.5%	Full protection
Ipswich	£4.126m	£6.702m	62.4%	No protection
Mid Suffolk	£1.734m	£1.929m	11.2%	No protection
St Edmundsbury	£2.487m	£2.479m	-.3%	Full protection
Suffolk Coastal	£2.898m	£3.131m	8.0%	No protection
Waveney	£3.197m	£3.444m	7.7%	No protection
SURREY	£237.905m	£244.437m	2.7%	Partial protection
Elmbridge	£4.338m	£4.088m	-5.8%	Full protection
Epsom and Ewell	£2.886m	£2.781m	-3.6%	Full protection
Guildford	£3.442m	£3.535m	2.7%	Partial protection
Mole Valley	£2.542m	£2.412m	-5.1%	Full protection
Reigate and Banstead	£3.810m	£3.617m	-5.1%	Full protection
Runnymede	£2.148m	£2.129m	-.9%	Full protection
Spelthorne	£3.276m	£2.933m	-10.5%	Full protection
Surrey Heath	£2.115m	£2.210m	4.5%	No protection
Tandridge	£2.029m	£2.056m	1.3%	Partial protection
Waverley	£3.734m	£3.602m	-3.5%	Full protection
Woking	£2.017m	£2.011m	-.3%	Full protection
WARWICKSHIRE	£120.654m	£128.096m	6.2%	No protection
North Warwickshire	£1.837m	£2.118m	15.3%	No protection
Nuneaton and Bedworth	£4.556m	£5.104m	12.0%	No protection
Rugby	£2.868m	£2.831m	-1.3%	Full protection
Stratford on Avon	£3.013m	£2.957m	-1.9%	Full protection
Warwick	£3.502m	£3.876m	10.7%	No protection
WEST SUSSEX	£146.810m	£156.267m	6.4%	No protection
Adur	£2.105m	£2.371m	12.6%	No protection
Arun	£4.338m	£4.324m	-.3%	Full protection
Chichester	£2.933m	£2.910m	-.8%	Full protection
Crawley	£2.688m	£3.704m	37.8%	No protection
Horsham	£2.453m	£2.455m	.1%	Partial protection
Mid Sussex	£3.415m	£3.518m	3.0%	Partial protection
Worthing	£4.379m	£4.415m	.8%	Partial protection
WILTSHIRE	£130.859m	£136.363m	4.2%	No protection
Kennet	£1.808m	£1.803m	-.3%	Full protection
North Wiltshire	£2.597m	£2.780m	7.0%	No protection
Salisbury	£2.441m	£2.374m	-2.7%	Full protection
Thamesdown	£5.472m	£5.353m	-2.2%	Full protection
West Wiltshire	£1.996m	£2.376m	19.0%	No protection

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Volume of expenditure and targets

Table B

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
METROPOLITAN AUTHORITIES				
GREATER MANCHESTER	£221.190m	£243.184m	9.9%	No protection
Bolton	£61.958m	£67.509m	9.0%	No protection
Bury	£42.643m	£46.971m	10.1%	No protection
Manchester	£168.267m	£181.891m	8.1%	No protection
Oldham	£54.505m	£56.587m	3.8%	Partial protection
Rochdale	£56.728m	£63.254m	11.5%	No protection
Salford	£67.094m	£67.265m	.3%	Partial protection
Stockport	£66.551m	£70.260m	5.6%	No protection
Tameside	£57.351m	£60.000m	4.6%	No protection
Trafford	£54.308m	£54.357m	.1%	Partial protection
Wigan	£75.651m	£80.550m	6.5%	No protection
MERSEYSIDE	£154.914m	£174.246m	12.5%	No protection
Knowsley	£52.543m	£55.113m	4.9%	No protection
Liverpool	£155.405m	£169.600m	9.1%	No protection
St Helens	£49.699m	£51.154m	2.9%	Partial protection
Sefton	£69.221m	£69.951m	1.1%	Partial protection
Wirral	£86.451m	£87.224m	.9%	Partial protection
SOUTH YORKSHIRE	£125.500m	£147.780m	17.8%	No protection
Barnsley	£57.906m	£60.609m	4.7%	No protection
Doncaster	£78.826m	£78.541m	-.4%	Full protection
Rotherham	£64.428m	£64.290m	-.2%	Full protection
Sheffield	£140.215m	£155.146m	10.6%	No protection
TYNE AND WEAR	£116.632m	£128.139m	9.9%	No protection
Gateshead	£54.471m	£58.225m	6.9%	No protection
Newcastle upon Tyne	£86.601m	£92.302m	6.6%	No protection
North Tyneside	£52.413m	£53.190m	1.5%	Partial protection
South Tyneside	£45.244m	£46.746m	3.3%	Partial protection
Sunderland	£74.932m	£81.996m	9.4%	No protection
WEST MIDLANDS	£198.413m	£218.166m	10.0%	No protection
Birmingham	£280.032m	£291.812m	4.2%	No protection
Coventry	£82.067m	£87.237m	6.3%	No protection
Dudley	£58.285m	£63.879m	9.6%	No protection
Sandwell	£77.480m	£84.752m	9.4%	No protection
Solihull	£46.553m	£46.086m	-1.0%	Full protection
Walsall	£63.976m	£76.767m	20.0%	No protection
Wolverhampton	£65.498m	£74.848m	14.3%	No protection
WEST YORKSHIRE	£168.706m	£191.122m	13.3%	No protection
Bradford	£125.287m	£126.831m	.4%	Partial protection
Calderdale	£50.996m	£51.423m	.8%	Partial protection
Kirklees	£85.933m	£96.727m	12.6%	No protection
Leeds	£159.814m	£171.883m	7.6%	No protection
Wakefield	£78.207m	£78.177m	-	Full protection

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Volume of expenditure and targets

	Volume target Nov '80 prices (1)	Budgeted volume Nov '80 prices (2)	% above target (3)	Holdback status (4)
LONDON AUTHORITIES				
City of London	£21.892m	£29.473m	34.6%	No protection
Camden	£44.443m	£55.204m	24.2%	No protection
Greenwich	£31.368m	£34.480m	9.9%	No protection
Hackney	£37.550m	£39.705m	5.7%	No protection
Hammersmith and Fulham	£36.134m	£36.526m	1.1%	Partial protection
Islington	£38.803m	£41.112m	6.0%	No protection
Kensington and Chelsea	£28.104m	£26.904m	-4.3%	Full protection
Lambeth	£57.298m	£62.111m	8.4%	No protection
Lewisham	£42.053m	£45.535m	8.3%	No protection
Southwark	£53.628m	£53.591m	-.1%	Full protection
Tower Hamlets	£39.647m	£45.748m	15.4%	No protection
Wandsworth	£50.578m	£43.494m	-14.0%	Full protection
Westminster	£48.441m	£48.492m	.1%	Partial protection
Barking and Dagenham	£44.569m	£46.067m	3.4%	Partial protection
Barnet	£78.039m	£75.894m	-2.7%	Full protection
Bexley	£60.939m	£60.908m	-.1%	Full protection
Brent	£89.598m	£96.452m	7.6%	No protection
Bromley	£76.194m	£75.824m	-.5%	Full protection
Croydon	£85.862m	£85.860m	-	Full protection
Ealing	£89.381m	£89.258m	-.1%	Full protection
Enfield	£68.173m	£71.737m	5.2%	No protection
Haringey	£82.624m	£86.382m	4.5%	No protection
Harrow	£53.190m	£55.550m	4.4%	No protection
Havering	£66.428m	£66.355m	-.1%	Full protection
Hillingdon	£70.370m	£69.193m	-1.7%	Full protection
Hounslow	£59.176m	£65.042m	9.9%	No protection
Kingston-upon-Thames	£35.885m	£34.401m	-4.1%	Full protection
Merton	£47.393m	£45.365m	-4.3%	Full protection
Newham	£74.222m	£82.340m	10.9%	No protection
Redbridge	£57.244m	£59.621m	4.2%	No protection
Richmond-upon-Thames	£41.970m	£41.922m	-.1%	Full protection
Sutton	£41.034m	£42.635m	3.9%	Partial protection
Waltham Forest	£68.060m	£74.805m	9.9%	No protection
Inner London Education Authority	£598.800m	£634.990m	6.0%	No protection
Greater London Council	£362.533m	£368.139m	1.5%	Partial protection

LOCAL AUTHORITY CASH BUDGETS, LATEST ESTIMATED GRANT ENTITLEMENTS & PROVISIONAL GRANT HOLDBACK.

Table B

	Cash Budget for Total Expenditure (1)	Block Grant Entitlement Before Holdback (2)	Provisional Grant Holdback (3)	Holdback as a rate poundage (4)
AVON	£271.597m	£130.376m	£5.492m	4.7p
Bath	£4.797m	£2.971m	-	-
Bristol	£34.577m	£14.845m	£1.306m	2.3p
Kingswood	£2.853m	£1.657m	£.077m	1.0p
Northavon	£3.918m	£1.514m	£.155m	1.1p
Wansdyke	£2.701m	£1.406m	£.021m	.3p
Woodspring	£6.626m	£2.953m	-	-
BEDFORDSHIRE	£169.094m	£59.655m	£4.277m	5.4p
North Bedfordshire	£5.761m	£1.655m	-	-
Luton	£8.575m	£2.808m	£.094m	.3p
Mid Bedfordshire	£2.764m	£.890m	-	-
South Bedfordshire	£4.860m	£1.157m	£.241m	1.3p
BERKSHIRE	£200.161m	£62.804m	£8.884m	7.6p
Bracknell	£3.379m	£.429m	£.194m	1.5p
Newbury	£4.963m	£1.999m	£.191m	1.1p
Reading	£10.500m	£1.942m	£.566m	2.2p
Slough	£5.629m	£1.513m	-	-
Windsor and Maidenhead	£5.182m	£1.618m	£.228m	1.0p
Wokingham	£4.593m	£1.912m	-	-
BUCKINGHAMSHIRE	£172.147m	£53.926m	£7.676m	8.5p
Aylesbury Vale	£4.619m	£1.116m	-	-
South Buckinghamshire	£2.014m	£.246m	-	-
Chiltern	£3.389m	£.285m	-	-
Milton Keynes	£6.635m	£1.135m	£.364m	2.2p
Wycombe	£4.354m	-	-	-
CAMBRIDGESHIRE	£168.199m	£71.450m	£6.260m	7.9p
Cambridge	£4.997m	£1.381m	-	-
East Cambridgeshire	£1.661m	£.679m	£.016m	.3p
Fenland	£2.515m	£1.373m	-	-
Huntingdon	£4.157m	£1.768m	-	-
Peterborough	£8.880m	£2.701m	£.409m	2.2p
South Cambridgeshire	£2.679m	£.698m	£.076m	.5p
CHESHIRE	£304.771m	£137.126m	£10.883m	8.5p
Chester	£6.350m	£1.944m	£.289m	1.7p
Congleton	£3.325m	£.978m	-	-
Crewe and Nantwich	£5.863m	£3.267m	-	-
Ellesmere Port and Neston	£4.746m	£1.043m	£.242m	1.5p
Halton	£7.105m	£2.905m	£.276m	1.7p
Macclesfield	£6.171m	£2.214m	-	-
Vale Royal	£5.240m	£1.870m	£.055m	.4p
Warrington	£8.751m	£2.614m	-	-

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Table A

Expenditure and holdback

	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
CLEVELAND	£205.076m	£108.030m	£6.312m	8.5p
Hartlepool	£6.355m	£3.630m	£.179m	1.8p
Langbaurgh	£13.216m	£3.756m	£.630m	2.9p
Middlesbrough	£15.058m	£8.313m	£.448m	2.7p
Stockton-on-Tees	£11.113m	£3.471m	£.504m	1.9p
CORNWALL	£120.308m	£68.913m	£3.320m	7.5p
Caradon	£2.808m	£1.490m	£.086m	1.4p
Carrick	£3.921m	£2.187m	£.113m	1.3p
Kerrier	£3.054m	£1.913m	-	-
North Cornwall	£2.820m	£1.542m	£.083m	1.2p
Penwith	£3.023m	£1.903m	-	-
Restormel	£2.993m	£1.398m	-	-
CUMBRIA	£148.207m	£92.634m	£3.601m	7.8p
Allerdale	£4.795m	£3.422m	-	-
Barrow in Furness	£4.047m	£2.630m	£.093m	1.5p
Carlisle	£5.940m	£2.503m	£.227m	2.1p
Copeland	£4.216m	£2.145m	-	-
Eden	£1.546m	£.926m	-	-
South Lakeland	£4.415m	£2.570m	-	-
DERBYSHIRE	£273.128m	£150.430m	£7.952m	7.9p
Amber Valley	£4.538m	£2.698m	-	-
Bolsover	£3.448m	£2.166m	£.084m	1.5p
Chesterfield	£6.035m	£2.502m	£.233m	2.1p
Derby	£13.090m	£4.252m	£.584m	2.0p
Erewash	£4.550m	£2.473m	-	-
High Peak	£3.789m	£1.919m	-	-
North East Derbyshire	£4.640m	£2.409m	£.147m	1.7p
South Derbyshire	£2.134m	£.659m	-	-
West Derbyshire	£2.880m	£1.681m	£.078m	1.1p
DEVON	£271.103m	£141.785m	£8.365m	7.7p
East Devon	£4.424m	£2.325m	-	-
Exeter	£4.270m	£1.743m	-	-
North Devon	£3.717m	£2.244m	£.096m	1.2p
Plymouth	£10.804m	£6.577m	£.067m	.2p
South Hams	£2.866m	£1.836m	-	-
Teignbridge	£4.452m	£2.576m	£.030m	.3p
Mid Devon	£1.957m	£1.030m	-	-
Torbay	£6.300m	£2.900m	£.222m	1.4p
Torridge	£2.328m	£1.625m	£.027m	.7p
West Devon	£1.439m	£.995m	£.028m	.8p
DORSET	£163.079m	£65.762m	-	-
Bournemouth	£9.526m	£3.999m	-	-
Christchurch	£1.724m	£.532m	£.047m	.8p
North Dorset	£1.362m	£.606m	£.049m	1.0p
Poole	£5.823m	£2.261m	-	-
Purbeck	£1.350m	£.633m	£.046m	.9p
West Dorset	£2.487m	£1.511m	-	-
Weymouth and Portland	£2.862m	£1.617m	£.081m	1.3p
Wimbourne	£2.292m	£1.074m	£.046m	.5p

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Expenditure and holdback

	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
DURHAM	£195.896m	£123.490m	£4.711m	8.2p
Chester-le-Street	£2.928m	£1.685m	£.082m	1.9p
Darlington	£7.990m	£2.915m	-	-
Derwentside	£6.330m	£3.050m	£.218m	2.6p
Durham	£5.542m	£2.765m	£.184m	2.1p
Easington	£5.648m	£4.176m	£.058m	.8p
Sedgefield	£7.478m	£4.439m	£.121m	1.4p
Teesdale	£.916m	£.524m	£.025m	1.2p
Wear Valley	£4.917m	£2.876m	£.135m	2.4p
EAST SUSSEX	£181.809m	£68.220m	£1.841m	1.9p
Brighton	£12.780m	£5.111m	-	-
Eastbourne	£6.316m	£2.196m	£.272m	2.1p
Hastings	£4.574m	£2.614m	-	-
Hove	£4.626m	£2.376m	-	-
Lewes	£4.018m	£1.712m	-	-
Rother	£3.770m	£1.787m	-	-
Wealden	£4.265m	£1.678m	£.042m	.3p
ESSEX	£418.799m	£154.608m	£17.088m	7.6p
Basildon	£11.366m	£3.783m	£.502m	2.2p
Braintree	£4.189m	£1.714m	£.160m	1.1p
Brentwood	£2.539m	£.592m	£.125m	1.0p
Castle Point	£3.637m	£1.274m	-	-
Chelmsford	£4.572m	£.499m	£.159m	.8p
Colchester	£4.627m	£1.416m	-	-
Epping Forest	£4.403m	£.668m	£.243m	1.3p
Harlow	£6.737m	£.462m	£.418m	3.1p
Maldon	£1.632m	£.582m	£.017m	.2p
Rochford	£2.949m	£1.336m	£.026m	.3p
Southend-on-Sea	£10.769m	£4.566m	£.406m	1.6p
Tendring	£5.560m	£2.429m	-	-
Thurrock	£7.111m	£1.576m	-	-
Uttlesford	£2.142m	£1.065m	£.041m	.5p
GLOUCESTERSHIRE	£147.511m	£70.818m	£2.981m	4.8p
Cheltenham	£4.078m	£1.617m	-	-
Cotswold	£2.515m	£1.242m	-	-
Forest of Dean	£2.263m	£1.457m	£.051m	.8p
Gloucester	£3.017m	£1.418m	£.025m	.2p
Stroud	£3.390m	£1.344m	-	-
Tewkesbury	£2.404m	£.837m	£.061m	.6p
HAMPSHIRE	£424.654m	£186.174m	£9.253m	4.6p
Basingstoke and Deane	£5.349m	£1.135m	-	-
East Hampshire	£3.952m	£2.104m	£.119m	1.1p
Eastleigh	£3.440m	£.833m	-	-
Fareham	£4.548m	£1.803m	£.180m	1.6p
Gosport	£3.315m	£1.858m	£.056m	.6p
Hart	£2.958m	£.997m	£.128m	1.4p
Havant	£4.884m	£2.655m	-	-
New Forest	£6.143m	£2.166m	£.154m	.7p
Portsmouth	£16.549m	£7.180m	£.612m	2.3p
Rushmoor	£5.111m	£2.268m	-	-
Southampton	£12.983m	£5.843m	-	-
Test Valley	£3.495m	£1.327m	£.084m	.7p
Winchester	£3.548m	£1.273m	-	-

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Expenditure and holdback

	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
HEREFORD AND WORCESTER	£182.494m	£85.736m	£6.252m	7.7p
Bromsgrove	£2.635m	£.761m	-	-
Hereford	£2.130m	£.442m	£.111m	1.7p
Leominster	£1.320m	£.714m	£.039m	1.2p
Malvern Hills	£3.056m	£1.448m	£.026m	.3p
Redditch	£3.976m	£1.126m	£.188m	2.0p
South Herefordshire	£1.632m	£.832m	£.031m	.7p
Worcester	£3.988m	£.713m	£.215m	1.8p
Wychavon	£4.491m	£1.320m	-	-
Wyre Forest	£6.318m	£2.197m	£.273m	2.2p
HERTFORDSHIRE	£293.116m	£88.753m	£7.944m	4.8p
Broxbourne	£4.389m	£2.303m	£.134m	1.1p
Dacorum	£5.257m	£.366m	-	-
East Hertfordshire	£5.100m	£1.359m	£.245m	1.6p
Hertsmere	£5.514m	£1.047m	-	-
North Hertfordshire	£4.183m	£.324m	-	-
St Albans	£4.757m	£.624m	-	-
Stevenage	£5.987m	£.145m	£.097m	.7p
Three Rivers	£4.077m	£.894m	£.052m	.4p
Watford	£6.046m	£1.957m	£.269m	1.7p
Welwyn Hatfield	£5.260m	-	-	-
HUMBERSIDE	£271.523m	£163.865m	£6.967m	7.4p
Beverley	£3.530m	£1.540m	£.129m	1.1p
Boothferry	£3.647m	£2.059m	£.105m	1.9p
Cleethorpes	£4.452m	£1.921m	£.042m	.5p
Glanford	£3.525m	£1.160m	£.156m	1.9p
Great Grimsby	£5.283m	£3.029m	£.147m	1.3p
Holderness	£1.702m	£.893m	-	-
Kingston upon Hull	£19.397m	£10.842m	£.565m	2.0p
North Wolds	£3.853m	£2.220m	£.064m	1.0p
Scunthorpe	£6.093m	£2.352m	£.248m	2.3p
ISLE OF WIGHT	£34.013m	£18.388m	£1.010m	7.8p
Medina	£3.181m	£1.569m	£.105m	1.4p
South Wight	£2.795m	£1.265m	£.025m	.5p
KENT	£421.285m	£208.946m	£13.722m	7.7p
Ashford	£3.768m	£1.873m	-	-
Canterbury	£6.960m	£3.281m	£.242m	1.7p
Dartford	£5.841m	£2.752m	£.204m	2.0p
Dover	£5.939m	£3.502m	£.040m	.4p
Gillingham	£2.526m	£1.560m	£.060m	.6p
Gravesham	£4.616m	£2.171m	-	-
Maidstone	£5.864m	£2.902m	-	-
Rochester upon Medway	£6.727m	£3.567m	-	-
Sevenoaks	£5.047m	£1.965m	-	-
Shepway	£5.153m	£2.358m	-	-
Swale	£5.083m	£2.947m	-	-
Thanet	£8.356m	£4.658m	-	-
Tonbridge and Malling	£4.384m	£1.383m	-	-
Tunbridge Wells	£4.226m	£1.780m	£.160m	1.4p

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Expenditure and holdback

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	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
LANCASHIRE	£416.529m	£260.548m	£10.088m	7.3p
Blackburn	£13.344m	£8.154m	£.207m	1.6p
Blackpool	£9.912m	£5.324m	£.181m	1.0p
Burnley	£7.822m	£4.682m	£.209m	2.6p
Chorley	£3.737m	£2.235m	£.097m	1.2p
Fylde	£3.477m	£1.562m	-	-
Hyndburn	£5.195m	£3.422m	£.117m	1.8p
Lancaster	£7.442m	£3.921m	-	-
Pendle	£5.796m	£4.011m	£.118m	1.9p
Preston	£7.771m	£4.242m	£.231m	1.6p
Ribble Valley	£2.430m	£1.328m	£.043m	.9p
Rossendale	£4.438m	£2.755m	-	-
South Ribble	£3.468m	£1.985m	-	-
West Lancashire	£4.759m	£2.550m	-	-
Wyre	£4.610m	£2.420m	£.085m	.8p
LEICESTERSHIRE	£246.576m	£124.818m	£4.715m	4.3p
Blaby	£2.288m	£.914m	-	-
Charnwood	£4.568m	£1.847m	-	-
Harborough	£2.149m	£.977m	£.075m	1.0p
Hinckley and Bosworth	£2.818m	£1.113m	£.110m	1.0p
Leicester	£21.018m	£9.760m	£.739m	1.9p
Melton	£1.508m	£.619m	£.057m	1.1p
North West Leicestershire	£3.177m	£1.176m	£.130m	1.3p
Oadby and Wigston	£1.524m	£.504m	£.065m	1.0p
Rutland	£.918m	£.325m	£.038m	1.1p
LINCOLNSHIRE	£161.980m	£92.849m	£4.472m	7.6p
Boston	£2.095m	£.996m	-	-
East Lindsey	£4.417m	£2.335m	£.135m	1.2p
Lincoln	£4.000m	£1.511m	£.041m	.4p
North Kesteven	£2.711m	£1.578m	£.073m	1.0p
South Holland	£2.880m	£1.915m	£.062m	1.0p
South Kesteven	£3.657m	£1.713m	-	-
West Lindsey	£3.151m	£1.870m	£.083m	1.1p
NORFOLK	£190.398m	£92.422m	£6.330m	7.3p
Breckland	£2.964m	£1.521m	-	-
Broadland	£2.889m	£1.278m	-	-
Great Yarmouth	£5.439m	£1.970m	£.138m	1.3p
North Norfolk	£3.335m	£1.713m	-	-
Norwich	£9.563m	£3.139m	£.423m	1.9p
South Norfolk	£2.949m	£1.722m	-	-
West Norfolk	£5.533m	£2.655m	-	-
NORTHAMPTONSHIRE	£150.295m	£71.713m	-	-
Corby	£2.766m	£.258m	-	-
Daventry	£1.848m	£.332m	-	-
East Northamptonshire	£1.733m	£.723m	-	-
Kettering	£3.530m	£2.263m	£.081m	1.0p
Northampton	£9.802m	£4.524m	-	-
South Northamptonshire	£1.985m	£.761m	£.080m	1.2p
Wellingborough	£2.731m	£1.262m	£.095m	1.2p

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Expenditure and holdback

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	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
NORTHUMBERLAND	£94.539m	£54.840m	£1.547m	5.0p
Alnwick	£1.476m	£.948m	-	-
Berwick-upon-Tweed	£1.148m	£.487m	-	-
Blyth Valley	£4.851m	£3.188m	£.065m	1.0p
Castle Morpeth	£1.838m	£.818m	-	-
Tynedale	£2.637m	£1.568m	£.017m	.3p
Wansbeck	£4.589m	£1.642m	-	-
NORTH YORKSHIRE	£201.711m	£112.908m	£5.752m	7.9p
Craven	£2.203m	£1.170m	£.041m	.9p
Hambleton	£2.400m	£1.073m	-	-
Harrogate	£8.448m	£3.719m	£.312m	2.0p
Richmondshire	£2.028m	£1.130m	£.059m	1.4p
Ryedale	£2.883m	£1.464m	£.055m	.7p
Scarborough	£5.457m	£2.836m	-	-
Selby	£3.490m	£.973m	£.098m	.8p
York	£5.040m	£2.771m	-	-
NOTTINGHAMSHIRE	£301.842m	£168.602m	£8.607m	7.1p
Ashfield	£4.905m	£2.882m	£.132m	1.3p
Bassetlaw	£6.076m	£1.221m	£.320m	2.0p
Broxtowe	£4.390m	£2.322m	£.080m	.7p
Gedling	£4.026m	£1.806m	£.145m	1.3p
Mansfield	£5.659m	£3.682m	£.129m	1.4p
Newark	£4.300m	£2.079m	£.145m	1.4p
Nottingham	£18.353m	£7.625m	£.705m	1.8p
Rushcliffe	£4.065m	£1.119m	-	-
OXFORDSHIRE	£155.912m	£58.484m	£1.580m	2.0p
Cherwell	£3.894m	£1.291m	£.042m	.3p
Oxford	£5.753m	£2.718m	-	-
South Oxfordshire	£4.489m	£1.569m	-	-
Vale of White Horse	£3.131m	£.340m	-	-
West Oxfordshire	£2.577m	£1.044m	£.025m	.3p
SHROPSHIRE	£112.565m	£62.532m	£3.233m	7.7p
Bridgnorth	£1.614m	£.559m	-	-
North Shropshire	£1.743m	£.891m	-	-
Oswestry	£1.160m	£.628m	£.035m	1.2p
Shrewsbury and Atcham	£3.243m	£1.015m	-	-
South Shropshire	£1.472m	£.817m	£.043m	1.4p
The Wrekin	£7.506m	£3.182m	£.285m	2.0p
SOMERSET	£123.755m	£64.338m	£2.307m	4.7p
Mendip	£2.670m	£1.258m	£.023m	.2p
Sedgemoor	£3.537m	£1.517m	-	-
Taunton Deane	£3.559m	£1.765m	-	-
West Somerset	£1.124m	£.616m	£.031m	.6p
Yeovil	£4.722m	£1.906m	£.046m	.3p

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Expenditure and holdback

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	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
STAFFORDSHIRE	£307.537m	£156.481m	£5.874m	4.9p
Cannock Chase	£3.577m	£1.812m	£.114m	1.1p
East Staffordshire	£3.779m	£1.278m	£.163m	1.3p
Lichfield	£2.692m	£.634m	£.033m	.3p
Newcastle-under-Lyme	£5.862m	£2.337m	£.232m	1.9p
South Staffordshire	£3.057m	£1.041m	£.130m	1.2p
Stafford	£4.538m	£1.522m	£.196m	1.3p
Staffordshire Moorlands	£2.989m	£1.262m	£.112m	1.2p
Stoke-on-Trent	£12.510m	£5.683m	£.446m	1.5p
Tamworth	£3.153m	£1.909m	-	-
SUFFOLK	£170.999m	£76.576m	£6.120m	8.2p
Babergh	£3.359m	£1.543m	£.118m	1.4p
Forest Heath	£2.087m	£.844m	-	-
Ipswich	£7.737m	£2.532m	£.343m	1.9p
Mid Suffolk	£2.692m	£1.259m	£.093m	1.2p
St Edmundsbury	£3.119m	£1.001m	-	-
Suffolk Coastal	£3.950m	£1.598m	£.152m	1.2p
Waveney	£4.911m	£2.910m	£.130m	1.2p
SURREY	£266.502m	£71.917m	£7.561m	4.5p
Elmbridge	£5.202m	£1.249m	-	-
Epsom and Ewell	£3.409m	£1.370m	-	-
Guildford	£4.780m	£1.256m	£.136m	.6p
Mole Valley	£3.059m	£.889m	-	-
Reigate and Banstead	£4.735m	£1.092m	-	-
Runnymede	£2.744m	£1.088m	-	-
Spelthorne	£3.834m	£.670m	-	-
Surrey Heath	£3.027m	£.471m	£.166m	1.4p
Tandridge	£2.517m	£.807m	£.028m	.3p
Waverley	£4.529m	£1.368m	-	-
Woking	£3.644m	£1.636m	-	-
WARWICKSHIRE	£140.489m	£61.486m	£5.111m	7.9p
North Warwickshire	£3.112m	£1.101m	£.132m	1.6p
Nuneaton and Bedworth	£7.874m	£3.601m	£.283m	2.2p
Rugby	£3.641m	£1.267m	-	-
Stratford on Avon	£4.623m	£.375m	-	-
Warwick	£5.058m	£1.843m	£.208m	1.2p
WEST SUSSEX	£172.596m	£60.653m	£7.236m	7.7p
Adur	£3.660m	£1.077m	£.171m	2.1p
Arun	£6.009m	£3.329m	-	-
Chichester	£4.127m	£1.969m	-	-
Crawley	£5.630m	-	-	-
Horsham	£3.565m	£1.447m	£.034m	.3p
Mid Sussex	£4.882m	£1.825m	£.119m	.8p
Worthing	£5.802m	£2.348m	£.057m	.4p
WILTSHIRE	£150.558m	£83.029m	£4.361m	7.6p
Kennet	£2.466m	£1.146m	-	-
North Wiltshire	£3.608m	£1.978m	£.105m	1.0p
Salisbury	£3.472m	£1.447m	-	-
Thamesdown	£11.925m	£4.317m	-	-
West Wiltshire	£2.826m	£1.539m	£.081m	.8p

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Expenditure and holdback

	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
METROPOLITAN AUTHORITIES				
GREATER MANCHESTER	£219.180m	£105.561m	£7.454m	2.3p
Bolton	£82.392m	£50.998m	£2.037m	7.5p
Bury	£55.745m	£31.247m	£1.596m	8.5p
Manchester	£241.177m	£111.131m	£8.598m	11.9p
Oldham	£74.202m	£49.411m	£.961m	4.3p
Rochdale	£76.587m	£48.175m	£1.859m	9.1p
Salford	£86.298m	£54.522m	£.517m	1.7p
Stockport	£82.943m	£40.406m	£2.751m	7.3p
Tameside	£72.385m	£45.875m	£1.723m	8.1p
Trafford	£64.897m	£24.847m	£.645m	1.7p
Wigan	£100.728m	£61.974m	£2.521m	8.3p
MERSEYSIDE	£139.844m	£71.276m	£4.499m	2.3p
Knowsley	£64.109m	£38.992m	£1.627m	7.6p
Liverpool	£205.065m	£117.745m	£5.702m	8.1p
St Helens	£65.129m	£34.625m	£1.193m	5.3p
Sefton	£82.575m	£47.234m	£.567m	1.6p
Wirral	£102.437m	£54.877m	£.769m	1.9p
SOUTH YORKSHIRE	£148.629m	£72.002m	£5.097m	3.8p
Barnsley	£73.627m	£48.901m	£1.612m	8.6p
Doncaster	£98.070m	£57.491m	-	-
Rotherham	£82.845m	£53.621m	-	-
Sheffield	£202.317m	£95.236m	£7.042m	10.8p
TYNE AND WEAR	£127.417m	£67.873m	£3.942m	3.2p
Gateshead	£69.041m	£41.979m	£1.762m	8.3p
Newcastle upon Tyne	£118.555m	£44.145m	£4.909m	12.0p
North Tyneside	£67.571m	£38.949m	£.468m	2.3p
South Tyneside	£59.485m	£39.886m	£.769m	5.0p
Sunderland	£98.252m	£63.643m	£2.260m	8.5p
WEST MIDLANDS	£198.765m	£80.592m	£7.694m	1.9p
Birmingham	£348.553m	£163.900m	£11.988m	7.5p
Coventry	£106.725m	£54.963m	£3.357m	7.8p
Dudley	£75.791m	£30.456m	£2.925m	7.0p
Sandwell	£104.488m	£40.246m	£4.182m	8.5p
Solihull	£55.853m	£23.724m	-	-
Walsall	£91.381m	£38.200m	£3.471m	9.0p
Wolverhampton	£94.023m	£38.730m	£3.611m	8.8p
WEST YORKSHIRE	£164.601m	£94.970m	£4.559m	2.2p
Bradford	£147.731m	£98.880m	£.793m	1.9p
Calderdale	£62.154m	£41.857m	£.331m	2.1p
Kirklees	£115.740m	£77.430m	£2.486m	7.8p
Leeds	£212.454m	£116.062m	£6.248m	7.4p
Wakefield	£95.526m	£54.846m	-	-

CONFIDENTIAL

Table A

Expenditure and holdback

	Budgeted total expenditure (1)	Cose ended Block grant (2)	Grant holdback (3)	Holdback as poundage (4)
LONDON AUTHORITIES				
City of London	£60.144m	-	-	-
Camden	£102.427m	-	-	-
Greenwich	£49.928m	£27.018m	£1.522m	4.8p
Hackney	£71.040m	£35.948m	£2.342m	6.7p
Hammersmith and Fulham	£51.936m	£27.665m	£.402m	1.2p
Islington	£69.360m	£18.709m	£3.380m	6.7p
Kensington and Chelsea	£36.139m	£4.116m	-	-
Lambeth	£98.831m	£43.954m	£3.659m	6.4p
Lewisham	£74.206m	£41.943m	£2.153m	6.5p
Southwark	£87.032m	£34.023m	-	-
Tower Hamlets	£60.775m	£20.131m	£2.724m	6.3p
Wandsworth	£60.000m	£39.858m	-	-
Westminster	£67.927m	-	-	-
Barking and Dagenham	£60.384m	£23.545m	£1.456m	5.5p
Barnet	£89.053m	£31.977m	-	-
Bexley	£74.792m	£38.785m	-	-
Brent	£121.421m	£46.349m	£4.940m	9.8p
Bromley	£89.461m	£42.075m	-	-
Croydon	£101.636m	£44.771m	-	-
Ealing	£105.850m	£45.522m	-	-
Enfield	£88.942m	£36.068m	£3.442m	7.3p
Haringey	£109.638m	£50.504m	£3.910m	11.4p
Harrow	£68.359m	£26.697m	£2.723m	8.1p
Havering	£81.135m	£37.900m	-	-
Hillingdon	£83.067m	£20.647m	-	-
Hounslow	£85.460m	£20.415m	£4.277m	9.0p
Kingston-upon-Thames	£43.490m	£15.633m	-	-
Merton	£54.489m	£25.624m	-	-
Newham	£112.187m	£56.797m	£3.651m	10.4p
Redbridge	£70.761m	£34.629m	£2.342m	6.6p
Richmond-upon-Thames	£48.794m	£20.390m	-	-
Sutton	£51.699m	£24.239m	£1.066m	3.8p
Waltham Forest	£99.545m	£49.553m	£3.297m	10.6p
Inner London Education Authority	£693.928m	£4.806m	£4.806m	.4p
Greater London Council	£455.844m	£112.826m	£5.601m	.3p

APPENDIX

HOLDBACK OF BLOCK GRANT

TECHNICAL BACKGROUND NOTE

1. This note explains the mechanics which would be used to hold back a part of the total of Rate Support Grant.

Close-Ending

2. The Rate Support Grant Report (England) 1980 indicated that the total amount available for block grant in 1981/2 would be £8,364m. This was to be distributed in accordance with the poundage schedule specified in Annex H to that Report. The schedule was set so that it would distribute all of the grant available on the basis of authorities' expenditure projections which assumed that they would each comply with the Government's guidelines on the volume of expenditure and cash limits. It is now known that authorities have exceeded those expenditure projections and as a result the amount of grant claimed by authorities on the basis of the schedule in Annex H now exceeds by £303m the total of grant available.

3. Paragraph 44 of the Main Report made it clear that in these circumstances it would be necessary to reduce grant claims by adjusting the poundage schedule. This process, known as close ending, would be carried out by specifying a new poundage schedule in a supplementary report (under Section 66 of the Local Government Planning and Land Act 1980). There are a number of ways such a schedule could be specified. For the present purposes the assumption would be that the change would be effected so that all authorities would make the same rate poundage contribution to the close ending.

Holdback

4. A proposal to reduce further the total grant available for distribution (holdback) would mean that a different "holdback" poundage schedule would have to be specified in the Supplementary Report. This would have a Grant Related Poundage [p] higher for expenditure equal to Grant Related Expenditure than the poundage schedule required simply to close end grant claims would have been. In addition the Secretary of State would wish those authorities spending higher in relation to Grant Related Expenditure to bear a greater proportion of any holdback and accordingly would specify a new "tariff" for each increase in expenditure. Below the grant threshold the tariff would increase from 0.5618p for every pound per head of expenditure to 0.6p. Above the threshold the tariff would increase from 0.7023p per pound per head of expenditure to 0.75p

Exemptions

5. Local authorities were given an assurance in January that if they met the target for current expenditure notified to them they would be protected from the effects of any higher holdback poundage schedule proposed by the Secretary of State. This protection would be given to them by means of a multiplier which would have the effect of giving those authorities grant entitlements as if the poundage schedule applying to them was the close ending schedule rather than the holdback schedule which would be specified in the Supplementary Report. In addition it is now proposed to give partial protection to authorities getting partway towards their notified targets. Authorities within 2% of their targets would get 75% of the protection they would have got had they met the target in full. Authorities more than 2% but less than 4% above their targets would get 40% of the full protection.

Seen in Mtg folder

CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

LOCAL GOVERNMENT FINANCE

I have seen Michael Heseltine's minute to you of 27 May and the enclosure, and discussed it with Leon Brittan. We strongly endorse the general strategy outlined in his minute. We must give local authorities the maximum incentive to make savings, and this is best achieved by making it crystal clear now how each authority's grant would be affected if it did not reduce its spending plans. We agree that there can be no question at this stage of even hinting at an exemption for authorities spending below GRE. Even if this were acceptable on legal grounds, it would very seriously weaken the impact of our message and the chances of getting the necessary spending cuts.

2. We also support the general thrust of Michael's draft statement, subject to some crucial points of substance on the final section and a couple of presentational points.

3. Our major difficulties concern the commitment in the final para-raph to legislation in 1982-83, and the way in which the link is made between expenditure and rating.

4. I recognise that Michael's observations on the timing of legislation largely reflect the conclusions which E Committee reached when I was in Gabon attending the IMF. But, even at this late stage, I would like to urge caution in what is said publicly about the timetable in relation to more fundamental changes - which, as the Minutes say, we "might or might not introduce". Whatever Michael says next week, my fear is that

/when we

when we publish the consultative document, it will quickly become apparent that no solution which depends to any significant extent upon a local sales tax or a local income tax can be operational for a fair number of years. In view of the immense amount of work that remains to be done, and in advance of the consultative process, I find it very difficult to envisage our being ready with meaningful legislation by 1982-83. Yet if we arouse public expectations of early action, we may find ourselves having to choose between disappointing our supporters or settling for an obviously insufficient or unsatisfactory alternative to local rates.

5. I am sure it would be wiser to avoid any public reference to legislation, at least in relation to longer-term changes, at least until we have had an opportunity to consider what is to go into the consultative document. We should then be in a much better position to judge what to say about timing. We could then link an announcement on timing with the publication of our proposals when they are ready.

6. The penultimate sentence of Michael's draft seems to me to have potential dangers of another kind. I would prefer a more neutral formulation, as follows: "But in any consideration of local government finance, we cannot ignore the problems of the rating system and their consequences. I therefore intend to issue a consultation document on the alternatives to domestic rates in the autumn." This would have the advantage of forestalling the otherwise inevitable comback from the CBI that we are totally ignoring the problem of non-domestic rates (which is, indeed, another dimension of this whole issue). It would also avoid begging questions about the real defects of rates - which are likely to be shared, as I believe, by almost any alternative form of unrestricted and locally determined taxation, at least in the hands of some of today's councillors.

/7. Other

7. Other presentational points have, I think, already been negotiated between officials. These are the need to present our expectations as to the level of overspending in such a way as to appear consistent with a £450 million grant penalty, and the need to make sure that "targets" are understood to be volume targets.

8. I am copying this minute to those colleagues who attended the last meeting of E Committee, to the Chief Whip and to Sir Robert Armstrong.

R.I. Tolkien,
for,

(G.H.)
28 May 1981

[Approved by the Chancellor and signed on his behalf.]

cc Mr Duguid
Mr Walters

C

seen in mtg folder

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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

28 May 1981

CONFIDENTIAL

Dear Mr Pattison,

LOCAL GOVERNMENT FINANCE

I have spoken to my Secretary of State about the Secretary of State for the Environment's minute of 27 May to the Prime Minister. My Secretary of State has asked me to say that he was quite content to proceed on the basis agreed by E on 21 May, but if it is agreed that Mr Heseltine should make an oral statement to Parliament on 2 June he considers it absolutely essential that he too should make an oral statement immediately following Mr Heseltine. We will, therefore, be bringing forward our meeting with the Welsh Consultative Council to 2 pm on that day.

I am sending copies of this letter to the Private Secretaries of those who received copies of Mr Heseltine's minute.

Yours sincerely
Leighton Davies

pp J F CRAIG
Private Secretary

Mike Pattison Esq
Private Secretary
No 10 Downing Street
LONDON SW1

PRIME MINISTER

c. Mr. Ingham
Mr. Duguid

Local Government Finance

The attached minute from Mr. Heseltine encloses a draft oral statement which he proposes to make next Tuesday.

He has decided to go for an oral statement because he believes the Opposition will provoke a major row if he were to make a written one. Your inclination at E last week was that he should make a written statement; but in view of DOE's unfortunate track record with written statements, it is hard to question Mr. Heseltine's judgement that this one should be oral.

As earlier envisaged, the statement will be immediately after Mr. Heseltine has met the Consultative Council on Local Government Finance: its meeting has been fixed for 2.00 pm on Tuesday.

The draft is consistent with the decisions that were taken in E - at Flag A is a copy of the minutes. However, it is far from elegant, nor is it particularly persuasive in political terms. I have therefore suggested to DOE that Mr. Heseltine should look at it again - which he is now doing.

The figures in the middle paragraph of page 2 are also confusing. Except to those who are totally immersed in the paraphernalia of LA finance it is far from clear how the £800m volume overspend translates into a £1250m cash overspend. Given a 10% inflation assumption, the £800m volume should translate into roughly £900m cash. The £1250m figure arises because the local authorities have assumed a 3-4% higher inflation factor than we did in working out the Rate Support Grant. This is a very esoteric point, and I have suggested that either they should make the connection between the £800m and £1250m clear; or preferably, leave the £1250m figure out altogether. (It would be better still if all the figures could be expressed in cash rather than volume terms; but for this year, it is not possible. Cash planning will only come into effect starting in 1982/83.)

/ You may also

You may also be puzzled about the origin of the £1250m cash figure, since Mr. Heseltine mentioned £1350m at E. The difference is due to the £100m extra spending by the Metropolitan Police which the Home Secretary objected to being included in this exercise.

One final point which you should note is that the final paragraph virtually commits the Government to legislation in 1982/83 on longer term alternatives to the present domestic rating system. It was clearly the view of E that we should go for legislation on the longer term question in 1982/83 with a view to implementation early in the next Parliament, and Mr. Heseltine wants to get this on the record now. There are attractions in publicly committing the Government to legislation in 1982/83 because it will ensure that the work is pushed ahead fast. On the other hand, bearing in mind that we are planning legislation in the 1981/82 session on shorter term measures and the need for a fairly lengthy consultation period on the longer term measures, it may be something of a hostage to fortune to include a commitment for 1982/83 now.

Mr. Heseltine is asking for comments from colleagues by tomorrow. He will then produce a revised draft for circulation on Monday. I doubt whether you will wish to suggest specific

Yes

drafting changes, but can I say that you think it can be improved? And what is your view about committing the Government to legislation in 1982/83? . Unwise to commit us to a year until we have got a little further on deciding what we want to do.

Yes

Can I also say that you are content that the statement should be oral, and on Tuesday (subject of course to the Business Managers' views)?

Since dictating this we have received a minute from Mr. Younger (Flag B). This argues strongly for a written answer on the grounds that, if there were to be an oral statement, he would have to make one as well - though not necessarily on the same day. There is also a letter at Flag C from the Welsh Office. They appear to be content for Mr. Heseltine to make an oral statement; but they say that it would have to be followed immediately by an oral statement by Mr. Edwards.

Prefer oral statement

/ My own view

My own view remains that an oral statement is necessary. Unless the Leader of the House can persuade Mr. Younger and Mr. Edwards to the contrary, they will simply have to make oral statements as well. The precise timing of their statements can be left to be decided between them.

Mr. Younger also has one or two comments on the draft: they can be taken into account in Mr. Heseltine's redraft.

TL

28 May 1981

CONFIDENTIAL

Seen in mtg folder.

Prime Minister

LOCAL GOVERNMENT FINANCE

At the meeting of E on Thursday 21 May, I was invited to circulate a draft announcement to be made on local authority expenditure in England (E(81)18th meeting). However, could I first deal with the timing and the form of the announcement?

You will recall that there was a preference within the Committee for decisions to be announced by a Written Answer on 1 June, the day before the Consultative Council on Local Government Finance. However, from a Departmental point of view I believe that if we followed this route then we would have to expect the Opposition to seek to provoke a major Parliamentary row. This would inevitably give the Government the appearance of being on the defensive and would diminish the impact of the statement. I would, therefore, be grateful for your agreement, and that of the business managers, to making an oral statement.

As to timing, the Consultative Council meeting has been fixed for the afternoon of Tuesday 2 June. I am publicly committed to consulting local government before making any public statement. I therefore propose that I should bring forward the meeting of the Consultative Council to 2.00pm on that afternoon before going on to make an oral statement to Parliament. This would have presentational advantage in terms of relationships with local government and would fulfil my commitment to consultation. I should be grateful for the agreement of colleagues to proceed on this basis.

A draft of the statement I propose to make is attached. Given the timetable to which we are now working, it would be most helpful if any comments by colleagues could reach me by mid-day on Friday, 29 May. I will circulate tomorrow a technical memorandum and tables of figures showing the effects of holdback which I would propose to deposit in the Library at the same time as the statement is made.

The figures in the tables will show the effect of holding back about £450m, as we agreed at E, though they may still be subject to final correction for a few authorities whose returns have recently been amended. Following the discussion in E, the method of holdback involves "steepening the poundage schedule" so as to place more of the burden of holdback on authorities spending high in relation to GRE, but not so much as to place an excessive burden on London and other urban areas, which have already lost substantial amounts of grant under the original settlement.

The figures do not show an exemption for authorities spending below GRE. We have not at present established a firm legal basis for doing this, bearing in mind that GREs will themselves be amended at Supplementary Report. And in any case there would be strong policy objections to undermining our call for further expenditure cuts by conceding an exemption to those below GRE immediately. I believe that for the moment we must therefore continue to press all authorities to achieve the volume of reduction we set them in January. We can look at this again in the summer when revised budgets are in, and before the Supplementary Report is made. But we should not concede this at this stage or even hint at doing so, lest we undermine the call for further expenditure cuts and cause legal complications.

I am copying this to those colleagues who attended the last meeting of E Committee, to the Chancellor of the Exchequer, to the Chief Whip and to Sir Robert Armstrong.

MH

MH

27 May 1981

2F

DRAFT ORAL STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT, TUESDAY 2 JUNE 1981

With permission, Mr Speaker, I will make a statement on current expenditure by local authorities.

My Department has now analysed the revised estimates of local authorities for the volume of their current expenditure in 1980/81 and their budget plans for 1981/82.

In the light of this analysis I have today put proposals to the Consultative Council on Local Government Finance.

Hon Members will recall that when local authorities in England and Wales originally submitted their budgets for 1980/81 these suggested a planned excess in the volume of current expenditure of some £740 million at November 1979 prices.

This was 5.6% above the Government's public expenditure plans.

As a consequence, in June last year I called for revised budgets which led to local authorities to reduce this planned excess to some £350 million at 1979 prices, or 2.6% above the Government targets.

In order further to reduce this remaining excess, the Government asked the House to approve the witholding of £200 million from the Increase Order for England and Wales made in November 1980 on the understanding that we would be prepared to restore all or part of that sum if the outturn figures for 1980/81 showed an acceptable reduction.

The analysis of the revised estimates for 1980/81 indicate that there will still be a volume excess which the Local Authority Associations estimate could range from £50 million to £250 million in England.

Final figures for the outturn expenditure in 1980/81 are however not yet available.

I shall have to wait until the outturn figures are available in the autumn before considering restoration of grant.

The budgets for 1981/82 indicate current expenditure of about £800 million or 5.2% above the Government's target level at November 1980 prices.

[In cash terms the gross budgeted excess is about £1250 million.]

Since actual expenditure normally falls short of budget it is reasonable to argue that the £800 million budgeted volume excess could in the outturn reduce to £400 million (2.6%).

This suggests that the Government is faced with a problem of similar proportions to last year.

The Government believes that although we have made some progress in reducing local authority current expenditure we must stick to the targets we have already set.

I am therefore asking all local authorities to review their budgets by the end of July in order to achieve levels of expenditure consistent with the Government's public expenditure plans.

If the call for revised budgets does not produce a satisfactory response, I propose to ask the House in the autumn to approve a reduction in the total amount of grant available this year by about £450 million on present spending plans.

I have made it clear that authorities which achieve the Government's targets will not be affected by these reductions in grant.

Those close to their targets will be partially exempted.

Details of these proposals as they would affect individual authorities are in the Library.

It lies entirely in the hands of local authorities both collectively and individually to revise their plans so as to achieve the necessary reduction of public expenditure and thus to avoid loss of grant.

So far more than a third of all local authorities have already ensured that they are within the Government guidelines and thus would not lose any grant.

The traditional relationship between central and local government rests on the convention that local government keeps within the overall financial policies of the central government

The Government believes thatthis ~~concentration~~ convention must be upheld.

We are therefore considering further measures which may be needed to bring home to individual authorities and their electorates the consequences of high-spending policies.
I shall be announcing consultative proposals on these measures in the next few weeks with a view to legislation next session.

But at the heart of the problem lies the inequities of the domestic rating system.
I intend to issue a consultation document on the alternatives to domestic rates in the autumn with a view to legislation in 1982/83.

CONFIDENTIAL

Ref. A04980

MR. LANKESTER

Ministerial Committee on Economic Strategy: Local Government Finance

I enclose a Most Confidential Record of the discussion on local government finance at the meeting of the Economic Strategy Committee on Thursday 21st May. The only other copy of this record is being held here in Sir Robert Armstrong's office. There is no reference to the existence of this record in the E minutes and it should not therefore be referred to or quoted from. I should be grateful if the copy could be returned to me in due course.

returned to Cab Office

Barry Hilton

B.G. HILTON

27th May, 1981

CONFIDENTIAL

3.

Gen Pol.

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister.

MAP

22v.

My ref:

Your ref:

21 May 1981

Dear Leon

We briefly discussed the problem of making available to local authorities, through the local authority expenditure groups, the provisional working assumptions for the public expenditure survey 1981. I have serious doubts about the wisdom of, in effect publishing the range of reduction options and inflation assumptions at this stage.

You will recall that during the Cabinet discussions on 7 May substantial reservations were expressed about the publication of these figures. In certain areas the Government would be vulnerable to severe criticism whereas, in reality, Ministers would know that options were unrealistic. (This was reflected in the Prime Minister's summing up where she referred to each Department aiming to identify realistic options for cuts.)

We did not discuss explicitly at Cabinet the recommendations in the Chancellor's paper (CP(81)20) para 19(iv) that the working assumptions should be given to local authorities and nationalised industries. Indeed, it was my impression that colleagues generally felt that it would be preferable to conduct the review of options very tightly within Departments.

This issue has now been raised with me because officials are at the stage of putting to the local authority associations a paper which would set out the range of expenditure options and the inflation assumptions. I have asked that this paper is not issued. For example, given the fact that local government is already over 8% in cash terms in excess of our current expenditure targets, there is very little point in extrapolating a further 5% reduction, which would in aggregate be over 13%. Even at the lower level, the option would have to find a reduction in excess of 11%. Any expectation of a sensible response would be quite unrealistic.

I therefore take the view that we should not bring in local government but should conduct the options exercise strictly in-house. This would give us the greater chance of minimising the damage that is otherwise likely to result.

I am copying this to all members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

Yours ever

Michael

MICHAEL HESELTINE

CONFIDENTIAL

Rt Hon Leon Brittan MP

Prime Minister

The CDL is attending because of his concern over Parliamentary business implications. You may like to see again his note of 12 May, which is in this folder

MAP 20/v

Ref: A04955

CONFIDENTIAL

PRIME MINISTER

Local Government Expenditure
(E(81) 55, 56, 59 and 60)

As agreed at the Committee's meeting yesterday (E(81) 17th Meeting) the Secretary of State for the Environment has circulated a memorandum (E(81) 60) summarising his proposals in the light of the Committee's discussions so far. He now invites the Committee to reach decisions so that he can announce the outcome to Parliament on Monday, 1st June. The Committee also has to discuss the recommendations by the Secretaries of State for Scotland and for Wales in their memoranda, E(81) 55 and 56.

2. You will see from paragraph 3 of E(81) 60 that the forecast excess over targets for the English authorities would fall from £950 million to £840 million if the figures for the Metropolitan police, whose budget is approved by the Home Secretary and not by the local authorities, were taken out of account. The proposed holdback of £900 million, which was not intended to be a precise figure anyway, happens to fall in the middle of this range. The Secretary of State for the Environment argues in his paragraph 5 that, since overspending by the Inner London Education Authority is just under £40 million by comparison with their volume target, this is not sufficiently significant to be taken into account in fixing the overall level of threatened holdback. You will be aware that the possibility of a £900 million cut is now public knowledge - see the article on the front page of today's Financial Times.

3. I do not think it necessary for me to offer any further detailed advice on the proposals for England, or to add to my briefing on the recommendations for Wales (paragraphs 11-13 of my brief of 12th May) and for Scotland (my brief of 18th May). You may find it helpful to have the following check-list of the points on which you will wish to record conclusions:

England E(81) 60

(i) The level of grant holdback to be threatened - £900 million or less? (paragraphs 6 and 7). - Min reduction -

300
600
900

Psychol.

Authorities: 10% overspend
Share contin. on their cuts.

£44.72
50.5
55.3

£600m -
Vol. targets
Exp. cut GRE
28%
Share
65.70%
Vol. reduction

Est.
withdg.

£900 - cut
£200
£0.n
£850
£500

Dramatically worse.
£1350.
Control
Larger overspend
Suppl. Rates
Est. - Lappers
Legl - middle distance.

£774 - Vol

£1350 cut.
= Vol

GRE. 5.6
Some penalty.

CONFIDENTIAL

X

(ii) Whether the distribution of the holdback is to be based on the "lower Grant Related Expenditure (GRE) differential" with the aim of avoiding too severe a burden on urban areas (paragraph 8).

(iii) No announcement now of possible exemptions for authorities below GRE, but further consideration in July (paragraph 9).

(iv) Announcement now that the grant percentage for 1982-83 will be substantially influenced by performance in 1981-82 (paragraph 10).

(v) Announcement of intention to proceed, subject to consultations, with the four medium term measures listed in paragraph 12: limit on non-domestic rate increases; revaluation of non-domestic sector; new supplementary rate scheme subject to referenda or re-elections; a new management efficiency and audit body (i.e. the Accounts Commission under a new name) -

NB. (a) All of these measures, except revaluation, depend on Cabinet agreeing that the proposed legislative programme should be revised to accommodate them.

(b) Since the proposals are subject to consultation, it is not necessary to decide now between referenda (of the whole electorate) and re-elections

(c) The further measures listed in paragraph 14 would be dropped.

(vi) Reference in the Parliamentary Statement to the reasons for rejecting the Public Accounts Committee's recommendations on local authority audit arrangements and a short White Paper replying to the PAC (paragraph 3 of the Chief Secretary's paper, E(81) 59).

(vii) Announcement that further work on alternatives to domestic rates will be narrowed to local income, sales or poll taxes or 100 per cent central government financing - details of timetable of further work in paragraph 17.

(viii) Announcement that this further long term work will cover the possibility of abolishing the GLC and the Metropolitan counties when any new form of local finance is approved (paragraph 18).

(ix) The above to be announced by the Secretary of State for the Environment in Parliament on 1st June, and to the Consultative Council on Local Government Finance on 2nd June; the draft to be cleared in advance (paragraph 19).

Wales E(81) 56

(x) Whether the Welsh and English local authorities should be told now that the Government will restore at least part of the £200 million grant withheld for 1980-81 if the outturn figures available in the Autumn justify it, or whether no such promise should be made now (paragraph 15 a).

(xi) Whether the Secretary of State for Wales should simply warn his authorities that he will act in 1982-83 if their 1981-82 outturn is too high (paragraphs 15 b and c) or whether he should call for revised budgets from all of them now.

Scotland E(81) 55

(xii) Whether the recommendations in paragraph 11 are endorsed or whether (as in England) a general threat should be made now to cut grants by a specified amount unless budgets are-revised.

D.J. Wright
Robert Armstrong
(approved by Sir R. Armstrong and signed on his behalf)

20th May 1981

Article from FT Front Page

20 May 1981

Government plans £900m cut in grants to local authorities

BY ROBIN PAULEY

THE GOVERNMENT is planning to withhold £900m in grants from local authorities in England and Wales immediately as a penalty because their budgets for 1981-82 have exceeded the target by that amount.

This means that about 300 councils out of 456 will lose grants—in some cases tens of millions of pounds. Councils which decide that they cannot or will not make cuts to reach the Government's target will either have to use their own balances or regain the lost money from ratepayers.

This raises the likelihood of widespread—and in some cases very large—supplementary rate bills later this year.

The loss of £900m represents nearly 8 per cent of the £11.64bn (1981-82 outturn prices) to be paid to councils in England and Wales this year.

The decision reached by a large ad hoc Cabinet committee this week will be announced in the Commons by Mr. Michael Heseltine, the Environment Secretary, on June 2. Local authority leaders will be notified later the same day at a meeting of the Consultative Council on Local Government Finace, which has been postponed from tomorrow.

Several Ministers are unhappy about the severity of the penalty and are still hoping to have the amount reduced when the committee meets again tomorrow to clear up the final details.

This meeting will also decide whether to excuse councils—mainly shire counties—which have missed the target by a small amount but are within the Government's assessment of the amount they need to spend to provide a standard level of services.

The Government set an overall target for the volume of local authority current expenditure in 1981-82 of 5.6 per cent below the outturn expenditure level of 1978-79.

The Cabinet committee includes the Treasury Ministers, local government and spending Ministers, the Welsh and Scottish Secretaries, the Industry Secretary, Employment Secretary and the Prime Minister.

Some Ministers have been worried about the decision because of its possible impact on rates or the cuts in services which meeting the target would necessitate.

Each council will be sent an exact figure of the amount of grant it stands to lose and the extent to which it has missed the target. It will also be asked to send in a revised budget of its 1981-82 expenditure plans.

The amount of grant then released to the council will match exactly the amount by which it has reduced its spending plans to meet the target. Any council which increases its spending projections in the second budget, as some did in a similar unsuccessful exercise last year, will lose even more grant on a pound-for-pound basis.

The move, which confirms local government's worst fears about the level of attack which the Government might launch on overspending, is recognised by the Cabinet as being "the high risk option." This is because it could lead to some ratepayers facing second rate bills almost as large as the ones they have already received for 1981-82.

Firemen threaten national strike

Ref: A04935

CONFIDENTIAL

PRIME MINISTER

Local Government Expenditure 1981-82: Scotland
(E(81) 55)

BACKGROUND

My brief of 12th May discussed the memoranda by the Secretary of State for the Environment (E(81) 52) and the Secretary of State for Wales (E(81) 56) on overspending by local authorities in 1980-81 and 1981-82. This supplementary brief deals with the memorandum which the Secretary of State for Scotland has now circulated (E(81) 55).

2. The Secretary of State estimates that, with allowance for likely shortfall, the present budgets of the Scottish local authorities will lead to an excess of £207 million in cash terms over their targets - the comparable figures in England and Wales are £950 million and £25 million. In considering corrective action to deal with this, the Secretary of State is particularly concerned to avoid making worse the acutely difficult problems he already faces from rate increases in Scotland - average increases there in 1981-82 were 35 per cent, compared with 19 per cent in England and 13 per cent in Wales; further big increases in 1982-83 are already in prospect.

3. Against this background, he recommends the measures summarised in paragraph 11 of E(81) 55. The key difference between this approach and that recommended by the Secretary of State for the Environment for England, is that it is selective and step by step rather than an immediate threat of a general hold-back of grant. Under the powers of his Local Government Bill, which should be enacted next month, the Secretary of State for Scotland would take selective action to reduce grant to those authorities which are already showing particularly high excesses over budgets; he would call in early June for revised budgets from all authorities; he would take further selective action, if necessary, in the light of the returns, and give warning of reductions in the grant percentage for 1982-83 if targets were not achieved this year. He would announce this package on 2nd June, concurrently with the statement by the Secretary of State for the Environment.

4. As explained in paragraphs 9 and 10 of E(81) 55, the Treasury believe that the Secretary of State for Scotland should threaten now to withhold £260 million grant (including £60 million for 1980-81) of which less than half would be by selective action and the rest by general cuts.

HANDLING

5. There was a preliminary discussion of the Secretary of State for the Environment's proposals for England at the Committee's meeting on 13th May (E(81) 16th Meeting, Item 2). You might open the discussion by inviting the Secretary of State for the Environment briefly to re-state his proposals and then invite the Secretaries of State for Wales and for Scotland to make their recommendations. You might then deal with each country in turn, calling on the Chancellor of the Exchequer to comment on each, and the other Ministers with local authority responsibilities to speak on the recommendations for England and for Wales.

6. The main question is whether the Committee agrees with the approach recommended by the Secretary of State for Scotland in his paragraph 11. In considering this, the Committee will need to consider what weight to give to:-

(a) Problems which might arise if an apparently softer approach were adopted for Scotland (and possibly for Wales) by comparison with that recommended for England.

(b) The Treasury's view that Scotland's failure to respond to a selective approach in 1980-81, and their generally poor record in reducing local authority expenditure, points to the need for threatening general cuts now.

CONCLUSIONS

7. In the light of the discussion the Committee will wish:-

Either to endorse the approach recommended by the Secretary of State for Scotland in paragraph 11 of E(81) 55;

Or to record conclusions calling for a different approach, perhaps by way of announcing now a general threat to cut grants unless budgets are revised.

Robert Armstrong
(approved by Sir R Armstrong and signed on his behalf)

18th May 1981

Local Gov

Ref. A04936

PRIME MINISTER

Accounts Commission for Local Authority Audit: PAC Aspects
E(81) 59

BACKGROUND

My brief of 12 May covers the memoranda by the Secretary of State for the Environment on possible measures for reforming the rating system (E(81) 53) and for setting up an Accounts Commission (E(81) 54).

2. A decision to establish an Accounts Commission would also be a decision to reject one of the main proposals in the Public Accounts Committee's (PAC) report of March 1981 on "The Role of the Comptroller and Auditor General", in which they recommended putting local government audit under the C and AG. The Chief Secretary to the Treasury, in E(81) 59, discusses briefly how best to minimise PAC criticisms if the Government were to announce on 2 June, in advance of a general response to the PAC's report, that the Accounts Commission is to be set up. He recommends that the Secretary of State for the Environment's statement should refer to the PAC's recommendations, and explain why they had been rejected and in advance of a full reply; and that a White Paper should be published at the same time giving a full reply to the PAC on the local authority audit issue. A draft of the latter is nearly ready and could be circulated quickly.

HANDLING

3. This issue arises only if the Committee wishes to go ahead with the announcement of an Accounts Commission, and Cabinet approves the legislation that this would entail. You might invite the Chief Secretary, Treasury, to explain the position briefly when it arises in discussion.

4. I do not think that the Committee needs to look at this question in any detail. If the Accounts Commission is to go ahead, and the Chief Secretary's approach is generally endorsed, the details of what the Secretary of State for the Environment should say in his announcement and the drafting of the short White Paper can be dealt with separately.

CONCLUSIONS

5. If, subject to Cabinet's agreement on the necessary legislation, the Committee endorses the proposed Accounts Commission, you might invite:

a. The Secretary of State for the Environment to cover the reasons for rejecting the PAC's recommendations in his general statement on 2 June which he will need to clear with members of the Committee.

b. The Chief Secretary, Treasury, to circulate as soon as possible the draft White Paper to which he refers in paragraph 3(2) of E(81) 59.

6. You will recall that, on the assumption that the Committee is unlikely to cover all of the local authority papers before them at their meeting on 19 May, a further meeting has been arranged for 9.15 am on Thursday 21 May.

D J Wright

ROBERT ARMSTRONG

(approved by Sir R Armstrong and signed on his behalf)

18 May 1981

From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft C.H.

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

Telephone: 01-222 9000

PT/CAW

13th May, 1981

Dear Margaret

I attach a paper which I have written on the options available in the field of Local Government Finance. I am aware that these problems are being considered within the relevant Departments. I am, however, concerned at the constitutional issues involved and troubled by the likelihood of political reaction, including reaction from our own Party, if we allow the recent Local Election result to push us into actions which we might subsequently very much regret.

Yours

Peter

The Prime Minister

From

THE CHAIRMAN OF THE PARTY

The Rt. Hon. The Lord Thorneycroft C.H.

CONSERVATIVE & UNIONIST CENTRAL OFFICE,
32 SMITH SQUARE,
WESTMINSTER, SW1P 3HH,

Telephone: 01-222 9000

POLICY OPTIONS FOR LOCAL GOVERNMENT FINANCE

1. Local Government Finance and the future of Local Government itself are inextricably connected with each other. It is therefore important that the Conservative Party should understand and evaluate the various options that may be open to it in these fields and appreciate to the full the financial and constitutional consequences that flow from them.

2. The problem is sharply illustrated by the local elections that have just been held in England and Wales. In broad terms the Labour Party put forward policies to the electorate which implied the expenditure of a great deal of money. They put these policies forward against the background of knowing that the most recent government legislation on the subject gave powers to the Secretary of State to limit the subvention from Central funds to many of the objectives which they had in mind. They said, and can claim to have made the matter tolerably plain, that such funds would nevertheless be raised through extra, and in some cases, special rate demands. The electorate voted in many areas, including London, in favour of these programmes and a number of Labour controlled authorities, including the G.L.C., are now installed and poised to carry out the policies upon which they were elected.

3. What options are open to the Government in these circumstances? Broadly they can either operate within the law as it exists and allow the Labour councils to carry out their policies, including the raising of extra rate revenue, or they can change the law and limit in some way the amount of money that councils can raise through these means.

4. The first course is plainly damaging to ratepayers and, we would claim, tends to be destructive of jobs. It allows things to happen which run contrary to the main thrust of the Government economic policy, though it probably does not increase the total money supply. The second course is however also open to grave objection; it ignores democratically made decisions only recently arrived at, it challenges directly the existing democratic arrangements for making decisions of this category, it tends to place the total responsibility for such matters upon the shoulders of Central Government. It is a course which, though possible, would need to be pondered over carefully before it is embarked upon.

5. I have chosen this illustration because it is topical and sharpens up the political issues which are involved. My own political judgement would

2 . . .

be to allow the local government changes to take effect along the lines of policies democratically arrived at without legislative interference. The spectacle of some of our great cities, and some shire counties, being run by what are already plainly left-wing dominated Labour councils would do more than any words can do to sharpen up the case for the Conservatives before the next election.

6. Nevertheless, this case is, I recognise, only illustrative of the more general problem of local government finance and we need to turn our minds to this if we are to make sensible decisions about the various options which in the medium or longer term present themselves in this area of policy.

7. The basic facts underlying policy decision in local government finance appear to be as follows:

1) The domestic rate in some form has existed for around 500 years and raises £3 billion. The commercial rate raises £4 billion. The business vote was always limited in effect and is now abolished. In effect there is taxation without representation. A return of the business vote which was never very widely exercised would make only a most imperfect contribution to the solution of this problem.

2) Not quite half the voters actually pay the domestic rate.

3) 61% of local government expenditure is financed by block grant. Steps recently taken are designed to limit the expansion of this grant to profligate authorities, but no check exists to prevent them seeking to make up the sum by raising rates.

4) The rating system depends in some degree on re-evaluation of property and this has for the moment been abandoned.

8. There are a number of options open to us in dealing with this situation which has been much examined and debated. They fall however into two main categories:

(A) Those measures designed to preserve and possibly extend the range of devices open to local authorities to collect revenue and thus maintain or even extend local accountability.

(B) Those measures designed to restrict or remove the means open to local authorities to raise revenue either by limiting or by removing the right to raise rates. This category also includes suggestions for the removal of areas of local government and centralising decisions on them.

9. Broadly speaking the Conservative Party needs to consider which of these directions it would like to move in. It may decide to eliminate or markedly reduce the areas of local democracy and local accountability, but it should

not do so by accident or without thinking carefully what its main objective is.

10. There are indeed powerful arguments against moving in this direction. The existing centre of democratic control and authority in this country is in the House of Commons. It is balanced on the one side by a second chamber already under threat of abolition and on the other by a network of democratically elected local authorities; these too are under threat. Their abolition would leave a dangerously isolated single-chamber system of authority operating without check in every aspect of our affairs. It would face no possibility even of delay from a second chamber above and would be operating below through a network which would in effect be composed of its own agents.

11. I, therefore, suggest that before we make any important new move in local government we should examine all courses open to us to finance local services through local resources raised by local authorities themselves. These include:

a. Reforms of the rating system.

b. A re-inforcement of the rating system and extension of local funding through such means as: (1) a local poll tax
(2) a local sales tax
(3) a local incomes tax

c. Charging for local services.

YES → d. The farming out of local services to private enterprise and financing them through economic charges.

The objective would be the raising of substantial revenue from as wide a range of the local electorate as possible and the development of full local accountability.

12. This examination should at least precede any decision to abolish or limit the collection of local revenue or pass financial responsibility still further to Central funding by the Treasury through increases in direct or indirect taxation. The decision which we eventually take in this matter is certainly as important in the constitutional as it is in the financial field.

PT/CAW
13.5.81

CONFIDENTIAL

P.M. Came w too late for E. [illegible] 13/5/81

Local Govt

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

12 May 1981

Dear Prime Minister,

I shall not be able to attend tomorrow afternoon's meeting of the Ministerial Committee on Economic Strategy, but I want to voice my disquiet about the way in which it is proposed we should handle the two items on local government finance. In both cases, it is being suggested that we should commit ourselves publicly to courses of action which will inevitably arouse expectations of early implementation before all the implications of what is proposed have been fully explored. The Secretary of State for the Environment in E(81)53 and E(81)54 seems to envisage that both the reform of the rating system and the creation of an Accounts Commission for local government will be dealt with in a Bill next Session, but QL have not included such a Bill in their recommendations to the Cabinet. I am very dubious whether properly thought out legislation on this subject can be ready in time for the 1981-82 Session. Statements on either of these issues in early June, as suggested by the Secretary of State, would in my view be premature, but if E Committee conclude that some kind of statement is essential, there can be no commitment at this stage to legislation next Session. This is, of course, something we can consider further in the context of the legislative programme as a whole at Cabinet next Thursday.

I am copying this minute to the other members of E Committee, to the Chief Whip, and to Sir Robert Armstrong.

Yours ever

Francis

FRANCIS PYM

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

CONFIDENTIAL

Ref: A04877

CONFIDENTIAL

PRIME MINISTER

Local Authority Expenditure: Reform of Rates:
Accounts Commission
(E(81) 53 and 54)

BACKGROUND

In E(81) 53 the Secretary of State for the Environment proposes a number of measures, for implementation in 1983-84, to back up his proposals for controlling local authority expenditure and to modify perceived unfairnesses in the rating system pending more fundamental changes. He rejects the alternatives of transferring responsibility for some parts of local expenditure to central Government and of imposing statutory controls on local authority income or expenditure. He may be right in doing so, but the effect is to leave the Committee with a host of complex alternatives. Some members of the Committee may feel that the more dramatic options should at least be studied further: they could well have greater political appeal.

2. In paragraph 6 of E(81) 53 the Secretary of State for the Environment recommends eight measures for further study by his Department, and the other Departments concerned, followed by a report to the Ministerial Committee and decisions in July on which of them are to be adopted. If the Committee agrees with this approach, he would give a tentative trailer of what is in mind in his statement on 2nd June. In summary the eight proposals are:-

I. For the non-domestic ratepayer

(a) A limit on the level of non-domestic rates for authorities spending over a specified level.

Implies a greater burden on the domestic ratepayer.

(b) Revaluation of the non-domestic sector.

Due anyway, might help some older industries, but incidence uncertain, and no implementation until 1985.

CONFIDENTIAL

II. For the Domestic ratepayer

(c) Flat rate domestic rate relief.

(d) Discounts to single (possibly two adult) households.
A loss of rate income.

(e) All expenditure above a certain level to be financed by supplementary rate demands.

(f) All such supplementary rate demands to be subject to approval by local referendum or re-election.

(g) Rate demands separated from rent demands for Council tenants.
Administrative cost £10 million a year.

(h) Establishment of an Accounts Commission.
See E(81) 54 and paragraphs 5 to 8 below.

These measures would be aimed at different audiences and would be complementary.

3. All but (b) (revaluation) would require legislation. This gives rise to a major difficulty. The proposals for the 1981-82 legislative programme, which the Cabinet will be discussing on Thursday, provide for a Housing Bill but not for the Public Bodies (Management) Bill which the Secretary of State for the Environment wanted, and in which he would like to include his Local Government Finance provisions. If room were to be found for some, or all, of such provisions the Cabinet would need to decide what the Bill should replace. There would be a further problem over when the Bill would be ready for introduction. It would be complicated and controversial and, if policy decisions were not taken until July, the Secretary of State would be hard pushed to have it ready for introduction before the end of the calendar year. On the other hand, if legislation on these measures is ruled out, the Secretary of State will not of course wish to refer to them on 2nd June. In that case he may wish to modify his proposals for threatening grant hold-back of as much as £900 million in 1981-82.

4. The Secretary of State further proposes (in his paragraph 8) that he should announce in June the launching of a study of the impact of alternatives taxes on households and authorities for completion by the Summer of 1982. This would look in particular at the impact of local income tax, sales tax and poll tax. The study would be conducted by his Department and the Treasury in consultation with the other Departments with local authority interests. It would have to be published.

An Accounts Commission for Local Government

5. The Secretary of State for the Environment has set out his proposals for an Accounts Commission in more detail in E(81) 54. He wishes to announce a decision in principle on 2nd June subject to consultations immediately thereafter on the detailed arrangements.

6. In proposing an Accounts Commission, the Secretary of State rejects (in his paragraph 4) either continuing to use the District Audit Service or, as the Public Accounts Committee have proposed, putting local Government audit under the Comptroller and Auditor General. The fundamental objection he sees to the latter is that it would bring local authorities into a relationship with Parliament which would be inconsistent with their constitutional status as separately elected bodies not responsible to it. The discussion will show whether your colleagues accept this view. It would be easier to maintain if local authorities were self-financing. But, given that Parliament provides 60 per cent of local authority funds and is constitutionally the superior body, with power to change its relationship with local authorities in any way it pleases, the contrary case can be argued.

7. The aim would be for the Accounts Commission to provide more value-for-money auditing and better comparative information between authorities. Its responsibilities are listed in paragraph 3 of E(81) 54. It would be appointed by the Secretaries of State for the Environment and for Wales (assuming it is to cover Wales also). Its members would include some local authority representatives and some outsiders with relevant financial and management expertise. It would take over a number of the

Secretary of State's responsibilities including that for the District Audit Service. The present Advisory Committee on Local Government Audit would be abolished. The additional costs would be relatively small - about £1 million a year. Legislation would be necessary.

8. If the Committee were to endorse this proposal in principle, and if it were to be announced on 2nd June, Treasury Ministers would need to give further thought to what should be said to the PAC. In particular they would need to explain to the PAC not only why this particular route has been taken but why the Government had taken it now, in advance of more general consideration of the PAC's report, including their proposals for the nationalised industries.

HANDLING

9. It would in any case probably be sensible to defer some of the discussion of these papers to the meeting on 19th May, because the present meeting may well not have time to do justice to them. Subject to that, you might ask the Secretary of State for the Environment to introduce his two papers and then the Secretary of State for Wales to say to what extent he wishes them to apply to Wales. The Chancellor of the Exchequer might then comment generally, and in particular on what needs to be said to the PAC if the proposed Accounts Commission were to go ahead. Each of the Ministers with local authority responsibilities will wish to comment - the Secretary of State for Education and Science, the Home Secretary (who will also have views on the implications for the legislative programme), the Secretary of State for Transport and Sir George Young. The Secretary of State for Scotland will wish to say what changes, if any, he would wish to make.

10. On the medium term measures listed in paragraph 6 of E(81) 53 and on the Accounts Commission (E(81) 54) the main question for the Committee is whether they are sufficiently attractive for the Cabinet to be asked to consider the possibilities for making room for them in the 1981-82 legislative programme. To answer this question the Committee may wish to run through the summary proposals (a) - (g) in paragraph 6 of E(81) 53 and then turn to that for the Accounts Commission in E(81) 54. Although the Committee will undoubtedly have views on the merits of each of 6(a) - (g) it its not essential to rule out any at this stage since the proposal is that

decisions on them should be taken in July after further work by officials. On the other hand you will wish to bear in mind that the proposal is to indicate on 2nd June that they are to be studied and so the Committee will wish to rule out any complete non-starters.

11. If some, or all of the proposals were to be ruled out, the Secretary of State for the Environment may wish to reopen whatever decision the Committee will have taken on hold-back of grant in 1981-82.

12. If, on the other hand, the Committee is attracted to the idea of further work on the proposals, it may be necessary to resume discussion of them on 19th May in the light of the Cabinet's discussion on 14th May of the legislative programme.

13. The Committee will also wish to consider whether they endorse the proposal in paragraph 8 of E(81) 53 for a study of the longer term alternatives to the rating system. You will note that the Secretary of State for the Environment would wish to announce the setting up of this study in June; it would probably have to be published when it was completed in 1982.

CONCLUSIONS

14. The first conclusion will relate to whether the Committee accept the broad thrust of Mr. Heseltine's suggestions or whether they wish to consider the radical alternatives of (i) moving substantial parts of local authority expenditure e.g. on education, from local to central Government or (ii) legislating to restrain local authority freedom to set their rates at will. If the Committee accept Mr. Heseltine's approach, you will wish to sum up the discussion with reference to the recommendations on the future of the rating system listed in paragraph 13 of E(81) 53 and on the proposed Accounts Commission listed in paragraph 13 of E(81) 54.

15. Any decisions taken, apart from the proposed revaluation of non-domestic properties, would have to be contingent on Cabinet's discussion of the legislative programme for 1981-82. In any case, it seems unlikely that the Committee can complete their consideration of this complicated set of papers on 13th May, and they will almost certainly need to resume discussion at their meeting on 19th May.

RTA

(Robert Armstrong)

12th May 1981

Ref: A04876

CONFIDENTIAL

PRIME MINISTER

Local Authority Expenditure - 1981-82
(E(81) 52 and 56)

BACKGROUND

General

The Local Authority budgets which were received in late April show that the English authorities are planning to spend, with allowance for shortfall, about £950 million cash over the targets set them by the Government and assumed in the Public Expenditure White Paper (E(81) 52); the comparable excess for Wales is £25 million cash (E(81) 56). In response, the Secretary of State for the Environment proposes that, at the meeting already fixed for Tuesday, 2nd June, he should inform the Consultative Council for Local Government Finance that the English local authorities should each submit revised budgets to him by mid-July and warn them that, if necessary, he is willing to hold back up to £900 million grant in 1981-82. He recognises that this is an aggressive stance, which will add fuel to the confrontation which is probably coming with the Labour controlled authorities anyway, and that it may well lead to yet further rate increases. He wishes, therefore, to attempt to reduce the criticism by also outlining on 2nd June some possible medium-term measures (E(81) 53 and 54) for improving the rating system and increasing the discipline on the local authorities, and by announcing a longer term study into the alternatives to the rates. These medium term measures would require legislation in 1981-82 for which there is no provision in the legislative programme put forward by the Home Secretary in C(81) 22. If he cannot announce the medium term measures, the Secretary of State for the Environment may feel unable to recommend a threat to hold back as much as £900 million in grant.

£950m

2. Thus, although for convenience the medium term measures are dealt with in separate papers, the Secretary of State for the Environment's proposals should be seen as a package designed to confirm the Government's resolve to

bring local authority expenditure under control. The issues are substantial and difficult, and a resumed discussion at the meeting arranged for Tuesday, 19th May, is almost inevitable. The Secretary of State for Scotland will in any case not be ready with his proposals before then. On the other hand if the Secretary of State for the Environment's proposals are to be implemented, the discussions must be concluded on 19th May. The local authorities will need about 6 weeks to prepare revised budgets and Ministers will then have to consider the outcome. If the Consultative Council were to slip beyond 2nd June this timetable could not be completed before the Summer holidays and the chance of influencing the outturn for 1981-82 would be substantially reduced.

England - E(81) 52

3. In January 1981 the Secretary of State for the Environment issued each local authority with specific volume targets for 1981-82 current expenditure of 5.6 per cent below their 1978-79 levels. The Public Expenditure White Paper states that relevant current expenditure in Great Britain is expected to fall by a further 1 per cent in 1982-83 and $\frac{1}{2}$-1 per cent in 1983-84.

4. The authorities' April returns show that in total they are planning to overspend by £1,350 million cash in 1981-82. In previous years there has been a record of short-fall against budgeted plans, but the Secretary of State judges (his paragraph 7) that this will be less significant in 1981-82 because of savings already made and the fact that with change of political control some authorities will be unwilling to reduce expenditure. His judgment is, therefore, that the present returns point to a cost excess for 1981-82 current expenditure of £950 million cash.

5. While there is room for dispute over this estimate of the excess, to ignore it would lead the authorities to think that the Government had back-tracked on its determination to hold down expenditure in 1981-82 and to achieve its targets for reductions in the later years. The Secretary of State recommends, therefore, that he should announce the Government's reactions on 2nd June both in Parliament and at the Consultative Council

meeting. He would then warn of his willingness to hold back grant and require each authority to submit revised budgets by the middle of July. Those authorities which then came into line would not be penalised, but the rest would have grant held back on a sliding scale related to the degree of planned overspend. The precise amount of grant to be held back would be decided by E Committee in July. These proposals are set out in more detail in paragraph 11 of E(81) 52.

6. The Secretary of State discusses whether the amount of threatened hold-back should be £300 million or £900 million. He judges (his paragraph 13) that £300 million would be too low because the authorities could deal with it by manageable rate increases which would leave their volume plans virtually intact. He recommends £900 million as in line with his estimate of the present excess, but he recognises (in paragraph 13) that this could lead to substantial increases in rates and/or cuts in services. This is why he advises that £900 million could be adopted only if it were placed in the context of convincing proposals for controlling expenditure and rates in the medium term.

7. Table 1, annexed to E(81) 52, shows how the total provisional hold-back would be split between classes of authority, with the Secretary of State's recommended course (described in his paragraph 14) in the right-hand column - NB. the total of £900 million in the main paper is a rounding of £880 million. Table 2 shows the effect for each individual authority.

8. It is likely that some Ministers will contest the proposal to threaten to hold-back as much as £900 million because:-

(i) It is far too much - but it is open to authorities to revise their budgets so that they are exempt from hold-back.

(ii) It could lead to large cuts of services, particularly of education services - but the proposals do not attempt to seek cuts below the provision for services in the Public Expenditure White Paper.

(iii) If services are not cut and authorities persist with their present plans, the result will be higher rates, on top of the average of 19 per cent already this year, and this will feed through into the RPI, industrial costs and interest rates - this is true in the short term, but without action now the Government will fail to meet its public expenditure targets for 1981-82 and for the later years.

(iv) There will be serious effects on inner city authorities adding to the social pressures already on them - but many of them are persistent overspenders.

9. There will also be complicated arguments as to whether withholding of grant should be related to volume targets or to Grant Related Expenditure (GRE is a cash indication of the level of expenditure which each authority is likely to incur in the light of its social and economic characteristics, and covers all its current expenditure including revenue contributions to capital; volume targets are in Survey prices, confined to current expenditure on wages, goods and services, and in terms of a percentage cut on what the authority was spending in 1978-79). A number of authorities, and in particular the Shire Counties, are below their GREs but above their volume targets. It could be argued, therefore, that such authorities should be exempted from the cuts. The counter arguments are:-

(i) Ministers agreed in January that the basis for the targets should be the volume figures.

(ii) Either the volume targets would have to be abandoned or the excesses would have to be clawed back from too few authorities (i.e. those which were above both their GRE and their volume targets) for the exercise to be realistic.

10. You will recall that £200 million of grant in respect of 1980-81 was held back pending evidence that volume reductions had been made. Outturn figures for 1980-81 will not be available until the Autumn, and the Secretary of State recommends (in his paragraph 4) that in the meantime the £200 million

should remain withheld. To release it while there were still doubts over the outturn would weaken the impact of the pressure which is proposed for 1981-82.

Wales - E(81) 56

11. The Secretary of State for Wales accepts that the £200 million for 1980-81 should continue to be withheld from the English and Welsh authorities until the outturn for the year is known in the Autumn. He recommends, however, that the local authorities should be told now that at least part of the sum will be handed over later, the actual amount pending on the outturn figures. He judges that this is necessary to avoid discouraging those who have reduced expenditure and provoking the overspenders.

12. The volume figures for 1981-82 for the Welsh authorities are, after allowing for shortfall, pretty well in line with the target. The cash excess is in the order of £25 million. The Secretary of State does not wish to take similar action to that proposed for England, but to warn the Welsh authorities of the need to keep to target, with the threat that if necessary grant will be withheld from them in 1982-83.

13. The Treasury question this approach on the grounds that there is a case for requesting revised budgets by July at least from those Welsh authorities which are above target. They are concerned that the stance taken in England should not be undermined by an apparently softer approach in Wales.

HANDLING

14. You might begin by pointing out to the Committee that there will be an opportunity to continue discussion of these, and the other local authority papers, at the meeting fixed for Tuesday, 19th May. After the Secretaries of State for the Environment and for Wales have introduced their papers, you might ask the Chancellor of the Exchequer to comment first. The Ministers with local authority responsibilities who will wish to comment are the Secretary of State for Education and Science, the Home Secretary, the Secretary of State for Transport and Sir George Young, who is representing

the Secretary of State for Social Services. The Secretary of State for Scotland will be putting forward a paper on the Scottish position for the meeting on 19th May, but he may wish to give the Committee some indication now of his views.

15. The main questions for discussion on 1981-82 are:-

(i) Should the Secretary of State for the Environment ask on 2nd June for revised budgets from each English local authority by mid-July?

(ii) If so, should the approach be as outlined in his paragraph 12, should the threat be to withhold grants totalling £900 million, and should the methods of achieving the holdback be as summarised in his paragraph 14?

(iii) Should the Secretary of State for Wales be required to call for revised budgets similarly or should he simply warn that he will act in 1982-83 if the 1981-82 outturn is too high (paragraph 15(b) and (c) of E(81) 56)?

16. For 1980-81 the issue is whether, as proposed by the Secretary of State for Wales, the local authorities should be told that the Government will restore in the Autumn at least part of the £200 million grant for 1980-81 if the outturn figures justify it, or whether no such promise should be made now.

17. In looking at these questions, the Committee will wish to strike a balance between the objectives of ensuring that public expenditure totals are not exceeded and of maintaining pressure on the local authorities to keep in line and, on the other hand, the risks that action as proposed will lead to confrontation and the local authorities seeking to blame the Government for any cuts in services and further increases in rates which might follow. If action is to be taken to deal with overspend in England it seems essential for decisions to be taken quickly so that the Secretary of State for the Environment can announce them on 2nd June.

CONCLUSIONS

18. You will wish to sum up the discussi on - almost certainly provisionally at this stage - with reference to the recommendations in:-

(i) Paragraph 18 of the Secretary of State for the Environment's paper E(81) 52.

(ii) Paragraph 15 of the Secretary of State for Wales's paper E(81) 56.

RA

Robert Armstrong

12th May 1981

cc Duguid
Vereker
Walters

CONFIDENTIAL

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

The Rt Hon Michael Heseltine
Secretary of State for the Environment
2 Marsham Street
London
SW1P 3AH

11. May 1981

LOCAL GOVERNMENT EXPENDITURE 1981-82

E(81) 52.

We are to discuss in E Committee on 13 May your paper on local government expenditure in England in 1981-82, together with other papers on local government finance. I shall be circulating a paper on local government expenditure in Scotland for discussion at the meeting on E Committee the following week.

Although the situation in Scotland is to be considered separately, I have a direct interest in the general (as distinct from particular) issues which arise on your paper, and I thought it would help if I indicated my concern before 13 May.

I regard it as essential to consider the effect on rates - and thus on ratepayers both domestic and business - of our decisions on grant reductions. Indeed there would be much to be said for looking at what we would regard as the maximum tolerable increase in rates and working back to the other expenditure constraints. It is clear that in 1982-83 we shall have no direct control over the determination of rate poundages, whatever we do for later years. In England local authorities can strike supplementary rates. In Scotland, local authorities cannot, though they can offset part of grant reduction by temporary borrowing, with an effect on rate levels in the subsequent year. We must attach importance to the level of rates in 1982-83. To the extent to which the Government is seen to be directly responsible for rate increases, we must take into account, in determining the level of RSG, not merely the rating effects of a reduction, but the rating effects of other measures: (a) the reduction in the volume of expenditure contemplated in Cmnd 8175; (b) the possibility of a reduction in the grant percentage; (c) the move to cash planning; (d) any other measures. These are all designed to curb local authority expenditure; they are bound to push up rates in 1982-83.

There is no precise yardstick by which to determine the amount of grant reduction which is an appropriate response to a particular level of excess expenditure. The determination of the grant reduction involves judgment, and in judging we must weigh up the various possible effects, as you paper does.

We shall of course have the opportunity to discuss these matters further, but I raise them at this stage, since they bear also upon the situations in Scotland and Wales.

I am sending a copy of this letter to the Prime Minister, to other members of E Committee, to Nick Edwards and to Sir Robert Armstrong.

GEORGE YOUNGER

JT

CONFIDENTIAL

c. A. Duguid.
A. Walters.

DEPARTMENT OF EDUCATION AND SCIENCE

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

Prime Minister

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

11 May 1981

Dear Michael,

LOCAL AUTHORITY EXPENDITURE

I have now had an opportunity to look at your proposals in E(81)52 for dealing with local authority expenditure this year, on which I wrote to you on 5 May. I agree with you that the volume excess of 5.8 per cent shown by the budgets is serious and that we must take corrective action. But, as the Minister responsible for the service whose expenditure will be most affected, I am writing to express my concern about both the total of grant that you propose to withhold and the method you recommend.

As to the total, this time last year the corresponding figure for 1980-81 was 5.6 per cent; and, following our decision to withhold £200m in grant in England and Wales (and also because of the traditional overbudgeting to which you refer), you now hope that it will be 1.5 per cent. This suggests that a hold-back of much less than £900m in England only in 1981-82 would be appropriate. Dubious - politics.

Moreover, last year, despite the hold-back, there were hardly any supplementary rates. This year, if we go for the higher figure of £900m, supplementary rates will be widespread, especially after last week's elections. Our political opponents will blame the hold-back of grant by us for the supplementary rates that some of them would have levied anyway; and even our supporters may be ready to blame us for rate increases which follow on what they consider an unfair reduction in grant. Just at the moment when we are seeing the first signs of an upturn in the economy, 60 per cent of the burden would fall on the non-domestic ratepayer, and almost certainly add to unemployment. All we would get is the blame for higher rates; and we should fail to get the reduction in expenditure which we want and which our measures last year helped to secure.

CONFIDENTIAL

As to the method, I agree that we must honour your commitment not to withhold grant from authorities which reach the target you set them in January. But I believe that (as Nicholas Edwards proposes for Wales in E(81) 56) we should also take account of performance in relation to grant related expenditure (GRE) which we all regard as a reasonable level of spending and which is the cornerstone of the system.

The shire counties provide a good example. Taken as a whole, their budgets for education are virtually identical with the education components of their GREs, and for all services their budgets show an excess of no more than 1 per cent, with 17 of them planning to spend at or below GRE. Yet under your proposals these 17 stand to lose up to £200m in grant unless they reduce their services to a degree far beyond the plans set out in the recent White Paper. This surely cannot be right.

In short, I believe that we should go for a hold-back of much less than £900m distributed in such a way as to exempt authorities planning to spend at or below their GREs as well as those who have hit their volume targets. We should surely penalise only those who by any reckoning are planning to spend too much.

I am sending copies of this letter to the Prime Minister, other members of E Committee, Patrick Jenkin, Nicholas Edwards, George Younger and Norman Fowler, and to Sir Robert Armstrong.

Yours ever

Mark

MARK CARLISLE

Local Govt

Mike Pattison

13.3.81

Thank you - I was glad to have this since we have been corresponding regarding Rate Support Grant in Barnet.

Jry

CF to file

MP

FILE

VLB

9 March 1981

The Prime Minister was grateful for your Secretary of State's minute of 4 March, with which he enclosed a copy of a paper prepared by accountants on the Borough of Barnet's finances. She was most interested to see this.

M A PATTISON

D. A. Edmonds, Esq.,
Department of the Environment.

2.

Prime Minister

MAP 4/3

4 March 1981

PRIME MINISTER

You will remember that I told you that Leslie Pym had invited the team of accountants that organised the water exercise into Barnet.

I have seen a confidential paper they prepared and I agreed with Leslie that you should have a copy.

My own impression is that Barnet by any standards compares favourably with many authorities and I have been most impressed by Leslie's receptive approach to my suggestion that he should seek professional advice.

In the event I believe that the accountants proposals that this year a reduction in the proposed rate increase from 30.4% to 25.3% (page 2) was only partially accepted (27.8% I believe). In other words the balances were used and the economy ideas are to be investigated for next year in a more leisurely timescale.

What is particularly interesting to me is that Barnet have apparently hit our 5.6% volume reduction and yet these other opportunities exist. I should point out that these potential economies were largely mentioned at official level in the authority and some of them have been considered and rejected politically.

And of course this is only after a most superficial one-week investigation.

MH

MH

LONDON BOROUGH OF BARNET

SUMMARY OF 1981/82 ESTIMATE

	1980/81 ORIGINAL ESTIMATE	1981/82 ESTIMATE	1981/82 OVER 1980/81	1981/82 OVER 1980/81	RATE IN £ 80/81	RATE IN £ 80/81	INCREASE IN PENNY RATE
	£'000	£'000	£'000	%	p.	p.	%
COMMITTEES:-							
Allotments	(21)	(21)	-	-			
Carnival & Shows	9	11	2	21			
Development & Estates	2,951	3,005	54	2			
Education	44,677	51,837	7,160	16			
Finance	(811)	(1,501)	(690)				
General purposes	1,159	1,243	84	7			
Central Administration	6,196	7,040	844	14			
Housing	855	729	(126)	(15)			
Libraries & Arts	2,235	2,363	128	6			
Public Works	6,017	6,609	592	10			
Social Services	9,947	11,639	1,692	17			
Town Planning & Research	1,076	954	(122)	11			
(Contingency)	5,800	4,050	(1,750)	--			
	80,090	87,958	7,868	10			
Cost of rate collection and rebates	------	948	948	--	-----	-----	
	80,090	88,906	8,816	11	138.8	152.0	9.5
EXPENSES UNDER PRECEPTS:-							
Greater London Council	11,885	14,140	2,255	19	20.6	24.2	
Metropolitan Police	7,328	8,980	1,652	23	12.7	15.3	
	99,303	112,026	12,723	13	172.1	191.5	11.3
Less: Rate Support Grant & Greater London Equalisation	(42,085)	(41,197)	888	--	(72.9)	(70.4)	
	57,218	70,829	13,611	24	99.2	121.1	22.1
Adjustment to Balances	(960)	249	1,209	--	(1.7)	0.4	
Rate required	56,258	71,078	14,820	26	97.5	121.5	24.6
Domestic Rate Support					(18.5)	(18.5)	
Domestic Rate					79.0	103.0	30.4

LONDON BOROUGH OF BARNET

Summary for Consideration of Possible Method of Reducing Rate

	Rate to be Raised	Penny Rate (Domestic)	% Increase	
Present proposal	£71,078,000	103p	30.4%	
Possible reductions in estimated expenditure	1,000,000			
		4p		
Greater use of balances	1,340,000			
Alternative proposal	£68,738,000	99p	25.3%	5.1% less

Notes

1. Penny rate product is estimated at £585,000.

2. Last years domestic penny rates was 79p.

3. Grant should not be affected.

4. Domestic rate support is 18.5p in 1980/81 and 1981/82. Fall is therefore:

   1980/81 : 97.5p
   1981/82 proposed : 121.5p
   1981/82 alternative: 117.5p

5. A more aggressive strategy using all the listed savings and another £1m of balances could get the rate down to 96p - a 21.5% increase.

LONDON BOROUGH OF BARNET

BALANCES

General Rate fund	£'000	fund balances 31.3.81	use in 1981/82 to increase (reduce) rate	possible balance at 31.3.82	Notes
balance 31.3.80	4,126				Possible balances are approximations; detailed estimates are not yet available
planned appropriation 80/81	(960)				
overspend 80/81	(1,449)				
additional RSG	255				
	------				
expected 31.3.81	2,000	£2.0m	£0.25m	£2.2m	Does not allow for clawback of grant (at 1½% would be £0.6m)
	======				
Insurance fund		1.2	(0.25)	1.2	May be more if good claims experience continues. Repayment to rate fund in 1981/82 is surplus.
Capital and renewals fund		3.5	(0.50)	2.8	In 1981/82 no provision is to be made, but fund will continue to be used to fund plant and equipment renewal
of which:					
capital amounts (0.6m)					
provision towards new offices (£1.85m)					
plant and equipment (£1m)					
Capital receipts unapplied		3		4.3	Assumes £1.3m from sales of property (Further £0.5m possible in 1981/82) Interest credited to rate fund.
		-----	-----	-----	
		£9.7m	£(0.5)m	£10.5	
		=====	=====	=====	

LONDON BOROUGH OF BARNET

Summary Schedule of Possible Savings for Consideration

		£
Public Works		
1.	Charge for off-street car parking	150,000
2.	Implement refuse bonus scheme faster	150,000
Vehicle and Plant Account		
3.	Reduce vehicle fleet size	100,000
Estates		
4.	Implement parks bonus scheme faster	200,000
Education		
5.	Cut secondary teachers by further 25	130,000
6.	Cut primary teachers by further 32	130,000
7.	Raise school meal price further	80,000
8.	Reappraise expansion of nursery programme	20,000
9.	Change admission policy for rising fives	60,000
10.	Reduce discretionary awards	30,000
11.	Close two libraries	80,000
12.	Reschedule opening times of libraries	40,000
Social Services		
13.	Restructure department	80,000
14.	Close an additional children's home	80,000
15.	Re-introduce assessment for charges for day nurseries	35,000
16.	Reduce number of day care nursery places	75,000
17.	Close Park House Hostel	20,000
18.	Let more of Maynard House Observation centre to other authorities (or close it)	70,000
General Purpose		
19.	Simplify committee structure	20,000
20.	Streamline legal services	15,000
21.	Stop letting out council rooms at a direct loss	5,000
		£1,570,000

LONDON BOROUGH OF BARNET

Detailed Schedule of Possible Savings for Consideration

Item	Amount	Comments
Public Works		
1. Introduce charges for off-street car parking.	£150,000	Council policy is not to charge. Estimate is based on 2,000 spaces in off-street parks at average rate of 50p per day for 5 day week. Capital costs for pay and display machines have been deducted from receipts, as have the running costs of two wardens. Note: charging for off-street parking may lead to greater on-street parking. Charges for this through meters could be considered.
2. Implement bonus incentive scheme for refuse collectors.	£150,000	Council is implementing scheme with estimated savings of £250,000 but only £100,000 has been included in 1981/82 on account of difficulties in achieving full savings in year 1 because council will have to employ forty-four surplus refuse collectors until they leave through natural wastage. Council policy does not envisage redundancy. Proposal is to utilise reserves to pay redundancy costs, make surplus men redundant and ensure planned operating savings are achieved.
Vehicle and Plant Accounts		
3. Reduce vehicle fleet size, making more flexible use of pool vehicles and hiring, on an as required basis, vehicles and plant that currently have low utlisation. Saving based on 5% reduction of £2 million estimated expenditure 1980/81.	£100,000	Currently, many classes of vehicles have relatively low utlisation. With previous years deferred/reduced replacement policy, the fleet has been getting older and maintenance cash would be expected to increase. Fleet management package proposed to monitor costs/usage, etc. and identify economic vehicle lives /'rogue vehicles'/low utilisation as basis for reducing costs. This is likely to provide longer term Recommend immediate study to analyse information currently available and determine short-term action including:

Item	Amount	Comments
		- disposal of high operating cost vehicles - disposal of vehicles and plant not being used economically (unless required for other reasons, e.g. gritters) - hiring of vehicles to cover short term needs - consider sharing of certain specialist vehicles with other Boroughs (e.g. high pressure drain cleaners) - more flexible use of vehicles on some extended form of 'pool' basis (there is clearly an inconvenience factor here) - reduce external hiring
Estates and Research		
4. Implement bonus incentive scheme for park and estate workers	£200,000	Council is implementing scheme with total saving estimated at £391,000. Only £25,000 is recognised in 1981/82 owing to difficulties in reducing workforce by the estimated 32 to 42 employees. Proposal envisages using reserves to meet redundancy costs and reducing workforce to ensure planned operating savings are met.
Education		
5. Cut secondary teachers by a further 25 from September: 25 x £9,000 p.a. x 7 months	£130,000	Cuts presently proposed will bring Barnet's September 1981 pupil/teacher ratio into line with average for 1980/81 estimates for London Boroughs. It is therefore likely to be significantly above the average of other Boroughs' proposals for 1981/82. Barnet's large sixth forms mean that Barnet should be able to manage with higher pupil/teacher ratios than most Boroughs. It might be necessary to cut out some subjects from the curriculum

Item	Amount	Comments
6. Cut primary teachers by a further 32: 32 x £7,000 x 7 months	£130,000	This will probably hold Barnet in line with the London Average. The figure of 32 is calculated on a class size of 28 based on projected school population plus head and one other teacher per school.
7. Raise school meal prices from 40p to 50p rather than 45p in September. Assume further 5% drop out.	£80,000	Revenue could be further increased if the rise was implemented in April.
8. Reappraise expansion of nursery programme.	£20,000	Cancellation of present capital programme would save full year cost of £35,000. There is no statutory requirement for the nursery programme; it might be possible to cut here, although staff turnover is very low.
9. Change admission policy to take in rising fives from January rather than September. Estimate provided by officers.	£60,000	This still meets the statutory requirements. To realise the saving the take on of teachers must be deferred from September to January. Officers believe this is possible but administratively difficult.
10. Reduce discretionary awards allocation	£30,000	This would require a reappraisal of the criteria for making such awards or to deal with them on a first come first served basis.
Libraries		
11. Close libraries at:		Savings around 80% of full year saving.
South Friern	£40,000	
Childs Hill	£40,000	Borough appears to have unusually large number of libraries for its size, even after these closures. (Recognised as necessary due to awkward shape and poor transport within Borough.) This proposal has been considered and rejected once.
12. Reschedule opening times of libraries to reduce staff hours (estimate at 2% of budget)	£40,000	Most libraries in the Borough already shut on Mondays and of necessity are open in the evenings and on Saturdays. However it would be possible to effect further reductions.

Item	Amount	Comments
Social Services		
13. Restructuring of Department (O&M Study) - reduce number of central senior posts - reduce area teams from 6 to 3 - consequent occupancy cost savings in clerical/admin assistance. Total savings forecast by O&M of £250,000 or 30+ staff.	£80,000	Due to no redundancy policy O&M estimate on £30,000 can be saved in 1981/82, of which £15,000 reflected in estimates. £80,000+ could be achieved with early retirement and redundancy.
14. Close an additional children's home. £100,000 saving less boarding out for 12 children. (£28 x 52 weeks)	£80,000	Assuming more aggressive shift towards fostering/adoption than currently. Department would argue that they are doing all they can. Closing a home would force them to find places. Jobs or redundancy or retirement for 6 staff also required - not clear how much, if anything, this would cost. In past costs of staff losing jobs because of closure have been minimal.
15. Re-introduce assessment for charges for day nursery places. Increased amount represents value of money actually collected in 1976/77 (when assessment was dropped) at current prices.	£35,000	Currently charges only made for meals in line with Education Department nursery school charges. Many parents pay nothing because they are already receiving supplementary benefit/family income supplement.
16. Reduce number of day care nursery places for under-fives from 240 to 190. £50 per week x 50 x 52 weeks less cost of full-time child minders £20 per week x 50 x 52 weeks	£75,000	Would also mean closing a day nursery with possible redundancy costs. Social Services Department see day care provision as one of cornerstones of policy to keep children out of care. It could be argued that they are successful. Would mean more aggressive use of sponsored child-minders.

Item	Amount	Comments
17. Close Park-House Hostel for mentally ill adults. £40,000 net cost after charges less cost of providing places in voluntary sector. £40,000 - 10 places at £2,000 per year.	£20,000	Have already been moves in this direction, i.e. number of places already reduced from 20 to 10. Savings could be increased further if some of inmates discharged altogether or sent to council owned group housing.
18. Increase use of Maynard House Observation and Assessment centre by other authorities. If 10 places instead of 5 paid for by other authorities, saving would be 5 x £300 x 52.	£70,000	Occupancy of this extremely expensive resource is reducing below 80% and seems to be scope for providing fixed number of places to other authorities. Alternatively Maynard House could be closed saving annual costs of £200,000+ for 16 places. (excluding £50,000 debt charges).
General Purposes		
19. Simplify committee structure. Reduce number of committees from 17 to 11 and streamline committee support functions.	£20,000	A review of committee structure is currently taking place but the pace is slow because of entrenched positions
20. Streamline legal services. Save 3 staff	£15,000	Would require an O&M study
21. Stop letting out council rooms or increase charges (£15 cost less £5 income x50 weeks x 10 sites)	£5,000	Present charges do not cover heat, light and caretakers.
Total of above	1,570,000	

Other Observations

(These were not put in writing)

1. Administration

In a study of this nature we were not able to pinpoint specific suggestions for savings in the short term.

However, our general impression is that it would be worthwhile to conduct detailed reviews of administration concentrating on what activities give rise to cost, whether they are necessary and an appropriate level of unit cost for each activity. In a situation where departments are having to maintain vacancy levels at 15% it would be surprising if the squeeze had not been uneven in its effect.

2. Financial Control

While we have not carried out a complete review of the financial systems, our general impression is that poor computer systems support is provided. In particular, we suspect that the systems do not support an adequate level of accountability.

3. Depots and stores

There appears to be scope for rationalisation of depots and stores arrangements which go back to the days of the pre-decessor Councils. Potential benefits would be reduced stock levels, reduced storekeeping and purchasing costs, reduced obsolescence costs, and release of premises.

4. Productivity schemes

Further benefits are expected to be achievable from the implementation of bonus schemes in highways (£45,000), Transport workshops (£50,000) and street cleansing (£40,000). Implementation of these schemes is being held up by lack of work study capability.

2

Prime Minister

Progress is slow.

Local Govt

T.O. Local Govt Pt 4.

C.F. Copy to Future of Rating file

2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/11183/81

Your ref:

3 March 1981

Dear Clive

FUTURE OF RATING

You wrote to me on 6 February reminding me of the close interest of the Prime Minister in our review of local government finance, and suggesting that we should let you have, as soon as convenient, a progress report on the review.

There have been discussions, as you know, between the Ministers concerned - the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Wales - and in the light of those discussions we have been examining what can be done not only about the unfairness inherent in domestic rates but also about the burden on business ratepayers. My Secretary of State is currently working on a paper which he proposes shortly to put back to those colleagues, before preparing a paper on options which would be put to colleagues collectively.

I am sending copies of this to John Wiggins (HM Treasury), Godfray Robson (Scotland), John Craig (Wales), and David Wright (Cabinet Office).

Love

Dick

D A EDMONDS
Private Secretary

Clive Whitmore Esq
No 10

CONFIDENTIAL

Loc Govt

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

26 February 1981

Dear Michael

SCRUTINY OF LOCAL AUTHORITY EXPENDITURE

You will know that, faced with the prospect of substantial increases in water charges, I have recently arranged for a team of private accountants to examine the basis on which the Water Authorities in England had prepared their budgets for 1981-82. This exercise was conducted very rapidly and at short notice, and with the co-operation of the Chairmen; and it has succeeded in pointing the way to significantly lower increases in charges than had been intended.

I want now to do something analogous in local government. I am convinced that in many local authorities there are areas of expenditure the need for which is never adequately questioned, and that very substantial savings could be produced by rigorous reviews of assumptions and accepted practice. I have already been able to arrange in a couple of cases for an independent short-term scrutiny by private accountants on the kind of informal and non-statutory basis on which the water industry exercise rested, and I intend to repreat this in further cases where the political relationships make it possible. But I need to be able to mount similar investigations on a statutory basis where the voluntary approach is not available; and I believe that my powers in relation to district audit under the Local Government Act 1972 enable me to do this. The District Audit service is of course fully stretched with routine work; and while I have the greatest respect for the Distrct Auditors' expertise, I believe that in present circumstances there would be some benefit in introducing, alongside them, the distinct skills and experience of the private sector accountant. What I have in mind therefore is in a number of selected cases to appoint, under Section 156 of the 1972 Act, either as district auditor or as a person to assist him, members of private accountancy firms. The person appointed would of course have all the duties and powers of the District Auditor under sections 157-161 of the 1972 Act and might operate either as part of the normal audit cycle or, if the circumstances so required, on a direction from me under the extraordinary audit provisions of section 165.

This action would, of course, be a departure from the way in which the 1972 Act powers have been used in the past, and would without doubt generate opposition in local government. But the public concern about rate levels and our concern about both rates and public expenditure justify me in taking all reasonable steps to secure value for money and economy. I would be grateful for your opinion on whether it is open to me to proceed under these powers in the way that I have described. I attach a note by my Legal Adviser which sets out the legal issues in more detail.

I am copying this letter to Christopher Soames - whose approval I would require to these appointments under Section 156 - and to the Prime Minister and Geoffrey Howe for information.

yours ever

MH

MICHAEL HESELTINE

Rt Hon Sir Michael Havers QC MP
Attorney General

ANNEX

Legal Issues

1. There would not appear to be any legal objection to the Secretary of State (with the consent of the Minister of the Civil Service) supplementing the District Audit Service by making appointments under S.156 of the Local Government Act 1972 (c. 70) of private sector accountants. Section 156 replaces in an abbreviated form section 220 of the Local Government Act 1933 (c.51) where there was, in subsection (3), a specific reference to appointments of assistant district auditors and persons to assist district auditors.

2. It is thought prudent that such appointments should be on an individual basis rather than appointments of firms of private sector accountants to be district auditors or persons to assist district auditors. The reason for this is that the powers given to a district auditor by Sections 158 - 161 seem to pre-suppose that the district auditor will be an individual and not a firm.

3. It is, of course, open to a county or district council under S.154 of the 1972 Act to appoint an "approved" auditor as an alternative to having their accounts subject to district audit. The approved auditor must be a member, or a firm all the persons wherein are members, of one or more of the professional bodies listed in S.164(2) of the Act. This provision mirrors to some extent S.239 of the 1933 Act which empowered a borough council to resolve to adopt either district audit or a system of "professional audit". An approved auditor does not have such wide powers as a district auditor. Thus, under S.159(3), it is only a district auditor who may hear objections to a local authority's accounts made by a local government elector; under S.161, it is only the district auditor who may make applications to the court for a declaration that an item of accounts is contrary to law. An approved auditor, if he believes that an item of account is contrary to law, is required by S.162 to report the matter to the Secretary of State who may then direct an extraordinary audit under S.165. An extraordinary audit under the terms of that section has to be conducted by a district auditor. Under S.158(5) an approved auditor is

subject to a criminal penalty if he discloses (other than in the course of performing his functions) to any person any information obtained by him in carrying out a statutory audit. There is no corresponding provision in relation to district auditors.

4. The Chief Inspector of Audit has suggested that if the Secretary of State uses his power under S.156 to appoint, on a temporary basis, private sector accountants as district auditors or persons to assist district auditors, it might be argued on the basis of Padfield v Minister of Agriculture [1968] A. C. 997 that he was not carrying out the policy of the Act in that he was imposing on local authorities approved auditors in the guise of district auditors.

5. It is thought doubtful whether an argument on such lines would be likely to prevail unless it was pressed to the point of accusing the Secretary of State of mala fides.

6. In Asher v. Secretary of State for the Environment [1974] Ch.208, the Court of Appeal held that the Secretary of State's decision to hold an extraordinary audit could not be questioned in the courts "so long as he acts in good faith" (Lord Denning MR at p.228); "unless it was made in bad faith or was frivolous or vexatious" (Lawton L J at p.227). It is thought that the Secretary of State's discretion to appoint district auditors (or persons to assist them) under S.156 is in the same category. His power is to appoint "such number .... as he thinks necessary". If he suddenly made a large number of temporary appointments from the private sector, it is thought that it might be argued that his decision was prompted by some indirect purpose, namely, that he wished, under the guise of district audit, to have something different. On this basis, the question of the legal risk attached to the exercise by the Secretary of State of his power under S.156 in the way proposed in paragraph 1 of this note would be one of degree rather than of kind.

2

SECRETARY OF STATE FOR THE ENVIRONMENT

Prime Minister

Local Govt Expenditure

cc Mr Lyn[illegible] Mr [illegible]

Can I make this point at Questions? MT.

Chancellor of the Exchequer

I thought I would let you know of developments over the fixing of water rates for 1981/82.

It has become increasingly apparent that despite the very clear messages that Tom King and I have given to the Regional Water Authority Chairmen on this subject the Authorities have not pursued their search for economies with anything like the necessary vigour. The range of increases in charges currently proposed is 14% - 33%.

You will be familiar with all the usual arguments as to why Ministers should not interfere in detailed management judgements and this coupled with the sensitivity of the wage negotiations led me to hold back from more direct intervention. Nevertheless I asked Tom to hold urgent meetings this week with each of the Chairmen separately, supported by their senior officers, designed to persuade the Authorities to review their budgets in a much more rigorous fashion. Specifically, we have been posing to them the question what would need to be done to ensure the charges next year would not rise by more than 10%.

I do not pretend that such a target can in fact be achieved without consequences that we as a Government would find unacceptable. But the response of the Chairmen to the challenge was so unconvincing that I felt we had to force them to re-examine the basic assumptions of each budget.

SECRETARY OF STATE FOR THE ENVIRONMENT

I have therefore arranged for a team of professional accountants, drawn from Arthur Andersen, Price Waterhouse and Coopers Lybrand, and led by Ian Davidson, to visit every authority over the next 7 days. They are due to report back to me next Friday on their assessment of robustness of Authority's budgetary assumptions.

Though the exercise is being done with the acquiescence of the Chairmen it may well attract public attention because Tom King has instructed the Chairmen to delay the printing of rate demand notices until it is concluded. Moreover, one outcome of the exercise is bound to be that the Chairmen will complain that we have forced them to high rate increases by the speed at which we are introducing Current Cost Accounting and by the implementation of Section 30 of the Water Act 1973 (which requires water authorities to move towards a cost related, non-discriminatory charging system).

But I would positively welcome any public awareness of the fact that Central Government has expressed its concern by taking action with the Authorities in such a positive and direct fashion.

Meanwhile I am asking my officials to contact yours forthwith so that we may be in a position to take any immediate decisions that are necessary following the reports I receive next Friday. I must be in a position to allow the Authorities to fix their

SECRETARY OF STATE FOR THE ENVIRONMENT

charges formally in the week beginning 16 February. Slippage beyond that time could affect their cash flow position and their ability to observe their present EFLs.

I am copying this minute to the Prime Minister, Nicholas Edwards and George Younger.

MH

6th February 1981

File

JMP

Local Govt

10 DOWNING STREET

From the Principal Private Secretary 6 February 1981

Dear David,

Local Government Finance

The Prime Minister understands that your Secretary of State is proceeding with his review of local government finance and that, as part of the review, he has had informal discussions with those Ministers most directly concerned with the subject.

As Mr. Heseltine knows, this is a matter in which, because of its political and financial significance, the Prime Minister takes a very close interest, and she would be grateful if he could let her have, as soon as is convenient, a progress report on the review.

I am sending copies of this letter to John Wiggins (HM Treasury), Godfrey Robson (Scottish Office), John Craig (Welsh Office) and David Wright (Cabinet Office).

Yours ever,

Clive Whitmore

D.A. Edmonds, Esq.,
Department of the Environment.

Prime Minister

RATES

We touched briefly on rate settlements at Cabinet yesterday. I enclose a first authoritative list of precepting decisions by County Authorities. This list, published today by the Municipal Journal, is based on a survey of County Councils. The rate demands by District Councils would, of course, be added to these demands.

As you will appreciate, the figures in Column 3 are the percentage increases in precepts announced or recommended. The range is from 3% to a little over 19%.

A confidential survey by the Association of County Councils, which my Department has seen although I have not, indicates that the average rate increases for the Shire Counties should be under 10%.

The final column in the table shows the percentage increase which would result from adjusting for changes in grant.

There is a long way to go yet!

I am sending a copy of this to Francis Pym.

6th February 1981

MH

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ABC
MEMBER OF THE AUDIT BUREAU OF CIRCULATIONS

Volume 89 Number 5

Editorial staff: Stephen Marks (housing, planning, pay, book reviews), Roger Packer (production), John Hawkins. **Editorial secretary:** Marianne Regan. **Special contributors:** Michael Cowan (finance), Tony Aldous (architecture), Mick Hamer (transport), Roy Huse (libraries), Frank Pedley (education), David Holroyd (social services), REC Jewell (legal), Frank Walton (employment law), Roland Freeman and Roger Milne. ■

COMMENT

Co-operation between local authorities and small firms is on the increase, so a report (see opposite page) published this week by the Economists Advisory Group deserves close attention.

It makes the valid point that the direct grant system means that local councils which successfully promote local business and thereby increase their non-domestic rate income, get less money from Marsham Street as a result.

There is clearly scope here for giving local authorities some leeway through the rate support grant system so that this anomaly does not arise.

And Local Government minister Tom King, speaking to Sheffield Chamber of Commerce last week, said that often industrialists viewed business activity in isolation. He called for both sides to broaden their horizons.

To this end Lancashire CC's forthcoming business advice night for local firms is an example of what can be done, and has attracted groups such as CSIRA and Barclays Bank.

Working with three of its district councils, the county will advise on the night on the availability of suitable land and buildings for new ventures or expansion.

That way both public and private sector benefit and, above all, the local community each seeks to serve.

Meanwhile, demands to restore the non-domestic vote grows. A major piper seeks to ensure a bigger voice in the tune being played. ■

County budgets show wide variations over rates

Rate rises up to 19% have been recommended to county councils this week, *writes Antonia Simkins.* In the 29 authorities where a recommendation has been published the range of increase is from 3% to 19.35%.

But these figures conceal the effect of the new block grant. According the DoE figures issued in December most counties lost some grant but a handful gained as much as the equivalent of a 5p rate. Revised percentage increases after adjusting for the DoE estimates are shown in the last column of the table published here.

The DoE figures take no account of the grant reduction arising out of the reduced relevant expenditure and they apply only at the level of spending the DoE predicted for each authority. And the ACC has said it does not agree with the basis on which calculation have been made. No comparable figures have been produced for the Welsh counties.

Some counties are reaping the rewards of budget cuts last year. Gloucestershire CC, for example, complains that last year its rate was lower than any levied by its six near neighbours. This year the figure is 18.22% up. 'It is now clear we overdid it', Gloucestershire says. It has had to find £8.5m more than it allowed for inflation, higher interest rates, lower income and loss of grant. The county will be overdrawn to the extent of £2.5m which will have to be financed from the 1981/82 rates. ■

	Rate 1980/81	Proposed 1981/82	%	Grant change	%
Gloucs	101.5	120	18.22	−1.1	16.95
Bucks	106.5	117	9.85	5.9	16.3
Hereford/Worcs	106	113	6.6	5.7	12.66
Derbys	98	111	13.26	−1.1	12.00
Kent	100.17	112.46	12.26	−0.6	11.6
E Sussex	101.4	113.7	12.13	−1.1	10.92
N Yorks	102	114	11.76	−1.1	10.57
Northumberland	112	125	11.6	−1.1	10.52
Warwicks	111	116.55	5.0	5.2	10.06
Suffolk	108	119	10.18	−0.3	9.87
Herts	106.5	116.2	9.1	0.7	9.82
Isle of Wight	108	113.5	5.09	4.5	9.66
Devon	98	107.75	9.94	−1.1	8.72
Surrey	101.65	111.6	9.78	−1.1	8.61
Cornwall	97.5	107	9.74	−1.1	7.2
Somerset	109	116	6.42	2.1	8.51
W Sussex	98	107.5	9.69	−1.1	8.48
Cheshire	116.5	120	3.0	5.8	8.4
Dorset	109	119	9.17	−1.1	8.08
Oxford	108	117	8.33	−1.1	7.24
Cleveland	115.5	125	8.22	−1.1	7.2
Beds	114.6	122.6	6.98	−1.1	5.96
Wilts	108	108	0.00	5.0	4.85
Staffs	108.5	112.5	3.68	.6	4.26
Leics	97.5	101.5	4.1	−1.1	2.94
Metro counties					
W Yorks	37.7	28.1	West Yorks estimates this as a 13.8% real increase		
Welsh counties					
Clwyd	124	148	19.35	—	—
Dyfed	112	122.6	9.5	—	—
Gwynedd	111	128	15.31	—	—

Tax share urged for councils

Local authorities should be given a share in national income tax in order to assist small businesses, says a study produced for the small business unit of Shell UK.

The study, commissioned from the Economists Advisory Group, concludes that 'more autonomy in the finance of local government is desirable and should be ultimately helpful to small business.'

They also conclude that, whatever reforms are made in local business taxation 'the case for giving local authorities a share in national income tax is clear and should be pressed for vigorously by all interested parties.'

They say there is 'insensitivity' by local councils to small businesses which has destroyed many of them 'in the interests of paper plans for urban redevelopment, in over-zealous interpretation of planning law and in many other ways.'

The report says the interests of local government and small firms are even more tenuously linked than the small proportion of rates and votes they account for suggests.

'This is because the direct grant system works in such a way that local authorities which successfully promote business in their area and enhance their non-domestic rate income simply get less from central government.'

The Promotion of Small Business: a Seven Country Study, 2 vols, Economists Advisory Group Ltd, World Trade Centre, 52 St Katherine's Way, London E1 9LB, price £15.50 plus £1.50 p&p.

● Local Government minister Tom King said last week that commerce and industry should work together with local councils to overcome their difficulties. Many were responding, and the number of planning applications for industrial and commercial premises was now running at record levels. ■

Employers threaten water union ballot

Union leaders will be consulting the 32,000 manual workers in the water and sewerage industry over the rejection of the employers revised 10% offer.

Employers' chairman Sir Robert Marshall has warned that the water authorities may conduct a ballot of manual employees if they feel the union consultation process is not getting sufficient member involvement.

But union side leader Eddie Newall of the GMWU warned the employers that a ballot could rebound on them. The union side next meets on 25 February.

The 10% would add 0.8% to the industry's total costs and 2.5% if awarded to all other employees. The union side is thought to be prepared to recommend to accept an offer of around 13%. ■

Lambeth strike against cuts

Lambeth LBC's construction and refuse workers were on strike this week in protest against the Government's cuts and in support of Lambeth LBC's stand against the cuts. NALGO members in libraries were also on strike while members in housing advice and citizens' advice centres were 'working in' without pay and using their offices to mount displays against Government policies.

A march through the borough was due to take place as *MJ* went to press, with supporters expected from as far as Sheffield, and with Tony Benn MP among the speakers, together with local MPs Stuart Holland and John Tilley. ■

PERSONAL AND CONFIDENTIAL

Prime Minister.

Would you like to proceed as proposed in paragraph 4 above?

ATW 5/ii

Ref. A04196

MR WHITMORE

Will do it myself as in para 4

Local Government Finance

I understand that there have been informal discussions among certain Ministers (among them the Chancellor of the Exchequer, the Secretary of State for the Environment and the Secretaries of State for Scotland and Wales) about the finance of local government; but that in these discussions it is being accepted as an assumption that the property rating system continues to be the method of raising local revenue for local government, and that the issue is therefore how that system can be modified to mitigate its acknowledged defects, and not whether it should be replaced (in whole or in part) by some other form of revenue (eg a local rates tax, or diverting to local government some part of the yield of a national tax like the petrol duty or the excise duty on tobacco).

Yes - very much so [illegible].

2. My information is that the Prime Minister - and perhaps other colleagues - would not wish the consideration of the future of local government finance to be restricted by such an assumption, but would want to review possible alternatives (or supplements) to the rates.

3. There might be something to be said for calling this exercise into a Ministerial Sub-Committee of the Ministerial Committee on Economic Strategy (or possibly, but perhaps less appropriately, of the Home Affairs Committee), under the chairmanship of the Home Secretary or the Chancellor of the Exchequer; this would enable us to keep an eye on the way it was going, and intervene if need be.

I do not think we can give this task to the Chancellor if it is something that is going to require arbitration between him and the Budget.

4. If the Prime Minister wanted to do this, it might be best if she were first to invite the Secretary of State for the Environment to let her have a progress report on the review of local government finance; having received that, she could say that she thought that the time had come to bring discussion of this subject formally under the aegis of the appropriate Cabinet Committee, in view of the number of departments affected and the importance of the political issues involved.

RtA

ROBERT ARMSTRONG

5 February 1981

PERSONAL AND CONFIDENTIAL

Local Govt

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon M Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1

12 December 1980

Dear Michael,

Thank you for sending me a copy of your letter of 5 December to Geoffrey Howe. I too am pleased that the discussions with the Local Authority Associations have shown that there is no significant risk to the delivery of the national cash limit and hence no need to go back on the undertakings we have given to the Associations. Any attempt to have done so would have been bitterly resented.

We are working on our own capital expenditure allocations and will issue them as soon as possible - certainly I hope we will be able to do so before Christmas. So far as the capital controls memorandum is concerned I welcome your proposal to issue this document on 10 December. We have already been consulted about its content and I think an authoritiative statement on the new controls is necessary and will be welcomed by Local Authorities.

I am copying this to John Biffen and to those who had Geoffrey Howe's letter of 2 December.

Yours ever

Mark

MARK CARLISLE

Mech – to see

VMS

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster

12th December 1980

Dear David,

LOCAL AUTHORITY HOUSING: CAPITAL OVERSPEND 1980-81

The Chancellor of the Duchy has seen your Secretary of State's minute to the Prime Minister on this subject, dated 11 December.

The Chancellor strongly agrees with the course proposed by your Secretary of State. The inclusion of an announcement that underspending authorities will be free to approve discretionary grants and loans for improvement for private sector dwellings in the statement on Housing on Monday, 15 December has, the Chancellor considers, much to commend it politically and the likely expenditure seems minimal. The Chancellor very much hopes that it will prove possible to include this item in Monday's statement.

I am copying this letter to the Private Secretaries of the recipients of copies of your Secretary of State's minute of 11th December and Nick Sanders at Number 10.

Yours ever,

Robin

R ~~A BIRCH~~
Private Secretary

David Edmonds Esq
Private Secretary
Department of the Environment
2 Marsham Street
London

CONFIDENTIAL

Mr Sanders

✓ MS

11 December 1980

PRIME MINISTER

LOCAL AUTHORITY HOUSING: CAPITAL OVERSPEND 1980-81

On 18 November E Committee agreed that the moratorium on new contracts for capital expenditure on housing by local authorities in England in 1980-81 should continue for the time being. The Committee invited me, however, to circulate a further assessment of the situation in time for discussion in the week beginning 15 December.

Accordingly I have been seeking the latest figures from the local authorities.

As you know it has now been agreed that I should make an oral statement on housing on Monday, 15 December when I will be expected to give some further indication of the Government's intentions about the moratorium. I am writing to you and my colleagues, therefore, to see whether we can reach agreement urgently on our future course of action.

On the basis of returns from more than 90% of local authorities, total housing authority commitments are thought to be £7 million above the cash limit of £2,186 million, ie the same as the November estimate. We shall not make a final estimate, however, until we receive the missing returns.

If we decide to continue the moratorium unabated that will undoubtedly provoke a hostile reaction from the local authorities, particularly those who are underspending, and from the construction industry. There has been much feeling about our refusal to permit local authorities to spend, in addition to the cash limit, the "tolerance" of £55 million for the carrying forward of underspent allocations from 1979-80. The estimates of committed expenditure are themselves liable to error depending on weather conditions this winter, and I very much doubt whether an overspend of £7 million would materialise. I believe therefore that it would be right to make at least a small relaxation from a continuing moratorium to enable the underspending authorities to resume the approval of discretionary improvement grants in the private sector. Their cessation has attracted the greatest criticism from the public and has been causing more concern in the Parliamentary party than any other aspect of the moratorium. I estimate that additional expenditure this year on this account would be unlikely to amount to more than £7 million at most.

A cessation on these lines would help to relieve the pressure on the many local authorities who have managed their affairs responsibly within their allocations; and it would in effect do no more than bring forward expenditure which those authorities will be able to undertake in the second quarter of next year through the additions to their allocations which we have agreed to make.

I hope, therefore, that you and my colleagues will agree that when I announce the continuation of the moratorium on Monday that I should also announce underspending authorities should be free to approve discretionary grants and loans for improvement for private sector dwellings.

You will appreciate that not only does this enable private sector work to proceed but that every improvement grant approved attracts an additional sum of privately contributed finance which is of further help to the construction industry.

I am copying this letter to member of E Committee, to the Secretaries of State for Scotland and for Wales, to the Chancellor of the Duchy of Lancaster, the Paymaster General and the Chief Whip, and to Sir Robert Armstrong. It would clearly help with my problems in drafting the statement if I could have a reply by close of play tomorrow, 12 December, from colleagues so that you may consider over the weekend.

MH

MH

Y SWYDDFA GYMREIG
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01-233 6106 (Direct Line)

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

Nr 14.-

11 December 1980

Dear Michael

Thank you for copying to me your letters of 2 and 5 December about the delivery of the national cash limit on local authority capital expenditure. I have also seen a copy of the reply of 2 December from the Chancellor of the Exchequer.

I also do not propose to take any direct action to reduce Welsh local authorities' capital expenditure allocations to take account of accumulated capital receipts. I have less of a problem than you since the estimate of accumulated receipts in Wales is much smaller comparatively than for England; only £23.5 million compared to £1 billion. Therefore, no matter what had been decided for the English authorities I would have proposed making no deduction in Wales. I also agree with your view that the constraints on current expenditure as a result of the forthcoming block grant arrangements and rate support grant settlement will reduce the willingness of local authorities to accommodate the revenue consequences of new capital expenditure.

I am copying this letter to the recipients of yours.

Yours ever

Nick

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

PS. I have just seen Geoffrey Howe's letter of 10 December and I can confirm that I will set up a parallel monitoring exercise for the Welsh capital block as proposed.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Mike – you might like to see
[illegible] 12
10/12

10 December 1980

The Rt. Hon. Michael Heseltine PC MP
Secretary of State for the Environment

Dear Michael

LOCAL AUTHORITY CAPITAL CONTROL SCHEME

Thank you for your letter 2/12/80 reporting on your consultations with the local authority associations about the implications of the existence of up to £1 billion of unspent capital receipts, which could be used to justify extra capital expenditure next year within the terms of the new capital control scheme.

While I find your assessment of the risk of overspending the cash limit reassuring, I must confess to some misgivings about the course you propose. We cannot be certain, despite the local authority associations' persuasive presentation of the case for responsible use of the freedom to spend capital receipts, that this concession will not lead to overspending the cash limit next year. The same uncertainty attaches to several other features of the capital control scheme, notably the power to anticipate the following year's capital allocation.

My inclination would therefore be for some precautionary underallocation of the cash limit. This would set a useful precedent for the future, when we will not necessarily be able to rely on the substantial shortfall which may well be a consequence of the introduction of the control scheme. But I appreciate that it would be difficult to construct and defend a suitable holdback figure without experience of previous years' outturn, and that any underallocation would be most unwelcome to the local authorities, whose co-operation is important for the implementation of our public expenditure policy.

On balance, therefore, I agree that you and our other colleagues should allocate all of the capital cash limit to local authorities in 1981-82. In doing so we must be prepared to reduce allocations or impose a moratorium

/in mid-year

in mid-year if we cannot be confident that the cash limit will be delivered. For this reason I welcome the improvements in monitoring which you propose. It is essential that we have accurate and up-to-date information about outturn on which to base our decisions. My agreement to your allocating in full is therefore conditional on improved monitoring, and I hope I may take it that Nicholas Edwards will set up a parallel exercise for the Welsh capital block. Our officials can discuss the details, but I would hope that we can speed up the existing quarterly information flows as well as supplementing them with the three extra months' aggregate data.

This letter is copied to recipients of our previous correspondence.

GEOFFREY HOWE

~~cc~~ Mr Ingham ~~TL~~ to see NBPM MS

DEPARTMENT OF EDUCATION AND SCIENCE

FROM THE SECRETARY OF STATE

ELIZABETH HOUSE,
YORK ROAD,
LONDON SE1 7PH
01-928 9222

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

9/1

9 December 1980

Dear Michael,

will request if required

Thank you for sending me a copy of your letter of 5 December to Norman St John Stevas about your announcements on local authority expenditure.

My main interest is in the RSG settlement, and I agree with what you propose. May I ask that we should see as early as possible this week the draft of your statement to the Consultative Council on 16 December? On that date (the day before my appearance in front of the Education, Science and Arts Committee) I intend, also by means of a Written Answer, to give further details of the new expenditure plans for Education and Science announced by Geoffrey Howe on 24 November.

I am copying this letter to the recipients of yours.

Yours ever

Mark

MARK CARLISLE

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

5 December 1980

Mike Pattison Esq
Private Secretary
10 Downing Street
London
SW1

MT

Dear Mike,

You spoke to David Edmonds and me about Hencke's article in the Guardian today on housing association expenditure.

I attach a briefing note agreed by the Minister and a copy of the Secretary of State's letter of 3 December to the Leader of the House which is also relevant.

I am copying this letter to the private secretaries of the Leader of the House and the Paymaster General.

Yours sincerely,

Hazel Parker-Brown

MRS HAZEL PARKER-BROWN
Private Secretary

Minister for Housing and Construction

BRIEFING ON GUARDIAN ARTICLE "NEW BAN WILL HIT HOUSING ASSOCIATION" 5 DECEMBER

Mr Heseltine said in the House on 25 November (Hansard, col 495) 'I have asked the Housing Corporation so to regulate the flow of schemes as to ensure that its cash allocation is not exceeded and that only projects of the highest priority are allowed to proceed.'

- There has been no cut in the Housing Corporation's cash allocation of £420 million for 1980/81.

- The latest figures indicate a possible overspend of at least £50 million in 1980/81.

- If no action had been taken to restrict expenditure this year, the result could have been a still higher overspend.

- Approvals will continue to be given to high priority schemes details of which have been set out in a circular issued by the Housing Corporation today.

GUARDIAN 5 DEC 1980

"Govern... poised to stop"

all new public housing starts

New ban will hit housing associations

22

By David Hencke
Planning Correspondent

The Government is about to halt all new housing association schemes until next April and order a number of associations to postpone the signing of new contracts.

The Housing Minister, Mr John Stanley, is to issue a circular to the 3,000 housing associations informing them of the ban. It will mean that not a single council or housing association home will be started during the winter, the Environment Secretary, Mr Michael Heseltine, has already stopped local authority building.

The housing association circular will also try to stop schemes already approved by the Housing Corporation, the quango which acts as banker to associations.

It will instruct associations, where contracts still have to be exchanged, to delay development until the spring.

The need for a new ban — an earlier moratorium was hastily imposed in September and then lifted — follows a miscalculation by the Department of Environment and the Treasury on the number of homes which could be started within Treasury cash limits.

The Treasury first estimated that the £420 million available could provide 20,000 homes. The Housing Corporation warned the Department of Environment that this was over-optimistic, but Ministers ignored the advice.

Now Mr Stanley has discovered that the allocation will only cover the building of 12,000 homes and associations with plans for another 8,000 homes will have to wait until May to receive approval.

Housing associations have taken the largest share of all housing cuts since the Government came to power last year. In the last financial year 43,000 homes were completed. This year only 12,000 homes will be started.

The new ban is expected to lead to strong opposition from the National Federation of Housing Associations, which has been campaigning to stabilise the building programme at 20,000 houses a year. It will also be raised when the Archbishop of Canterbury, Dr Robert Runcie, meets Mr Stanley at Lambeth Palace to discuss housing matters.

GUARDIAN 5 DEC 1980

Gray 13 eminence

THE wily ways in which a democratic opposition can foil and harass a majority have been entertaining—or infuriating—citizens of West London this week. The dignified proceedings of Hammersmith and Fulham council have been turned into farce by a left-wing Labour councillor, Mr Ian Gray.

He objects to the council's plans to close down William Parnell House, one of its blocks of flats, and he hit on a cunning way to sabotage the proceedings. When the motion was tabled to dispose of the flats, he presented an amendment suggesting the compulsory purchase of part of the exclusive Hurlingham Club.

This apparent absurdity—the idea was to use some of the Hurlingham's sweeping lawns in Fulham to build new homes for the William Parnell tenants—was not as impractical as it seems. Hammersmith's Tories only maintain their hold on power by way of a coalition with two Liberal councillors. And five Conservatives, Mr Gray discovered to his glee, are members of the Hurlingham Club.

This disqualified them from voting on Mr Gray's amendment, because of the strict rules on councillors having an interest. The meeting, amid scenes of rich chaos, was adjourned. All other council business was lost or delayed while letters were hastily sent to the Department of the Environment asking for a dispensation for the five.

This arrived in time for the council's reconstituted meeting on Wednesday night and Mr Gray's amendment was duly lost. Fulham and Hammersmith ratepayers are unlikely to agree, considering the extra money Mr Gray's wheeze will have cost them—but you have to admire the chap for his guile.

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

3 December 1980

Den Norman

SPENDING ON HOUSING ASSOCIATION SCHEMES

I thought I should let you know that we have agreed with the Housing Corporation further measures to limit their spending this year on housing association development schemes. They are about to issue a circular explaining the position to housing associations and this may well give rise to comment in the House and elsewhere.

In February I announced a cash allocation to the Housing Corporation of £420m for this year. I referred to it again in the debate on housing last week when I said that I had asked the Corporation to regulate the flow of schemes so that the allocation was not exceeded.

This allocation is not, however, a formal cash limit. At present the Corporation are governed only by a cash limit on the value of schemes they approve, and that limit is in no danger of being breached. From next year onwards, however, there is to be a cash limit on expenditure and to encourage financial discipline we have, wherever practicable, been treating this year's cash allocation as if it were a formal cash limit.

Earlier in the year it became apparent that the allocation was likely to be overspent unless corrective action were taken. In September John Stanley announced that there would have to be a reduction in the rate of new approvals by the Corporation. This provoked a strong reaction from those connected with the housing association movement even though there has been no cut in the £420 million cash allocation for associations this year as we made clea repeatedly. The Corporation's spending has however continued at too high a rate since September, very largely as a result of contractual commitments from earlier years. Because of this we have now agreed with the Corporation that they should approve new schemes in the rest of the financial year only if they have highest priority, and on the understanding that actual expenditure would not be incurred until next year, save in exceptional circumstances.

These new restrictions are consistent with what I told the House last week. I see no need for any further Parliamentary announcement but I thought colleagues should be aware of them in view of the public interest that may be generated.

A brief for Conservative members on the housing association cash situation has been placed in the Government's Whip Office and the attention of members was drawn to it on the Whip issued last

CONFIDENTIAL

Thursday.

I am copying this letter to the Paymaster General, colleagues on H Committee and Sir Robert Armstrong.

yours ever

MH

MICHAEL HESELTINE

Rt Hon Norman St John Stevas MP

PRIME MINISTER

Housing Association Schemes

Derek Howe mentioned to you the Moratorium on new housing association approvals.

There is a political problem here. The measures which have been necessary will interrupt the pipeline of housing association schemes, with a significant impact on new starts next year. As a voluntary movement, housing associations are particularly vulnerable to this kind of interruption, which may cause some to lose heart.

DOE Ministers have little alternative. Their calculations are derived from the monthly cash flow from the Housing Corporation to individual associations. The spending profile shows that the £420 million allocation for the financial year is very likely to be overspent, even with the latest measures. Some high priority schemes will still get approval, but no further rehabilitation schemes are likely to be authorised before February. I attach some background information provided by DOE.

Duty Clerk
pp MAP

5 December 1980

CONFIDENTIAL

(another copy with pm)

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

3 December 1980

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CONFIDENTIAL

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MH

MICHAEL HESELTINE

Rt Hon Norman St John Stevas MP

Local Government.

Local Govt file with Tim

2PPS

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 December 1980

The Rt. Hon. Michael Heseltine MP
Secretary of State for the Environment

NBPM

Dear Michael,

LOCAL AUTHORITY CAPITAL CONTROL SCHEME

Thank you for your letter of 2 December suggesting a letter to the local authority associations about the management of the local authority capital cash limit for 1981-82.

The existence of such a high level of accumulated capital receipts is indeed worrying. We must attempt to prevent its prejudicing delivery of the capital cash limit, despite our commitment - which I agree we cannot revoke now - to give local authorities free use of these receipts on top of their allocations. I have no objection to your exposing the issue to debate with the local authorities, and perhaps even negotiating an undertaking from them on the extent to which they will use accumulated receipts - although I must record some scepticism about their ability to deliver such a promise even if they are willing to do so.

I must make it clear, however, that my preference is for withholding a proportion of the cash limit, supplementing allocations from it if outturn expenditure in the course of the year justifies this additional risk. This would be a prudent course which I believe we could defend publicly.

Your third alternative, of allocating the whole of the cash limit but calling for another moratorium if it seems that an overspend is threatened, strikes me as less attractive. We would be far less assured of its success in delivering the cash limit; and invoking another moratorium would be a clumsy way to manage a capital programme, not to mention the unpopularity of such a move. If we do decide to go down this road we shall need to be sure that we have adequate monitoring arrangements to permit us to take resolute action confidently as soon as an overspend seems possible.

/One final

One final point. I believe that my private secretary has already told your office of a small but important textual amendment to your draft letter to the associations, but I should record that I would prefer the sentence after the listing of the three choices in your third paragraph to read:

> 'All of these courses are unattractive but delivery of the national cash limit must be of parmount importance'.

I am copying this letter to the recipients of yours.

GEOFFREY HOWE

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

2 December 1980

cc Press Office

I have been considering the arrangements for local authority capital expenditure in 1981/82 in relation to the delivery of the national cash limit.

Every local authority will be given basic capital expenditure allocations derived from the national net PESC provision for local authority services, except in the case of the housing allocation which will be slightly different. Authorities may, however, make more capital payments than the basic allocation by the use of capital receipts, including accumulated capital receipts, trading profits and the year to year carry over; and by some payments which will not count against their individual allocations, ie expenditure on items of equipment etc costing under £5,000 and some acquisitions of equipment, vehicles etc by leasing. However, all of these items will be counted against the national cash limit.

We did, as you know, take the view that in general this extra flexibility could be accommodated within the headroom of the national cash limit. I still adhere to that view because authorities will inevitably tend to play safe and underspend when they face a new cash limit situation for the first time.

We have just now received from the local authority associations the information which we requested about the extent of their accumulated non-housing capital receipts at 31 March 1980. These amount to some £450m and on the basis of information about receipts in this year my Department believe that the total figure could come up to some £600-700m at 31 March 1981. Taken together with the estimated £350m representing a proportion of accumulated housing capital receipts, the total comes to about £1bn.

It was of course a collective decision to allow local authorities free use of accumulated receipts; and this concession has been made clear by Ministers both inside and outside Parliament; and by our officials in the course of discussions with the local authority associations. These figures are higher than anticipated and I have therefore had to consider whether to take other action or to moderate or withdraw our clear undertaking to allow the use of 100% of accumulated non-housing and a proportion of accumulated housing receipts. At first impression £1bn of accumulated receipts appears to pose an unacceptable threat to the national cash limit and indeed would do so if all of it represented real cash in hand.

CONFIDENTIAL

This, of course, is not the case.

Furthermore, in 1981/82, authorities will be facing a tough RSG Settlement which will mean that they will be reluctant to face the revenue consequences of additional capital expenditure. I also believe that they will be uncertain about the new system and that they will tend to be cautious. Finally, it is inconceivable that they will wish to use up all of this facility to exceed allocations in a single year as they will be fearful that they will face even lower basic allocations for capital expenditure in later years.

I have concluded, therefore, that we shouldnot act hastily in this situation by either withdrawing the use of accumulated receipts or by witholding a part of basic allocations by way of insurance. In the first instance, I propose to seek the views of the associations about the implications for the national cash limit of these receipts with a view to receiving their assurance that authorities will act with caution in the light of the need to adhere to the national cash limit.

My Department will, of course, be monitoring the use of these receipts and we would know at the end of the first quarter the extent to which they posed a threat to the cash limit and we could withdraw the facility at that stage should it prove to be necessary.

I attach a draft letter which I propose to send to the leaders of the associations at midday tomorrow (Wednesday, 3 December) with a view to discussing this with them in the Consultative Council on Local Government Finance on Thursday, 4 December, unless you have serious reservations. As you will see, the proposed letter does not commit us one way or the other.

I am copying this letter to the Prime Minister, Willie Whitelaw, Mark Carlisle, Patrick Jenkins, Nicholas Edwards, George Younger, Norman St John Stevas, Norman Fowler and Michael Jopling; and to Sir Robert Armstrong.

MICHAEL HESELTINE

Rt Hon Geoffrey Howe MP

DRAFT LETTER TO LAA LEADERS

Sir Gervas Walker, Chairman of the Association of County Councils

You will be aware that the associations have just sent to my Department the estimates of the accumulated non-housing capital receipts which, as you know, we had envisaged should be available to authorities to supplement their capital allocations. The use of such payments was to have no effect on the cash limit of an individual authority but must, of course, be scored against the national cash limit.

On the basis of your figures (£450m at 31 March 1980), my Department estimate that some £600m-£700m would be available at 31 March 1981. Taken together with £350m (a proportion of accumulated housing receipts) the sum available for authorities to use to exceed allocation could, therefore, be about £1bn.

This appears to represent a potential threat to the national cash limit of unacceptable proportions and I have, therefore, had to consider what choices are available to us if we are to avoid breaking the national cash limit. There appear to me to be three:

i. Ministers to moderate or withdraw the concession on the use of accumulated capital receipts;

ii. Ministers to withold some proportion of basic allocations in order to safeguard the cash limit;

iii. Ministers to take no action at this stage but to await the results of the Capital Payments Returns and consider then either the withdrawal of the concession or if the situation were sufficiently serious the possibility of a moratorium.

I accept that (i) and (ii) would be highly undesirable but so too is the possibility of the national cash limit being exceeded.

I recognise that it is most unlikely that authorities will wish in a single year to take up all or even a large part of this freedom to exceed allocations, if only because these accumulated receipts do not represent cash in hand. Nevertheless, I would welcome the views of the associations about the likely threat to the cash limit. In the event that I cannot be reassured that the threat is sufficiently negligible, I would welcome views on the action which the associations would wish to be taken. You will, of course, be aware that it has always been made clear that the freedom to use accumulated capital receipts to supplement basic allocations was conditional upon there being no threat to the national cash limit.

I should be grateful to have your views at the meeting of the Consultative Council on Local Government Finance on Thursday 4 December.

I am copying this letter to Jack Smart (AMA), Ian McCallum (ADC), Peter Bowness (LBA) and Richard Brew (GLC.

CONFIDENTIAL

FILE

Loc Gov

10 DOWNING STREET

From the Private Secretary

25 November 1980

Dear Terry,

<u>Council House Subsidies and Rents : Rate Support Grant</u>

The Prime Minister has considered the question of whether Mr. Heseltine should announce today in his speech that, if the housing investment cash limit is underspent this year, the amount of the underspend will be added to next year's cash limit. Before taking a final view on this, she has read the Chief Secretary's minute which you sent over this morning.

The Prime Minister has decided that Mr. Heseltine should make the announcement as he proposes. It is her clear impression that Mr. Heseltine proposed to E Committee last week not only that individual local authorities would have their allocations for next year increased if they underspent this year, but also that the cash limit would be increased if it was underspent this year; and she does not recall Treasury Ministers dissenting from this. However, in agreeing this, the Prime Minister accepts that it will only apply in the special circumstances of this year's moratorium and cannot be treated as a precedent for later years or for any other capital programme.

I am sending a copy of this letter to David Edmonds (Department of the Environment) and also to Sir Robert Armstrong (Cabinet Office).

Yours ever,

Tim Lankester.

Terry Mathews, Esq.,
HM Treasury.

CONFIDENTIAL

PRIME MINISTER

PM sees

JB.

COUNCIL HOUSE SUBSIDIES AND RENTS: MR HESELTINE'S SPEECH

I understand that you are inclined to agree that the Secretary of State for the Environment may include in his statement this afternoon the sentence to the effect that if the cash limit on housing this year is underspent then the amount of the underspend will be added to next year's cash limit.

2. As you know the question whether to allow some carry-forward of underspending within capital programmes, from one year's cash limit to the next was considered earlier under the heading "end-year flexibility" (my minute of 8 July). We decided not to provide for this next year, because it would cost an estimated £300 million which would have to be included in the contingency reserve for this purpose.

3. Hence I should much prefer not to prejudice this issue by allowing carry-forward of shortfall in the housing programme to add to next year's cash limit. This issue has become confused with the treatment of underspending by individual housing authorities this year, as a result of the moratorium - but as the Treasury paragraph in E(80)130 made clear, some carry-forward for individual authorities could be allowed for while keeping within the overall cash limit. This could be done by under-allocating the total at the beginning of the year until the size of this potential extra claim was known, and then allocating any remaining balance later

4. I hope that this issue can be held over to be settled later, rather than included in Michael's statement this afternoon. But

PM - yes TL

if you confirm your decision that the sentence should be included, then it must be absolutely clear that this would apply only in the special circumstances of this year's moratorium and cannot be treated as a precedent for later years or for any other capital programme (unless and until we find room for "end-year flexibility generally).

5. I am sending a copy of this minute to Michael Heseltine.

W. J. B.

JOHN BIFFEN
25 November 1980

We are quite clear on the decision we took then which was to allow underspending authorities to carry forward their underspending to next year. Many figures were adduced to show that this would not be likely to prejudice the Treasury. I do not remember any objection from the Treasury then and we can't go back on the decision about individual authorities now.

DOE Department of the Environment

2 Marsham Street
London SW1P 3EB
Telephone 01-212 3434

Press Notice

√MAP

501

25 November 1980

STANDSTILL ON LOCAL AUTHORITY NEW HOUSING PROJECTS IN ENGLAND
TO CONTINUE FOR TIME BEING

Michael Heseltine, Secretary of State for the Environment, said today that he had received the figures of committed housing capital expenditure from English local authorities. They showed that the cash limit had already been fully taken up. He had no option but to continue the standstill on new commitments for the time being but will be reviewing the position very shortly.

Speaking during the Debate on the Address, Mr Heseltine said:-

"There are no cuts in the cash limit but I must strive to remain within it.

"Therefore on 22 October I issued a circular to local authorities because there was a serious risk that the housing capital expenditure of local authorities in England would exceed the cash limit by £180 million or 8%. In that circular I asked local authorities to provide estimates of the expenditure to which they were already committed in October for the year as a whole. Meanwhile I asked them not to undertake any new commitments except to meet their statutory obligations.

"The replies of local authorities showed that authorities as a whole were already committed to expenditure right up to the level of the cash limit.

"105 authorities considered that they were committed to expenditure in excess of their permitted level to the tune of £76 million. A further £55 million overall must be counted against the cash limit for spending which has been carried forward from 1979/80 under the tolerance arrangements operating at the time. So the maximum theoretical overspend could be £131 million. On the other side of the picture 262 authorities considered that their commitments were below their permitted levels of expenditure, in total by £124 million.

"It would seem from those figures that the cash limit had already been fully taken up and that the need for the action I took has been proved up to the hilt.

"I am well aware that it is exceedingly difficult for authorities to judge the likely out-turn of their annual expenditure even in the autumn.

"A great deal must depend on the weather, the speed with which buildings are completed and bills submitted for payment.

"But the Government, like the local authorities, has to make the best judgment it can.

"It is clear that if the Government were now to lift the moratorium on those authorities who are currently underspending - which is what we would like to do - then there would be a substantial risk of exeeding the cash limit.

"We are not prepared to take that risk.

"There is no option, therefore, but to continue the standstill on new commitments for the time being.

"I shall, however, be inviting the local authorities associations to join with me in keeping the closest watch on the situation and certainly we shall look at the position again very shortly.

"As soon as I am reasonably satisfied that the cash limit will not be breached I shall lift the moratorium on those who seem likely to underspend.

"I am determined that those who are underspending this year will not lose out at the expense of those that end up with an overspend.

"Therefore, whatever the results of our further assessment next month I can say this: those who overspend this year will have their overspending deducted from their allocation for next year.

"Those who underspend this year because of the moratorium will receive additional allocations next year.

"The balance between authorities will be restored.

"If despite all the steps I have taken there is an overspend on this year's cash limit it will be deducted from next year's.

"Conversely if as a result of those steps the cash limit this year is underspent then the amount of the underspend will be added to next year's cash limit."

Telephone Nos: 01-212 3492/3/5
Night Calls (6.30 pm-8.00 am)
Weekends and Holidays: 01-212 7071

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

24 November 1980

Dear Michael,

COUNCIL HOUSE SUBSIDIES AND RENTS: RATE SUPPORT GRANT

Your letter of 20 November made suggestions for the Chancellor's statement today and set out the ground you purpose to cover in your opening statement in Tuesday's housing debate. This letter deals with the latter. The RSG aspects will be dealt with separately.

We are content with your proposals and your draft speech except in one important respect. I am afraid that we cannot agree to your saying, in relation to the effects of the housing moratorium, as you propose on page 3 of your letter and at the end of the draft you enclosed entitled "Housing Overspend", "Conversely if as a result of those steps the cash limit this year is underspent then the amount of the underspend will be added to next year's cash limit."

It has always been our position that any "tolerance" of this kind must be accommodated within the cash limit derived from your PES allocation. That is why the Treasury paragraph in your paper E(80)130 said that increasing allocations to individual authorities in 1981-82 who underspend in 1980-81 must be subject to the total allocation and expenditure in 1981-82 being kept within the cash limit for that year. This can be achieved by allocating less than the full PES provision at the outset of the year and holding the back balance until it is clear that the additional expenditure carried forward will be sufficiently offset by shortfall to allow further allocations.

E Committee did not in my view resolve that the overall cash limit should be increased by the amount of any aggregate underspend (which would effectively increase the DOE PES allocation).

The Prime Minister's summing up of the discussion on 18 November refers only to the allocations to authorities including additions for underspending in 1980-81, which is consistent with the Treasury position. I must therefore ask you to omit this statement from your announcement.

I am copying this letter to the recipients of yours.

Yours

John Biffen

JOHN BIFFEN

1

PRIME MINISTER

Mr. Heseltine's Statement on Housing Overspend

As you know, Mr. Heseltine will be setting out his decision on the housing overspend in his speech tomorrow. A dispute has arisen between him and the Treasury on the question of what happens if there turns out to be an underspend on the total cash limit. The present draft (see flag A, last paragraph) says that any amount underspent will be added to next year's cash limit. The Treasury don't mind if individual local authorities are compensated for underspending this year; but they are not prepared to agree this formula for the cash limit as a whole. In effect, this would mean that if enough authorities were to underspend, it would not be possible for the Department of the Environment to increase their allocation next year - because the cash limit as a whole would be underspent. The Treasury formula would only "work" if the underspenders are more or less matched by the overspenders.

Mr. Heseltine believes he made his position clear at E Committee last week, and that Treasury Ministers did not dissent. That was also our impression. However, the minutes of the meeting do not really support Mr. Heseltine (see flag B): the summing up merely refers to overspending and underspending by individual authorities; and the record of what he said himself does not bring out the total cash limit underspending/overspending proposition clearly.

And mine

Mr. Heseltine says that it will be very difficult for him and Mr. Stanley politically if his proposed formula is turned down: they are apparently having a lot of difficulty with the Conservative-led councils already. On the other hand, the Treasury do not normally allow underspending in one year to be compensated by extra money in the next - though an exception was made for the Department of the Environment last year, and there

/ is

is also a 5% tolerance for the MOD. I have spoken to the Chancellor about this personally, and he is strongly opposed to the concession Mr. Heseltine is seeking.

This is not an easy one. My inclination would be to accept Mr. Heseltine's formula on political grounds, and because I doubt whether there will be much of an underspend. Mr. Heseltine will want to appeal to you in person if you are inclined to back the Chancellor.

My recollection is that Cabinet's intention was *wholly* with S of S for Environment

MT

24 November, 1980.

MR

CONFIDENTIAL

Local govt

5to

NJS

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

cc Mr Ingham

PRIME ~~MINISTER~~

I have suggested to DOE that they should consider putting out their Written Answer after lunch, so as to reduce the news coverage ("Heseltine does it again"?) over lunchtime. Agree? MJS

Yes [illegible]. 24/11

told D Edmonds on 24/11 MJS

My ref:

Your ref:

24 November 1980

Dear Robin

During the course of my Secretary of State's speech in the Debate on the Address on Tuesday 25 November he will refer to the consultation paper on housing subsidy and rents which was the subject of a Written Answer shortly before the House prorogued, and which was withdrawn in order that the authority of Mr Speaker might be protected.

My Secretary of State would like to help the House by making the consultation paper available to Members in advance of the Debate. If the Leader of the House is content, therefore, he proposes to announce by means of a Written Answer during the morning of 25 November that copies of the paper have been placed in the Library of the House and will be reissued to local authorities.

I am copying this to Richard Prescott in the Paymaster General's Office and to Murdo McLean in the Chief Whip's Office. I should be glad of your and their comments by 4pm on Monday 24 November.

I am also sending a copy to Tim Lankester.

Yours ever

Dick

D A EDMONDS
Private Secretary

Private Secretary to
The Chancellor of The Duchy of Lancaster

FB

CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

cc Mr Ingham

My ref:

Your ref:

20 November 1980

Dear Geoffrey

COUNCIL HOUSE SUBSIDIES AND RENTS: RATE SUPPORT GRANT

My letters of 14 November and 17 November have been overtaken by events. As you will know, the Opposition have now chosen to debate housing on Tuesday 25 November. When I open the debate, I propose to include a reference to the moratorium to reflect the E Committee decision. In addition, I intend to reply to a Written Question on that day which would announce the re-opening of the consultation period on rents, with the re-issue of the consultation paper. I will expand on the content of the paper in the course of the debate.

In these circumstances, and having regard to the various responses from colleagues to my letters, I no longer propose to make a separate statement on local government expenditure.

In this connection, I have now heard from the local authority leaders in response to my letter of 19 November - copy attached - that they are content with the cancellation of the meeting of the Consultative Council on Local Government Finance (CCLGF) which was to have taken place tomorrow (21 November) to discuss a "Government Proposals" paper. But they expect the meeting to be re-instated soon in the light of our undertaking to do so. This raises the question of the nature of the consultations that we must undertake.

Since the consultative provisions in the legislation are very general, I do not think that there is serious risk of legal challenge. I am more concerned however that the co-operation of the leaders of the Conservative controlled associations which we urgently need if we are to get local government to meet the volume targets and keep down rate increases, will not be forthcoming if we do not put them in a position where they can demonstrate to their members that they have engaged in a serious dialogue with Government on major aspects of the settlement.

We have already announced the components of the cash limit. You will announce the proposed reduction in the volume of current expenditure next week. This only leaves the grant percentage.

If this is announced next week, first reactions from the associations suggest that they will refuse to attend a meeting of the CCLGF on the grounds that they are only to be consulted about decisions which have been taken and announced.

I therefore would like to suggest that you certainly refer to the proposed overall reduction in current expenditure volume in your statement, but that service totals should not be made available as part of the statement; and that you should not refer to a specific reduction in the grant percentage but merely to a "lower" percentage. I fully recognise that this may appear to lessen the impact of your announcement which you will wish to be as firm as possible but I do believe that there must appear to be some issues left for final decision when we meet the Consultative Council - probably on 4 December.

We could then issue a fuller "Government Proposals" paper for discussion by the CCLGF on 4 December, giving proposed current expenditure service breakdowns, and illustrating ranges of rate increases against the cash limit already decided and a range of possible grant percentages.

I am fully sympathetic with the very real need to strengthen your statement. May I just say that in the very challenging task of actually achieving the targets you are to announce I need every ally I can find in local government. Particularly is this so in our own party. I have to take the leaders with us and persuade them to travel up and down the country helping us to persuade individual authorities to achieve their targets and you will remember how helpful this support was in obtaining the reductions in our revised budgets all this summer. My task would be immeasurably harder if I appear to ride roughshod over their reasonable entitlement to be consulted.

/ I attach a revised timetable for information. You will see that I propose to hold the RSG Statutory meeting on 16 December in order to help Mark Carlisle with the difficulty he mentioned in his letter of 18 December.

/ I also enclose a copy of the first drafts prepared by my Department on subsidies and rents; and on our recent decisions on the moratorium on local authority capital expenditure, for the information of colleagues. I should welcome your agreement to these passages - though I should say that there will, of course, be some re-drafting to reduce length and to put the text in my own words.

In the passage on the moratorium I make it clear that, for new contracts for capital expenditure on housing in England this must continue for the time being, but that I shall be making a further assessment of the situation in early December. I shall go on to say that authorities who overspend their allocations this year will have deductions made from their allocations next year; and that authorities who underspend this year will have additions to their allocations for the following year.

I will explain that if despite all the steps I have taken there is an overspend on this year's cash limit it will be deducted from next year's. Conversely if as a result of those steps the cash limit this year is underspent then the amount of the underspend will be added to next year's cash limit.

Because time is so short, I hope that if you or any colleague to whom this is copied has any comment on either the handling or the substance of these proposals, you could let me know by close of play tomorrow, Friday 21 November.

I am copying this letter to the Prime Minister, to members of the Cabinet, to Norman Fowler and to Sir Robert Armstrong.

Yours ever

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

19 November 1980

Dear Cemen

You will be aware that when the Official Steering Group considered a draft of the Government Proposals Paper your officials represented to Sir John Garlick that the information contained in the paper provided an inadequate basis for discussion at the Consultative Council. Regrettably, I am not in a position to make more information available at this stage. As you know, the rate support grant settlement is always considered in the context of the Government's wider review of public expenditure, about which we are not ready to make a statement this week, though we hope to give some indication of our intentions next week.

Accordingly, you may consider that it would not be useful to proceed with a meeting of the Council on Friday, 21 November, but to await the further information on the outcome of the review I have mentioned. I should expect to follow this up with a statement about the fuller implications of that announcement for local government about which I shall advise you in advance. I should be happy to rearrange a meeting of the Council very quickly after that announcement has been made. But I should tell you now that the statutory meeting will not now take place until mid-December. If, nevertheless, you consider that it would be useful to retain the meeting on 21 November, I shall be happy to do so.

I am copying this to Jack Smart, Ian McCullum, Richard Brew and Peter Bowness and would, of course, be grateful for their reactions too.

Yours ever

Michael

MICHAEL HESELTINE

TIMETABLE

24 - 25 November	-	Chancellor's statement
25 November	-	Housing Debate
28 November	-	Circulation of revised Government Proposals paper in the light of Chancellor's statement
4 December	-	Consultative Council on Local Government Finance to discuss Government Proposals paper
9 December	-	Housing Consultative Council to discuss rent guidelines consultative document
16 December	-	CCLGF to announce RSG settlement

HOUSING OVERSPEND

"I now turn to the overspend on local authority housing investment this year. The House will know that on 22 October I issued a circular to local authorities because there was a serious risk that the housing capital expenditure of local authorities in England would exceed the cash limit by £180 million or 8% on a total programme of £2.2 billion. In that circular I asked local authorities to provide estimates of the expenditure to which they were already committed in October for the year as a whole. Meanwhile I asked them not to undertake any new commitments except to meet their statutory obligations.

The replies of local authorities showed that authorities as a whole were already committed to expenditure right up to the level of the cash limit. 117 authorities considered that they were committed to expenditure in excess of their permitted level to the tune of £78 million. A further £56 million overall must be counted against the cash limit for spending which has been carried forward from 1979/80 under the tolerance arrangements operating at the time. So the maximum theoretical overspend could be £134 million. On the other side of the picture 250 authorities considered that their commitments were below their permitted levels of expenditure, in total by £133 million. It would seem from those figures that the cash limit had already been fully taken up and that the need for action had been proved up to the hilt.

I am well aware that it is exceedingly difficult for authorities to judge the likely outturn of their annual expenditure even in the autumn. A great deal must depend on the weather, the speed with which buildings are completed and bills submitted for payment. Should we have a hard winter I would expect a sizeable underspend on housing programmes. But the Government, like the local authorities, has to make the best judgement it can.

It is clear that if the Government were now to lift the moratorium on those authorities who are currently underspending - which is what we would like to do - then there would be a substantial risk of exceeding the cash limit. We are not prepared to take that risk.

(A)

There is no option, therefore, but to continue the standstill on new commitments for the time being. I shall, however, be reviewing the situation with the local authorities early next month. As soon as I am reasonably satisfied that the cash limit will not be breached I shall lift the moratorium on those who seem likely to underspend.

This decision will come as a severe disappointment to the many local authorities who have behaved responsibly in keeping their housing expenditure within their permitted levels. They find themselves set back through no fault of their own on account of the actions of other authorities. They have managed their affairs efficiently and they now are suffering for the sins of others.

Whatever the results of our further assessment next month I can say this; those who overspend this year will have their overspending deducted from their allocations for next year. Those who underspend this year because of the moratorium will receive additional allocations next year. The balance between authorities will be restored.

If despite all the steps I have taken there is an overspend on this year's cash limit it will be deducted from next year's. Conversely if as a result of those steps the cash limit this year is underspent then the amount of the underspend will be added to next year's cash limit.

1. I turn now to housing subsidies and the effect that my determination of the local contribution under the new arrangements set out in the Housing Act 1980 may have on council rents.

2. The new scheme for housing subsidies comes into effect on 1 April 1981. The amount of subsidy that an authority receives will depend upon three factors:

i. what it received in the preceding year

ii. the change in its reckonable expenditure, and

iii. the change in the local contribution, ie the change in the amount which local authorities have to find whether by rent or rates

The Secretary of State has to determine matters governing the latter two elements within the framework of the Act. Before making a determination affecting all local authorities he has to consult with the representative local authority organisations. The new provisions do not enable the Secretary of State to determine the level of local authority rents. That remains the responsibility of each local authority. What the new arrangements do is to enable the Secretary of State annually to take a judgement on the ability of local authorities to contribute to their housing costs and to determine an input into the calculations on which subsidy is based.

3. The scheme established in the Housing Act is essentially the same as that contained in the previous Government's Housing Bill. That Bill provided for consultation with the local authority associations before a determination was made by the Secretary of State. So does our Act. It did not provide for any special Parliamentary procedure by way of order of this House. Nor does our Act. We have followed the precedent of the Opposition's Bill. We are scrupulously following the consultation procedures before making any determination under the subsidy arrangements. No determination has been made and none will be made until the consultation procedures have been completed.

4. Our consultations are well advanced. Prior to November the Department had already issued four consultation papers on subsidies this year, copies of which were placed in the Libraries of both Houses. Their issue was announced by way of written answer to a Parliamentary Question except for one paper issued during the Summer Recess. In answering a Question on 13 November I was able to continue the process of keeping Parliament informed about consultations on subsidy matters. I shall turn shortly to the implications which one of these papers may have for council house rents. Meanwhile the House will be interested to know what the previous Government did to keep Hon. Members informed about rent increases.

5. The way they dealt with the new High Costs Element of subsidy in 1976/77 is an example. A condition of payment was made that they should raise their rents by an amount set by the Secretary of State. Even though qualifying authorities were effectively compelled to increase rents if they wanted the subsidy I have been unable to trace any announcement to Parliament of the amount of this rent condition. The same applies for 1977/78. There are further examples on the way they set their rent guidelines. These were given in their annual RSG circular but again I can find no announcement to Parliament. These were decisions made by Government. They were not consultation proposals, as was our paper of 13 November, by which the views of the local authorities were being obtained before a determination.

6. The 2 consultation papers first issued on 13 November relate to the treatment of expenditure on management and maintenance and to the determination of the local contribution. I withdrew them, Mr Speaker, solely to protect your authority. I am now re-issuing them in order to begin once more the statutory consultations with the local authority organizations. I had aimed originally to reach key decisions, after consultations, in time for authorities to have adequate notice when budgetting for next year. Withdrawal of the papers has added almost a fortnight to this timetable. I regret the pressure which this puts on authorities at a crucial period in their financial cycle. The responsibility must lie squarely with those who interrupted the consultation process.

7. It is especially important for local authorities to know without undue delay our decision on the local contribution.

Our consultation paper proposes that the increase in local contribution next year should be in the range of £2.50 to £3.00 per dwelling per week. (In addition, there will be some housing costs to be met which do not count towards subsidy.)

I recognise that figures of that order would influence rents to rise in real terms. That needs to happen. We cannot as a nation afford to continue with the disastrous policy of an ever increasing subsidy bill [which necessarily eats into the resources available for capital investment]. But the weight of action we have to take follows in part from the inaction of the last Labour Government. Their stated policy was to keep rents in line with money incomes. Had they held to it, rents would now be standing at around £10 per week [instead of just over £8]. A reduction in subsidy for 1981/82 could have bitten less if the last Government had acted as they spoke.

8. We will of course consider most carefully the response to the proposals which we are now putting to the local authority associations. Whatever decision we take, and however this is reflected in local authority rent increases, the least well off council tenants will continue to be assisted through supplementary benefits and rent rebates. These protect almost 45% of council tenants. This means that [almost 25%] of tenants will pay no increase at all, and [almost 20%] will have 60% of their increase met for them. I make no apology for the proposal to reduce subsidy by means of the local contribution determination. It was, however, the clear failure of the previous Government that has led to the order of increase proposed in our consultation paper.

Local Govt

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From The Secretary of State for Wales

Clive - I think you were looking after this.

19 November 1980

Dear Paul

I wrote to you on 28 October about an undertaking given by Lord Bellwin to write to a number of Lords about exempting expenditure financed from Anglesey's oil terminal revenues from the new capital expenditure controls.

Lord Bellwin did not write on the lines of our suggested draft because of the changed circumstances resulting from Lord Hill of Luton's successful amendment to what is now Clause 72 of the Bill. The amendment allows a local authority to supplement its capital expenditure allocation by an amount equal to the profits in that year from any trading undertaking owned by the authority.

We would regard the oil terminal and harbour at Amlwch as being a trading undertaking as that term is defined in the amended Clause. Therefore, any profits arising from the operation of the harbour and terminal can be used to supplement Anglesey Borough Council's capital expenditure allocation.

However, it is for the Borough Council to take legal advice on whether the oil terminal may be properly regarded as part of the harbour, and whether the special payments to the Council in respect of it are profits within the meaning of the provision. This is essentially a legal point which cannot be resolved by Ministers.

I have attached a draft letter for Lord Bellwin to send to Lords Cledwyn, Stanley, Avebury and Parry.

I am copying this to Clive Whitmore, David Edwards, Roger Watts and Godfrey Robson.

Yours ever

J F Craig

J F CRAIG
Private Secretary

P Bristow Esq
Private Secretary to
Lord Bellwin
Department of the Environment
2 Marsham Street
LONDON

DRAFT REPLY FOR LORD BELLWIN TO SEND TO:

1. Lord Cledwyn of Penrhos
2. Lord Stanley of Alderley
3. Lord Avebury
4. Lord Parry

In the debate in Committee on 9 October on the Local Government Planning and Land (No 2) Bill I undertook to write to you about the treatment, under the new capital expenditure controls, of expenditure financed from sources of income such as that received by the Isle of Anglesey Borough Council from the Amlwch oil terminal.

The Bill was amended in its final stages in the Lords to permit a local authority to supplement its capital expenditure allocation by an amount equal to the profits in that year from any trading undertaking owned by the authority. Since the harbour at Amlwch would appear to be within the definition of a trading undertaking, any profits arising in a year from the operation of the harbour may be used to supplement Anglesey Borough Council's capital expenditure allocation.

However, it is for the Borough Council to take legal advice on whether the oil terminal may be properly regarded as part of the harbour, and whether the special payments to the Council in respect of it are profits within the meaning of this provision. This is essentially a legal point which cannot be resolved by Ministers.

Local Govt

Ref. A03572

PRIME MINISTER

Local Authority Housing Capital Overspend 1980-81 (England)

(E(80) 130)

BACKGROUND

The Secretary of State for the Environment proposes that he should now lift the moratorium on the letting of new contracts for capital expenditure on housing in 1980-81 from those authorities which are under-spending but maintain it on those which are over-spending. If approved this would probably lead to a breach of the overall cash limit on local authority capital expenditure on housing and for that reason the Chief Secretary is opposed to the proposal.

2. 250 authorities have so far committed expenditure of £133 million less than their permitted level. 117 are already committed to expenditure of £78 million in excess of their permitted total. If the 250 all spent up to their committed level the cash limit would be overspent by £134 million - that is, the £78 million plus £56 million which represents the tolerance for the carrying forward of underspending from 1979-80. The cash limit does not provide for this £56 million because the Department of the Environment, with Treasury agreement, judged that in practice it would be offset by underspending in 1980-81.

3. In practice it is unlikely that the overspend would be as much as £134 million. Not all underspenders would commit to their full amount. The incidence of payments to contractors would probably be such that some payments would be deferred until 1981-82. The Secretary of State for the Environment will give his latest assessment of the risk at the meeting. He accepts however that the probability is that there will be some overspend.

4. The objections to the moratorium are summarised in paragraph 5 of E(80) 130. It is unfair to the underspenders, and greatly resented as such. It hits the construction industry.

5. Treasury Ministers' counter-arguments are in paragraph 8. The moratorium was imposed to prevent an overspend on the cash limit. It should not be taken off until it is clear that resumption of work would not put the cash limit at risk. It is true that this is unfair to underspenders, but that is in the nature of this particular cash limit. If some individual authorities overspend others have to pay the penalty for them.

6. The Secretary of State for the Environment is very anxious for a quick decision on this issue. He is under heavy pressure in the House and elsewhere to clarify the position and he wants to make a statement as soon as possible in the new session. For that reason he was unwilling to wait for discussion at a later meeting of the Committee.

HANDLING

7. You might open the discussion by pointing out that the meeting has to finish at 3.15 pm. It had been intended to give the whole of this time to discussion of the paper on Industrial Training. You would therefore like to despatch this item as quickly as possible. You might then invite the Secretary of State for the Environment and the Chief Secretary, Treasury, briefly to state their positions.

8. You can base the discussion on the Secretary of State for the Environment's proposals in his paragraph 6 and the Treasury arguments in paragraph 8. The Committee has to judge which is the more important - to risk a breach of this cash limit or to continue with the moratorium notwithstanding the great unfairness to the underspending local authorities, the effect on the construction industry, and the certainty of an increase in the already fierce criticism of the moratorium from Members on both sides of the House.

9. Either way the Secretary of State will need to make an early announcement of the Government's decision. In view of the row over the Written Answer on council house rents it will probably have to be an oral statement; and the decision on the timing will turn in part on that of other statements which Ministers will be making early in the new session. The Secretary of State will have to consult the Chancellor of the Duchy on this.

CONCLUSIONS

10. In the light of the discussion you will wish to record conclusions:-

1. Either endorsing the Secretary of State for the Environment's recommendations in paragraph 6 of E(80) 130; or agreeing that the moratorium should continue until it is clear that resumption of work would not put the cash limit at risk.

2. In the light of 1., inviting the Secretary of State for the Environment to consult the Chancellor of the Duchy of Lancaster on the form and timing of his statement announcing the decision.

RtA

(Robert Armstrong)

17th November, 1980

CONFIDENTIAL

1.

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
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01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

12 November 1980

Prime Minister PA MS
To note that Mr Stanley will be making this announcement tomorrow: it foreshadows next year's rent increases.
MAP 12/XI.

Tim Lancaster Esq
PS/Prime Minister
No 10 Downing Street
London SW1

Dear Private Secretary,

I spoke to your Duty Clerk this morning to alert you to the Minister's proposed announcement by way of Written Answer on Thursday 13 November that two housing subsidy consultation documents are being sent to the local authority association tomorrow. I now attach the draft PQ and Answer, now finalised by the Minister.

Media interest will focus on the Government's proposals for the additional local contribution to housing costs for 1981-82. The consultation document proposes an increase in the range of £2.50 - £3.00 per dwelling per week. This will be equated with council house rent increases for 1981/82, though actual rent increases will be approximately 30p higher than the increase in the local contribution. A local contribution on average of £2.95 was of course discussed and agreed in Cabinet last week.

Mr Stanley is preparing a draft note setting out the facts about the local contribution determination which the Paymaster General might wish to circulate to Ministers.

I am copying this letter to PS/Leader of the House of Commons, PS/Paymaster General as well as to your Chief Press Secretary, PS/Chancellor of the Exchequer and PS/Chief Secretary for their further information also.

Yours sincerely
Pam Alexander

PAM ALEXANDER
Private Secretary

DRAFT QUESTION

To ask the Secretary of State for the Environment what further consultation he is having with local authorities on the new housing subsidy system commencing on 1 April 1981.

DRAFT ANSWER

I have issued today two further consultation papers. One of these concerns the Government's proposals for calculating the increase which local authorities will be expected to find from local sources in arriving at their entitlement to housing subsidy for 1981/82. The second paper gives proposals for taking into account an increase in the costs of management and maintenance for 1981/82. Copies of both papers have been placed in the Library.

LOCAL GOV

Original and Cabinet Papers on: Econ Pol : Part 11 Public Expenditure

Ref. A03391

PRIME MINISTER

Public Expenditure Programmes

(C(80) 58, 62 and 64)

The Chief Secretary's proposals for increases and reductions in individual programmes were summarised in his memorandum C(80) 58. As agreed by Cabinet last week the Chancellor of the Exchequer, the Home Secretary (available for only two meetings because of the prison crisis), the Lord President and the Chief Secretary, meeting as MISC 47, have discussed these proposals in separate meetings with eleven spending Ministers. The Chancellor of the Exchequer and the Chief Secretary have summarised the outcome of the Group's discussions in C(80) 64. I suggest that this latest paper, and its tables (which update those in C(80) 58), should form the basis for discussion.

2. You will also wish to have before you the Chancellor of the Exchequer's minute of 29th October to you about the social security programme (copied only to the Home Secretary, the Lord President and the Secretary of State for Social Services); and the Secretary of State for Scotland's memorandum (C(80) 62) on the proposed cuts on his programme.

3. If the Cabinet gets round to discussing the unresolved issues on departmental programmes, you might take them under the following seven headings:

I. The 1 per cent cut on local authority current expenditure
- and the education programme in particular.

II. Social Security and Health.

III. Employment.

IV. Defence.

V. Scotland.

VI. Wales.

VII. The 2 per cent cut on cash controlled programmes
- this in effect wraps up all the other Departments and issues.

It is important to take I. first in order to make headway on the Rate Support Grant discussions. The Cabinet generally do not know of the social security proposals and therefore these need to be explained early in the discussion. There are no overriding arguments for taking the other items in the order suggested, although it follows that in C(80) 64. It would however be prudent to leave VII. to the end, or each Minister will be tempted to spend time on exposing to colleagues the difficulties of recommendations which he has accepted.

4. I attach separate notes on each of the seven items, with cross-references to the Chancellor's paper C(80) 64. For ease of presentation I have for the most part focussed on 1981-82 although the decisions for the later years are of course extremely important. In commenting in some cases on the practicability of proposed cuts I have drawn on the impressions gained by the Secretariat of MISC 47 in listening to discussion in that group.

5. Although most Ministers have signed up on the 1 per cent local authority cuts and on the 2 per cent cuts on cash controlled expenditure, they have done so on the understanding that there is equality of misery all round. If they were to see exceptions being made, their provisional agreement could well crumble. This point has very much influenced the Chancellor in his handling of MISC 47. It is also our impression that, in accepting the 1 per cent local authority cut 'subject to the decisions of other colleagues' the "territorial" Ministers had in mind that the real battle here is on educational spending i.e. that to a significant extent they were giving away someone else's money.

6. Finally, a number of Ministers may be tempted to point to the additional provision earmarked for the nationalised industries, and to argue that if this could be reduced the burden on them would be so much less. This cannot be taken any further at this stage. E Committee will be considering on 5th November the latest recommendations on the External Financing Limits for 1981-82. You will recall that at the last discussion in E firm agreement was not reached on the measures necessary to get the total additional requirement down to £500 million, let alone the £300 million which the Chief Secretary notes in C(80) 58.

ROBERT ARMSTRONG

(Robert Armstrong)

29th October, 1980

I. LOCAL AUTHORITY CURRENT EXPENDITURE AND EDUCATION
(Section Bi of C(80) 64)

1. Proposed reduction: a further 1 per cent cut in local authority expenditure (in addition to the 2 per cent reduction already announced) saving £130 million in each year for England and Wales, of which £61 million on education services.

2. All local authority Ministers agree to this except the Secretary of State for Education who argues -

(i) Education has already been reduced by 3½ per cent compared with the overall reduction of 2 per cent on local authority current expenditure so far imposed.

(ii) With the further cuts a total of at least £100 million would have to come from primary and secondary schools, and in practice from a moratorium on recruitment of teachers.

(iii) The education authorities are already stretched to the utmost in finding cuts, and anything more would be both politically unacceptable and, more to the point, impractible.

3. Subject to the views of the Secretary of State for the Environment the Rate Support Grant calculations are now so advanced, and the timetable so tight, that the 1 per cent cuts cannot be made selectively. It is all or nothing. So unless the Secretary of State for Education accepts this £61 million cut the full £130 million is lost, plus the consequentials for Scotland. If this were to happen it would strongly reinforce the case for an RSG of 60 per cent rather than 61 per cent - this issue will come up in discussion of C(80) 61.

4. It would be helpful to dispose of two further issues on education at the same time. First, the 2 per cent cut on cash controlled expenditure requires the Secretary of State for Education to save £30 million on his programmes for higher education. This will have to be done mainly by

reducing places available at universities and polytechnics. He offers only £7½ million on the grounds that he has already made a 1½ per cent reduction as part of the cuts agreed for his programme in July. If this is conceded other Ministers, who for the moment are signing up on their 2 per cent cuts, will also be tempted to renege.

5. Secondly, the Secretary of State for Education has yet to sign up on the proposal that the 1981-82 cuts should be carried forward into the two later years by reductions of £236 million and £241 million. It was suggested in MISC 47 that the two Ministers might discuss this further bilaterally before final decisions were sought, though this has not yet been done.

II SOCIAL SECURITY AND HEALTH
(Chancellor of the Exchequer's minute to you of 29 October on the social security programme; and Section E ii of C(80) 64).

Social Security

1. In C(80) 58 the Chief Secretary said that the question of provision for social security, and public service pensions, were being considered separately. For reasons of security his table did not show the figures under discussion. The main proposal is the uprating of all benefits in November 1981 by 3 per centage points less than is needed to give full price protection. The savings would be approximately £175 million in 1981-82 and £500 million in each of the later years. The Chancellor and the Secretary of State for Social Services agree that exceptions should be made for war pensions and mobility and attendance allowances. They have not yet reached agreement on exceptions for invalidity benefit and short-term supplementary benefit - see Annex C of the Chancellor's minute.

2. As the Chancellor points out, in his paragraphs 7 and 8, there are major questions over the tactics for presenting these decisions, if they are approved, and over the form of legislation. I suggest, however, that for the purposes of the discussion tomorrow it is sufficient for the Chancellor to make an oral report to Cabinet, as he proposes, on the basis of his minute. As he says, it may be necessary, in the light of the discussion, to circulate a paper setting out the proposals in more detail. The main purpose of tomorrow's discussion will be to measure the first reactions of Cabinet.

3. The Chief Secretary will circulate his separate letter on the holding back on index-linked public sector pensions in the same way after Cabinet's discussion - see paragraph 10 of the Chancellor's minute.

Health

4. Proposed reductions -

£126 million (2 per cent off cash controlled programmes) and £12 million (1 per cent local authority current spending); and no requirement to make good the £100 million loss of receipts from expected charges.

5. The Secretary of State for Social Services does not dispute his local authority contribution. He strongly argues, however, for finding the rest of the saving by a relatively small increase in the national insurance health contribution rather than by cuts on services or higher charges. He sees this as socially and politically more acceptable.

6. Treasury Ministers wish to insist on the expenditure cuts. The national insurance contribution is essentially a form of tax. It helps the PSBR but not the public expenditure totals.

7. The choice is between -

<u>either</u>

a PSBR saving through the national insurance health contribution

<u>or</u>

a 2 per cent expenditure cut as proposed by Treasury Ministers and in line with the cuts on other spending Departments (who do not have the tax alternative).

III. EMPLOYMENT

(Section B iii of C(80) 64).

1. Proposed additions: setting aside his contribution to the general percentage cuts, the Secretary of State for Employment is bidding for a net additional £269 million in 1981-82 for the special employment measures discussed by E. Treasury Ministers offer him £167 million. There are similar large gaps in the two later years.

2. The Secretary of State for Employment will argue -

(i) most of his additional bid is for maintaining existing schemes and arises in part because of rising unemployment and in part because two schemes were previously financed from the Contingency Reserve and are now being brought into his programme ie that in the latter case the Treasury are backing the reality of an ongoing programme on purely accounting grounds.

(ii) There are some modest improvement for Youth Opportunities Programme, in line with the views of E.

(iii) It is ridiculous to talk of cutting schemes at a time of sharply rising unemployment.

(iv) The net PSBR cost is about half the expenditure cost if allowance is made for payments avoided eg on unemployment benefit - the Treasury would say the offer is about one third.

3. Cabinet may judge that Treasury Ministers have made unrealisticly low provision for these measures. To the extent that provision is increased, however, the pressure on other programmes also goes up. The choice is -

either to stick to the Treasury figures, though Mr Prior will find these totally unacceptable

or to approve Mr Prior's proposals, and seek offsetting savings elsewhere.

IV. DEFENCE
(Section B iv. of C(80) 64).

1. Proposed reduction: £500 million in each year, of which £188 million for the 2 per cent general cut on cash controlled expenditure.

2. The Secretary of State for Defence is strongly opposed to any cut. His line will be -

i. Defence is already squeezed to the limit and any further reduction is tantamount to a significant change in defence policy.

ii. Need to finance Trident, and to honour the undertaking given to President Carter and NATO not to reduce conventional defence capability.

iii. Damage to the NATO alliance and the 3 per cent growth target.

iv. Effects on British industry (£1 billion already lost from cuts).

v. Effects on jobs - he estimates that £500 million cuts would cost 75,000 jobs in the United Kingdom.

Nevertheless, and without any commitment, he agreed in MISC 47 to consider the implications of accepting the £188 million equivalent to the standard 2 per cent cut in cash limited expenditure as an alternative to the full £500 million on the understanding that the commitment to 3 per cent real growth would be renewed thereafter.

3. Is it unlikely that the Cabinet will have other than a provisional discussion of this. You may, however wish, to probe the Defence Secretary on the possibilities of his contributing at least the £188 million a year. Provisional calculations suggest that, if the cut were limited to this amount, and subject to the effects of cash limit decisions, it would be possible to argue that defence spending would increase by 2½ per cent in 1981-82 over 1980-81 and that we would be on track with the 3 per cent target in the two later years.

V. SCOTLAND

(Section B v. of C(80) 64; and C(80) 62 by the Secretary of State for Scotland)

1. Proposed reduction: £150 million each year.
The Secretary of State accepts the formula cuts of £60 million provided the equivalent percentage reductions are made by other Departments (surprisingly perhaps he made no particular play in MISC 47 with the educational element in their decision - but perhaps he hopes to ride on the back of Mr Carlisle's separate fight to defend the educational programme). He is however strongly against the further £90 million cut which the Chief Secretary proposes on the grounds that the Scottish share of public expenditure on comparable services is larger than justified by relative need.

2. His case, which is set out in C(80) 62, is on two grounds -

i. political - a "levy on the Scottish people"; nothing similar being imposed on Wales and Northern Ireland; playing into the hands of the Scottish Nationalist Party.

ii. Practicability - could only be done, by a 16 month moratorium on capital expenditure, so ravaging the Scottish construction industry.

3. Counter arguments -

i. Even with the £90 million cut, expenditure per head in Scotland would be about 30 per cent higher than in England compared with the 17 per cent which the Needs Assessment Study would justify.

ii. Wrong to continue to cushion Scotland when the North of England, and other regions too, are being hard hit.

4. Cabinet may judge that it is impracticable to get anything near the full £90 million. But, unless they find Mr Younger's political argument to be overriding, they will wish to press for some contribution. The choice seems to be -

<u>either</u> insist on full £90 million

<u>or</u> let the Scots off the £90 million

<u>or</u> press Mr Younger to find <u>some</u> contribution towards the £90 million.

VI. WALES
(Section Bvi of C(80) 64)

1. The Secretary of State for Wales agrees to take his percentage cuts. However, he wants an additional £20 million in each of 1981-83 and 1983-84 for factory building in areas affected by steel closures.

2. The Secretary of State for Wales will argue -

i. Increased provision has been made to deal with the consequences of steel closures in 1980-81 and 1981-82 but not in the two later years, and this is unrealistic with the general industrial situation in South Wales getting much worse.

ii. He has already diverted resources to his industrial programme from elsewhere.

iii. With this additional provision he would stand a reasonable chance of riding the problems in front of him and of attracting some inward investment from the States.

3. The counter arguments are -

i. There are also pressures in England, Scotland and Northern Ireland, and a concession to Wales would mean concessions to them too.

ii. He should find the money by switching resources within his overall programme.

4. The choice is -
either
i. stick to the proposed cuts but leave Mr Edwardes free to switch his own resources into his industrial programme if he wishes
or
ii. modify the cuts by giving Mr Edwardes the £20 million more he wants for industrial support in 1982-83 and 1983-84.

VII. 2 PER CENT CUT ON CASH CONTROLLED PROGRAMMES
(Section A - Agreed programmes - of C(80) 64).

1. The problems of the Departments who are dissenting from cuts under this heading will have already been discussed - Education, Health and Defence.

2. Section A of C(80) 64 records that agreement has been reached with Environment, Transport, the Foreign Office and the Office of Arts and Libraries. The Secretary of State for the Environment will want to point out that, in order to avoid capital investment cuts, he will be requiring a rent guideline for next year indicating an average rent increase of £3.25 as against the £2.85 previously assumed - see Section A i.

3. The Treasury reached agreement on the remaining programmes - Industry, Trade, Energy and the Lord Chancellor's Department - without meetings.

4. Provided that any exemptions agreed for the currently dissenting departments do not provoke other Ministers into withdrawing their offers, it should be sufficient to record general agreement on these proposals and to avoid detailed discussion on the problems of each department.

SECRETARY OF STATE
THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

~~cc~~ Mr Ingham

My ref:

+PA

Your ref:

MS 29 October 1980

30/10

Dear Angus

Thank you for your letter of 24 October.

I am, of course, extremely sorry about the embarrassment you suffered in learning of the housing overspend announcement from a lobby correspondent. As you say, the procedure on these occasions is clearly laid down. On this occasion we failed to follow this with the results to which you point.

I regret this and shall do my best to see that in future the mistake is not repeated.

I am copying this to the Prime Minister.

Yours ever

Michael

MICHAEL HESELTINE

Rt Hon Angus Maude MP
Paymaster

Local Govt

10 DOWNING STREET

From the Principal Private Secretary 28 October 1980

Dear John,

The Prime Minister has seen your Secretary of State's letter of 27 October about exempting expenditure financed from the income from the Amlwch oil terminal from the new local authority capital expenditure control scheme. She accepts Mr. Edwards' advice, though with reluctance, and I attach a copy of the letter she has now sent to Councillor Evans. She has, however, commented that she thinks the decision is a political mistake which could prove costly.

I am sending copies of this letter and of the Prime Minister's letter to Councillor Evans to David Edmonds (DOE) and Terry Matthews (Treasury).

Yours ever,

Clive Whitmore.

J.F. Craig, Esq.,
Welsh Office.

10 DOWNING STREET

THE PRIME MINISTER

28 October 1980

Dear Councillor Evans,

Thank you for your letter of 3 September. I much enjoyed the opportunity we had to lunch together during my recent visit to Anglesey.

I have considered very carefully your request that capital expenditure financed from the income from Amlwch Oil Terminal should be exempted from the new capital expenditure control. I should like to be able to help, but I am afraid that I have concluded that I cannot do so.

As you will know, the central part of the new system of capital expenditure controls is that local authorities will be given much more freedom than they have at present to determine their own capital expenditure priorities. It follows from this that the present range of controls on separate services, essentially on borrowing, will disappear. But the counterpart to the greater freedom for individual authorities to determine their own capital programmes is that Government control will in future apply to all capital expenditure no matter how it is financed.

As the provision of the additional recreational and community facilities you wish to provide would contribute towards total public expenditure it must come within the new controls. Although the Anglesey Marine Terminal Act 1972 does enable you to have a special arrangement with Shell UK Oil Limited, the income from the terminal is no different in principle from that received from publicly owned assets by other local authorities.

/It is

It is of course up to your Council to decide how it wishes to use the receipts from the terminal, but there is the point that if the income is used to reduce your authority's present level of borrowing, it is certainly not being frittered away. The inhabitants of Anglesey will benefit substantially by not having to meet loan charges in future years.

Yours sincerely,

(Signed) Margaret Thatcher

Councillor Keith Evans

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

From The Secretary of State for Wales

Told Welsh Office that PM had accepted advice in S of S's letter of 27/x

28 October 1980

MAP

Dear Mr Pattison.

Lord Bellwin has undertaken to write to all those Lords who raised the matter of Ynys Mon oil revenues.

... My Secretary of State would now like the attached letter to be sent to Lord Bellwin before tonight's debate.

Yours sincerely.

Gian Maint

p.p. J F CRAIG
Private Secretary

M Pattison Esq
Private Secretary
10 Downing Street
LONDON SW1

DRAFT REPLY FOR LORD BELLWIN TO SEND TO:-

1. Lord Cledwyn of Penrhos
2. Lord Stanley of Alderley
3. Lord Avebury
4. Lord Parry

In the debate in Committee on 9 October on the Local Government Planning and Land (No 2) Bill I undertook to write to you about the treatment, under the new capital expenditure controls, of expenditure financed from sources of income such as that received by the Isle of Anglesey Borough Council from the Amlwch oil terminal. (Hansard Col 699, 9 October).

The Government does not propose to exempt capital expenditure financed out of such income from the new controls which are to be introduced under Part VIII of the Bill. If there are circumstances which warrant special treatment, the appropriate Minister may take them into account in determining an individual authority's annual capital expenditure allocation. However, any addition to an authority's normal allocation would still have to be found from within the capital expenditure cash limit. Thus the amount available for distribution to other authorities would have to be reduced by a corresponding amount.

The Isle of Anglesey Borough Council's request for special treatment of their oil terminal income is being considered by the Secretary of State for Wales as part of the normal capital allocation process for 1981-82.

MAP

6106 6106

28 October 1980

During the Lords debate in Committee on the Local Government Planning and Land (No 2) Bill, Lord Cledwyn of Penrhos put down an amendment designed to exempt expenditure financed from Anglesey's oil terminal revenues from the new capital expenditure controls (Hansard Col 693 et seq, 9 October). The amendment was withdrawn because it related to a different part of the Bill. However Lord Bellwin, during the course of the debate, undertook to write to a number of Lords about the issue before the Bill was returned to the Commons. The Lords who asked for information were Lord Cledwyn of Penrhos, Lord Stanley of Alderley, Lord Avebury, Lord Parry and Lord Ross of Marnock.

Prior to the Lords debate Ynys Mon Borough Council had written to the Prime Minister on the same point. The Prime Minister is still consdering the matter. However, my Secretary of State wrote to her on 27 October (copied to Mr Heseltine and Mr Biffen) to indicate that he did not wish to see the oil terminal revenues used to finance additional public expenditure. The same principle applies to any other expenditure financed from similar trading assets. Departmental views are firmly against any exemption from the capital control system of such expenditure, whether legislatively, through the Bill or by Regulation, or administratively. I understand your Ministers are also of the same mind.

/I have

P Bristow Esq
Private Secretary
Department of the Environment
2 Marsham Street
LONDON

I have attached draft letters for Lord Bellwin to send to Lords Cledwyn, Stanley, Avebury and Parry. The Scottish Office should provide the draft letter for Lord Ross.

/ I am copying this to the Private Secretaries to the Prime Minister, Michael Heseltine, John Biffen and George Younger.

J F CRAIG
Private Secretary

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1. Lord Cledwyn of Penrhos
2. Lord Stanley of Alderley
3. Lord Avebury
4. Lord Parry

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The Isle of Anglesey Borough Council's request for special treatment of their oil terminal income is being considered by the Secretary of State for Wales as part of the normal capital allocation process for 1981-82.

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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

(3)

Prime Minister

The original reply is attached for your signature, if you accept N. Edwards' advice.
[illegible] 27/x.

Accept reluctantly - I think however it is a political mistake which could prove costly. MT.

27 October 1980

Dear Prime Minister,

Whilst I was in America you discussed with Wyn Roberts the letter from the Mayor of Ynys Mon Borough Council about exempting expenditure financed from the income from the Amlwch oil terminal from the new local authority capital expenditure control scheme. The issue was also raised by Lord Cledwyn during the Lords debate on the Local Government Bill on 9 October.

I have looked into this very carefully, and I have to say that to meet the Council's wishes seems bound to cause us quite considerable problems. The nub of the matter is that the Council does not wish to use the income from the oil terminal payments either to reduce the burden of their normal expenditure on the local ratepayers or to pay off existing loans. Instead they want to use it as a source of funding for special local capital projects over and above those they would otherwise be able to undertake.

To enable the Council to do this under our new capital control system I would have to augment the capital allocation they will otherwise receive by an amount equal to the oil money. There are only two ways of doing this. Either it comes from within the total available for the whole of Wales, which means that all other local authorities get slightly less, or it is an addition to the total, which involves an addition to the relevant cash limit and thus to total public expenditure.

We cannot hope to conceal the method which we adopt, since Lord Cledwyn has been promised a reply and other noble Lords are watching with keen interest because of their own particular concerns.

/I share your

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1

I share your sympathy with the case put by Ynys Mon, but neither of the possible courses is at all appealing. With considerable regret, I therefore feel that we should reply to the Mayor as originally proposed.

/ I am copying this to John Biffen and Michael Heseltine.

Leighton Davies

Approved by the Secretary of State
and signed in his absence

~~cc Mr~~ Gaffin

2

PRIME MINISTER

Tim has asked DOE to remind all of their Divisions of the need to follow the proper procedures.

MJS 24/10

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

PAYMASTER GENERAL

24 October 1980

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

MS.

Dear Michael,

I feel bound to register a protest over your announcement yesterday of measures to correct housing overspend.

The first I knew of the decision was when I was buttonholed by a lobby correspondent at lunchtime yesterday and had to admit I had not seen the statement. This sort of thing does make life very difficult.

The proper procedure is laid down quite clearly in para 95 of the Prime Minister's Note (C(P)(79)1) on 'Questions of Procedure for Ministers.' My office should have been informed in advance. The situation was made worse by the fact that I had not received copies - as I should, and normally would, have - of the correspondence in which this arrangement was agreed with the Treasury.

Had I seen a draft of your Departments' announcement, I should certainly have suggested that it should have been expanded to include some background explanation to soften the harsh impact of the statement.

I would be grateful if you would ensure that your Office follows the prescribed procedures in future.

I am copying this letter to the Prime Minister, with whom I discussed the matter and who was equally concerned.

Yours ever,

Angus

ANGUS MAUDE

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

P. 24/x

Treasury Chambers, Parliament Street, SWIP 3AG

David Edmonds Esq
Private Secretary to the
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

23 October 1980

Dear David,

with PM

HOUSING INVESTMENT PROGRAMME EXPENDITURE 1980-81

Thank you for your letter of 22 October attaching a draft circular on Housing Investment Programmes for 1980-81.

The Chief Secretary strongly supports the Secretary of State's action to reduce the risk of overspending this year on the local authority cash block for housing capital expenditure. He would be grateful if his officials could be kept informed of the situation as more up to date estimates of spending become available.

I am sending copies of this letter to Tim Lankester (No.10), Godfrey Robinson (Scottish Office) and J F Craig (Welsh Office).

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

PRIME MINISTER

To see: this is the text of the DOE Lords Statemat today

MJS 23/10

STATEMENT ON HOUSING INVESTMENT PROGRAMMES EXPENDITURE 1980/81

1. My Lords, with the leave of the House, I should like to make a statement on housing investment by local authorities in the present financial year.

2. By means of a circular ~~sent out yesterday~~, my right hon friend the Secretary of State for the Environment has today informed local authorites in England that the figures available to him indicate that there is a high risk of overspending this year on their Housing Investment Programmes. The figures from the local authorities' returns of spending between April and June and from their more recent Housing Investment Programme submissions for 1981/82 suggest that the overspend could be up to £180 millions.

3. The Government attaches fundamental importance to ensuring that cash limits are observed and my right honourable friend considers it essential to take all possible steps to ensure that the cash limit on housing capital expenditure is not overspent.

4. In these circumstances, the first need is to obtain the most up-to-date assessment possible of the spending in 1980/81 which will result from commitments which have already been made by local authorities under their Housing Investment Programmes. Each local authority has therefore been asked to provide by Friday, 31 October a revised estimate of capital expenditure on housing which they expect in 1980/81 on the basis of their existing commitments, together with their estimated expenditure on statutory grants during the rest of the financial year. On the basis of these figures we shall then be able to see what action is needed in the longer term.

5. But if there is a risk to the cash limit of the order of magnitude which appears at present, it would be wrong for the Government to allow spending to continue in the normal way while local authorities are providing new figures. At the same time as requesting revised estimates from the local authorities, my right honourable friend has therefore taken the following further steps.

6. First, he has requested local authorities from today until further notice not to enter into any further contracts for housing purposes whether by

private contractors or dlo's and not to give further undertakings to make grants and loans for housing purposes (except where required to do so by statute).

7. Second, he has decided not to permit any authority in 1980/81 to anticipate sums which may be allocated to it for capital spending in 1981/82.

8. Third, he has decided to issue no further borrowing approvals for individual housing projects until further notice.

9. Fourth, he has withdrawn all borrowing approvals already issued for individual housing schemes. This withdrawal does not however extend to the borrowing needed to make payments on contracts or grant and loan undertakings already given by local authorities.

10. Fifth, he has withdrawn the block HIP borrowing approval for 1980/81 given when HIP allocations were announced on 21 February. Again, however, this withdrawal does not affect payments

to discharge commitments made before the Circular was received.

11. When the latest estimate of committed expenditure for 1980/81 on Housing Investment Programmes is available the Secretary of State will consider what scope there is for additional commitments this year, and will make a further statement.

23 October 1980

Your Ref

Mr Lankester, no10.

with compliments

Treasury Chambers
Parliament Street
London SW1P 3AG
Tel: Direct Line 01-233 5736
Switchboard 01-233-3000

P Wiggle

CF

PG.

R

27/

BLOCK GRANT : POINTS FOR DECISION ON THE STRUCTURE OF THE SCHEME : THE BASIC ISSUES INVOLVED

What is Block Grant and how does it differ from the present Rate Support Grant (RSG)?

Because local authorities' only source of tax revenue under their own direct control is the rates, they have not for many years been able to raise sufficient revenue locally to finance the expenditure they have to incur to provide the services that successive statutes have required them to provide. Grants from the Exchequer are therefore necessary to fill the gap. Local authorities differ greatly in the amounts of rateable value they have, relative to population or their expenditure (ie their resources); they also differ in the amounts they have to spend to provide a given standard of service (ie their needs). Education, for example, is more costly to provide where the ratio of school age children to total population is higher than average (eg new towns); conversely personal social services are more costly to an authority where a higher than average proportion of the population is elderly, (eg South Coast resorts). Grant schemes have for many years used formulae that attempt to compensate for low resources and high need. Such compensation is termed "equalisation". The general principle is that the same standard of service should have the same cost to the ratepayer wherever he lives. (The cost here is measured in terms of the rate poundage levied, not the size of the rate bill).

2. Block grant achieves equalisation by ensuring that all authorities can finance a specified expenditure, relative to the standard by raising a specified rate poundage; with the rest of their expenditure being met by Exchequer grant. For authorities with comparatively small amounts of rateable value, the specified poundage would produce a correspondingly small amount, and the grant would be correspondingly large. The amount of grant payable depends on :

a. The authority's actual expenditure;

b. The standard amount of expenditure (ie the cost to them of providing services to a common standard, having regard to their circumstances);

c. The "poundage schedule", which relates the poundage to be raised locally to the level of expenditure relative to standard.

[The] "standard amount of expenditure" is termed grant-related expenditure (GRE). The form of words was chosen for diplomatic reasons, in preference to "standard expenditure" or "need".

3. The present system of Rate Support Grant (RSG) provides a resources element to compensate authorities whose rateable value per head is below the national standard; and a needs element that compensates for differences in assessed need (ie in the costs of providing services to a common standard). For authorities whose rateable value per head of population is below the national standard (which the Government prescribes), ie most authorities outside London, the Exchequer acts as "substitute ratepayer" on the difference between actual ratable value and the standard.

4. The principal differences between block grant and the present RSG are :

a. Whereas the resources element has the Exchequer finance the same proportion of an authority's expenditure irrespective of how much it spends, the block grant's poundage schedule can be tapered, ie finance a diminishing proportion of expenditure according to how far the amount of expenditure exceeds standard. Another way of expressing the same contrast is that under rate support grant the cost to the ratepayer of a given increase in expenditure is always the same (provided the authority's rateable value is below the national standard); under block grant the cost can be raised as a a deterrent to over-spending.

b. Under RSG authorities with specially high rateable value kept the advantage of their large resources (special arrangements for London apart); under block grant they will not, as high rateable values multiplied by the poundages specified by the poundage schedule (paragraph 2(c) above) mean a correspondingly large amount to be raised locally.

c. Grant-related expenditure (GRE) will be assessed differently from "needs" under RSG. In concept they are measuring the same thing : the cost of providing a standard level of service under the circumstances as they affect the local authority in question. But the methods are very different. RSG "need" was estimated for expenditure in all services taken together, by means of statistical relationships between the pattern of expenditure as between authorities in earlier years and factors (such as size and age distribution of population) that might explain those patterns. Grant-related expenditure is assessed service by service, mainly by unit costs (eg so much per primary school pupil for education, so much per man or woman over age 75 for personal social services).

There are other differences that are matters of technical detail, for instance the treatment of changes in balances. But these are less significant than (a), (b) and (c) above. In their effect on the amount of grant individual authorities would get under block grant compared with RSG, (a) and (c) are the most important. (Annex A sets out the basic framework of the RSG and block grant respectively, in algebraic terms).

5. The change from RSG to block grant does not affect the total of Exchequer grant to local authorities : that is decided by the Government in the annual settlement. But the distribution as between authorities will be very different, for two main reasons :

i. Grant-related expenditure (GRE) for many authorities differs substantially from the need assessments made for RSG. Many authorities would lose substantial amounts of grant for this reason alone, even in the absence of any penalties for "overspending".

ii. The "poundage schedule" (paragraph 2(c) above) will be so set as to increase proportions of expenditure to be financed from rates by those authorities that "overspending" relative to GRE.

The extent of the changes in the distribution of grant between authorities, which gain and by how much, will be determined by the decisions that Ministers take about the details of block grant.

Parts of Block Grant Where Decisions by Ministers will be Required

6. Decisions have yet to be made about the exact form of block grant, which will have a major effect on how it works, and on the size and distribution of the gains and losses of grant. In particular :-

a. Which method to use to assess grant-related expenditure (GRE).

b. Whether the level of service provided, and in particular the degree of overspending, should be measured in terms of percentages of GRE, or in terms of expenditure per head (the "basis of equalisation").

c. The shape of the poundage schedule - how severe should be the limitation of grant to penalise "overspending"?

d. The threshold, ie how far above GRE should penalties for overspending start?

e. The safety net, ie what limits should there be to the loss of grant that any authority could incur in comparison with present arrangements?

f. London, ie how to deal with the special problems posed by London's very high, and unevenly spread, rateable resources.

Notes follow on each of these topics

Assessment of Grant Related Expenditure

7. As mentioned in paragraph 4(c) above, assessments of grant related expenditure (GRE) will be made for each authority. The intention is that these assessments shall measure the cost of providing services of average standard with average efficiency, in the authority's particular circumstances (eg its total population, number of children of school age, numbers of houses, length of road, etc). Three methods have been developed, which differ in the degree to which past expenditure patterns influence the pattern of GRE assessments. The three methods were termed options A, B, and C in MISC21(80)2; B is the least influenced by past expenditure patterns, C is the most influenced, and A is a compromise between the two, though much nearer to B than to C. As a result of the MISC 21 meeting on 25 September the choice of options has been narrowed to two, viz A and B. The greater the influence of past expenditure patterns, the more favourable the result from the standpoint of the higher spending authorities, especially Inner London. There is not a unique measure of the effect of choosing one of the two options rather than the other, for the different parts of the block grant inter-act; but in round terms Inner London would lose the equivalent of a 3.4p rate in grant from having GRE assessed by Option B rather than Option A.

8. The point of principle on GRE assessments is that the DOE and Treasury have taken the view that if the amount of grant an authority gets is influenced by its past expenditure there is an undesirable incentive to increase expenditure. The contrary view, put by the local authorities, is that the objective factors included in the GRE formula (see previous paragraph for examples) cannot pick up all the influences that govern the cost of providing a specified standard of service, so that some weight must be allowed to past expenditure as evidence of variations in costs between authorities.

Basis of Equalisation

9. The alternative ways of defining and measuring the level of service provided by authorities, and in particular the degree of overspending, are in percentage terms (ie actual expenditure as a percentage of GRE); and in cash terms per head of population (ie actual expenditure per head of population less GRE per head of population). The former is more closely in accord with the basic principle of the block grant, that the same volume of expenditure (relative to need) should have the same cost in poundage terms to the ratepayer. For volume is more accurately measured in percentage terms than in cash terms, because the latter does not bring to account the way in which GRE per head of population varies between authorities according to differences in needs (see previous section). A hypothetical example may illustrate the point. A "high needs" authority may have a GRE of £250 per head of population, and a "low needs" authority £100 per head; they are more likely to be both providing the same degree of excess level of services if each spends the same percentage above GRE (say 10%, ie £275 and £110 per head) than if they both spend £10 per head more. Overspending is thus more accurately measured, and penalised, in percentage terms.

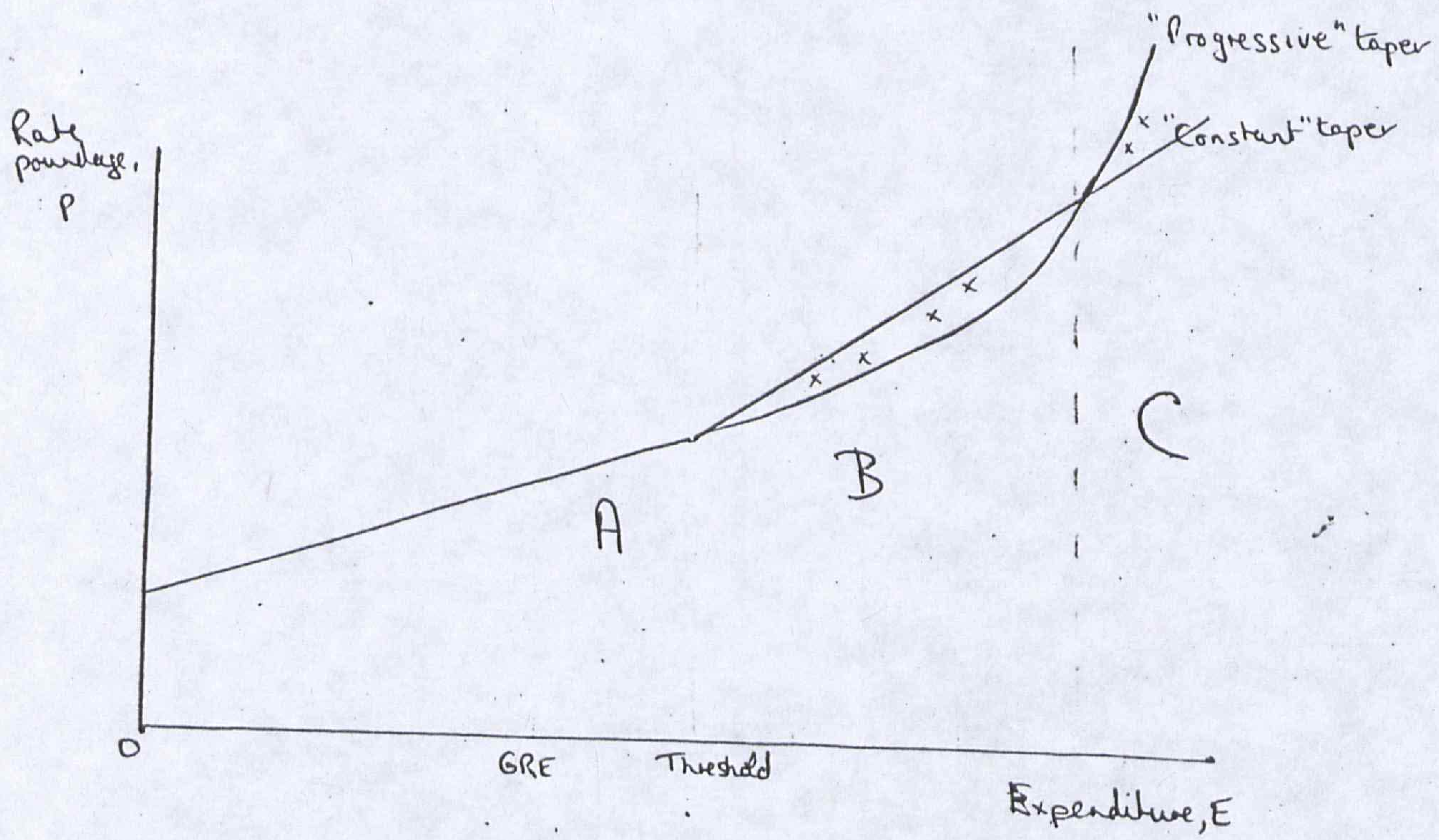
10. As well as this point of principle, there is a practical advantage to the percentage basis in that it makes the distribution of the grant between authorities less sensitive to the cash limit on total expenditure, or the grant percentage, than it is on the cash per head basis, so enabling decisions to be taken about the total of the grant without involving the distribution between authorities.

11. In favour of the cash amount per head basis ("per capita equalisation") is the fact that in the present RSG system equalisation is in terms of expenditure per head of population, so that it is more familiar than is percentage equalisation, and hence would be one less sharp change between the old system and the new. It also penalises more severely overspending by authorities whose GREs are high in relation to population (typically the urban authorities, and especially London).

The Poundage Schedule

12. The poundage schedule relates the amount that a local authority must raise from rates to the amount it spends relative to its grant related expenditure (GRE). It sets the tariff for increments of expenditure that ratepayers face. It is perfectly possible to have a tariff that is constant irrespective of the level of spending, so that the cost of a given increment of expenditure is the same irrespective of the starting level. That is what happens under the present system; it provides no particular deterrent to overspending other than that which is inherent in increments of

expenditure costing the ratepayer something. To strengthen the deterrent to overspending the block grant will provide a tariff that puts up the cost to the ratepayer of increases in expenditure beyond a certain point (see paragraph 14 below for discussion of where the "certain point" should be). Two ways of penalising overspending have been put forward : the "constant" taper (a once and for all increase in the tariff); and the "progressive" taper (in which the cost to the ratepayers of an increment of expenditure increases continually from one increment to the next). This is illustrated in the following diagram.



13. The "constant" taper affects more severely these authorities in Area B that overspend but are not far above the beginning of the penalty zone, whereas the "progressive" taper is more severe on these few authorities in Area C that overspend heavily. The latter can extert little pressure on authorities not far into the penalty zone without making the pressure on authorities that overspend by large amounts intolerably severe. "Constant" tapers therefore redistribute more grant to authorities spending below the threshold, ie in Area A, than "progressive" tapers.

The Threshold

14. The threshold refers to what, in the previous paragraph, was termed the beginning of the penalty zone, ie the point at which overspending begins to be penalised. In view of the inevitable lack of precision in assessing GRE's, a tolerance is plainly desirable before penalties begin to apply. How large the tolerance should be depends partly on how severe a deterrent to overspending is sought, and partly on confidence in the precision of GREs. The very wide scatter of the ratios of GRE to actual expenditure

f[illegible] the non-metropolitan districts, which show apparent overspending in places that are not known to follow high spending policies, would make it difficult to claim a high degree of precision in the assessments of GRE.

The Safety Net

15. In recent years, the RSG settlements have provided for upper limits to the loss of grant that could be incurred by individual authorities as a result of changes in the grant formula; typical limits have been the equivalent of a 1p or 3p rate. The losses that some authorities would incur from the introduction of block grant could be far larger than this. Many non-metropolitan districts could lose grant equivalent to a 10p to 25p rate; and some Inner London boroughs could lose even more. Such losses of grant would be unmanageably large if they were imposed in full in one year, for there are limits to how quickly expenditure can be cut, given the existence of statutory duties to provide services and entitlement to compensation for employees made redundant.

16. Separate "safety nets" might be provided to limit the loss of grant due to GREs differing from the needs assessment under the present system, and for the degree of penalty imposed for overspending. The maximum loss of grant need not be the same for both.

London

17. The very high, but unevenly spread, rateable values which are found in London pose a special problem for any system of grant distribution. Under the "London clawback" provisions of the RSG, part of London's resource advantage was clawed back from its needs element, but part was retained. This helped to keep down the very high rate bills which would otherwise have been imposed on London ratepayers. The retained "excess" resources were then redistributed among the inner and outer London boroughs through the "London rate equlisation" arrangements.

18. Under block grant London will still retain some resource advantage. The redistribution of these "excess" resources between, and within, inner and outer London will, in some ways, become simpler, because of the fully equalising nature of block grant. However, it has to be remembered that any redistribution of grant under the new system depends on the shape of the poundage schedule (see paragraph 13 above). If different schedules are, in effect, applied in inner and outer London, as proposed, then grant will be redistributed not just within London, but between London boroughs and authorities outside London. This makes it more difficult to make a final adjustment of the balance of resources between London and the rest of the country, and within London itself (See Annex B for a more detailed account of the treatment of London under RSG and block grant).

COMPARISON OF THE BASIC FRAMEWORK OF RATE SUPPORT GRANT AND BLOCK GRANT

Rate Support Grant (RSG)

RSG comprises three elements : (i) domestic element; (ii) needs element; and (iii) resources element. Of these (i) is a grant which meets the full cost of levying on domestic properties a rate which is lower (by a constant number of pence in the pound everywhere) than that on non-domestic properties; (ii) is to provide for differences in need (in the sense of "assessed expenditure need" per head); and (iii) is to provide for differences in taxable capacity, in the sense of rateable value (RV) per head. Domestic element is not affected by replacing RSG by block grant (BG); but the needs element and resources element are replaced by a single grant.

2. Resources element is paid to local authorities whose actual rateable value per head of population is less than the national standard rateable value. By means of resources element, the central government acts as "substitute ratepayer". In more formal terms, the relationship of resources grant to actual rateable value, national standard rateable value, and rate poundage is :

$$GRi = pi\ (NSRV - RVi).\ Pi \qquad \ldots (1)$$

where GRi is resources element payable to authority i

pi is that authority's rate poundage

NSRV is national standard ratable value per head

RVi is ratable value per head of population in authority i

Pi is population in authority i

Of the variables, NRSV, RVi, and Pi are given; but pi is determined by the local authority itself. Without further provisions, resources element would be open-ended. It is however, "close-ended" by an ex-post adjustment (termed "clawback") that is pro-rata to resources element payable. How much of the total amount available for RSG shall be distributed by resources element is determined annually by the Government as part of the RSG settlement. In recent years it has been set at $32\frac{1}{2}$ per cent of the total. The amount available for distribution determines NSRV, which is above the national <u>average</u> RV, but well below the level of the "richest" authority.

ANNEX A

3. Needs element may be described in a similar way. The amount is determined by the Government as part of the rate support grant settlement. The total amount available is divided between needs element and resources element in specified proportions (now $67\frac{1}{2} : 32\frac{1}{2}$). For each authority there is calculated the amount that is equal to its own assessed need minus the per capita need in the 'minimum need' authority, (which happens to be Surrey) : and these amounts are then summed for all authorities. This total is, however, equal to only about one half of the total sum available for needs element. The rest is distributed pro-rata to population. Expressed as a formula,

$$GN_i = (N_i - \alpha P_i) + \gamma P_i \qquad \ldots (2)$$

where GN_i is the needs element received by authority i, N_i is that authority's assessed need, P_i is its population, α is assessed need per head in the 'minimum need' authority, and γ is the uniform per capita payment by which is distributed that part of total needs element not required for equalisation. For the 'minimum needs' authority $(N - \alpha P) = 0$, and $GN = \gamma P$. If needs element were limited to what would just suffice for equalisation, then γ would be zero.

Block grant (BG)

4. Instead of separate resources and needs elements, separately calculated, under the present RSG, each authority's block grant entitlement is determined by a single calculation containing four factors : the authority's actual expenditure; its grant related expenditure, GRE (ie "assessed expenditure need"); its total ratable value; and a schedule of rate poundages whereby the poundage is determined by the ratio of actual expenditure to GRE. The grant payable is equal to expenditure incurred minus the rate income that would be yielded by applying the scheduled poundage to the authority's ratable value. In formal terms, an authority's grant entitlement will depend on its actual expenditure level (E) in relation to GRE (N), and the published schedule of standard rate poundages (p) for different "levels of service". Under percentage equalisation "levels of service" are defined and measured in terms of percentage variations in $\frac{E}{N}$, and under per capita equalisation in terms of (E-N) per head of population. The rate poundage schedule, p, is laid down by central government, who thereby determines the poundage contribution required for each "level of service" (ie $\frac{E}{N}$ or $\frac{E-N}{P}$ ratio).

ANNEX A

$$\underline{BG_i} = E_i - p\,RV_i \qquad \ldots (3)$$

where $p = f\frac{(E)}{(N)}$ for percentage equalisation

$= f\frac{(E-N)}{P_i}$ for per capita equalisation

5. The poundage schedule (which relates p to E and N) is unique to BG and is its key feature as regards the link between changes in expenditure by individual authorities and changes in the rates levied. The purpose of the schedule of rate poundages is to determine the proportions in which the cost of an increment (or decrement) of local expenditure is shared between the rate fund and the Exchequer.

TREATMENT OF LONDON UNDER RSG AND BLOCK GRANT

The problem which London has posed, both under the present RSG and under block grant, is that of very high, but unevenly spread, ratable values, compared with the rest of the country. Only partial "equalisation of resources" was achieved under RSG, as under the "London clawback" arrangements, part of London's resource advantage was clawed back from its need element entitlement, but part was retained. This allowed London boroughs, on average, to levy lower rate poundages for a similar standard of service than local authorities elsewhere, thus violating the general principle of rate poundage equalisation (see paragraph 1 of main paper). The reason for allowing London to retain part of its high resource advantage was to avoid rate bills which would have been very much higher than elsewhere. Because the existing rate base in London is such a poor measure of the ratepayers' ability to pay, the arrangments for London under both RSG and block grant do not equalise the poundage cost of expenditure between inner and outer London, or between London and the rest of the country. The retained "excess" resources are very unevenly distributed among London boroughs, with a high degree of concentration in a few inner London authorities. The aim of the London "rate equalisation" arrangements, (the second stage in the treatment of London under RSG) has been to redistribute them more evenly.

2. London rate equalisation itself involved two stages under RSG. The first stage was all-London equalisation (a sharing of part of inner London's high resources with outer London). Under all-London equalisation, net contributions and receipts were related to the size of authorities' rateable resources. This reduced differences in rate poundages within inner London and within outer London, as well as between inner London as a whole and outer London as a whole. This still left inner London with a resource advantage compared with outer London (although average rate bills are still higher in inner London than in outer London), and also considerable differences between inner London authorities, which had to be tackled by the inner London equalisation stage. This involved a further contribution from the City and the very high resource central boroughs, this time to the non-central inner London boroughs (eg Lewisham). This achieved broadly similar poundages within inner London for the same level of actual spending (ie resource equalisation).

Under block grant it is proposed that London should still retain some resource advantage (though not necessarily the same amount as under "London clawback"). The initial distribution of grant between London and the rest of the country will be set assuming block grant is operating without a grant "taper". If a different poundage schedule is set then this initial distribution will be disturbed, since grant is redistributed from overspending (to underspending) authorities under the new system, regardless of their geographical location. Since block grant fully equalises resources between authorities which are subject to the same poundage schedule, the London rate equalisation scheme will be much simplified. If the poundage schedules to be applied to inner London and outer London respectively differ only by some constant discount factor (or <u>multiplier</u>), then all authorities in each group will face the same poundage cost for any given level of expenditure. By setting different multipliers for inner and outer London, the poundage cost of expenditure by inner London authorities can be set lower than that facing outer London authorities, thus reducing the level of the high inner London rate bills.

4. The main problem under block grant arrangements for London arises with the City and Westminister. Under RSG, the grants in respect of services provided by the GLC, Metropolitan Police and the Inner London Education Authority (ILEA) were in fact paid to the boroughs, and then redirected to the appropriate authorities by means of the rate precepts levied on the boroughs (since rate support grant was only paid at rating authority level). The City and Westminster, however, made their contributions to the <u>inner London equalisation</u> scheme by redirecting the grant paid to them in respect of the precepting authorities. They then paid their precepts to the GLC, Metropolitan Police and ILEA out of their own rates, without the benefit of grant. In effect, therefore, under RSG the City and Westminster had "negative grants". Under block grant they will receive no grant, but this will, in fact, represent a <u>gain</u> for them, compared with the previous position. However, this would upset the distribution of grant within inner London, since in order to keep the balance between inner and outer London, the <u>other</u> inner London boroughs would have to <u>lose</u> grant to make up for the City's and Westminster's "gain". In order to prevent this happening, it is suggested that in future <u>inner London equalisation</u> should take the form of actual contributions from the City and Westminster to all other inner London boroughs. Since the inner London multiplier will equalise poundages amongst the inner boroughs other than Westminster and the City, the contributions from those two authorities should be paid at a <u>constant rate in the pound</u> to the other boroughs, so as to maintain that equalisation.

2.

10 DOWNING STREET

Prime Minister

Mr Heseltine and the Chief Secretary yesterday agreed to issue this circular on the Housing programme for the current year. The moratorium on new council housing starts is attracting a lot of attention.

MAP 23/x.

Lords Statement at flag A

27.10

cc Press Office.

I told DOE that we had no comment.
na MAP 22/x.

COVERING CONFIDENTIAL

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

22 October 1980

Seen Thurs-Fri night 23.26/x after issue of circular no.

Dear Terry

I attach a draft circular on Housing Investment Programmes for 1980/81. The draft has, I understand, been mentioned to officials in your Department, Scotland and Wales.

My Secretary of State proposes to issue the circular this afternoon. As you will see, its purpose is to take action to reduce the risk of local authorities exceeding their cash limit on housing capital expenditure. If the Chief Secretary has any comments on the terms please let me know as a matter of urgency. I am copying this to Tim Lankester at No 10, Godfrey Robson (Scotland) and J F Craig (Wales).

Yours ever
David Edmonds

D A EDMONDS
Private Secretary

Terry Mathews
Private Secretary to Chief Secretary
Treasury

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DRAFT CIRCULAR /80

Circular from the
Department of the Environment
2 Marsham Street, London SW1P 3EB

October 1980

Sir,

HOUSING INVESTMENT PROGRAMME EXPENDITURE 1980 /81

1. I am directed by the Secretary of State for the Environment to inform you that information available to the Department from returns of capital spending by local authorities on housing in the first quarter of this financial year and from recent discussions of Housing Investment Programme submissions indicate that without special action there is a high risk that expenditure on Housing Investment Programmes in 1980/81 will substantially exceed the sum allocated. The Secretary of State is determined to take every possible step to ensure that the cash limit on housing capital expenditure is observed.

2. First, as foreshadowed inparagraph 33 of the HIP allocations letter of 21 February 1980, he has decided not to permit any authority in 1980/81 to anticipate sums which it may be allocated for capital spending in 1981/82.

3. Secondly, he requests local authorities from the receipt of this circular until further notice not to enter into any further contracts for housing purposes for the acquisition of land and buildings, or for building works; not to authorise their direct labour organisations to start further capital housing projects; and not give further undertakings to make grants and loans for housing purposes (except where required to do so by statute).

4. Thirdly, he has decided accordingly to issue no further borrowing approvals for individual housing projects for the time being. All borrowing approvals already issued for individual housing schemes

are hereby withdrawn except insofar as the authority has before the receipt of this circular entered into a contract to make payments, or has given an undertaking to make a loan, which cannot be made without acting upon the related borrowing approval. The block HIP borrowing approval given in Annex C of the Department's letter of 21 February 1980 is hereby withdrawn, except insofar as the authority has before the receipt of this circular entered into contracts to make payments, or has given undertakings to make grants or loans or is required by statute to make a grant, which cannot be made without acting upon the block borrowing approval.

5. Fourthly, your authority is requested to provide the Department's Regional Office by the end of October with a revised estimate of the total capital expenditure on housing which will result in 1980/81 from contracts made and from undertakings given to make grants and loans up to the date of receipt of this circular; and from statutory grants during the rest of the financial year.

6. When an up-to-date estimate of spending in 1980/81 on Housing Investment Programmes is available the Secretary of State will consider what scope there is for additional commitments this year, and will make a further announcement about the programme for 1980/81.

7. Enquiries about this circular should be made to Mr M J C Faulkner, Housing 10 Division, Room N11/01, Department of the Environment, 2 Marsham Street, London SW1P 3EB (01 212 4078).

I am, Sir, your obedient Servant

The Chief Executive
County Councils in England (for information)
District Councils in England
London Boroughs Councils
The Director General, the Greater London Council
The Town Clerk, City of London

Prime Minister. 2.

Local Govt.

AWS

10x

MAP

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 7448 (Llinell Union)
Oddi wrth yr Is-Ysgrifennydd Seneddol

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 7448 (Direct Line)
From The Parliamentary Under-Secretary

10 October 1980

Dear Mr Whitmore

Thank you for your letter of 6 October following the Prime Minister's meeting with Mr Wyn Roberts about the use of revenues from the Amlwch Oil Terminal.

The issue was raised at some length in the Lords debate yesterday on the Local Government Bill and it seems that it will have to be considered as a matter of general principle in England and Scotland as well as in Wales. It would now be difficult for the Prime Minister to send a substantive reply to the Mayor of Anglesey about this particular case before the wider issues are resolved. I understand that urgent discussions are already in hand with DOE and the Scottish Office. We shall be in touch with you again as soon as possible.

I am sending a copy of this letter to David Edmonds (DOE).

Yours sincerely
Richard Mason

R V MASON
Private Secretary

Clive Whitmore Esq
Principal Private Secretary
No 10 Downing Street

Local govt

Copied to Master Set.

File

10 DOWNING STREET

From the Principal Private Secretary

6 October 1980

Dear Mason,

The Prime Minister saw Mr. Wyn Roberts this afternoon to discuss the advice contained in John Craig's letter of 23 September to me about the request of the Anglesey Borough Council that capital expenditure financed from the income from the Amlwch Oil Terminal should be exempted from the new capital expenditure controls which are being introduced under the Local Government Bill.

The Prime Minister said that she hoped very much that we would be able to agree to the Mayor's proposal. The sum of money involved was relatively small, and anything that could be done to help relieve the high level of unemployment in Anglesey should not be lightly rejected. In any case, if the Council were not to be allowed to spend this money, it was difficult to see what would happen to it: presumably it would simply build up in an ever growing balance.

Mr. Roberts said that he would like to be able to help the Borough Council. The problem was that if we did so, we might be setting a precedent for other councils with capital assets from which they drew revenue. But it was true that the amount of money in question was not large, and if the Anglesey Borough Council were allowed to use it, it might not attract much attention. Under the normal programme of allocation the Borough Council would be allowed to spend £240,000 and this had to be seen against a total of £25.7m for all Welsh District Councils. In this context, to allow the Borough Council to spend an extra £250,000 might be manageable. There was no legal obstacle to permitting them the full sum of £500,000. The question for decision was simply whether Anglesey should be treated as a special case. There were no other precedents of comparable size in Wales.

The Prime Minister said that if this was an isolated case, it seemed reasonable to allow the Anglesey Borough Council to spend an additional £250,000 which they had already got. She would be grateful if Mr. Roberts would have another look at the matter to see whether it could be solved in a way which the Anglesey Borough Council would find acceptable.

I am sending a copy of this letter to David Edmonds (DOE).

Yours sincerely,

Clive Whitmore.

R.V. Mason, Esq.,
Welsh Office.

10 DOWNING STREET

Prime Minister.

Mr Roberts is coming to see you about this in the Secretary of State's absence in the United States.

AJC

2x.

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Local Govt

Ref. A03121

PRIME MINISTER

Local Authority Current Expenditure in Scotland in 1980-81

(E(80) 107)

BACKGROUND

There was a misunderstanding about the Secretary of State for Scotland's proposals on 10th September about the action to be taken to eliminate over-spending by local authorities in Scotland (E(80) 32nd Meeting, Minute 1, Conclusion 2). The Committee thought that he was speaking to the proposals in his paper (E(80) 94) that the sums payable under the first Increase Order in respect of the 1980-81 Rate Support Grant in Scotland should be abated by £40 million with an undertaking that part or all of this sum might be reinstated later (at the second Increase Order stage next year) in the light of actual expenditure performance; and that, at this second stage, the Secretary of State for Scotland would use his existing powers to match grant to performance by individual authorities. You summed up accordingly, and the decision recorded in the minutes was in line with that taken for England and Wales at the same meeting - a decision which has subsequently been announced. As I advised you in my minute of 12th September, however, the Secretary of State told me after the meeting that the proposal he had made in discussion differed significantly from that in his paper in that he had concluded that the best course in Scotland would not be to go for a general abatement with subsequent adjustment as in England and Wales but instead to wait for next year and then adjust the grants to individual authorities selectively in a single operation. He asked me to revise the minutes accordingly. In his minute of 16th September to you, the Chancellor of the Exchequer said that he and the Secretary of State for the Environment could not accept this interpretation of the discussion. The Chancellor was particularly concerned that the approach to Scotland should not be different from that to England and Wales. The minutes of that meeting therefore remain unamended; and the Secretary of State for Scotland, in his present paper, sets out his revised proposal in detail for the Committee's consideration.

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2. Of the total potential excess of £40 million in Scotland, the Lothian Regional Council is responsible for £25 million, and has no intention of making cuts. The other eight regional councils are already very near to the guidelines, are co-operating well, and should end up with outturns below budget. A number of district councils are still showing significant excesses in percentage terms though the absolute figures are relatively small.

3. If there were to be a general abatement of £40 million, £35.5 million would fall on the nine regional councils but, of this, only £4.5 million on Lothian. This approach would therefore fail to hit the main offender hard enough - and similarly for the district councils, and would penalise those authorities which are co-operating.

4. It is however possible for the Secretary of State for Scotland to reduce RSG selectively where individual authorities have incurred excessive or unreasonable expenditure, and in this way he can avoid the rough justice of a general abatement. He can do so under statutory powers which currently have no counterpart in England and Wales.

HANDLING

5. After the Secretary of State for Scotland has introduced his paper, the Chief Secretary, Treasury, and the Secretary of State for the Environment will wish to comment. (The Chancellor of the Exchequer will not arrive back from Washington in time to be at the meeting.) Our understanding is that both Ministers may now be willing to accept the Secretary of State for Scotland's revised proposals.

6. Whether this proves to be the case or not, there are two main questions to be decided:-

(i) Are the Secretary of State's new proposals acceptable in themselves?

(ii) If so, is it acceptable that a different approach should be adopted in Scotland from that already announced for England and Wales?

7. The Committee may well feel that, in view of the more detailed explanation now put to them, there is a good case for accepting the Secretary of State for Scotland's proposals - in essence that he is only faced with one major recalcitrant authority (Lothian) and that, given his powers, he can deal with them without having to penalise, even temporarily, all the other Scottish authorities.

CONCLUSIONS

8. In the light of the discussion you will wish to record conclusions:-

Either

Approving the proposal in paragraph 11 of E(80) 107 that the Secretary of State for Scotland should take selective action against individual authorities rather than make a general abatement.

Or

Confirming the decision taken on 10th September that there should be a general abatement.

RtA

ROBERT ARMSTRONG

1st October, 1980

PART 3 ends:-

CAW to PM 27.9.80

PART 4 begins:-

E(80) 107 29.9.80