

PREM 19/836



PART 14 ends:-

s/s Welsh office to s/s Eru

31/12/82

PART 135 begins:-

mcs to Miller (Cunningham Dist Council)







Local Govt.

Prime Minister (2) of SW

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

31 December 1982

Dear Secretary of State

#### LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for copying me your minute of 10 December to the Prime Minister. I have also seen Leon Brittan's comments in his letter of 20 December.

Of course, I very much share the view that we must take such action as is reasonably available to us in order to ensure the fullest possible use of the resources we make available to local authorities. The lack of investment shown by shortages of various sorts, including the increasing dilapidation of our towns and streets which the Policy Unit comment upon, are seen by the electorate as the results of deliberate acts by the Government in preventing local authorities from doing what they loudly claim they would like to do, while local authority underspending is lost sight of to all but a few. In short, we are offering the carrot but are also getting the stick.

Whilst accepting that some local authorities have been somewhat over-cautious in their use of capital receipts, I can well understand that prudent treasurers will regard debt redemption as a first call on their receipts and may also wish to invest them. It is for this reason that I decided to reduce the prescribed proportion of housing receipts from 50% to 25%. Our experience is that local authorities spend their housing allocations to the full. By amending the prescribed proportion from 1 April 1983 I have been able to allocate about £20m more than would otherwise have been possible. The change will, clearly, have a significant distributional effect. Generally it will mean that a higher proportion of available resources will be directed to those authorities which have demonstrated a housing need and a smaller proportion to those authorities who happen, for a variety of reasons, to achieve high receipts.

Incidentally, we are not so far seeing in Wales the swing towards private financing which you have in England. Our figures lead us to expect about 47%, but the recent returns show astonishingly wide variations between councils, with a low of 20% and a high of 100%. My officials will be pressing local authorities to place more emphasis on private financing of mortgages.

I am sure the 80% guarantee of future allocations (which you have already announced for housing and which I intend to do for all services at the end of the month) will be an

/important

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





important contribution to local authority planning and expenditure. But on the carry-over, I agree with Leon Brittan that nothing useful is likely to be gained from increasing the end year flexibility to 25%. No local authority in Wales overspent their permitted level of expenditure in 1981/82 nor has any authority said that the present 10% level is inadequate. My concern is that a significant increase could lead to serious difficulties in the management of future years' cash limits: there will be a very real temptation for local authorities in the last year of a Parliament to anticipate stringent economy by a new administration by spending to the hilt next year. We would then be faced with a deficit of 25% in 1984/85.

I agree that we should always be considering ways to improve monitoring and my officials will be in contact with yours about the proposals you have in mind. However, I feel that we need to be very cautious about placing additional demands on local authority (and our own) staff and shall need to ensure that the extra benefit is worth the effort.

To sum up, I am reasonably confident that the steps I have already taken should result in a better expenditure performance by local authorities next year. The emphasis I have placed on rehabilitation - particularly through enveloping - has led to an enthusiastic response by Welsh local authorities. I hope soon to be taking up again with Leon my earlier proposals for a special scheme for the elderly in old housing - the OAP scheme: we are now analysing the special survey into the problem and I shall be writing about it to you and Leon early in the New Year. And I attach great importance to enveloping being included in the relaxation from expenditure ceilings on rehabilitation grants, about which I wrote to Leon on 22 December.

Needless to say, I would be very happy to join in any discussion that may be arranged on these various topics.

I am copying this to the Prime Minister and the other recipients of your minute of 10 December.

Yours sincerely

C Evans

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



55 JAN 1983  
1 2 3 4 5 6 7 8 9 10 11 12

6 JAN 1983  
1 2 3 4 5 6 7 8 9 10 11 12

Local Gov.

Relations



CONFIDENTIAL

of 30



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

30 DEC 1982

M Scholar Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1

Prime Minister 2

WA  
31/12

Dear Michael,

LOCAL AUTHORITY CAPITAL EXPENDITURE

My Secretary of State wishes to support the proposals in the Secretary of State for the Environment's minute of 10 December, to the Prime Minister, which through an oversight was not originally copied to this Department. He too is concerned at the persistent pattern of Local Government capital underspending and believes that more decisive steps need to be taken to encourage Local Government to make better use of their resources. While the Policy Unit must be right in its general theme that a more active role needs to be taken to encourage capital expenditure, he is not attracted by the particular measures it proposes.

He favours using the present capital control system as the starting point. He has already taken steps to improve the monitoring and forecasting arrangements for London Transport capital and so will be better placed to recommend remedial action if necessary earlier in 1983/84. The Transport Supplementary Grant arrangements are being used to encourage local authorities to work up schemes to the point of readiness for future years. This Department will also be consulting the local authority associations on whether the re-definition of capital expenditure to include the reconstruction of motorways and trunk roads should be extended to local roads. He considers that much more, however, needs to be done.

My Secretary of State strongly supports the recommendation of greater end year flexibility, by means of increased scope for local authorities to anticipate or carry over allocations. He is less certain about the value of end year flexibility for the national cash limit since it does not in itself act as a constraint (he will however want to return to the question of end year flexibility for the trunk road programme in the next public expenditure round.) He also agrees that the scope for systematic over-allocation at the local authority level needs to be considered as a means of reducing the short fall.

CONFIDENTIAL



CONFIDENTIAL

For the short term, a reserve pool which could be drawn on earlier in the year would help to meet the particular problems posed by the new arrangements for capital receipts in addition to providing additional ways of reducing the short fall in 1983/84. He also considers that an early meeting of Ministers concerned with Local Government services seems sensible contingency planning.

I am copying this to the Private Secretaries of the recipients of the Secretary of State for the Environment's minute of 10 December.

*Yours sincerely,*

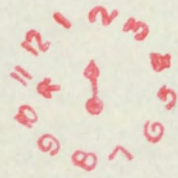
*Richard Bird*

R BIRD  
Private Secretary

CONFIDENTIAL



31 DEC 1982



CONDIMENTAL

Local Authority Relations Unit





huz

cc: DCE

VB  
CF

10 DOWNING STREET

29 December, 1982

THE PRIME MINISTER

Dear Councillor Bowness,

Thank you for your letter of 18 November about local authority capital expenditure.

I am grateful for your support in what we are trying to do to achieve better use of the resources available this year. I take the points you make about the factors which lead to under-spending. I doubt, however, whether it would be right to make the sort of exemption you are suggesting for revenue consequences. The reduction of total expenditure by local authorities is of such overriding concern that it is difficult to start making exceptions on that side. We would hope that authorities would be able to find the necessary headroom for financing worthwhile capital expenditure within the total expenditure targets we have set by making every possible effort to root out wasteful current spending. I do of course appreciate the efforts which many authorities have made and are continuing to make in this direction.

Yours sincerely  
Margaret Thatcher

Councillor P.S. Bowness, C.B.E., D.L.

RM





GC J.V. 2

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Paul Munnie

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

JF

29/12

23 December 1982

Dear Michael,

mf

LOCAL AUTHORITY CAPITAL EXPENDITURE

You sent me a copy of your minute of 10 December to the Prime Minister.

Last year education was the only service to spend more than its allocation and capital receipts, on the latest figures the same will be true this year, and this argues for an increase in the education allocation for future years.

Having said that, I agree with your conclusion that there would be merit in a meeting of Ministers responsible for local government services with Leon Brittan to consider ways of avoiding underspend in 1983-84. There might perhaps be scope for officials to prepare the ground for this in advance.

I agree too that there are a number of points worth exploring in your 'options' i-iv. Indeed, as regards iii, I have already written to Leon Brittan - on 17 December - to press for help in the education sector in relation to the threat to the use of a proportion of authorities' accumulated receipts as a result of switching to the system of adding 50% of estimated receipts to the net total for allocations. His reply of 21 December is helpful as far as it goes; but I am sure that we should also seek to give more helpful guidance to authorities about prospective allocations for future years and look at the scope for capital spending on major programmes of repair and maintenance, which you also mention. End-year flexibility is also important.

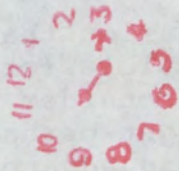
I am copying this letter to the recipients of your minute.

Eric. Kent



Local G0A : Exp Pt 4

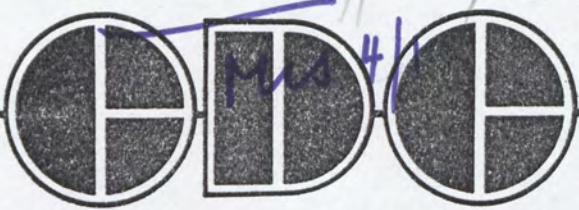
29 DEL 1902





Prime Minister (2) R/C?

We will let you have a draft reply.  
mes 4/1



James M. Miller,  
Chief Executive  
and Director of Administration

### Cunninghame District Council

Cunninghame House · Irvine KA12 8EE  
Telephone (0294) 74166

|                |          |           |                    |
|----------------|----------|-----------|--------------------|
| Please ask for | Our ref. | Your ref. | Date               |
| Mr. Miller     |          |           | 22nd December 1982 |

The Rt.Hon. Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
LONDON.

Dear Prime Minister,

This Council have considered the letter dated 2nd November sent by you to the President of the Convention of Scottish Local Authorities and circulated by him to all local authorities in Scotland.

I am instructed to inform you that this Council have every year since re-organisation fully utilised their allocation of Capital Expenditure and will do so in 1982/83:

I am also instructed to say that this Council applied at the end of October to the Scottish Office for a Supplementary Allocation of Capital Expenditure on Housing Services in 1982/83 but so far have had no reply. The Council feel that this is not consistent with the intention expressed in your letter.

In particular I am instructed to say that the problem for the construction industry in Cunninghame is not that this Council are under-shooting their target but that the Government has reduced the target (for Capital Expenditure on Housing ) from £4.922m. in 1978/79 to £2.841m. in 1982/83 - a reduction of 42% in cash terms and 65% in volume terms.

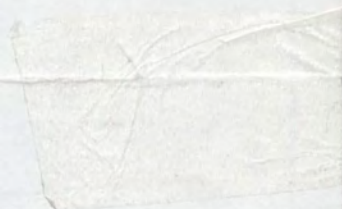
Yours faithfully,



PM, Aug 82, Group of Eight

4 JAN 1983

BRITISH  
LIBRARY







PRIME MINISTER

## LOCAL AUTHORITY CAPITAL EXPENDITURE

I have seen Michael Heseltine's minute to you dated 10 December.

2 I agree that there is a need to tackle local authority underspending on capital projects and believe we should consider carefully the proposals Michael makes.

3 A key element in local authorities' reluctance to spend fully on the capital side is the alleged future burden of revenue expenditure that capital spending will bring (point (ii) on page 2 of Michael's minute). I believe we should give some thought to providing guidance in the kind of infrastructure expenditure which will not result in heavy future annual charges. The sort of thing I have in mind is expenditure on industrial estates and workshop units which, apart from the debt service burden, should fulfil this criterion.

4 I am copying this minute to Michael Heseltine and to the recipients of his minute.

PJ

P J

21 December 1982

CE JV  
Prime Minister

MUS 22/12

with Mrs.





STATIONER

TS

21 DEC 1982







2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/18129/82

Your ref:

20 December 1982

*Dear Sir*

Thank you for your letter of 22 November enclosing two others about local authority capital expenditure to which you sought draft replies.

I attach a draft reply to the London Boroughs Association. Unlike those acknowledging the responses of the other associations, this reply really has to deal substantively with Councillor Bowness' request for an exemption for the revenue consequences of capital expenditure. My Secretary of State does not think that such an exemption should be considered because it would weaken the policy of pressing authorities for savings in wasteful current expenditure and make it that much more difficult to achieve the reductions in total local authority spending which the Government is seeking.

I will write separately about the NFBTE letter.

*Yours*

*D A Edmonds*

D A EDMONDS  
Private Secretary

Michael Scholar Esq



*please type for PM* *ms 24/12*  
DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO  
COUNCILLOR P S BOWNESS CBE DL, CHAIRMAN, LONDON BOROUGHS ASSOCIATION,  
WESTMINSTER CITY HALL, VICTORIA STREET, LONDON SW1E 6QW

Thank you for your letter of 18 November about local authority capital expenditure.

I am grateful for your support in what we are trying to do to achieve better use of the resources available this year. I take the points you make about the factors which lead to underspending. I doubt, however, whether it would be right to make the sort of exemption you are suggesting for revenue consequences. The reduction of total expenditure by local authorities is of such overriding concern that it is difficult to start making exceptions on that side. We would hope that authorities would be able to find the necessary headroom for financing worthwhile capital expenditure within the total expenditure targets we have set by making every possible effort to root out wasteful current spending. I do of course appreciate the efforts which many authorities have made and are continuing to make in this direction.





Local Govt  
 Prime Minister (2)

ms 21/12

Treasury Chambers, Parliament Street, SW1P 3AG

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

20 December 1982

LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for my copy of your minute to the Prime Minister of 10 December.

I agree that the balance of local authority spending needs to be redressed. We must keep up the pressure on current spending and do what we reasonably can to encourage a switch to capital.

I agree that the Policy Unit's proposals are not the answer.

I greatly welcome your determination to do what you can to improve monitoring and forecasting.

Of the six proposals on your pages 2-3, we have dealt for the time being with (ii), (iii) and (iv). That leaves over-allocation and end-year flexibility, at both local and national level.

Over-allocation

I am not convinced that we should systematically over-allocate the cash limit. We could only do so if we were sure that there is a predictable tendency to underspend. But it is only a short time since we were concerned with capital overspending; and we have only eighteen months' statistics under the new system.

We can consider this further if and when we have sufficient information. But I am sure we should not contemplate any over-allocation that goes beyond quantified estimates of the risks involved.

I am, incidentally, surprised that you think I have agreed to over-allocation in the case of improvement grants. That is not my understanding. Local authorities will be given extra allocations retrospectively if they spend more than 10 per cent above the amount they sought for improvement grants in their HIPs bid. But that bid plus 10% is what we think that, on average, they might spend. Some may be able to spend more, and the concession is designed to help them. Others will spend less. Improvement grant expenditure should still be contained within the housing block of the cash limit.



End-year flexibility

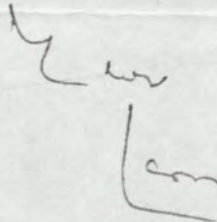
I am afraid I do not think that anything useful would be gained by increasing the 10 per cent end-year flexibility on individual authorities' allocations. It would have been counterproductive to increase the carry forward to 1983-84. That would have reduced rather than increased the pressure on authorities to spend in 1982-83. The same argument holds if you are concerned about a further underspend in 1983-84.

I think the question of end-year flexibility on the national cash limit has to be taken as part of the general issue which, as Cabinet agreed, we are to look at again next year.

A meeting

Finally, you suggest that I might call a meeting of Ministers with departmental interests in local authority capital programmes. I am not quite sure what you would wish to get out of this, or what would be the basis for discussion. But if at any stage you would like to put forward specific proposals, and if colleagues would then like a meeting, I should of course be happy to convene one.

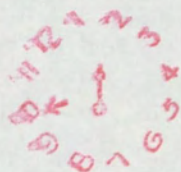
I am copying this letter to the Prime Minister and the other recipients of your minute.



LEON BRITTAN



21 DEC 1992





## Rate Support Grant (Wales)

4.43 pm

**The Secretary of State for Wales (Mr. Nicholas Edwards):** With permission, Mr. Speaker, I wish to make a statement on the Welsh rate support grant settlement for 1983-84.

I am today announcing to the Welsh consultative council on local government finance the details of the 1983-84 RSG settlement. I have arranged for copies of the final text of my statement to the consultative council to be placed in the Library of the House. I am also laying before the House today the Welsh rate support grant report for 1983-84.

I have also laid supplementary reports for 1981-82 and 1982-83. These adjust the amount of block grant payable to reflect adjustments in relevant expenditure and, consequently, changes in GRE and grant. They also affect the grant reductions announced in July in respect of the current and total expenditure overspends in the two years.

The main features of the settlement for 1983-84, which broadly confirm the intentions I announced in July, are as follows. The total of relevant expenditure provision accepted for grants is £1,385 million. This comprises £1,205 million for current expenditure and £180 million for non-current items. Aggregate Exchequer grant will be £975 million, comprising £114.7 million for specific grants, £31 million for transport supplementary grant, £1.8 million for national parks supplementary grant, and £827.5 million for the rate support grants. Domestic rate relief is unchanged at 18½p in the pound. This costs £25 million, leaving £802.5 million for distribution as block grant.

The settlement is a very fair one. Current expenditure provision is increased by £79 million, or about 7 per cent. Put another way, it is equivalent to about 5 per cent. more current expenditure than in authorities' revised budgets for the current year.

Since July, interest rates have fallen markedly and inflation has fallen faster than anticipated and is now forecast to be 5 per cent. next year. However, I have not reduced the amounts previously announced, which makes it easier for local authorities to keep their expenditure within the settlement provision.

Aggregate Exchequer grant is £975 million—an increase of £32 million, or about 3½ per cent. I am satisfied that, if authorities' expenditure is kept within provision, on average there need be hardly any increase in rates next year.

An important objective of the settlement is to influence Welsh local authorities to keep their expenditure at a level the country can afford; and, to help achieve that objective, I have toughened the block grant mechanisms.

This mechanism will be of benefit to ratepayers where authorities spend close to GRE; but authorities must recognise that increases in expenditure above the cash increases provided by the settlement will lead to additional burdens on their ratepayers.

I have also set individual authority expenditure targets. Targets complement the block grant mechanisms and are helpful in letting authorities know exactly where they stand. This allows me to withhold grant in a discriminate manner. I do not wish to withhold grant, but, if it becomes necessary to do so, the grant withheld at the individual

authority level should be related directly to an authority's expenditure performance. The target system I have used achieves this aim.

The targets I have set can be achieved by all authorities. Every authority's target allows a cash increase in its current expenditure. After making allowance for the reduction in authorities' national insurance surcharge next year and a modest amount of budget drift, the minimum current expenditure cash increase is 3 per cent. and the maximum 7 per cent.

Should grant withholding be necessary, the grant withheld will not exceed the amount of the overall net expenditure excess. There is an upper limit on the amount of grant holdback for any particular authority and also a maximum rate poundage for grant withholding for different levels of overspending.

The overriding need is for continued restraint in local authority expenditure. Some progress has been made, but more is needed. The settlement is a very fair one. We have increased the expenditure provision and aggregate Exchequer grant. The expenditure targets set are all capable of being achieved.

There is no reason why local authorities should not keep their expenditure within the settlement provision. In that case, there need be virtually no rate increases next year. Indeed, if authorities apply part of the substantial increase in their balances which has occurred this year, there could be significant rate reductions. This would be of enormous benefit to all ratepayers and especially to industry and commerce.

The opportunity is there. I look to Welsh local authorities to seize it.

**Mr. Alec Jones (Rhondda):** I refer to the relevant expenditure figure of £1,385 million. Will the Secretary of State confirm that local authorities, which undoubtedly know their problems best, do not share the rosy and cosy optimism which the right hon. Gentleman expressed today that this figure would enable them to maintain their existing level of services and have no rate increases?

Does the right hon. Gentleman understand that unemployment in Wales, now more than 16.7 per cent., increases the number of demands on local government services? We have, for example, more 16-plus students in colleges, more children applying for free school meals, more clothing allowances for pupils and more elderly people needing help from the social services. Does the right hon. Gentleman accept that local authorities also have added responsibilities with the transfer to them of housing benefits and the increased level of applications for improvement grants? To meet these extra demands and added responsibilities means either cutting other services, which is virtually impossible after several years of cuts, or overspending according to the Government's guidelines?

Why should democratically elected local authorities be penalised if they choose to use part of their balances to maintain services or to increase job numbers? Is the Mid-Glamorgan county council, for example, to be branded a criminal spendthrift because it proposes to use some of its balances to employ more teachers and to buy more books and other equipment? In view of current criticisms of education provision, surely such action should be commended.

Will the Secretary of State confirm that cutting the level of rate support grant to 70.5 per cent. of relevant



[Mr. Alec Jones]

expenditure, which is at least the third consecutive cut, means that the average increase of rate levels in Wales will be about 7 per cent., which is more than 10 per cent. higher than if the present level of RSG had been maintained? If that estimate is wrong, what effect does the right hon. Gentleman think this reduction will have on rate levels?

As for council rents, will the right hon. Gentleman confirm that after his 85p increase, council rents will have risen by 127 per cent. between 1979-80 and 1983-84? What other section of the community has faced such large increases in housing costs? After this increase, how many housing authorities in Wales will be in surplus on their housing revenue accounts? Is it intended that council rents shall rise to pay for other council services or to finance reductions in the levels of Government support?

I want to ask about the national parks supplementary grant of £1.8 million. The Secretary of State will be aware that the national parks of Snowdonia, Brecon Beacons and the Pembroke coast have increased responsibilities stemming from the Wildlife and Countryside Act 1981. Will the right hon. Gentleman confirm that there is no decrease in real terms in the grant to the national parks and that it takes account of the added responsibilities as a result of the 1981 Act? Despite the Secretary of State's pious platitudes, which we have heard on every occasion when he has introduced the rate support grant settlement, this year, again, we face reduced services, higher rates, increased unemployment or a combination of all three.

**Mr. Edwards:** The right hon. Member for Rhondda (Mr. Jones) referred to the relevant expenditure figure and increased burdens falling on local authorities. Local authorities, like others, will benefit substantially from the reduction in the inflation rate and the forecasts for the coming year. Inflation has fallen significantly since the original budgets were prepared in the summer. I have not, however, reduced the provision, so there is an added margin for local authorities.

The right hon. Gentleman referred to the cost of financing the planned level of capital expenditure in Wales. Total relevant expenditure takes into account the cost of financing that planned level of capital expenditure.

The right hon. Gentleman spoke about the prudent use of balances. He does not perhaps realise that since local authorities prepared their original budgets in the summer, the estimate of balances for this year, which was then about £70 million, has increased to about £130 million. It gives local authorities real scope to use some of their unexpected increases in balances to hold down rates, particularly for industrial ratepayers.

I welcome the right hon. Gentleman's reference to Mid-Glamorgan. Press reports say that Mid-Glamorgan intends to overspend its expenditure target by about £9 million, which would lead to grant loss of £4.6 million. The leader of the council is quoted as saying that if the Government want to commit political suicide, they should try clawbacks in the run-up to an election.

The county must not be under any illusion about my intentions. If there is an aggregate overspend in Wales, I shall not hesitate to go ahead with clawbacks from Mid-Glamorgan or any other authority. Mid-Glamorgan ratepayers should reflect that a budget of £9 million over target means an additional 33p on their rates—a 20 per

cent. increase in the coming year. Worse still, no domestic ratepayers would be affected by a levy of £30 for every person they employed. That would be an outrage when anxiety is being expressed about unemployment. It is an appalling prospect, and I call upon the county council to think again. The county's target allows a cash increase of 4 per cent. above the amount it is likely to spend on the basis of its revised budget. It is an achievable target.

The right hon. Gentleman suggested that the settlement implied rate increases of 7 per cent. I do not accept that. On the basis of the mathematics, which have been accepted by the local authorities, there is no reason why on average local authorities should increase rates. If they use some of their large balances, there is real scope for reductions.

The Labour Administration, of which the right hon. Gentleman was a member, said that it was right for the Government to increase council rents in line with the increase in the cost of living, but they failed to do so. We have carried out a catching-up exercise. It is right that we should, because if council rents are set too low, even by the previous Government's standards, there will be less money available for capital spending, new housing and housing improvements. In a previous statement to the House I announced an increase of £17 million in capital spending above previously planned levels.

The right hon. Gentleman asked about the national parks, and I shall write to him on that specific point.

The right hon. Gentleman said that there was no scope for reducing rates. I disagree. I suggest that if £45 million of the balances were used by Welsh local authorities, there could be a 10 per cent. reduction in rates. I cannot think of a better gift to local industry and employment prospects.

**Mr. Geraint Howells (Cardigan):** Is the Secretary of State satisfied that Welsh local authorities are treated fairly compared with their counterparts in England and Scotland? What action will he take if all the Welsh local authorities propose a rate increase next year of between 10 per cent. and 20 per cent?

**Mr. Edwards:** The settlement is extremely fair compared with England. In part it reflects the reasonable attitude shown by Welsh authorities compared with authorities in England over the past year or two years. The Welsh figures for increases in relevant expenditure and the amount of grant percentage compare favourably with those in England.

As to rate increases, I have already made it clear that if local authorities in aggregate and individually exceed targets there will be a holdback. Rate increases are matters for local authorities to determine. As a result of this settlement, they have it within their power not just to hold, but to reduce, rates. I hope that they will seize the opportunity that I have given them.

**Mr. Tom Hooson (Brecon and Radnor):** While the overall proposed allocation appears to be generous, given the need to control public expenditure, will my right hon. Friend assure the rural districts and counties in Wales that he will review the sparsity factor when he meets local authorities?

**Mr. Edwards:** As I have said on many occasions to my hon. Friend, who has been assiduous in raising this point, we look at that matter regularly. The local authorities agree the method of distribution among themselves. I



local govt.

cc  
+105

NBPM

MUS. 20/12



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 8545 (Llinell Union)

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

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

20 December 1982

Dear Mr Grieve

RATE SUPPORT GRANT SETTLEMENT 1983/84: WALES

... I attach a final version of the oral statement my Secretary of State is to make in the House today about the 1983/84 Rate Support Grant Settlement for Wales.

/ I am copying this to the Private Secretaries to the Prime Minister, Home Secretary, the Secretaries of State for the Environment, Scotland, Transport, Education, Health and Social Services, Employment and Trade, the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Whips (Lords and Commons), the Chief Press Officer at No 10 and to Sir Robert Armstrong.

Yours sincerely

Clare

P.P. A E PEAT

John Gieve Esq  
Private Secretary  
The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1





PARLIAMENTARY STATEMENT - 20 DECEMBER 1982

WELSH RATE SUPPORT GRANT SETTLEMENT: 1983-84

Mr Speaker with permission I wish to make a statement on the Welsh Rate Support Grant Settlement for 1983-84.

I am today announcing to the Welsh Consultative Council on Local Government Finance the details of the 1983-84 RSG Settlement. I have arranged for copies of the final text of my statement to the Consultative Council to be placed in the Library of the House. I am also laying before the House today the Welsh Rate Support Grant Report for 1983-84.

I have also laid Supplementary Reports for 1981-82 and 1982-83. These adjust the amount of block grant payable to reflect adjustments in relevant expenditure and consequently changes in GRE and grant. They also effect the grant reductions announced in July in respect of the current and total expenditure overspends in the two years.

The main features of the Settlement for 1983-84, which broadly confirm the intentions I announced in July, are as follows:

The total of relevant expenditure provision accepted for grants is approximately £1,385 million. This comprises £1,205 million for current expenditure and £180 million for non-current items.

Aggregate Exchequer Grant will be £975 million, comprising

£114.7 million for specific grants  
£31 million for Transport Supplementary Grant  
£1.8 million for National Parks Supplementary Grant  
£827.5 million for the Rate Support Grants.





Domestic Rate Relief is unchanged at 18½p in the pound. This costs £25 million leaving £802.5 million for distribution as block grant.

The Settlement is a very fair one. Current expenditure provision is increased by £79 million or about 7%. Put another way it is equivalent to about 5% more current expenditure than in 'authorities' revised budgets for the current year.

Since July interest rates have fallen markedly and inflation has fallen faster than anticipated and is now forecast to be 5% next year. However I have not reduced the amounts previously announced which makes it easier for local authorities to keep their expenditure within the Settlement provision.

Aggregate Exchequer grant is £975 million, an increase of £32 million or about 3½%. I am satisfied that if authorities expenditure is kept within provision, on average there need be hardly any increase in rates next year.

An important objective of the settlement is to influence Welsh local authorities to keep their expenditure at a level the country can afford; and to help achieve that objective I have toughened the block grant mechanisms.

This mechanism will be of benefit to rate payers where authorities spend close to GRE; but authorities must recognise that increases in expenditure above the cash increases provided by the settlement, will lead to additional burdens on their ratepayers.





I have also set individual authority expenditure targets. Targets complement the block grant mechanisms and are helpful in letting authorities know exactly where they stand. This allows me to withhold grant in a discriminate manner. I do not wish to withhold grant but if it becomes necessary to do so the grant withheld at the individual authority level should be directly related to an authority's expenditure performance. The target methodology I have used ensures this.

The targets I have set can be achieved by all authorities. Every authority's target allows a cash increase in its current expenditure. After making allowance for the reduction in authorities' national insurance surcharge next year and a modest amount of budget drift, the minimum current expenditure cash increase is 3% and the maximum 7%.

Should grant withholding be necessary, the grant withheld will not exceed the amount of the overall net expenditure excess. There is an upper limit on the amount of grant holdback for any particular authority and also a maximum rate poundage for grant withholding for different levels of overspending.

The overriding need is for continued restraint in local authority expenditure. Some progress has been made but more is needed. The Settlement is a very fair one. We have increased the expenditure provision and aggregate exchequer grant. The expenditure targets set are all capable of being achieved.





There is no reason why local authorities should not keep their expenditure within the Settlement provision. In that case there need be virtually no rate increases next year. Indeed if authorities apply part of the substantial increase in their balances which has occurred this year, there could be significant rate reductions.

This would be of enormous benefit to all ratepayers and especially to industry and commerce.

The opportunity is there: I look to Welsh local authorities to seize it.



PRIME MINISTER

STATEMENT ON THE RATE SUPPORT GRANT SETTLEMENT

Although Mr. Heseltine and Mr. Kaufman exchanged arguments on a number of extremely esoteric points, completely incomprehensible to the layman, the main theme of the question on this statement was quite clear. The Opposition argued that the Government was entirely to blame for the enormous rate increases that would inevitably flow from this RSG settlement, and also for the cuts in services that would inevitably have to be made. Mr. Heseltine and Government backbenchers, argued that the blame for any rate increases lay fairly and squarely on local authorities, and that increases would not be necessary if authorities met their spending targets. The Alliance seemed to argue that whoever was to blame, it would be the ratepayer who would suffer.

Mr. Kaufman used a number of figures to support his argument: Mr. Heseltine's announcement would cut rate support grant for the forthcoming year in real terms by £250m; the reduction since 1979, from 61 to 53% of relevant expenditure, had cut RSG by £1,800m, equivalent to a 25p in the pound rate increase for every domestic ratepayer. Including other penalties, the Government had increased the rate burden for domestic ratepayers by 35p in the £. He said that Mr. Heseltine's talk of single figure or zero rate increases was a sick joke. The Government's destruction of the local authorities was causing massive unemployment in the private sector. Mr. Heseltine was "the grim reaper" of local government.

Mr. Heseltine responded by drawing attention to the record of the Shire counties in the current year. Conservative controlled counties had increased their rates by 12%; "other" controlled counties by 21%, and Labour controlled counties by 31%. All these authorities were running the same services in broadly the same circumstances. These figures showed clearly where the response for rating increases lay. He also drew attention to the savings that could be made by local authorities through greater efficiency. He gave the example of Birmingham which now used 262 fewer people on its refuse collection and disposal, with savings of £3m.

17 December, 1982.

*CM*





JCWR

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

16 December 1982

*Dear Michael*

RATE SUPPORT GRANT STATEMENT

/ I attach a copy of the final version of the statement which my Secretary of State is to make in the House of Commons this afternoon.

I am sending a copy of this to the Private Secretaries to the Home Secretary, the Secretaries of State for Education, Health and Social Services, Transport, Employment, Trade, Agriculture, Scotland, Wales, Paymaster General, Lord President, to the Chief Secretary, to the Chief Whips, Commons and Lords, and to the Chief Press Officer at No 10.

*Yours  
D. A. Edmonds*

D. A. EDMONDS  
Private Secretary



With permission, Mr Speaker, I should like to make a statement on the rate support grant settlement in England.

In my statement to the House on 27 July I set out proposals for the main elements of the rate support grant settlement for 1983/4. I have today tabled the main RSG Report.

I am placing in the Library copies of the detailed material being sent to local authorities today.

The Government has 3 main objectives.

The overriding one is to achieve further reductions in local authorities' current expenditure.

We need also to recognise the efforts that most authorities have made to find economies.

And we must increase the incentive for all authorities to spend at target, by increasing the grant pressure on the high spenders.

As well as the main Report for 1983/4, I have also tabled today the First Supplementary Report for 1982/3.

The main effect of this Report is to reduce block grant for authorities budgeting to overspend both their target and grant related expenditure assessment.

The holdback for 1982/3 amounts to £308 million.

Authorities were warned about the holdback scheme before they drew up their budgets, and they took their decisions in that knowledge. This Report implements the scheme.

It also adjusts relevant expenditure, and grant, to reflect a number



of changes, mainly in the usual variable items caused by interest rate changes.

I turn now to the main Report for 1983/4.

The current expenditure provision is £19.7 billion.

That is about 10% more than the equivalent figure in last year's settlement.

It is about 3% more than the equivalent figure in authorities' budgets this year.

The aggregate Exchequer grant is £11.8 billion.

Although the percentage is lower the grant is some £300 million higher in cash (almost 3%) than in last year's settlement.

There are no major changes to the methodology of grant-related expenditure assessment.

Some useful improvements have been made including 1981 census data in consultation with local government.

There are no changes in the main grant distribution mechanisms. The distribution of block grant between classes of authority is similar to that last year.

I am now confirming the expenditure targets for all authorities. Since July inflation has fallen and interest rates have dropped, but I have not reduced the targets I announced then to reflect that. A few targets have been raised following minor changes to the methodology.

None have been reduced.

Most low spending authorities and those that have complied with



this year's guidelines are given targets which allow a 4% cash increase over their budget this year.

Usually, authorities spend less than they budget for.

In these cases the new target will be a small increase beyond 4% over actual spending this year.

In the light of the current economic trends it is fair, and it rewards efforts to economise.

By contrast, the target for most over-spenders represents a 1% cash cut from their budget this year.

That is tough, but rightly so, because these are authorities which have made no real effort to reduce spending so far, and where the scope for reductions is greatest.

I believe that most local authorities will act responsibly, and will plan to hit their targets.

This year and last two-thirds of authorities budgetted to avoid grant holdback.

But we also know that a less-responsible minority exists.

Pressure must therefore be increased on the highest spenders.

The grant holdback scheme achieves this.

For each of the first 2 percentage points of spending above target, there will be a loss of grant worth a 1p rate at ratepayer level.

For each subsequent percentage point of overspending, there will be a loss of grant worth a 5p rate.

This will help authorities which narrowly fail, but it becomes increasingly severe for overspending at all levels above 2%.

For the first time since 1945, current expenditure by local government has been shifted to a downward trend.



Price Down in Shires Covered.

News: increase in paper (by Essex - Cars)

- 4% increase

- GRE mark

Wants - cut by proxy Wandsworth.



This settlement builds on that.

We have not yet achieved the rate of reduction we originally asked for when we took office.

We have made a start, especially with manpower.

Local authorities have now reduced manpower by some ~~4%~~<sup>5%</sup> since 1979.

The Manpower Watch figures also published today show that we are back to the level of 197~~4~~.

We have virtually eliminated the growth in manpower that followed reorganisation.

The issue here is not the creation of unemployment: it is the reverse.

The fact is that high rates have forced the wealth-creators in our society to reduce staff in order to maintain jobs in local government.

Any objective survey of a proper cross-section of authorities will show that as a result of this settlement rate increases next year should for most authorities be nil or in low single figures.

If authorities spend at target, in many cases rates could actually be reduced.

That is the prize offered by this settlement.

There is no excuse for overspending this year.

Authorities have had more notice than ever before.

In the overwhelming majority of cases ratepayers will know that excessive rate increases are the result of excessive spending by their authority.



- Kaufman:
- (1) relevant expenditure
  - (2) angle of taper
  - (3) HRA  $\rightarrow$  GRF & capital receipts

$\downarrow$  Howell can ACC  $\rightarrow$  redns beyond more acceptable to public unrealistic targets

Created real reduction = 250 m real cut  
 61%  $\rightarrow$  53% of relevant expenditure = £1800 m  
 25 p in £ rate increase  
 35 p

Intolerable burden

He has forced up rates. He is responsible.  
 Purchases from private industry. The grim reaper.  
 Never forgive

MA: 1M founded. Look at Shire Counties  
 Cons 12% Mrs 21% Labour 31%  
 All broadly same circumstances.  
 Shows where responsibility lies

~~at last~~  
 Birmingham Refuse collection Savings 1 year  
 3m. 262 less than the 700 needed before.

$\&$  Cross-endless switching. Liberals 10%  
 Cut by 3.1% no recompense for inflation  
 naive or dishonest.

Day responsibility  
 Flannery

Altrande

Warrick suffered  
 4% increase



cc. WR  
Press.



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
.. 01-233 8545 (Llinell Unlon)  
ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

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

16 December 1982

Dear John,

RATE SUPPORT GRANT SETTLEMENT 1983/84: WALES

I attach a draft of the oral statement my Secretary of State is to make in the House on Monday December 20 about the 1983-4 Rate Support Grant Settlement for Wales, together with a copy of the statement to be made subsequently to the Welsh Consultative Council on Local Government Finance.

I should be grateful for any comments by close of play tomorrow.

I am copying this to the Private Secretaries to the Prime Minister, Home Secretary, the Secretaries of State for the Environment, Scotland, Transport, Education, Health and Social Services, Employment and Trade, the Lord President, the Chancellor of the Duchy of Lancaster, the Chief Whips (Lords and Commons), the Chief Press Officer at No 10 and to Sir Robert Armstrong.

Yours ever

*Adam*

A E PEAT

John Gieve Esq  
Private Secretary  
The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON SW1

213  
6807





PARLIAMENTARY STATEMENT - 20 DECEMBER 1982

WELSH RATE SUPPORT GRANT SETTLEMENT: 1983-84

Mr Speaker with permission I wish to make a statement on the Welsh Rate Support Grant Settlement for 1983-84.

I am today announcing to the Welsh Consultative Council on Local Government Finance the details of the 1983-84 RSG Settlement. With permission I will circulate the full text of my statement to the Consultative Council in the Official Report. I am also laying before the House today the Welsh Rate Support Grant Report for 1983-84.

I have also laid Supplementary Reports for 1981-82 and 1982-83. These adjust the amount of block grant payable to reflect adjustments in relevant expenditure and consequently changes in GRE and grant. They also effect the grant reductions announced in July in respect of the current and total expenditure overspends in the two years.

The main features of the Settlement for 1983-84, which broadly confirm the intentions I announced in July, are as follows:

The total of relevant expenditure provision accepted for grants is approximately £1,385 million. This comprises £1,205 million for current expenditure and £180 million for non-current items.

Aggregate Exchequer Grant will be £975 million, comprising

£114.7 million for specific grants  
£31 million for Transport Supplementary Grant  
£1.8 million for National Parks Supplementary Grant  
£827.5 million for the Rate Support Grants.





Domestic Rate Relief is unchanged at 18½p in the pound. This costs £25 million leaving £802.5 million for distribution as block grant.

The Settlement is a very fair one. Current expenditure provision is increased by £79 million or about 7%. Put another way it is about 5% more current expenditure than in authorities' revised budgets for the current year.

Since July interest rates have fallen markedly and inflation has fallen faster than anticipated and is now forecast to be 5% next year. However I have not reduced the amounts previously announced which makes it easier for local authorities to keep their expenditure within the Settlement provision.

Aggregate Exchequer grant is £975 million, an increase of £32 million or about 3½%. I am satisfied that if authorities expenditure is kept within provision, on average there need be hardly any increase in rates next year.

An important objective of the settlement is to influence Welsh local authorities to keep their expenditure at a level the country can afford; and to help achieve that objective I have toughened the block grant mechanisms.

This mechanism will be of benefit to rate payers where authorities spend close to GRE; but authorities must recognise that increases in expenditure above the cash increases provided by the settlement, will lead to additional burdens on their ratepayers.





I have also set individual authority expenditure targets. Targets complement the block grant mechanisms and are helpful in letting authorities know exactly where they stand. This allows me to withhold grant in a discriminate manner. I do not wish to withhold grant but if it becomes necessary to do so the grant withheld at the individual authority level should be directly related to an authority's expenditure performance. The target methodology I have used ensures this.

The targets I have set can be achieved by all authorities. Every authority has a cash increase for its current expenditure. After making allowance for the reduction in authorities national insurance surcharge next year, the likely level of inflation and a modest amount of budget drift, the minimum current expenditure cash increase is 3% and the maximum 7%.

Should grant withholding be necessary, the grant withheld will not exceed the amount of the overall net expenditure excess. There is an upper limit on the amount of grant holdback for any particular authority and also a maximum rate poundage for grant withholding for different levels of overspending.

The overriding need is for continued restraint in local authority expenditure. Some progress has been made but more is needed. The Settlement is a very fair one. We have increased the expenditure provision and aggregate exchequer grant. The expenditure targets set are all capable of being achieved.





There is no reason why local authorities should not keep their expenditure within the Settlement provision. In that case there need be virtually no rate increases next year. Indeed if authorities apply part of the substantial increase in their balances which has occurred this year, there could be significant rate reductions.

This would be of enormous benefit to all ratepayers and especially to industry and commerce.

The opportunity is there: I look to Welsh local authorities to seize it.



THE WELSH RATE SUPPORT GRANT FOR 1983-84  
STATEMENT BY THE SECRETARY OF STATE FOR WALES

INTRODUCTION

The Rate Support Grant Settlement for 1983-84 which I am announcing today is the third settlement since the separate RSG arrangements were introduced for England and for Wales. The main report and the supplementary reports in respect of 81-82 and 82-83 are being laid before Parliament today and copies will be sent to all local authorities in Wales.

Before announcing details of the Settlement I should like to express my appreciation to the members and officials of the Welsh Counties Committee and the Council for the Principality for their valuable contributions to the discussions which have led up to this Settlement.

Second Supplementary Report for 1981-82

For 1981-82, the Supplementary Report reduces the total of relevant expenditure from the £1,200.4 million specified in the first Supplementary Report to £1,195.4 million, a decrease of £5 million. The decrease will be made in accordance with the usual adjustments to take account of variations in loan charges and certain elements in the housing revenue account which affect the rate fund contribution.

The reduction in loan charges resulting from the downward trend in interest rates is £5.3 million. The impact of changes in the interest and subsidy elements of the Housing Revenue Account reduces the rate fund contributions to the Housing Revenue Account by an estimated £2.8 million. This brings the total downward adjustment to £8.1 million, against which has to be offset an upward adjustment of £3.1 million in respect of a public expenditure classification change in the capital financing of land drainage precepts. The net effect of all these changes is a decrease of £5 million in relevant expenditure. Aggregate Exchequer Grant is consequently reduced to reflect this reduction and also my decision to reduce grant because of authorities' net current expenditure excess of £13 million in 1981/82. In



### Level of Grant

On the basis of a relevant expenditure total of £1385.2 million, the Aggregate Exchequer Grant for 1983-84 is £975 million. Specific grants are estimated to total £114.7 million. Transport Supplementary Grant will be £31 million, and National Parks Supplementary Grant will be £1.8 million. The amount available for Rate Support Grant will therefore be £827.5 million.

### Transport Supplementary Grant

Transport Supplementary Grant in Wales is restricted to capital expenditure only. It will be paid at a rate derived by dividing the aggregate amount of TSG available by the total of transport capital expenditure accepted for grant purposes of all counties in Wales. That part of TSG which until 1 April 1982 was paid in support of transport current expenditure has, of course, been added to the total of block grant.

I continue to attach considerable importance to the Welsh local transport and highways capital programme and I have increased the planned provision for accepted transport capital expenditure for Wales in 1983/84 by £4 million.

This additional money has been provided by diverting resources from the small trunk road schemes programme. The total expenditure accepted for Transport Supplementary Grant purposes will now therefore be £56 million. Transport Supplementary Grant for 1983/84 to county councils will be £31 million.

In taking decisions on expenditure to be accepted for county road improvements I have been guided by Counties' own views of priorities for their areas. These give priority to major schemes which complement planned improvements to the strategic trunk road network and those which will contribute to the promotion of industrial developments.

The settlement allows for all Counties to meet their commitments for current contracts and for a start to be made on a number of new major schemes. These are the Rhyd-y-Golau, Wrexham-Gwersyllt, and Brynbo schemes in Clwyd; the Aberbeeg - Abertillery and Risca - Rogerstone (North) schemes



in Gwent; the Llandudno Link Road in Gwynedd; the Aberdare and Tonyrefail By Passes in Mid Glamorgan; the Grangetown Link Road in Cardiff and the North Dock Interchange in Swansea.

#### National Parks Supplementary Grant

The aggregate amount of estimated expenditure which the Government has accepted for the purposes of National Parks Supplementary Grant for 1983-84 is £2.4 million. This will attract a total grant of £1.8 million, which will be apportioned to each of the three National Parks in Wales as follows:-

|                     |          |
|---------------------|----------|
| Brecon Beacon       | £462,000 |
| Pembrokeshire Coast | £586,000 |
| Snowdonia           | £752,000 |

#### Rate Support Grant

For 1983-84 the level of domestic rate relief in Wales will remain at 18½p in the pound. The Domestic Rate Relief Grant will be £25 million and the block grant will be £802.5 million.

For block grant distribution purposes I will be adopting the Grant Related Expenditure formulae which were endorsed by the Welsh Consultative Council on Local Government Finance on 20 October 1982. The block grant mechanisms for the 1983-84 Settlement will be changed from those in the current year in order to exert a stronger influence on the expenditure decisions of authorities whose expenditure is above the threshold and above GRE. The mechanisms are as follows:-

1. the slope of the grant related poundage below the threshold is increased to 1.75% for every 1 per cent change in expenditure relative to GRE;
2. the threshold remains at 10 per cent;
3. the power of the curve of the poundage schedule above this threshold will be increased from 1.45 to 1.75;



4. there will be a one-stage safety net which will set a limit of 5p in the pound at the ratepayer level on the poundage effect of changes in GRE assessments and the continuing effects of the change in the basis of equalisation. The safety net will not protect ratepayers from the effects of changes in the GRP schedules nor from individual authorities' expenditure decisions. The safety net for Counties will be 4p and that for Districts 1p, which broadly reflects their share of aggregate GRE.

The GRE for each Welsh local authority and, where applicable, the safety net multiplier, is shown in the Table at Annex A. The Table at Annex B sets out provisional Grant Related Poundage schedules. Full details of GRE and GRP formulae, multipliers and all other relevant data are being sent to each Welsh local authority today.

#### Targets

The expenditure excesses incurred in both 1981-82 and 1982-83 have persuaded me of the need to set individual authority total expenditure targets for 1983-84. These will be a development of the targets set for this year's revised budgets exercise. The total expenditure target for each authority will be based on a current expenditure component comprising a weighted average of 60 per cent GRE, 30 per cent current outturn for 1981-82 and 10 per cent original current budget for 1982-83; and components covering capital charges, interest receipts and rate fund contributions to the housing revenue account. For the current expenditure component a minimum of 1.5 per cent and a maximum of 5.5 per cent increase on 1982-83 original budgets will apply. Individual local authority targets are also set out in the Table at Annex B. Details have already been sent to individual authorities.

#### Grant Withholding

An authority whose total expenditure (as defined for target purposes) for 1983-84 is at or below its expenditure target will effectively be protected from both the close ending and grant holdback adjustment. Other authorities will bear the cost of "close ending" and will be subject to grant holdback. The amount of grant withheld from each authority will be determined by the extent to which its expenditure exceeds its target. The



scale of penalties will increase progressively up to a maximum of 75 per cent of its expenditure excess. There will be - in order to moderate the poundage consequences of holdback on low resource authorities - an upper limit on the poundage equivalent of the grant loss for any given level of spending in relation to its target.

The totality of grant withholding will not exceed in cash terms the aggregate net expenditure excess.

#### Expenditure and Rating Implications

I expect Welsh local authorities to contain their expenditure within the cash provision in the Settlement. Although inflation and interest rates are now lower than had been anticipated in July when I made my provisional announcement, and inflation is forecast to be down to about 5 per cent next year, I have not reduced the amounts of current expenditure and grant provision announced then. The effect on rates will be wholly dependent on the expenditure decisions of local authorities: I can only exhort moderation. But if expenditure is in line with the targets I have issued there need be virtually no increase in rates next year in Wales as a whole. Indeed, if authorities apply a proportion of their present very substantial balances - an estimated £125 to £130 million by the end of the present financial year - towards assisting rates, then rate payers in Wales can look forward to lower rate levels next year. I hope that authorities will take this opportunity to peg or even reduce their rates. If authorities pursue with vigour their efforts to increase efficiency and, where appropriate, make reductions in manpower, services can be maintained at a level of expenditure which the country can afford. This should be the aim of every authority in 1983-84.



level of provision for current spending should enable Welsh authorities to maintain broadly the present level of services, but will require continuing efforts to increase efficiency, including, where appropriate, reductions in manpower, and pay settlements in low single figures.

#### Capital Expenditure for 1983/84

The settlement includes full provision for the financing of the capital allocations I announced on 23 November. I have increased the capital provision by £17 million above the level previously planned. Excluding the urban programme, which I shall be announcing shortly, I have allocated £282 million which will enable local authorities in Wales to undertake a substantial programme of work on many worthwhile capital schemes.

#### Rent Increases

Local authorities are responsible for determining their own rents, but the Housing Act 1980 requires me to determine an annual amount to be taken into account as the local contribution in calculating subsidy entitlement. After carefully considering local authority views on this matter I have decided to set the increase in the local contribution at 85p per week for 1983-84. The relevant expenditure figure in the Settlement assumes that the aggregate amount of the rate fund contribution for those authorities with a deficit on their HRA will be £5.7 million.

#### Relevant Expenditure

The total amount of relevant expenditure resulting from my decisions on the level of local authority expenditure in Wales in 1983-84 is £1385.2 million, made up as follows:-

|  | £ million |
|--|-----------|
| Current expenditure                                | 1205.0    |
| Revenue contributions to capital outlay            | 60.0      |
| Loan Charges                                       | 134.0     |
| Rate fund contribution to housing revenue accounts | 5.7       |
| Interest receipts                                  | -19.5     |



assessing individual authority's current expenditure performance I am disregarding certain emergency expenditure arising from the severe weather conditions in 1981/82 and any increase in Grant Related Expenditure resulting from the increased provision for land drainage precepts in the year. The overall effect is to reduce the amount of Aggregate Exchequer Grant to £873 million."

#### Supplementary Report for 1982-83

For 1982-83 the Supplementary Report reduces the total of relevant expenditure by £5.6 million, from the £1300.8 specified in the Main Report to £1295.2 million.

The decrease in loan charges stemming from reduced interest rates is estimated to be £5.1 million, while the reduction in rate fund contributions to the Housing Revenue Account is assessed at £3.7 million. These downward adjustments which total £8.8 million are partially offset as in 1981-82 by an increase in provision of £2.3 million for land drainage precepts and an upward adjustment of £0.9 million to reflect the additional costs arising from the police pay settlement of 1 September 1982. The net result is a decrease in relevant expenditure of £5.6 million. Aggregate Exchequer Grant is reduced to reflect this reduction, and also my decision to withhold grant in respect of authorities' likely total expenditure excess of £25 million in the current year. In assessing individual authorities' expenditure performance I will be disregarding any increase in grant related expenditure determined in this report and that determined in the Main Report for 1982-83. The net effect of all this is to reduce Aggregate Exchequer Grant to £933.2 million.

#### Rate Support Grant for 1983-84

##### Current Expenditure

Current expenditure provision for 1983-84 is £1205 million, which is £18 million more than that provided for in the Public Expenditure White Paper Cmd 8494. In setting this amount I have been mindful of the relatively good expenditure performances by Welsh local authorities in 1981-82 and 1982-83. There have, however, been expenditure excesses in both these years, and I would hope that there will be no such excess in 1983-84. The



010. local Govt:



Prime Minister

①

✓ c B1  
WR

Agree to this  
statement?

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

mes 15/12

15 December 1982

Yes no

Dear John

RSG SETTLEMENT 1983-4

/ I attach a first draft of the oral statement which my Secretary of State is to make to Parliament on Thursday 16 December about the 1983-4 Rate Support Grant Settlement. This covers much the same ground as a statement to the Consultative Council on Local Government Finance on which Departments have already been consulted.

I should be grateful for any comments by close of play today.

I am copying this to the Private Secretaries to the Prime Minister, the Home Secretary, the Secretaries of State for Education, Health and Social Services, Transport, Employment, Trade, Agriculture, Fisheries and Food, Scottish Office, Welsh Office, the Lord President and to Sir Robert Armstrong.

*[Handwritten signature]*

D A EDMONDS  
Private Secretary

John Gieve Esq  
PS/Chief Secretary



PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the rate support grant settlement.

In my statement to the House on 27 July I set out proposals for the main elements of the RSG settlement for next year.

I have today tabled the main RSG Report for 1983/4.

Details are being sent to all local authorities.

I am placing in the Library copies of the material which is being sent to them today.

The Government has 3 main objectives.

The first, and overriding one, is to achieve further reductions in local authorities' current expenditure.

Second, we need to recognise the efforts that most authorities have made to find economies.

And third, we must increase the incentive for all authorities to spend at target, by increasing the grant pressure bearing on the high spenders.



This year's RSG settlement comprises 2 Reports: the main Report for 1983/4, and the First Supplementary Report for 1982/3, which I have also tabled today.

I shall briefly describe them both.

The main effect of the 1982/3 Report is the same as that of the 1981/2 Report which the House debated on Tuesday.

It reduces block grant for authorities budgeting to overspend both target and GRE.

Holdback for 1982/3 amounts to £308 million.

Authorities were warned of the holdback scheme before they drew up their budgets.

They took their budget decisions in the knowledge of the holdback that would follow.

This Report now implements it.

The Report also adjusts relevant expenditure, and grant, to reflect a number of changes, mainly in the usual variable items due to interest rate changes.



The main elements of the main Report for 1983/4 are as follows.

The current expenditure provision is £19.7 billion.

That is about 10% more than the equivalent figure in last year's settlement.

And about 3% more than the equivalent figure in authorities' budgets this year.

Aggregate Exchequer grant is £11.8 billion.

Although the percentage is lower, grant is a higher cash amount.

It is some £300 million, or almost 3%, more than in last year's settlement.

There are no fundamental changes to the methodology of grant-related expenditure assessment.

Some useful improvements have been made, in consultation with local government.

And data from the 1981 Census has been incorporated from the first time.

I am making no changes to the main grant distribution mechanisms.

The distribution of block grant between classes of authority is



similar to that in last year's settlement.

I am using final expenditure targets <sup>to</sup> ~~to~~ all authorities.

A few have increased since July following minor changes to the methodology.

None have been reduced.

Moreover, since July inflation has fallen and interest rates have dropped.

But I have not reduced the targets to reflect that.

I have <sup>revised</sup> ~~stayed faithful to~~ the figures I announced in July.

Most low spending authorities are being given targets which allow a 4% cash increase over their budget this year.

Usually authorities actually spend less than they budget for.

So in these cases the new target will be an increase of more than 4% over actual spending this year.

In the light of the current economic trends that is a fair target to set.

It rewards efforts to economise.



The target for most over-spenders, by contrast, represents a 1% cash cut from their budget this year.

That is a tough target; but rightly so because these are authorities which have made no real effort to reduce spending so far.

These are the authorities where the scope for reductions is greatest.

As in the past, most authorities will no doubt plan to hit their targets.

The targets are fair.

And we know from experience that most local authorities will act responsibly.

But we also know that the irresponsible minority exists.

This year and last some two-thirds of authorities have budgetted to avoid grant holdback.

Pressure must be increased on the highest spenders.

The grant holdback scheme described in the Report achieves this.

For each of the first 2 percentage points of spending above target, there will be a loss of grant worth a 1p rate at ratepayer level.

For each subsequent percentage point of overspending, there will



be a loss of grant worth a 5p rate.

This will help authorities which narrowly fail to hit target.

But it becomes increasingly severe for overspending at all levels above 2%.

For the first time since the War, the corner has been turned: current expenditure by local government is at last on a downward trend.

This settlement builds on that.

We have not yet achieved the rate of reduction we asked for when we took office.

But we have made a start.

Take manpower for example.

Local authorities have now reduced manpower by some 4%.

~~\_\_\_\_\_~~  
We are back to the level of manpower in 1974.

~~\_\_\_\_\_~~  
We have virtually eliminated the growth that followed reorganisation.

The issue here is not the creation of unemployment.

Quite the reverse.



The plain fact is that high rates force the wealth-creators in our  
society to reduce their staff in order to maintain jobs in local  
government.

Any objective survey of a proper cross-section of authorities will show that as a result of this settlement rate increases next year should for most authorities be nil or in low single figures.

If authorities spend at target, in many cases rates could actually be reduced.

That is the prize offered by this settlement.

There is no excuse for overspending this year.

Authorities have had more notice than ever before.

Ratepayers will know that excessive rate increases are purely the result of excessive spending by their authority.



Local Govt of  
MCS 14

Prime Minister

①

13 December 1982

PRIME MINISTER

Here are comments from the DoE (flag A) on the Policy Unit's ideas (flag B); from the Treasury (flag C) and

LOCAL AUTHORITY CAPITAL EXPENDITURE

this from the Policy Unit again.

Unless there are any points you want

A few comments on Michael Heseltine's conclusions. *to take up yourself, shall*

Tow →  
FM  
MCS 23/12

*Yes please not suggest that Feidy talks to, say, Tom King?*

i. If there is "nothing inherently wrong with the capital control system", why did the decline in capital spending, if anything, accelerate after the 1980 Act, while current expenditure remained at or near its peak? In fact, the 1980 Act was bound to have this effect. By removing detailed controls on borrowing, we made it easy for councils to shift receipts from capital to current.

MCS 17/12

ii. If some local authorities do not "understand the system" and "are not used to managing receipts on this scale from the sale of council houses", it is surely the fault of the system. If the system was straightforward and encouraged capital spending, then local authorities would have no difficulty in understanding it and in maintaining their capital programme.

In the next Parliament, we must simplify the system, once for all. And the only way is to return to the pre-War rough equivalence between local government revenue and local government expenditure. That means that the Exchequer must pay directly for some major functions. Education (or teachers' salaries) was and is the prime candidate.

iii. & iv. The right principle is to increase, as far as possible, the proportion of capital receipts which is to be included in the basic allocation. Authorities assume, sensibly enough, that the basic allocation represents the total which we wish them to spend. So it is better if we can let them know our wishes in advance rather than rebuking them afterwards. We should support Leon's proposal to increase the proportion of housing receipts to 75%.

v. It is good that the DoE is now to issue housing allocations two years at a time, as Leon has urged. We should commit ourselves, loudly and clearly, to give capital allocations



for local government and the nationalised industries for the third and fourth year as well (at steadily reducing levels).

vi. I am more dubious about allowing authorities to augment their allocations from carry-over, anticipation and end-year flexibility. Authorities which plan properly should not need such aids.

vii. & viii. It is vital that we avoid an even bigger capital underspend next year. "Aiming off" by combining capital over-allocation with current under-allocation may well be the only way of hitting the target.

Fm

FERDINAND MOUNT



g/c SV



Prime Minister

10 December 1982

## LOCAL AUTHORITY CAPITAL EXPENDITURE

I have been thinking about the note by the Policy Unit circulated by your Private Secretary on 4 November. I have also seen the letter of 29 November from Leon Brittan's office.

I have reservations about much of the analysis of the Policy Unit, and still more about their proposals. In particular, their suggestion that current expenditure could be used as a lever to enforce spending on capital projects would a) require complex legislation; b) involve a more detailed control of current expenditure than has so far been contemplated in any of our discussions in MISC 79; c) mean the re-introduction of detailed control over capital projects; d) require more civil servants; and e) effectively remove all semblance of local government autonomy.

The Unit also fail to recognise our success in reversing the upward trend in current expenditure. By 1981-2 we had already achieved a 3% cut from the peak year of 1979-80. We are keeping up the pressure through the block grant system this year and next.

But I agree with much of what the Unit say. There has of course been a problem of capital underspending in the last two years. Indeed, I am concerned that we may be running into the same problem in 1983-4, when it could be even more embarrassing politically. There is no dispute that we need more capital expenditure to improve the housing stock, the urban fabric and the country's infrastructure.

Capital programmes have been falling since the early 1970s. I attach a graph which illustrates this. We have been seeking to reverse the trend, but capital programmes have had to take their share of the public expenditure reductions which we have made over the last 3 years. It is all the more important, therefore, as you have yourself stressed in the House, that local authorities and other bodies should make good use of those resources that we are able to make available to them.

We have put this message across to local authorities in various ways during recent weeks. But I agree with the Policy Unit that we should also consider whether there are any further steps that we can take.

The new housing project control system does not contribute to the underspend. A major underspend occurred in 1978-9, before the new system was introduced. We have now swept away most of the forms and questions that local authorities previously had to complete for every scheme before approval was given. Now we intervene only where schemes appear excessively expensive or of very poor quality. Authorities are free to proceed with their schemes unless the Department intervenes within 3 weeks of the submission. And in 98.5% of cases in 1981-2, the Department did not intervene at all. I see no need for significant changes here.

There is nothing inherently wrong with the capital control system introduced by the Local Government Planning and Land Act 1980. By substituting control over expenditure for control over borrowing we were able to abolish many of the detailed controls over capital



CONFIDENTIAL

projects, reduce central government manpower, and give local authorities freedom to decide their own priorities. It is generally agreed that the new system is a great improvement over the old one. In my view we should try to work within it.

We have had a major success in encouraging local authorities to sell assets, particularly council houses. This has produced receipts of £1.4bn in 1981-2 and an estimated £1.8bn in 1982-3. The trend is still rising. But

- i. Many local authorities are not used to managing receipts on this scale. Treasurers have been over-cautious, and their plans have not allowed for full use of receipts, but authorities are now learning to make better use of the receipts system.
- ii. Authorities argue that they cannot undertake capital expenditure because the revenue consequences incur grant penalties. They exaggerate. It is true that we have over the last 3 years introduced powerful incentives for local authorities to scrutinise programmes which have manpower and other revenue consequences. But this need not constrain their capital spending. If they achieve our expenditure targets by making real cuts in current expenditure they should have no difficulty in using windfall capital receipts to finance their full quota of capital expenditure.
- iii. Capital spending needs long-term planning. Some authorities have made plans to use their receipts in later years. The more certainty we can give about allocations for later years and on the likely trend in capital receipts, the easier authorities will find it to make full use of their resources.

We can deal with some of these problems within the existing system. Leon has already agreed some helpful changes for next year. These are mentioned in the letter of 29 November. But in my view we have not yet gone far enough. I fear that there may be a continuing tendency to underspend; we should therefore consider further options to correct it.

- i. One possibility is over-allocation to individual authorities. There is always a degree of slippage and shortfall in programmes, and over-allocation would be likely to reduce shortfall overall. It has been done from time to time in the past. For 1983-4 Leon has agreed to over-allocation in the specific case of improvement grants; and there is a special problem about the Other Services block which I describe in sub paragraph (iii) below. For the longer term we ought to consider whether more extensive and systematic over-allocation could be useful.
- ii. There is some evidence that authorities are more ready to use their basic allocations than the total capital expenditure authorisation composed of allocations plus capital receipts. This points to including in the basic allocations some proportion of the estimated receipts for the year. For housing we have always included 50% of receipts in the allocations. For 1983-4 we have decided to bring the Other Services block into line. The effect will be to give authorities larger allocations and thus encourage more spending. Leon Brittan suggests that we could increase to 75% the proportion of housing



receipts incorporated in allocations, as Nick Edwards has done in Wales. However this would raise a problem: it would appear that we were encouraging high spending authorities to take up the resources earned from fulfilling our housing policies (eg by council house sales) by low spending authorities, often our supporters.

iii. By changing to a 50% rule for the Other Services block we have created a problem for those authorities which understand the system and have genuinely stored up receipts to spend on projects in later years. This is the origin of press reports about capital projects which may have to be cancelled because of Government decisions. The problem can best be dealt with by creating a reserve pool from which supplementary allocations can be made to authorities in genuine difficulties. Tom King and I have proposed a pool of £40m. I hope that Leon can agree to this.

iv. Authorities need guidance about the allocations they can expect to receive in later years, so that they can plan ahead. Leon has now agreed that they should be told that they can plan their housing programmes on the assumptions for 1983-4. I hope that Leon and I will shortly agree on a similar arrangement for Other Services.

v. Authorities are already allowed to increase their allocations by up to 10% from carrying forward unused allocations from the previous year or by anticipation of the following year. We should consider increasing this figure to 25%.

vi. We should also consider some year-end flexibility on the national cash limit. Authorities find it difficult to plan capital programmes when they know that the national limit is set on a strict annual basis, with no provision for carrying forward underspends or overspends. I have for some time been pressing in our discussions on public expenditure for a degree of year-end flexibility, but Leon has been reluctant to bring it forward as a general issue for discussion at Cabinet. I think we should now consider it more seriously, as an option for immediate introduction as we move from 1982-3 into 1983-4. It would not in my view be right to pay for additional flexibility by reducing the provision which we have already agreed for next year.

In considering these options we need to bear in mind the prospects for 1983-4. We have agreed the capital programmes, housing allocations have already been issued, and the other allocations will be made shortly. But there is already some evidence that capital receipts may be higher than we assumed during our discussions of public expenditure, because of the still increasing proportion of council house sales financed privately. Authorities have responded well to our call for more spending this year, but since only 5 months of the year remain it is unlikely that more than a proportion of the underspend will be eliminated, and the effects will carry forward into 1983-4. So the chances of further underspend next year are high.

Apart from the options described above, which need the collective agreement of colleagues, I am taking the following action within my own area of responsibility:



CONFIDENTIAL

i. I am considering urgently whether I can improve monitoring and forecasting arrangements, so that any necessary stimulus can be given next year in the spring or summer rather than the autumn. The arrangements will need to be discussed with the local authority associations.

ii. I shall also explore with the local authorities and other bodies the scope for them to do preparatory planning and design work on capital projects which can be ready to go at the first sign of any slack. I shall pay particular attention to the opportunities for worthwhile expenditure by agencies over which we have greater direct influence than local authorities, such as the Housing Corporation and water authorities. I shall ask the managing contractors now established in each of my Regional Offices to take a part in this.

More generally, I think it might be useful if Leon Brittan were to call together those of us with responsibility for major spending programmes, to plan in advance the action required if our early warning mechanisms confirm signs of a further underspend in 1983-4. In particular, we might consider the scope for capital spending on major programmes of repair and maintenance, which would prevent the need for major new capital projects in the future.

Conclusion

My main points can be summarised as follows:

- i. There is nothing inherently wrong with the capital control system.
- ii. Some local authorities still have to learn how to make full use of capital receipts.
- iii. They should find this easier now that 50% of receipts for the Other Services block are to be included in allocations.
- iv. The change to a 50% rule creates a real problem for some authorities. The answer is a reserve pool - I have suggested £40m - for extra allocations.
- v. Local authorities need assurances about the longer term. Leon and I have agreed on this in principle.
- vi. We ought to consider other options, particularly on increase in the figure by which authorities can augment allocations from carry over and anticipation; and end-year flexibility on the national cash limit.
- vii. I am taking steps to improve our monitoring and forecasting arrangements.
- viii. It might be useful if Leon and the Ministers responsible for local government services met to consider how best to avoid underspend in 1983-4.

I am sending copies of this letter to colleagues with a local government interest - Willie Whitelaw, Leon Brittan, Patrick Jenkin, Nick Edwards, George Younger, Keith Joseph, Norman Fowler, Norman Tebbit, Peter Walker, Arthur Cockfield, Paul Channon and to Sir Robert Armstrong.

*Wright*



INDICES OF LOCAL AUTHORITY DIRECT CURRENT AND CAPITAL EXPENDITURE AT CONSTANT 1975-PRICES  
UNITED KINGDOM 1956-1981; 1956 = 100

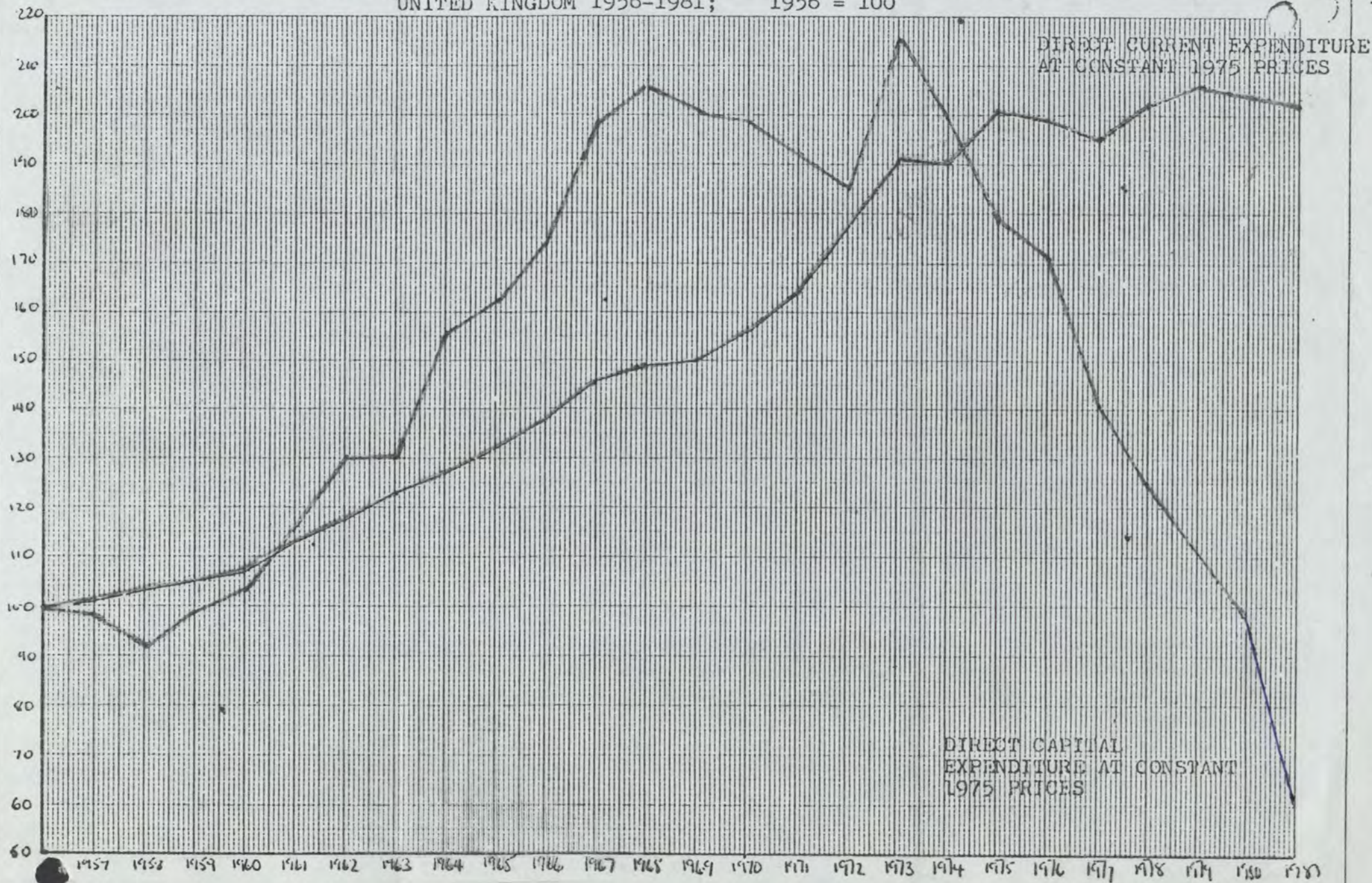


CHART 3



Local Gov

Relations

170 DEC 1988

11 12 11 10 9 8 7 6 5 4 3 2 1  
10 9 8 7 6 5 4 3 2 1





Prime Minister (4)

MUS 9/12

Treasury Chambers, Parliament Street, SW1P 3AG

John Stanley Esq MP  
Minister for Housing and Construction  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB

9 December 1982

2 Jm.  
LOCAL AUTHORITY CAPITAL SPENDING

Thank you for your letter of 2 December.

I am glad that we have now - following the PQ you answered on Tuesday - achieved the main object which was to give Local Authorities guidance about the capital allocations they can expect to receive in 1984-85, as well, of course, as 1983-84.

While I am glad that this much has been achieved, I still hope that you will be prepared to go further and publish the figures for gross capital expenditure implied by the planned provision in the next Public Expenditure White Paper. As you know, I have agreed to an increase in the capital receipts assumption for the later years to a level which would allow you to present the housing capital programme as remaining constant in real terms from 1983-84 onwards. Compared with the trend in recent years, this would be a satisfactory position and you would be able to demonstrate to Local Authorities that a real increase in gross capital expenditure was in prospect if they managed to maintain the momentum of sales of council houses.

I hope you will reconsider your position on this. It is not only a question of providing better information on housing; the absence of a breakdown for housing also inhibits us from providing other useful analyses of public expenditure in the White Paper.

A copy of this letter goes to Michael Scholar at No 10.

LEON BRITTAN



Local Gov

Relations

- 9 DEC 1961

11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31





DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 7601

MINISTER FOR HOUSING AND CONSTRUCTION

Michael Scholar Esq  
PS/Prime Minister  
No 10 Downing Street

8 December 1982

*Dear Michael,*

/ I attach as requested a draft reply for the Prime Minister to send to Mr G M Fordy of the National Federation of Building Trade Employers in response to his letter of 18 November. Mr Fordy has also written separately enclosing his letter to the Prime Minister to the Secretary of State for the Environment and he will be sending a detailed reply to this letter shortly.

*Yours sincerely,*

*J H Cleary*

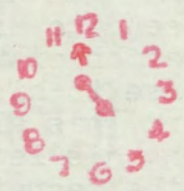
J H CLEARY  
Private Secretary



DEPARTMENT OF THE ENVIRONMENT  
215 WEST 4TH STREET  
WASHINGTON, D.C. 20540

MINISTER FOR HOUSING AND CONSTRUCTION

4  
8 DEC 1982





*M type for PM  
MS 8/12*

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO  
G M FORBY ESQ, PRESIDENT, THE NATIONAL FEDERATION OF  
BUILDING TRADES EMPLOYERS, 82 NEW CAVENDISH STREET,  
LONDON W1M 8AD

Thank you for your letter of 18 November about  
our recent initiative to increase the level of  
capital expenditure this year.

I very much welcome the positive approach which  
your Federation has adopted. You will be glad  
to know that since local authorities were invited  
on 29 October to apply for additional capital  
allocations for 1982-83, extra allocations totalling  
some £190m, including £110M for housing, have  
been approved. In addition, authorities have  
been told that they may increase their expenditure  
on improvement grants this year without limit,  
and without the need to submit prior bids. The  
response to our initiative to reduce the prospective  
underspend is therefore encouraging.

I am grateful too for the proposals in the paper  
enclosed with your letter, which I read with interest.  
I am of course keen to ensure that we do all we  
can to remove any unnecessary obstacles preventing  
authorities making full use of the capital resources  
at their disposal. I have asked Michael Heseltine  
to reply to you direct on the detailed proposals  
you make.



CONFIDENTIAL

PSO 29351

EC/FM

local  
court



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

John Sparrow Esq  
Central Policy Review Staff  
Cabinet Office  
70 Whitehall  
LONDON SW1A 2AS

Prime Minister (2)

mis 8/12

3 December 1982

Dear John

mt

LONDON TRANSPORT

Thank you for your letter of 30 November. It is helpful to have your ideas.

As you say, a good deal of time has already been spent examining a whole range of possibilities. For my part, I think the arguments against handing LT Underground over to BR are still very strong. If we did that, we would ensure that any strike on the Underground was also a strike on BR's commuter services. We would ensure that there was a single purchaser for railway equipment. And we would scarcely be believed if we said that this was a measure aimed at improving transport services for Londoners. We would also be adding to the responsibilities of the British Rail Board, and I doubt whether enlarging their sphere of operation is likely to prove a helpful move in containing the demands for subsidy. The measures which I am proposing for London do not in any way prevent us from considering, when we have Sir David Serpell's Report, whether the BR commuter services could be given a greater management independence from BR.

CONFIDENTIAL



Nor am I at all attracted by the idea of adding to the responsibilities of the NBC. I simply do not think it is part of our philosophy to take already large nationalised industries and enlarge them further.\* The problems about finding any local government device, in the absence of the GLC, for subsidising buses in London have already been well rehearsed.

We have already been over the question of ensuring that the cost of subsidy to London buses falls on London, and I really cannot see any advantage in reopening the conclusions that Ministers have reached.

I am sending copies of this letter to other members of MISC 79 and to Sir Robert Armstrong.

*Yours*

*David*

DAVID HOWELL

\* Anyway NBC - for which we have other plans - certainly has a part to play in London transport provision



Local Gov *gjt*



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

MINISTER FOR HOUSING AND CONSTRUCTION

*cc DBS*

*CF/ pl 50 with*

*CST's reply to DoE*

*reply to Mr*

2 December 1982

*original question*

*Ms 2/12*

*Dear Leon,*

LOCAL AUTHORITY CAPITAL SPENDING

I should like to comment personally on your Private Secretary's letter of 29 November to Michael Scholar as on two key points my views are incorrectly stated.

You are right in saying that I would not agree to a reduction in the proportion of Housing capital receipts that authorities can add to their capital expenditure, but this was for hard policy not presentational reasons. First whilst the statement that authorities spent their allocations but not their receipts is broadly true as an arithmetical average across all housing authorities, it is certainly not correct at the level of the individual authority. Last year nearly one-fifth of all local authorities spent 90% or more of their housing allocations plus their housing receipts whilst another fifth failed to spend even their allocations. The premise underlying your proposal does not therefore hold good. Second, to do as you suggest and to reduce the proportion of housing receipts that can be used for housing capital expenditure would penalize most severely those Conservative authorities who have been most energetic in pursuing our policies of council house sales, land release and low-cost ownership. I was not willing to hit those councils who have done most to fulfil the Government's housing policies.

On your other point about giving local authorities an advance indication of a minimum level of housing allocation for 1984-85, I am as you know entirely in agreement with you about the desirability of doing this. What your letter did not however bring out was that the only reason why we were unable to tell local authorities last week that they could expect allocations in 1984-85 that would be at least 80% of those in 1983-84 was that we could not agree your stipulation that we should publish what is in our view a quite unrealistically low assumption about housing receipts in 1984-85. To have used the figures you were



Local Govt  
Relations  
DEC 1982



proposing would have meant showing in that year that there would be a real terms reduction in the Housing programme. Neither Michael Heseltine nor I were willing to offer such an unnecessary and easy hostage to the Opposition. If you can now agree the new and more realistic figures for receipts that we have put to you this week we shall be able to tell local authorities forthwith that they can count on a housing allocation in 1984-85 which would be at least 80% of their 1983-84 allocation. This would indeed be highly desirable.

I am copying this letter to the Prime Minister's Private Secretary.

*Yours ever*  
*John Stanley*

JOHN STANLEY





10 DOWNING STREET

*From the Private Secretary*

29 November 1982

CAPITAL SPENDING

The Prime Minister is receiving the replies to her recent letters (the second wave of same) to Local Authorities. She does not wish to reply again, but would prefer to allow the correspondence to rest. I attach for your information only copies of their replies.

I am sending a copy of this letter and attachments to John Gieve (Chief Secretary's Office, HM Treasury).

M. C. SCHOLAR

David Edmonds, Esq.,  
Department of the Environment

SM

Local Govt

BRE

file Mr. J. Verelst



From: Iltyd Harrington, J.P.  
Leader of the Council  
Greater London Council

MEMBERS' LOBBY  
THE COUNTY HALL  
LONDON SE1 7PB

The Rt. Hon Margaret Thatcher  
The Prime Minister  
10, Downing Street  
London  
S.W.1.

Prime Minister

(2)

I suggest we allow this  
correspondence, too, to rest.

MT

25th November 1982 MGS 26/11

*D. H. Harrington*

Thank you for your letter of 23 November.

I can only repeat that we shall make additional capital investments as the constraints placed upon us allow and which are practical.

Regretfully but firmly, I have to reject your expression of 'pessimism' of what can be achieved. It is not a question of either lack of will or competence on our part. It is simply a question of realism; a realism which is underlined by the fact that we still await agreement as to a level of capital expenditure which the Secretary of State for the Environment will support for 1983/4.

*Yours truly  
Iltyd Harrington*



PCP/20



Association of Metropolitan Authorities  
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-930 9861

From the Chairman Sir Jack Smart CBE JP

24 November 1982

The Rt Hon Margaret Thatcher  
The Prime Minister  
10 Downing Street  
London SW1

Prime Minister (2)

I suggest we allow

*ms*

this correspondence to rest.

*Dear Prime Minister*

*MS 25/11*

Thank you for your letter of 23 November 1982.

I am heartened by your "noting" our points about the system of capital controls. I know that the building industry has a great deal of sympathy with our views. John Stanley seems also to have noted our points and promised local authorities some indication of 1984-85 spending levels when he makes the announcement for 1983-84 housing capital programmes and I hope that this approach can be extended by your colleagues to other departments' programmes.

*Sincerely,*

*Jack Smart*





SCFM

CABINET OFFICE  
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

Qa 06164

From John Sparrow  
CONFIDENTIAL

30 November 1982

The Rt Hon David Howell MP  
Secretary of State for Transport  
2 Marsham Street  
SW 1

1  
12

*Dear David,*

London Transport

At last week's meeting, MISC 79 was still searching for a satisfactory solution to London Transport's problem, and you were invited to develop a variant of your previous proposals. As the discussion showed, it may prove difficult to find a single solution. Because of this, I mentioned to you briefly after MISC 79, an option which would involve splitting LT into its two businesses and adopting different solutions for each. I recognise that a good deal of time has already been spent examining a whole range of possibilities, but I still think it may be worth considering this option further.

What I had in mind was that BR would take over LT underground as owner and manager, integrating it with the London and SE services. Post Serpell, it would be for consideration whether the resulting total rail services for London and the South East could be given its own management in some form, perhaps with its own board. The total level of subsidy provided by the centre would be little changed from the present as LT rail almost breaks even.

The bus services would be owned and managed separately, with the National Bus Company as the most obvious candidate; this should have the advantage of bringing closer co-ordination between LT's buses and the services NBC currently runs. But LT's bus services currently receive a large subsidy from the GLC. There is advantage in any subsidy for such a local service being raised locally. If Cabinet agrees to the



CONFIDENTIAL

abolition of the GLC, this would require joint arrangements among the boroughs, but so will a number of other services. It would fit well with their responsibilities for roads and traffic..

This should not prevent close co-ordination between bus and underground services, for example in making arrangements for through ticketing. The main advantage would be to avoid the need for any new body or tier, or any extra burden on the Exchequer.

I am sending copies of this letter to other members of MISC 79.

*Yours sincerely,*

*John Sparrow*

John Sparrow

CONFIDENTIAL





*SE/BF 7 days  
what has  
happened to  
DOE? Why have  
they not replied to  
my letter of 4/11?  
res 25/11*

*Local Gov*

*cc DES*

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq  
Private Secretary  
No.10 Downing Street  
London SW1

29 November 1982

*Dear Michael*

LOCAL AUTHORITY CAPITAL SPENDING

Your letter of 4 November to David Edmonds sought comments on the note by the Policy Unit on under-spending by local authorities.

We felt it right to leave DOE to comment, in the first instance, on the question of project control - and no doubt David Edmonds will do so. The Chief Secretary does not believe that the answer to the present problem is to go back to the cumbersome and ineffective control system inherited from the last government. He feels the Prime Minister should be aware that there are other and more effective ways of tackling the problem.

One of the most important factors which appears to inhibit local authorities in spending the resources available to them on capital projects is their reluctance to reinvest the funds they receive from selling council houses and land. They tend to spend only the net allocations given to them, not the receipts. The Prime Minister drew attention to this in her letter to the local authority associations. Some steps have been taken to reduce this effect by including 50% of forecast receipts in basic capital spending allocations for all services. Allocations can then be nearer to the cash limit. But the greatest volume of receipts arises from housing sales and the Chief Secretary therefore suggested that for housing the proportion of receipts included in allocations should be increased to 75%. The Minister for Housing was, however, reluctant to agree to this measure because of its presentational impact (although it has been implemented in Wales without difficulty).

In the light of this, the Chief Secretary suggested instead that local authorities should be given freedom to increase their spending on improvement grants without limit in 1983-84. This proposal, which has now been implemented, will enable them to keep up the momentum on the improvement grant package introduced in the last Budget and should reduce any potential underspend next year.



But the Chief Secretary feels that perhaps the most important single step which can be taken - and this has been mentioned both by the local authorities, in responding to the Prime Minister's letter, and by representatives of the construction industry - is to give local authorities clear guidance about the resources they can expect to have for capital investment beyond the coming year. Capital planning figures are given in the Public Expenditure White Paper for most local authority services except those which are the responsibility of the Department of the Environment. Contrary to the report in Friday's Guardian, the Chief Secretary has been pressing the Secretary of State to provide a breakdown of plans for housing in the later years so that local authorities could be given guidance on the allocations they are likely to receive. He had asked that such guidance should be included in the letter sent last week to each local authority giving its housing capital allocation, subject only to the proviso that the assumptions which underlay the guidance should be made clear, so that authorities could make their own judgements.

Although the Minister for Housing decided not to do this, the Chief Secretary believes that it would be of considerable value to local authorities if more information were made available. He is strongly of the view, therefore, that details of the capital provision for housing achievable within the housing programme in the years after 1983-84, qualified as necessary, should be included in the next Public Expenditure White Paper.

A copy of this letter goes to David Edmonds.

Yours sincerely

J. Gieve

JOHN GIEVE  
Private Secretary



Local Govt. Qalabat, At 4

29 NOV 1982

12 1  
11 10  
9 8  
7 6  
5 4





FIVE

ASG

Local Govt

10 DOWNING STREET

From the Private Secretary

24 November 1982

Dear John,

Rate Support Grant Settlement 1983-84: England

The Prime Minister was grateful for the Home Secretary's minute of 22 November about the conclusions of the Ministerial Group on the Rate Support Grant (MISC 21).

The Prime Minister accepts the recommendations of MISC 21. She has asked me to convey her thanks to the Home Secretary and to all those concerned in MISC 21 for all the work which has gone into this exercise.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet and to the Private Secretaries to the Chief Whip, the Attorney General, the Minister for Local Government and Environmental Services (Mr. King), and to Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

John Halliday, Esq.,  
Home Office,

CONFIDENTIAL

RM



## Local Authority Expenditure (Wales)

3.32 pm

**The Secretary of State for Wales (Mr. Nicholas Edwards):** With permission, Mr. Speaker, I shall make a statement about public expenditure provision for housing and other local authority capital spending in Wales.

First, I want to say something about the current year, 1982-83. Monitoring of capital payments by local authorities in Wales at the end of the first half year showed that there was likely to be a substantial underspend of the cash limit. The main reason for that is that housing authorities are not using their capital receipts for new capital work. To reduce the expected underspend, housing authorities have been told that they may increase their spending on house renovation in the current year without limit.

I have also reviewed the position of other local authorities, and where they appeared to be spending up to their previously expected pattern they have been offered additional capital allocations for work in the current year. Furthermore, some urban programme schemes for which provision was not originally available have now been approved and consequent additional allocations made. Altogether those additional allocations total £3.58 million.

I now turn to the provision for 1983-84. I have not yet completed consideration of the allocation of resources to particular services within my public expenditure block. However, I can now say something about the resources to be assigned to housing and other local authority capital expenditure.

In forming my conclusions I have taken account of the estimated level of local authority capital receipts in 1983-84. Hon. Members will know that as a general rule local authorities can spend their capital receipts on new capital projects, in addition to the capital allocations I make. The exception is housing, where I have previously required that only half of the housing receipts should be freely available for any capital spending, the other half being built into the housing allocation.

Local authority capital receipts in Wales next year are forecast to be £90 million, of which £85 million is forecast to be housing receipts. As I have said, housing authorities have not been using their capital receipts for new capital spending. With the object of achieving a larger capital spend, I have decided to reduce the proportion of unallocated housing receipts to 25 per cent. The remaining 75 per cent. will be built in to the allocations. I shall be laying before the House accordingly regulations under section 72 of the Local Government, Planning and Land Act 1980.

After consultation with the Welsh local authorities, I have today made rent and maintenance determinations for 1983-84. I have determined the increase in the local contribution for rent at 85p, and the increase in maintenance and management expenditure at 7 per cent. On the basis of those determinations the amount available for spending on housing by local authorities and the Housing Corporation in Wales next year will be £202.3 million. If local authorities underspend by £80 million this year—the figure referred to in a parliamentary answer by my hon. Friend the Under-Secretary of State for Wales yesterday—that will represent an increase of over 75 per cent. On the most optimistic assumption that I have seen for this year's expenditure, which is about £169 million,

there will be an increase of 20 per cent. Together with the change in the treatment of capital receipts which I have outlined, this will enable me to allocate £139 million to local authorities in respect of housing. That is an increase of 13 per cent. on the current year's allocation. The allocation to the Housing Corporation will be maintained in real terms.

For other services I have decided to allocate the following amounts—education, £34.325 million; transport, £60.068 million; personal social services, £6.641 million; and for all other services, £42.163 million.

Together with the allocation for housing, that makes a total provision for local authority capital expenditure of just over £282 million, excluding the urban programme to which I shall refer later. In addition, there will be the £41.3 million I intend to allocate to the Housing Corporation.

At the local authority level, an authority receives its allocation as a block and can spend it on whatever capital projects it wishes. I shall circulate in the *Official Report* a table showing the allocations to individual authorities. Each local authority will receive a formal notification of its allocation.

There is one more thing I wish to say about housing. In the particular circumstances of the Welsh housing stock, I attach the greatest importance to renovation grants. I have already announced the continuation of higher rates of grant until the end of 1983-84 and I am anxious to assist local authorities in meeting the resulting demand. Therefore, I have decided that, if a local authority's expenditure on renovation grants exceeds a specified level in 1983-84, I shall make an additional allocation to cover the excess. The Welsh Office will be writing to housing authorities about this in a few days' time.

I also want to tell the House about my intention as regards the urban programme and urban development grants. My right hon. Friend the Secretary of State for the Environment told the House of the importance we attach to the new urban development grant scheme. The response in Wales has been encouraging and we are considering the imaginative schemes which have been submitted. For the moment I have allocated £21 million to UDGs and the traditional urban programme together. I shall decide how much to devote to UDGs and on the allocation of the remainder to local authority schemes under the traditional programme once our consideration is complete.

The allocations that I have announced will enable local authorities in Wales to undertake a substantial programme of capital work next year. On the most optimistic assumption about this year's spend, there will be an increase of about £50 million and on pessimistic assumptions a good deal more. That presents them with an opportunity to improve the infrastructure of the community and to tackle some of the problems which we all recognise.

Those authorities with enterprise zones in their areas are presented with particular opportunities—Swansea, where such a good start has been made, and the new zone at Flint which I announced on 15 November. As I said then, I am giving further consideration to the establishment of a third. Throughout Wales, the local communities will benefit, the construction industry will be assisted, and new jobs will be created provided that local authorities take full advantage of the capital allocations I make and use to the full the capital receipts that come in.



which stands for the same democratic principles and for self-determination. To depart from that, to support Argentina, would be an aberration.

**Sir John Biggs-Davison:** Was it not indeed an aberration, and would not the United States be better employed in mobilising international support for the United Kingdom, as sovereign power, in islands that are vital to the strategy of the West, including the United States?

**The Prime Minister:** I agree with my hon. Friend.

**Mr. Tom Clarke:** In view of the frequent comments about so-called social security scroungers—

**Mr. Speaker:** Order. We are not on an open question now. We are dealing with the Falklands.

**Mr. Strang:** As at least one newspaper which supported the Prime Minister's Falklands campaign blurted out the truth, namely that negotiations on the basis of the resolution should take place as soon as the election is over, even if we have a Conservative Government, is the Prime Minister aware that it is bad enough for her to spend £400 million a year on the garrison in the Falklands, but that it would be intolerable if she sacrificed the lives of more Service men in defence of this relic of our imperial past?

**The Prime Minister:** There can be no question of negotiations on sovereignty for the Falkland Islands. It would be a betrayal of those who fought and died.

#### Engagements

**Q4 Sir Anthony Meyer** asked the Prime Minister if she will list her official engagements for Tuesday 23 November.

**The Prime Minister:** I refer my hon. Friend to the reply which I gave some moments ago.

**Sir Anthony Meyer:** Is my right hon. Friend aware that there is an unfilled vacancy, and that is the leadership of the free world at a particularly perilous moment? Is she further aware that, as the senior leader in the West—*[Interruption]*—

**Mr. Speaker:** Order. The House does itself no good by all this noise. If we get into the habit of trying to shout down what we do not like, democracy will come to an end here.

**Sir Anthony Meyer:**—she is uniquely qualified to fill that post if she can demonstrate the same intensity of concern for the well-being of the peoples of the European Community and the Atlantic alliance as she has convincingly demonstrated for the well-being of the people of this country?

**The Prime Minister:** I realise what my hon. Friend is saying, but anyone who attempted to self-style himself as the leader of either the free world or the European

Community would not get far or have much influence. In the European Community we are a partnership of 10 sovereign nations, each representing its own interests, but realising that it is better for all and each of us to do certain things in common. We shall continue to represent British interests, and we shall continue to try to seek equitable policies for the Community as a whole. That is the best leadership that we can give.

**Mr. Tom Clarke:** In view of the frequent references to so-called social security exploiters, is it not outrageous that millions of pounds are lost to Britain because of tax evasion? Will the Prime Minister respond to the Civil Service trade unions by making personnel available for the collection of such vital revenue and in so doing respond to the views of the Public Accounts Committee?

**The Prime Minister:** If there is fraud of any kind, either in connection with social security or tax, there are people allocated to root it out, after which it becomes a matter for the police. There are such people in the Department of Health and Social Security and in the back tax department of the Inland Revenue.

**Mr. Dickens:** For the sake of the strength of the £ sterling, will my right hon. Friend please confirm to the House that the Government intend to stand steadfast behind their economic policies and that we have merely requested local government to spend up to its controlled agreed quotas?

**The Prime Minister:** My hon. Friend is right. No one in the market should have any doubt about our determination to hold fast to our strategy to beat inflation. Sound money remains at the heart of our economic policies.

We have asked local authorities to spend up to and not beyond their allocations. Indeed, it is our policy to keep all public expenditure within the cash limits that have been set.

**Mr. Michael Latham (Melton):** On a point of order, Mr. Speaker. May I raise again a matter which I raised with you a couple of weeks ago? There is an increasing tendency among hon. Members—today it was a right hon. Member—to raise points of order in the middle of Question Time, which takes away the rights of other Back-Bench Members.

**Mr. Speaker:** I am much obliged to the hon. Gentleman. The House knows that I have asked right hon. and hon. Members to wait until after Question Time to raise points of order. I shall do my best to ensure that that happens in future.

**Sir John Biggs-Davison (Epping Forest):** Further to that point of order, Mr. Speaker. Was it not the case that the right hon. Member desired protection, and does not the House need protection from spurious points of order?



**Mr. Alec Jones (Rhondda):** I welcome the fact that the Secretary of State has made his statement to the House, although I must confess that even with the aid of a calculator I need more than half an hour to understand its contents. I welcome the statement if it means a real increase in capital spending in Wales both from the point of view of local government services and much needed jobs.

The Secretary of State proposes in the current year to try to encourage increased spending on house renovation and a certain hoped-for increase in capital allocations. It is probably far too late in the year to do much about underspend during the current year. Therefore, his statement is right in that it concentrates mostly on the coming year 1983-84.

I can understand the natural desire of the Secretary of State to improve his housing achievements in Wales, since the present Government have probably the worst record on house building in Wales of any Government since the war. Anything that can be done to improve that is to be welcomed.

The Secretary of State, in an effort to use more receipts from the sale of council houses for new building, is reducing the proportion of unallocated housing receipts to 25 per cent. and building the remaining 75 per cent. into local authority allocations. Is this not a further intrusion into the freedom which he previously boasted he was anxious to give to local authorities? Will he consider using the rate support grant settlement to compensate local authorities for the interest on capital receipts that he is now asking them to forgo by using the receipts from sales of council houses for new building? Of the total increased level of expenditure announced, how much is from the sale of council houses and the sale of other assets, and how much, if any, new money are the Government putting into local government?

The Secretary of State announced rent increases next year of 85p and a 7 per cent. increase in maintenance and management. Is it necessary for all local authorities to raise rents by that amount? How many local authorities in Wales, for instance, are now in surplus on their housing revenue accounts, and, if they are in surplus, what is the justification for this further increase?

The Secretary of State has allocated £6.641 million for personal social services. Does that item include any transfer of funds from the National Health Service to cover any increase in jointly funded schemes?

I note that the Housing Corporation allocation is only to be maintained in real terms. Does that mean that the Secretary of State does not realise that housing associations can play an increased role in dealing with housing needs in Wales? The Secretary of State has given us some details of the increases in expenditure on housing. What are the percentage increases in real terms on education, transport and personal social services?

If local authorities incur current expenditure and loan charges as a consequence of the capital expenditure on which the right hon. Gentleman is encouraging them to embark today, will he give an assurance that if such increased current expenditure takes them over their expenditure targets for next year they will not have their rate support grant reduced?

Finally, I should like to say to the right hon. Gentleman that I certainly prefer him in his new role as a spendthrift from Pembrokeshire.

**Mr. Edwards:** I recognise the complexity of the statement and the right hon. Member for Rhondda (Mr. Jones) has raised many points on it.

In response to the right hon. Gentleman's final point, I emphasise that all we are seeking to do is to encourage local government to spend up to the cash limits previously announced. No change in the Government's economic strategy is implied in that.

The right hon. Gentleman asked about the overall increase in allocations. Including the urban programme, the increase amounts to 8 per cent. and is regardless of the actual spend on capital receipts.

The right hon. Gentleman referred to housing renovations and suggested that it was perhaps too late to achieve much increased expenditure in the current year. In 1981-82 the local authorities spent only a little more than £16 million on renovation grants. It is estimated that this year they will spend about £45 million, and next year we expect them to spend at least £70 million. The total expenditure on renovation grants during the period of office of the previous Labour Government was not more than about £57 million, so that is a very sharp upturn indeed.

I do not agree that it is too late to do much about underspend during the current year. I had an example drawn to my attention only in the past 24 hours. In Rhymney, the local authority is currently refusing to give improvement grants, despite the fact that we have given assurances to the local authority about the matter. It is holding off until it has the full allocation for next year, although it seems clear that it will have an underspend—indeed, its current level of spending is much less than some of its neighbours which are still allocating grants. There are plenty of other local authorities in the same position.

The right hon. Gentleman asked our record on housing. Local authorities—most of them are dominated by the Labour Party—are estimated to be underspending in the current year up to £80 million of the money available for housing. If the right hon. Gentleman really feels that there is a housing need—I agree with him—I hope that he will encourage local authorities throughout Wales to spend the money that the Government have made available.

The right hon. Gentleman asked about the proportions of unallocated receipts and about the formal amounts allocated. In the current year, we originally estimated that receipts for local authorities sales would amount to £58 million. Our latest estimate is £97 million, and for next year we are currently estimating £85 million.

The right hon. Gentleman asked about the scale of the housing work and the effect that it might have on current expenditure and on interest charges. I make no apology for saying that, in the light of the known housing need in Wales, local authorities should spend the money on this priority, and I do not believe that there is any justification in their present expenditure to exceed targets as a result.

The right hon. Gentleman referred to the increase next year of 85p. He will be aware that the Labour Government took the view that rent levels should rise in line with increases in inflation but never did anything about it. This increase is broadly in line with inflation and, as the right hon. Gentleman knows, we are increasing the local contribution which effects, of course, the local authority grant position, but local authorities are free to make individual decisions on rents in their own areas.



[*Mr. Edwards*]

The right hon. Gentleman referred to personal social services and to other matters. I said in my statement that there is a block allocation to each local authority and that the local authority, within that total, and subject to the limitation that I have introduced about housing receipts, is free to spend the money in the ways that it thinks best. I have no immediate control over the way it does it.

The right hon. Gentleman asked about jointly funded schemes. I shall elaborate on that subject in the Welsh Grand Committee tomorrow.

I hope that I have dealt with most of the right hon. Gentleman's detailed points.

**Sir Anthony Meyer** (Flint, West): Is my right hon. Friend aware that there will be a warm welcome in Wales for what he has announced and that hope will be rekindled in many quarters? Does he recognise that the capital works schemes on which he has placed so much emphasis are certainly the best way of creating employment without producing too many inflationary pressures? Will he ensure that his fairly complex arrangements are fully and clearly explained to local authorities so that there is no misunderstanding on their part about exactly how much they have available to spend and on what? In the past, there has undoubtedly been misunderstanding about the moneys available from the sale of council housing. This misunderstanding has had adverse effects on some authorities, especially Rhuddlan borough council.

**Mr. Edwards:** I thank my hon. Friend for his remarks. The simplest form of clarification is that on the first half-yearly figures we could be faced with a capital underspend in Wales of £93 million, including the £80 million in respect of housing to which I have referred. On the most optimistic estimate, we could be faced with a total underspend of about £69 million. These figures show that there is a great deal of capital available within existing cash limits and within the Government's overall strategy to provide for the need that everyone acknowledges and to give a real boost to the construction industry. It is now up to local government to do its job.

**Mr. James Callaghan** (Cardiff, South-East): Is the right hon. Gentleman aware of the large increase in the number of people on the Cardiff housing waiting list? Is there any prospect that the increases that he has announced today will reduce waiting lists to the levels at which they stood when he began his stewardship?

**Mr. Edwards:** If the Cardiff authority was as energetic in its disposal of housing stock as other authorities, it would be able to provide a great deal of new housing for the right hon. Gentleman's constituents.

**Mr. John Morris** (Aberavon): Does the right hon. Gentleman not feel occasionally like the Grand Old Duke of York, having marched his bewildered local authority troops up the hill, is now marching them down again? Will he make a statement comparable with that made by the Secretary of State for the Environment at the Tory Party conference, when he responded to the great anger about the proposals on the size of lorries by promising 55 new bypasses in England? Will there be comparable provision or a comparable promise for Wales?

**Mr. Edwards:** We are dealing with a statement on housing and local authority capital expenditure. I shall be

announcing a substantial road programme on another occasion. The right hon. and learned Gentleman has talked about the Grand Old Duke of York, but I recall that when he was the Secretary of State for Wales he, too, was faced with an underspend. I am merely repeating the actions that he took when he had the same experience. He, too, had difficulty in getting local authorities to spend the money that the Government had made available to them.

**Mr. Ian Grist** (Cardiff, North): Is my right hon. Friend aware that last Saturday a married couple visited my surgery to tell me that they had applied 18 months ago to buy their flat in Cardiff from the council and that they had not received any offer, visit or notification? This waste of potential money for the Cardiff council is delaying the necessary programme of renovation of the housing stock, most of which was erected 70, 80 or 90 years ago and is in bad need of renovation. The programme that my right hon. Friend has announced will be extremely welcome to the people of Cardiff and by most of those living in the valleys of South Wales.

**Mr. Edwards:** The situation that my hon. Friend described is indefensible. It is penalising those who wish to buy their flats or houses and those who could have new authority housing built for them, or their existing housing improved, if the local authority got on with its job and spent the money that could be available to them.

**Mr. Geraint Howells** (Cardigan): I am grateful to the right hon. Gentleman for making a statement so early in the new Session. Will he give an assurance that the £3.58 million that he has allocated for urban programme schemes will not be clawed back from rural programme schemes? Will he give a further breakdown of the £42.163 million that is to be provided for all other services?

**Mr. Edwards:** I cannot give the breakdown that the hon. Gentleman requests. I allocate a total block to the local authorities. The Government merely indicate the way in which the block has been made up. It is for individual authorities to decide how much they spend on certain items.

The hon. Gentleman may have misunderstood the urban programme. This year I allocated originally £15.3 million to the programme. Additional amounts were made available during the year and the total was increased to £16.8 million. I have now allocated slightly more than £21 million to the urban programme and the UDG schemes combined. I have not yet decided the make-up of that sum. I have to consider the 50 or more UDG schemes that have been submitted by local authorities. The hon. Gentleman will be aware that if we get investment in UDG schemes we multiply the scale of the capital investment. We may get a multiplier effect of four by getting private sector investment in addition to the public sector contribution.

**Mr. Dafydd Wigley** (Caernarvon): Will it be possible in future, bearing in mind the complex nature of the statement, to publish a statement and to follow it up shortly afterwards with a debate in the Welsh Grand Committee so that we can go into some aspects in greater depth?

The right hon. Gentleman has talked about proven housing need. Was there not that need three years ago when the Government chopped the housing allocation in Wales by 48 per cent? Surely it is extremely difficult for local authorities to deal with changing programmes. Their staffing is geared up to meet a programme, there is a strong



surge forward in an election year and then there is a programme of cuts immediately afterwards. Can we not achieve some stability in the housing programme in Wales?

**Mr. Edwards:** If I had presented the House with a written statement and announced a subsequent debate, the hon. Gentleman would have been one of the first to criticise me for not making an oral statement.

We are not dealing with a new development. We announced our intentions in respect of the availability of capital receipts when we started disposing of local authority housing under new legislation. Much earlier in the year we gave assurances and guarantees to local government which should have enabled them to go ahead and plan into next year on the basis of stability. We are now giving them a further assurance that they are not dealing with a one-year programme. There is no excuse for the current massive underspend of local government when it is the first to say that there is considerable housing need.

**Mr. Roy Hughes (Newport):** When the right hon. Gentleman replied to the questions of my right hon. Friend the Member for Rhondda (Mr. Jones) he said that the recently announced rent increases for council tenants were reasonable. Has he considered the tremendous unemployment in Wales, let alone short-time working, and the effect that it is having on rent arrears? What is he doing to help Welsh authorities? The Newport authority is facing much trouble because of these difficulties.

**Mr. Edwards:** Bearing in mind the emphasis on capital need and the state of the housing stock in Wales, it is not unreasonable to ask local authorities to increase rents broadly in line with the increase in costs. We shall be increasing maintenance and management expenditure by 7 per cent., which on the current inflation forecast means that there will be an additional margin for local authorities that will allow them to catch up with an admitted backlog of maintenance work.

**Mr. Tom Ellis (Wrexham):** To what extent would the insistence of a local authority, such as that of the Wrexham Maelor borough council, on having complete management control of an enterprise zone in its area influence the right hon. Gentleman in deciding whether to allocate a zone to such an authority?

**Mr. Edwards:** I have to bear in mind a number of factors in determining the siting of an enterprise zone, not least its potential success and the effect on other developments in the area. The hon. Gentleman will recognise that to place an enterprise zone immediately adjacent to a large industrially developed site, for example, could have an impact on that site. That is one consideration that has to be taken into account. We are having further discussions with local authorities that have applied for enterprise zones before ascertaining which we should select as the third site in Wales.

**Mr. Ioan Evans (Aberdare):** Does the Secretary of State realise that his announcement will be considered cynically by Welsh local authorities? Since he became Secretary of State he has told local authorities to cut, cut, cut. Now, in the run-up to an election, he is telling them to spend, spend, spend. What effect will that have on Wales, if there is current expenditure as well as capital expenditure, and how will it benefit total public expenditure. He mentioned the local authority part. Will

the Secretary of State now divert resources from the Health Service or from other sectors or will there be an all-round increase in Wales?

**Mr. Edwards:** The hon. Gentleman will get in part an answer to the latter point in the Welsh Grant Committee tomorrow when we shall debate health matters.

I am not changing Government policy suddenly and asking for expenditure of money not previously available. I am merely emphasising the point that local authorities are not spending the money that has always been available to them. That does not represent a similar "spend, spend, spend" policy before a general election to that initiated by the hon. Member for Merthyr Tydfil (Mr. Rowlands) before he had to change direction when the International Monetary Fund moved in. We are asking local authorities to spend the money that has always been available and that they have not spent up to now.

**Mr. Donald Anderson (Swansea, East):** Although I welcome the new priority given to housing, will the Secretary of State confirm that the total sums available to Welsh housing authorities in the financial year 1983-84 are no higher than those available in 1979-80, the last year of the Labour Government, and that he has presided over the greatest slump in house building in Wales since the Second World War, with only 1,000 starts in the public sector in 1981-82?

On a technical point, local authorities are allowed to top up their allocations by the totality of capital receipts available to them—with the exception of housing which is only 50 per cent.—but the Secretary of State announced recently that the top-up will be reduced to 50 per cent. in other sectors. Is not that change inconsistent with today's statement, and will the Secretary of State withdraw the reduction from 100 per cent. to 50 per cent?

**Mr. Edwards:** A shortfall in the housing programme must be entirely the responsibility of the local authorities, mostly Labour-controlled, that have not spent the money made available to them by the Government. If the hon. Gentleman re-reads my admittedly complicated statement, he will see that the allocation of capital receipts has been made perfectly clear.

Following is the table:

*Capital Expenditure Allocation 1983-84*

|                  | <i>L.A. Code</i> | <i>£000's</i> |
|------------------|------------------|---------------|
| Counties:        |                  |               |
| Clwyd            | 38               | 11,785        |
| Dyfed            | 39               | 10,905        |
| Gwent            | 40               | 24,234        |
| Gwynedd          | 41               | 7,015         |
| Mid-Glamorgan    | 42               | 16,919        |
| Powys            | 43               | 4,626         |
| South Glamorgan  | 44               | 18,821        |
| West Glamorgan   | 45               | 11,949        |
| Total Counties   | 47               | 106,254       |
| Districts:       |                  |               |
| Alyn and Deeside | 01               | 3,254         |
| Colwyn           | 02               | 3,077         |
| Delyn            | 03               | 3,211         |
| Glyndwr          | 04               | 1,987         |
| Rhudllan         | 05               | 2,597         |
| Wrexham Maelor   | 06               | 4,620         |
| Carmarthen       | 07               | 4,293         |
| Ceredigion       | 08               | 3,730         |
| Dinefwr          | 09               | 1,649         |
| Llanelli         | 10               | 4,318         |
| Preseli          | 11               | 2,706         |
| South Pembroke   | 12               | 2,668         |



|                   | L.A. Code | £000's  |
|-------------------|-----------|---------|
| Blaenau Gwent     | 13        | 7,930   |
| Islwyn            | 14        | 5,254   |
| Monmouth          | 15        | 3,493   |
| Newport           | 16        | 8,791   |
| Torfaen           | 17        | 4,991   |
| Aberconwy         | 18        | 2,390   |
| Arfon             | 19        | 3,530   |
| Dwyfor            | 20        | 1,360   |
| Meirionnydd       | 21        | 3,170   |
| Ynys Mon          | 22        | 3,799   |
| Cynon Valley      | 23        | 3,989   |
| Merthyr Tydfil    | 24        | 4,314   |
| Ogwr              | 25        | 7,151   |
| Rhondda           | 26        | 6,949   |
| Rhymney Valley    | 27        | 6,118   |
| Taff-Ely          | 28        | 7,103   |
| Brecknock         | 29        | 1,796   |
| Montgomery        | 30        | 1,907   |
| Radnor            | 31        | 1,385   |
| Cardiff           | 32        | 20,376  |
| Vale of Glamorgan | 33        | 5,569   |
| Afan              | 34        | 2,409   |
| Lliw Valley       | 35        | 4,402   |
| Neath             | 36        | 2,999   |
| Swansea           | 37        | 16,658  |
| Total Districts   | 46        | 175,943 |
| Total Wales       | 48        | 282,197 |

**Mr. Harry Ewing** (Stirling, Falkirk and Grangemouth): On a point of order, Mr. Speaker. I apologise for not giving you notice of this point of order, but as I was involved with the steel lobby I could not do so. I resisted the temptation to raise a point of order following the statement last week by the Secretary of State for the Environment, because I was not sure what the Welsh Office intended to do. We had a statement from the Secretary of State for the Environment on his local authority spending programmes and we have today had a statement from the Secretary of State for Wales on his local authority spending programmes. However, the matter was dealt with by the most junior Minister at the Scottish Office at a press conference some days ago.

The Secretary of State for Scotland is deliberately avoiding his responsibilities to the House and in the process, and most importantly, he is denying Scottish Members of Parliament the opportunity, as was given to Welsh and English hon. Members, to ask questions on a statement. I hope, Mr. Speaker, that you will see that as a serious restriction on the ability of Members of Parliament from Scottish constituencies to carry out their parliamentary duties. If you see it in that way, Mr. Speaker, I hope that in your capacity as Speaker you will make representations to the appropriate quarter in the Government to ensure that the Secretary of State for Scotland has the courage to make a statement on the Floor of the House.

**Mr. Speaker:** I allowed the hon. Member for Stirling, Falkirk and Grangemouth (Mr. Ewing) to make his point of order at length, but he will realise that the matter is one for the usual channels and not for me.

#### CONWY TUNNEL (SUPPLEMENTARY POWERS) BILL

*Ordered,*

That the Conwy Tunnel (Supplementary Powers) Bill be referred to the Welsh Grand Committee.—[*Mr. Cope.*]

## Orders of the Day

### Housing and Building Control Bill

*Order for Second Reading read.*

**Mr. Speaker:** I have not selected the Instruction.

4.5 pm

**The Secretary of State for the Environment (Mr. Michael Heseltine):** I beg to move, That the Bill be now read a Second time.

When I moved the Second Reading of the Housing Bill in January 1980, I explained that it had two main objectives. The first was to give people an opportunity to fulfil their aspirations to own their own homes and the second was to reverse the trend of ever-increasing dominance of the State over the life of the individual. Those objectives infuse our housing policy. This Bill is a further stage in meeting both objectives.

Our housing policy has evolved against the background of economic stringency. After three years of financial discipline we are beginning to see the benefits. We have started to redress the imbalance between current and capital expenditure. Last week I announced to the House increases in some capital programmes, especially in housing. I have requested local authorities to increase their capital programmes for the current year to spend closer to the national provision. Authorities that need them have been offered extra capital allocations. All authorities can spend without limit on home improvement grants this year. I have agreed an increase of £150 million on the Housing Corporation's cash limit for the current year. For next year, 1983-84, the gross capital provision for housing will be increased. The provision will be some £340 million above the expected outturn for the current year, taking account of extra spend from last week's statement.

Housing starts are now showing clear signs of improvement. In the public sector starts in the third quarter of 1982 are 36 per cent. up on the equivalent period a year ago. By September, public sector starts this year had already exceeded the total for the whole of 1981. A similar picture emerges in the private sector. Starts in the third quarter are 23 per cent. up on last year.

In addition, there has been a revolution in the ways in which local authorities have started to make more effective use of the monies available. They are now bringing in private finance through a range of joint initiatives and have been especially effective in opening new opportunities for home ownership in the low-cost sector of the market.

There is now a wide variety of schemes, that widen choice and opportunity, especially for households on lower incomes. We have promoted shared ownership, buying part of a house and renting the rest with the option of outright purchase in due course. We have produced a model scheme and are preparing a model lease. The Bill that we are discussing today gives a right to a shared ownership lease to tenants who cannot afford to buy their homes outright at once. We have encouraged homesteading, giving the chance to buy rundown property at rock bottom prices to those willing to put major effort into improving their homes. Co-operation between house builders, local authorities and mortgage lenders has



524  
Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 8545 (Llinell Union)



ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

gc wk  
Press  
PA  
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

23 November 1982

Dear Private Secretary

PARLIAMENTARY STATEMENT: LOCAL AUTHORITY CAPITAL EXPENDITURE (WALES)

... I attach the final draft of the statement my Secretary of State is to make this afternoon.

/ I am copying this letter and its enclosures to the Private Secretaries to the Chief Secretary, the Secretaries of State for the Environment and Scotland, the Leader of the House of Commons, the Chief Whip, Commons, the Chief Whip, Lords, Sir Robert Armstrong and to the Press Secretary, No 10.

Yours sincerely

C Evans

P.P A E PEAT

Michael Scholar Esq  
Private Secretary  
No 10 Downing Street  
LONDON



STATEMENT BY THE SECRETARY OF STATE FOR WALES: LOCAL  
AUTHORITY CAPITAL EXPENDITURE (WALES) TUESDAY 23 NOVEMBER 1982

With permission, Mr Speaker, I will make a statement about public expenditure provision for Housing and other local authority capital spending in Wales.

First of all I want to say something about the current year, 1982/83.

Monitoring of capital payments by local authorities in Wales indicated at the end of the first half year that there was likely to be a substantial underspend of the cash limit. The main reason for this is that housing authorities are not using their capital receipts for new capital work. To reduce the expected underspend housing authorities have been told that they may increase their spending on house renovation in the current year without limit.

I have also reviewed the position of other local authorities, and where they appeared to be spending up to their previously expected pattern, they have been offered additional capital allocations for work in the current year. Furthermore some urban programme schemes for which provision was not originally available have now been approved and consequent additional allocations made. Altogether these additional allocations total £3.58m.

I now turn to the provision for 1983/84. I have not yet completed consideration of the allocation of resources to particular services within my public expenditure block. However, I am now in a position to say something about the resources to be assigned to Housing and other local authority capital expenditure.



In forming my conclusions I have taken account of the estimated level of local authority capital receipts in 1983/84. Hon Members will know that as a general rule local authorities can spend their capital receipts on new capital projects, in addition to the capital allocations I make. The exception is in the case of Housing, where I have previously required that only half of the Housing receipts should be freely available for any capital spending, the other half being built into the Housing allocation.

Local authority capital receipts in Wales next year are forecast to be £90.3m, of which £85.1m is forecast to be Housing receipts. As I have said, Housing authorities have not been using their capital receipts for new capital spending. With the object of achieving a larger capital spend I have decided to reduce the proportion of unallocated Housing receipts to 25 per cent; the remaining 75 per cent will be built in to the allocations. I shall be laying before the House accordingly regulations under S72 of the Local Government, Planning and Land Act 1980.

After consultation with the Welsh local authorities, I have today made rent and maintenance determinations for 1983/84. The increase in the local contribution I have determined at 85p, and the increase in maintenance and management expenditure I have determined as 7 per cent. On the basis of these determinations the amount available for spending on Housing by local authorities and the Housing Corporation in Wales next year will be £202.3m, compared with a likely spend this year of £169.2m, an increase of nearly 20% {19.56%}. Together with the change in the treatment of capital receipts which I have outlined, this will enable me to allocate ~~£~~£139m to local authorities in respect of Housing. This is an increase of 13% over the current year's allocation. The allocation to the Housing Corporation will be maintained in real terms.



For other services I have decided to allocate amounts as follows:

|                          |          |
|--------------------------|----------|
| Education                | £34.325m |
| Transport                | £60.068m |
| Personal Social Services | £ 6.641m |
| All Other Services       | £42.163m |

Together with the allocation for Housing, this makes a total provision for local authority capital expenditure of just over £282m {£282.1<sup>97</sup>m} excluding the urban programme to which I will refer later. In addition there will be the £41.3m I intend to allocate to the Housing Corporation.

At the local authority level, an authority receives its allocation as a block and can spend it on whatever capital projects it wishes. I shall circulate in the Official Report a table showing the allocations to individual authorities. Each local authority will receive a formal notification of its allocation.

There is one more thing I wish to say about Housing. In the particular circumstances of the Welsh housing stock I attach the greatest importance to renovation grants. I have already announced the continuation of higher rates of grant until the end of 1983/4 and I am anxious to assist local authorities in meeting the resulting demand. I have decided therefore that, if a local authority's expenditure on renovation grants exceeds a specified level in 1983/84, I shall make an additional allocation to cover the excess. The Welsh Office will be writing to housing authorities about this in a few days time.



I also want to tell the House about my intention as regards the Urban Programme and Urban Development Grants. My Rt Hon Friend the Secretary of State for the Environment told the House of the importance we attach to the new Urban Development Grant scheme. The response in Wales has been encouraging and we are considering the imaginative schemes which have been submitted. For the moment I have allocated £21m to UDGs and the traditional Urban Programme together. I will decide on how much to devote to UDGs and on the allocation of the remainder to local authority schemes under the traditional programme, once our consideration is complete.

Mr Speaker, the allocations I have announced will enable local authorities in Wales to undertake a substantial programme of capital work next year, about £50m more than they are likely to spend this year. This presents them with an opportunity to improve the infrastructure of the community and to tackle some of the problems which we all recognise. Those authorities with Enterprise Zones in their areas are presented with particular opportunities: Swansea, where such a good start has been made, and the new Zone at Flint which I announced on 15 November. As I said then, I am giving further consideration to the establishment of a third. But throughout Wales the local communities will benefit, the construction industry will be assisted, and new jobs will be created provided local authorities take full advantage of the capital allocations I make and use to the full the capital receipts that come in.



## CAPITAL EXPENDITURE ALLOCATION 1983/84

|                   | L. A.<br>CODE |         |  |  |  |  |
|-------------------|---------------|---------|--|--|--|--|
| Counties:         |               |         |  |  |  |  |
| Clwyd             | 38            | 11,785  |  |  |  |  |
| Dyfed             | 39            | 10,905  |  |  |  |  |
| Gwent             | 40            | 24,234  |  |  |  |  |
| Gwynedd           | 41            | 7,015   |  |  |  |  |
| Mid Glamorgan     | 42            | 16,919  |  |  |  |  |
| Powys             | 43            | 4,626   |  |  |  |  |
| South Glamorgan   | 44            | 18,821  |  |  |  |  |
| West Glamorgan    | 45            | 11,949  |  |  |  |  |
| Total Counties    | 47            | 106,254 |  |  |  |  |
| Districts         |               |         |  |  |  |  |
| Alyn and Deeside  | 01            | 3,254   |  |  |  |  |
| Colwyn            | 02            | 3,077   |  |  |  |  |
| Delyn             | 03            | 3,211   |  |  |  |  |
| Glyndŵr           | 04            | 1,987   |  |  |  |  |
| Riuddlan          | 05            | 2,597   |  |  |  |  |
| Wrexham Maelor    | 06            | 4,620   |  |  |  |  |
| Carmarthen        | 07            | 4,293   |  |  |  |  |
| Ceredigion        | 08            | 3,730   |  |  |  |  |
| Dinefwr           | 09            | 1,649   |  |  |  |  |
| Llanelli          | 10            | 4,318   |  |  |  |  |
| Preseli           | 11            | 2,706   |  |  |  |  |
| South Pembroke    | 12            | 2,668   |  |  |  |  |
| Blaenau Gwent     | 13            | 7,930   |  |  |  |  |
| Islwyn            | 14            | 5,254   |  |  |  |  |
| Monmouth          | 15            | 3,493   |  |  |  |  |
| Newport           | 16            | 8,791   |  |  |  |  |
| Torfaen           | 17            | 4,991   |  |  |  |  |
| Aberconwy         | 18            | 2,390   |  |  |  |  |
| Arfon             | 19            | 3,530   |  |  |  |  |
| Dwyfor            | 20            | 1,360   |  |  |  |  |
| Meirionnydd       | 21            | 3,170   |  |  |  |  |
| Ynys Mon          | 22            | 3,799   |  |  |  |  |
| Cynon Valley      | 23            | 3,989   |  |  |  |  |
| Merthyr Tydfil    | 24            | 4,314   |  |  |  |  |
| Ogwr              | 25            | 7,151   |  |  |  |  |
| Rhondda           | 26            | 6,949   |  |  |  |  |
| Rhymney Valley    | 27            | 6,118   |  |  |  |  |
| Taff-Ely          | 28            | 7,103   |  |  |  |  |
| Brecknock         | 29            | 1,796   |  |  |  |  |
| Montgomery        | 30            | 1,907   |  |  |  |  |
| Radnor            | 31            | 1,385   |  |  |  |  |
| Cardiff           | 32            | 20,376  |  |  |  |  |
| Vale of Glamorgan | 33            | 5,569   |  |  |  |  |
| Afan              | 34            | 2,409   |  |  |  |  |
| Lliw Valley       | 35            | 4,402   |  |  |  |  |
| Neath             | 36            | 2,999   |  |  |  |  |
| Swansea           | 37            | 16,658  |  |  |  |  |
| Total Districts   | 46            | 175,043 |  |  |  |  |
| Total Wales       | 48            | 282,197 |  |  |  |  |



7  
6  
5  
4  
3  
2  
1  
D 11 12

NOV 21 1982







JR  
K5  
c-DOE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Horrell,

Thank you for your letter of 4 November about local authority capital expenditure.

I am grateful to you for taking prompt action to notify your member authorities of the availability of extra allocations. I recognise that there may be some difficulties of the kind which you mention, but I nevertheless believe - as you clearly do - that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely  
Raymond Stobart

Councillor J.R. Horrell, CBE, TD, DL.

B





JK MS

DOE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor McCullum

Thank you for your letter of 8 November about local authority capital expenditure.

I am grateful for your promise to help promote additional capital investment this year. I recognise some of the difficulties to which you refer. They are not all capable of easy solutions, but Michael Heseltine will be looking further at the points which you raise. I believe that there is much valuable additional investment which can be achieved, even in the short term.

I am glad that you expect your members to do their best to respond. The initial reaction to Michael Heseltine's offer has been encouraging.

Yours sincerely  
Margaret Thatcher

Councillor I.S. McCullum

B





10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

pe MS  
DOE

Dear Councillor, Harrington

Thank you for your letter of 9 November about local authority capital expenditure.

I am glad to know that your Council is making efforts to achieve worthwhile capital investment, but sorry that you see so little scope for an accelerated programme this year. I recognise some of the difficulties to which you refer, and we shall be announcing allocations for next year as soon as possible. But I believe that within the constraints of Michael Heseltine's expenditure targets there is still much which authorities can do to promote extra capital investment this year, without creating problems for later years. The encouraging response from many authorities following Michael Heseltine's offer of extra allocations is evidence of this, and I do not share your pessimism about what can be achieved.

Yours sincerely  
Margaret Thatcher

Councillor I Harrington, J.P.

5





LOCAL GOV. Me MS  
C DVE

10 DOWNING STREET

THE PRIME MINISTER

23 November 1982

Dear Councillor Smart:

Thank you for your letter of 5 November about local authority capital expenditure.

I note what you say about the capital control system. So long as resources for public expenditure are constrained local authorities like other public sector bodies, will face difficult decisions. But I believe that within the constraints of Michael Heseltine's current expenditure targets there is still much that authorities can do to promote extra capital investment this year, without creating problems for later years. Michael Heseltine's offer of extra allocations produced an encouraging response from many authorities.

I am grateful to you for drawing the contents of my earlier letter to the attention of your member authorities. I do not share your pessimism about the outcome.

Yours sincerely  
Margaret Thatcher

Councillor Sir Jack Smart, CBE, JP.

B





10 DOWNING STREET

*From the Private Secretary*

22 November 1982

BF 6-12-82

CAPITAL EXPENDITURE

I enclose copies of two letters which the Prime Minister has received about capital underspending: one from Councillor Bowness of the London Boroughs Association and the other from Mr. Fordy, the President of the National Federation of Building Trades Employers.

I should be grateful for draft replies for the Prime Minister's signature by Monday 6 December, if at all possible.

SCOLAR

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

↗





10 DOWNING STREET

*From the Private Secretary*

22 November 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 18 November, which I shall place before her at once.

M. C. SCHOLAR

G.M. Fordy, Esq.





10 DOWNING STREET

*From the Private Secretary*

22 November 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 18 November, which I shall place before her at once.

M. G. SCHOLAR

Councillor P.S. Bowness, CBE, DL.



CONFIDENTIAL

at JV



Prime Minister (1)

PRIME MINISTER

*Yes ok*

Agree these conclusions,  
without Cabinet discussion and  
without circulation of  
exemplifications?

RATE SUPPORT GRANT SETTLEMENT 1983-84: ENGLAND

.....

The Ministerial Group on the Rate Support Grant (MISC 21) has now completed its work. I attach a note describing its recommendations in detail. They are summarised below.

MU 23/11

2. The recommendations deal with all outstanding issues. If accepted, they provide the necessary basis for the details of the 1983-84 Rate Support Grant (RSG) settlement to be worked out.

BASIS OF SETTLEMENT

3. The recommendations are based on the key figures agreed by the Ministerial Committee on Economic Strategy (E) in July (E(82)19th Meeting, Item 1) and subsequently announced by the Secretary of State for the Environment as provisional decisions. These were £19.5 billion for current expenditure and £11.8 billion for Aggregate Exchequer Grant. They were expected, on the information then available, to produce a grant percentage of 53.2 per cent of expenditure relevant for RSG if authorities spent at target.

4. MISC 21 recommends a number of specific adjustments to the targets provisionally announced in July. They increase the total by some £36 million.

5. There is, on the other hand, a case for a general reduction in targets of about £200 million to take account of the revision in forecasts of interest rates and other changes in the figures since July. But to change the targets for all authorities at this stage would be bitterly resented by the authorities and disrupt their expenditure planning. It could well damage our attempts to restrain local authority current expenditure and detract from the credit gained by the early announcement of targets. MISC 21 recommends against it, provided that the severe scheme of holdback of grant which it also recommends is adopted.

NATIONAL INSURANCE SURCHARGE

6. The Ministers concerned have agreed that in 1983-84, as in the current year, local authorities should pay National Insurance Surcharge (NIS) at a higher rate than the generality of employers. This ensures that, as we intended, the effect on local authorities of the reduction in NIS is neutral while avoiding the serious difficulties that would be created by trying to achieve the same result through the block grant system.

GRANTS DISTRIBUTION

7. MISC 21 recommends the same system of distributing block grant as in 1982-83, subject to the following detailed changes.

CONFIDENTIAL



- (i) Modest technical changes in the system of assessing grant-related expenditure (GRE), that is, the assessment of the average cost of providing a standard level of service in the circumstances of the local authority concerned.
- (ii) A minor change in the 'safety net' for inner London boroughs. (The 'safety net' limits the size of grant changes from year to year).

As compared with the 1982-83 settlement, the proposals will reduce London's share of grant slightly in favour of other areas.

#### DOMESTIC RATE RELIEF

8. MISC 21 recommends that domestic rate relief should remain at the equivalent of 18½p, its level for the last eight years.

#### GRANT HOLDBACK

9. MISC 21 recommends a holdback scheme which withdraws grant equal to a 1p rate for each of the first two percentage points by which spending exceeds target, and grant equivalent to a 5p rate for each subsequent percentage point overspend.
10. MISC 21 recommends against either a limit on the amount of grant holdback or exempting from holdback those local authorities spending more than target but less than GRE (a 'GRE exemption') even though both featured in the 1982-83 settlement.
11. As I warned in my minute of 26 October, refusal of a GRE exemption is likely to be strongly criticised by many of our supporters in both local government and the House of Commons. Some members of MISC 21 had serious misgivings on this score. Nevertheless, on balance the Group takes the view that GRE exemption should not be conceded.
12. The Chief Secretary, Treasury, has made it clear that his agreement not to press for a general reduction in targets (paragraph 5 above) is conditional on there being no GRE exemption. In our public presentation we shall need to stress the benefits to local authorities of our decision not to reduce targets. I think that we can present the settlement as one which will in general allow authorities spending at target to impose only modest rate increases, and even rate reductions, and will bear gently on authorities spending up to two per cent above target, but severely on authorities which exceed their targets by more than two per cent.
13. The grant percentage in 1983-84, if authorities spend at target, will be 53.4 per cent, compared with 56.1 per cent in 1982-83. The Secretary of State for the Environment can provide exemplifications of the effects on individual local authorities by the end of this week to you or any of our colleagues who may wish to see them.

#### SCOTLAND AND WALES

14. If the recommendations in this minute are accepted, the Secretaries of State for Scotland and Wales will discuss settlements on similar lines for their countries with the Chief Secretary.



CONFIDENTIAL

3.

#### TIMING AND PROCEDURE

15. Before the RSG settlement can be made its implications for individual local authorities must be calculated and checked. This takes some four weeks. It is not strictly necessary to decide the details of the holdback scheme on the same timetable. But the recommendations should be regarded as a package, and accepted or modified as a whole.

16. Officials are working on the assumption that the recommendations of MISC 21 will be accepted. In this way, it will still be possible for the Secretary of State for the Environment to announce a settlement before Christmas; the necessary Order can then be debated in January. If the recommendations are modified the timetable will be set back. Should there be any difficulties about the recommendations it would therefore be desirable for them to be discussed in Cabinet as soon as possible.

17. I am sending copies of this minute, and attachments, to other members of the Cabinet, the Chief Whip, the Attorney General, the Minister for Local Government and Environmental Services (Mr. King) and Sir Robert Armstrong.

h.w.

22

NOVEMBER 1982

CONFIDENTIAL



**CONFIDENTIAL**

MISC 21 REPORT  
RATE SUPPORT GRANT SETTLEMENT:  
1983-84: ENGLAND

---

The Ministerial Group on the Rate Support Grant (RSG) (MISC 21) has now completed its work on the 1983-84 English RSG settlement. This note describes the Group's recommendations.

TOTAL LOCAL AUTHORITY EXPENDITURE, TARGETS AND AGGREGATE EXCHEQUER GRANT

Total Expenditure

2. The Ministerial Committee on Economic Strategy (E) agreed on 20 July that the Government's public expenditure plans should provide for local authority current expenditure of £19.5 billion in England in 1983-84, of which about £18.8 billion would be distributed among individual services, with the balance of £700 million as an allowance for realism.
  
3. In his minute of 17 September the Chief Secretary, Treasury reported the service distribution of local authority current public expenditure which he had agreed with Ministers responsible for local authority expenditure; Ministers agreed that it would be appropriate to apportion in this way £18,806 million, ie. £6 million more than E had agreed.
  
4. The RSG settlement is based on a figure for local authority expenditure 'relevant' for RSG purposes. The figure is equal to planned local authority current expenditure, adjusted for eg. financing items and transfers between rate funds and housing revenue accounts. Block grant is then payable on 'total expenditure', that is, relevant expenditure reduced by specific and supplementary grants paid to local authorities. On the information available in July, local authority current public expenditure of £19.5 billion implied 'total expenditure' of about £20.1 billion.



Expenditure Targets

5. E also agreed that expenditure targets should be set for individual authorities in order to keep up the pressure for economy in local government expenditure. Authorities whose 1982-83 budgets exceed by no more than 1 per cent their 'effective target' - ie. the higher of their target or grant related expenditure assessment (GRE - a measure of the average cost of providing a reasonable level of services) - would be set next year a target equal to 104 per cent of their 1982-83 budget. For higher spending authorities targets would be 5 per cent greater than 1982-83 'effective targets' with the proviso that no authority's target should require a cash reduction of more than 1 per cent from its 1982-83 budget, subject to the overriding constraint that no authority's target should exceed by more than 20 per cent its 1981-82 budget. In other words, the targets would permit authorities which have been reasonably economical to increase their planned expenditure by 4 per cent in cash between this year and next; for almost all other authorities targets would imply a smaller cash increase or a small reduction; a very few authorities, notably the Greater London Council (GLC), would need substantially to reduce expenditure in cash terms in order to stay within their targets.

6. On 27 July the Secretary of State for the Environment announced provisional targets for all authorities on this basis. In total they equalled £20.1 billion the then forecast figure for RSG 'total expenditure'.

7. MISC 21 has considered the case for changes in the system of targets, taking account of local authorities' reactions to the provisional targets, changes in the economic outlook since July, and the need for the targets to be consistent with other Government policies. It proposes increases in the two cases described below.



(i) Housing Revenue Accounts (HRAs)

Many authorities reduced their budgets in 1982-85 by planning to transfer surpluses from their HRA to their rate funds. MISC 21 recommends that these transfers should be discounted when calculating targets for next year. Unless this change is made the Government will be accused of obliging authorities to use profits from council housing to reduce rate bills; and those authorities whose budgets included such transfers will be penalised unfairly in comparison both with the many other authorities which similarly transferred HRA surpluses but whose budgets do not provide for them and with authorities which use HRA surpluses for other purposes. The effect is to increase the total of targets by about £14 million.

(ii) Greater London Council (GLC)

Under the Transport Bill now before Parliament the Secretary of State for Transport will set guidelines for the GLC and the metropolitan county councils indicating how much he judges it appropriate for them to spend on subsidising public transport. The Attorney General has advised that there is a risk of challenge in the courts from any authority which can demonstrate that its overall expenditure target is unreasonable on the grounds that payment of transport subsidy in accordance with the guidelines would require it to make excessive cuts in other services in order to meet its overall target. Moreover, an unrealistic transport subsidy guideline would be of no value to a dissatisfied ratepayer who tried to challenge in the courts what he saw as excessive expenditure on public transport subsidies. In the light of the Attorney General's advice, and of the need to avoid setting the GLC a subsidy guideline which would entail an increase in London Transport fares next year, MISC 21 recommends that the GLC's target should be increased by £22 million to £565 million. Because, under the Local Government Finance Act 1982 targets must be set by general rules applicable to all authorities,



increasing the GLC's target involves increasing those of Milton Keynes and Corby as well - by about £120,000 taken together.

8. A number of authorities' provisional targets were calculated in July on the basis of factual or technical errors. The Secretary of State for the Environment and the Chief Secretary, Treasury have agreed appropriate adjustments in their targets.

9. A number of authorities which have budgetted to spend significantly less than their effective target this year have argued that the way targets are set penalises them: had they planned to spend up to their effective target this year, their target for next year would be correspondingly higher. But to change the way in which such authorities' targets are calculated would relax the pressure for continuing economies; and, as is argued in paragraph 24 below, the provisional targets should allow ample headroom for reasonably economical authorities to provide a satisfactory level of services. Except for the changes listed in paragraphs 7 and 8 above, MISC 21 therefore recommends no increase in the provisional targets which the Secretary of State for the Environment announced in July.

10. When they were announced in July, the provisional targets equalled estimated 'total expenditure' for RSG purposes. Since July, estimates of total relevant expenditure have fallen by approximately £ 200 million, owing mainly to reductions in interest rates and increases in specific and supplementary grants. The changes listed in paragraphs 7 and 8 above would add about £36 million to the total of provisional targets. The adjusted total of provisional targets therefore exceeds by some £ 200 million total expenditure. In other words, if all authorities'



expenditure is equal to their targets, the Government's plans for local authority current public expenditure would be exceeded by £ 200 million.

11. There is therefore a case for reducing targets overall. But such a reduction would be bitterly resented by the local authorities who have worked out draft budgets taking account of the provisional targets announced in July. It might well be counter-productive. MISC 21 therefore recommends that the targets announced provisionally in July should not be reduced. The Chief Secretary, Treasury has made clear that his agreement to this recommendation is conditional on the recommendation that there should be no 'GRE exemption' from grant holdback (paragraphs 24 and 25 below).

Aggregate Exchequer Grant

12. E agreed in July that the Aggregate Exchequer Grant - total of RSG and supplementary and specific grants - should be £11.8 billion if authorities spent at target, or 53.2 per cent of relevant expenditure. The reduction in estimated relevant expenditure discussed in paragraph 10 above increases the grant percentage to 53.4 per cent; but that still represents a substantial reduction by comparison with the 1982-83 figure of 56.1 per cent for spending equal to targets.

National Insurance Surcharge

13. On 8 November the Chancellor of the Exchequer announced that the National Insurance Surcharge (NIS) would be reduced in 1983-84 from  $2\frac{1}{2}$  per cent to  $1\frac{1}{2}$  per cent. It is the Government's policy that the effect on local authorities of this reduction should be neutral. To try to achieve this result through the block grant system would have undesirable results. First, those authorities already receiving no Exchequer grant (in general, high



spenders) could obviously suffer no reduction in grant. In order to recover the full cost of the reduction in NIS from local authorities collectively other authorities would have to lose more in grant than they gained from the NIS reduction. Secondly, because of the equalisation inherent in the block grant system, authorities with low rateable resources (again, in general, higher spenders) would do better than authorities with high rateable resources. The Ministers concerned have therefore agreed that the right solution is to levy NIS on local authorities at  $2\frac{1}{2}$  per cent in 1983-84. This has the incidental advantage of not requiring extensive recalculation of targets and expenditure figures.

#### GRANT DISTRIBUTION

14. In discussion in MISC 21 the Secretary of State for the Environment has argued that, subject to the overriding aim of putting maximum pressure on local authorities to meet their expenditure targets, the aim should be stability in grant distribution between 1982-83 and 1983-84. That approach, which will minimise rate increases and allow a significant number of authorities to decrease their rates is reflected in the Group's recommendations on the assessment of GRE and the choice of 'block grant mechanisms' which determine the basic distribution of grant.



GRE

15. MISC 21 recommends that individual authorities' GRE should be assessed generally in the same way as in 1982-85, subject to:

- (i) a number of necessary technical changes, including those arising from the use of new information from the 1981 Census;
- (ii) a number of further changes, still modest in scope but which allocate GRE among classes of authority in a more defensible way than in 1982-85.

These modifications have been discussed with the local authority associations and agreed among departments, and are not likely to be contentious.

Block Grant Mechanisms

16. The block grant mechanisms determine how variations in an authority's expenditure around its GRE affect the proportion of that expenditure borne by its ratepayers. The Group considered whether the mechanisms should be altered in the 1983-84 supplement so as to reduce more sharply the proportion which an authority's grant bears to its expenditure as that expenditure increases; but concluded that it would instead be more appropriate to rely mainly on grant holdback to put pressure on high spending authorities. The Group recommends no change.



17. The Group also recommends

(a) that there should be no change in the special arrangements to reduce the discrepancy between rate bills in London and elsewhere, or in the London equalisation scheme which redistributes some of the benefit of Westminster's and the City's high rateable resources to the other inner London boroughs; and

(b) that the only change in the 'safety net' arrangements, which limit the changes in grant distribution from year to year, should be to double the inner London borough safety net, to take account of the fact that the Inner London Education Authority will not receive block grant.

18. As compared with the 1982-85 settlement, these proposals for GRE and block grant mechanisms will reduce London's share of grant slightly in favour<sup>bo</sup> of the shires and the metropolitan areas.

#### DOMESTIC RATE RELIEF

19. MISC 21 recommends that domestic rate relief should remain at the equivalent of a 18½p rate, its level for the last 8 years.

#### GRANT HOLDBACK

20. In most cases, under the basic block grant arrangements an authority's entitlement to grant increases with its expenditure, though at a declining rate. E agreed in July that, as in 1981-82 and 1982-83, the 1983-84 RSG arrangements should include a grant holdback scheme which would go further than this and actually reduce grant paid to authorities which overspend their targets next year. In announcing the Government's proposals in July, the



CONFIDENTIAL

24. The case for a GRE exemption is stronger, both politically and otherwise. It would benefit many shire districts and counties which have tried to control expenditure in the past; many of the Government's supporters in Parliament can be relied upon to argue that there should be such an exemption on the grounds that GRE is an objective measure of the average cost of providing a standard level of services. It may also be argued that there is a case on educational grounds for some Conservative-controlled education authorities' increasing their expenditure above targets and up to GRE. On the other hand, a GRE exemption would considerably reduce the pressure for economy in local government, permitting additional expenditure of some £310 million before grant holdback; and the Secretary of State for the Environment and the Minister for Local Government and Environmental Services have advised MISC 21 that in many authorities to which a GRE exemption would apply, even those controlled by the Government's own supporters, there is considerable scope for further economy without endangering the provision of a reasonable level of services. The targets should permit all authorities, and especially low-spending authorities, a perfectly adequate real level of expenditure. Authorities in aggregate <sup>could</sup> underspend their 1982-83 budgets by between 2 and 3 per cent on average; we expect inflation to fall to about 5 per cent in the first part of 1985; and there will be, if the recommendations in paragraphs 7 to 11 are accepted, a gap of about £ 200 million between the totals of targets and expenditure relevant for RSG. Taken together, these factors should mean that many authorities will be able at least to maintain the volume of their expenditure without exceeding their targets. There are, of course, wide variations around this average; for example, up to 100 authorities, including some shire counties, are likely to have made a lower allowance for inflation and might underspend their budgets by much less than 2-3 per cent this year. But it is significant that those authorities who have made out a case for a GRE exemption to Environment Ministers have not shown that they would have difficulty in keeping their spending below <sub>10</sub> targets. MISC 21 recommends against a GRE exemption.

CONFIDENTIAL



25. In principle, it is not yet necessary to take a final decision on whether there should be a maximum level of holdback or a GRE exemption. Under the Local Government Finance Act 1980 the holdback scheme can be relaxed at any stage up until the making of the Final Supplementary Report on the RSG, which for the 1985-84 settlement will take place in November 1984; and the possibility exists that overwhelming arguments will at some stage be put forward for such a relaxation. But it is important that the recommendation should be seen as a package: in particular, the Chief Secretary, Treasury made it clear to the Group that he could only agree to the Group's recommendations that the 1982-85 block grant mechanisms should be retained, and that there should be a reduction in targets overall, if the Group recommended that the Government should resist pressure for any relaxation.

#### THE SETTLEMENT AS A WHOLE

26. The impact of the settlement will naturally vary from case to case. But it should be possible for the Government to present it, as one which will in general allow authorities to impose only modest rate increases, and even rate reductions if they spend at target, but which will lead to severe loss of grant and large rate increases for authorities which significantly exceed their targets.



*W. Fress* 2



Y SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 8545 (Llinell Union)

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

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

*Prime Minister*

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

*Wm*  
*22/11 19<sup>th</sup>* November 1982  
*[Signature]*

PARLIAMENTARY STATEMENT: LOCAL AUTHORITY CAPITAL EXPENDITURE (WALES)

My Secretary of State told Ministerial colleagues at Cabinet yesterday that he intended a Parliamentary Statement on Monday (when Welsh Questions are First Order) about certain of his public expenditure programmes. We now understand that this will not be possible because of a Statement to be made that day by the Secretary of State for Industry: accordingly the business managers have agreed that Mr Edwards should make his Statement on Tuesday.

... I attach a draft of the Statement. My Secretary of State would be grateful for any comments the Chief Secretary may have on it.

Welsh Office officials are in direct touch with Treasury officials over agreement of the capital expenditure cash limit.

/ I am copying this letter and its enclosure to the Private Secretaries to the Prime Minister, John Biffen, Michael Heseltine, George Younger and to Sir Robert Armstrong.

A E PEAT

John Gieve Esq  
Private Secretary  
The Rt Hon Leon Brittan QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON



DRAFT STATEMENT BY THE SECRETARY OF STATE FOR WALES  
TUESDAY 23 NOVEMBER 1982

With permission, Mr Speaker, I will make a statement about public expenditure provision for Housing and other local authority capital spending in Wales.

First of all I want to say something about the current year, 1982/83.

Monitoring of capital payments by local authorities in Wales indicated at the end of the first half year that there was likely to be a substantial underspend of the cash limit. The main reason for this is that housing authorities are not using their capital receipts for new capital work. To reduce the expected underspend housing authorities have been told that they may increase their spending on house renovation in the current year without limit.

I have also reviewed the position of other local authorities, and where they appeared to be spending up to their previously expected pattern, they have been offered additional capital allocations for work in the current year. Furthermore some urban programme schemes for which provision was not originally available have now been approved and consequent additional allocations made. Altogether these additional allocations total £3.58m.

I now turn to the provision for 1983/84. I have not yet completed consideration of the allocation of resources to particular services within my public expenditure block. However, I am now in a position to say something about the resources to be assigned to Housing and other local authority capital expenditure.



In forming my conclusions I have taken account of the estimated level of local authority capital receipts in 1983/84. Hon Members will know that as a general rule local authorities can spend their capital receipts on new capital projects, in addition to the capital allocations I make. The exception is in the case of Housing, where I have previously required that only half of the Housing receipts should be freely available for any capital spending, the other half being built into the Housing allocation.

Local authority capital receipts in Wales next year are forecast to be £90.3m, of which £85.1m is forecast to be Housing receipts. As I have said, Housing authorities have not been using their capital receipts for new capital spending. With the object of achieving a larger capital spend I have decided to reduce the proportion of unallocated Housing receipts to 25 per cent; the remaining 75 per cent will be built in to the allocations. I shall be laying before the House accordingly regulations under S72 of the Local Government, Planning and Land Act 1980.

After consultation with the Welsh local authorities, I have today made rent and maintenance determinations for 1983/84. The increase in the local contribution I have determined at 85p, and the increase in maintenance and management expenditure I have determined as 7 per cent. On the basis of these determinations the amount available for spending on Housing by local authorities and the Housing Corporation in Wales next year will be £202.3m, compared with a likely spend this year of £169.2m, an increase of nearly 20% {19.56%}. Together with the change in the treatment of capital receipts which I have outlined, this will enable me to allocate \$139m to local authorities in respect of Housing. This is an increase of 13% over the current year's allocation. The allocation to the Housing Corporation will be maintained in real terms.



For other services I have decided to allocate amounts as follows:

|                          |          |
|--------------------------|----------|
| Education                | £34.325m |
| Transport                | £60.068m |
| Personal Social Services | £ 6.641m |
| All Other Services       | £42.163m |

Together with the allocation for Housing, this makes a total provision for local authority capital expenditure of just over £282m (£282.179m). In addition there will be the £41.3m I intend to allocate to the Housing Corporation.

At the local authority level, an authority receives its allocation as a block and can spend it on whatever capital projects it wishes. I shall circulate in the Official Report a table showing the allocations to individual authorities. Each local authority will receive a formal notification of its allocation.

There is one more thing I wish to say about Housing. In the particular circumstances of the Welsh housing stock I attach the greatest importance to renovation grants. If a local authority's expenditure on renovation grants exceeds a specified level in 1983/84, I shall make an additional allocation to cover the excess. The Welsh Office will be writing to housing authorities about this in a few days time.

I also want to tell the House about my intention as regards the Urban Programme and Urban Development Grants. My Rt Hon Friend the Secretary of State for the Environment told the House of the importance we attach to the new Urban Development Grant scheme. The response in Wales has been encouraging and we are considering the imaginative schemes which have been submitted. For the moment I have allocated £21m to UDGs and the traditional Urban Programme together. I will decide on how much to devote to UDGs and on the allocation of the remainder to local authority schemes under the traditional programme, once our consideration is complete.



Mr Speaker, the allocations I have announced will enable local authorities in Wales to undertake a substantial programme of capital work next year, about £50m more than they are likely to spend this year. This presents them with an opportunity to improve the infrastructure of the community and to tackle some of the problems which we all recognise. Those authorities with Enterprise Zones in their areas are presented with particular opportunities: Swansea, where such a good start has been made, and the new Zone at Flint which I announced on 15 November. As I said then, I am giving further consideration to the establishment of a third. But throughout Wales the local communities will benefit, the construction industry will be assisted, and new jobs will be created provided local authorities take full advantage of the capital allocations I make and use to the full the capital receipts that come in.



gk sv

# London Boroughs Association

---

Honorary Secretary: David Witty MA  
(Chief Executive of Westminster)

Westminster City Hall, Victoria Street  
London SW1E 6QW  
Telephone 01-828 8070

From:  
Councillor P. S. Bowness, CBE, DL,  
The Chairman of the Association

Your reference

LBA reference

18th November, 1982.

Dear Annie Munster,

BZZ

## CAPITAL EXPENDITURE

Thank you for your letter of 2nd November. I entirely share your desire to see a shift from current to capital expenditure by local authorities, and very much hope that the London Boroughs will be able to play their part in responding to the initiative the government has taken in seeking to reduce the capital underspend in the remainder of the present year. Clearly, earlier indications of future levels of permissible expenditure will alleviate the problem in future years.

The one thing which particularly concerns me is the revenue consequence of capital expenditure. Authorities which have not so far reduced their current expenditure should have plenty of room to do so in order to make room for the revenue consequences of new capital spending. However, many authorities have achieved modest rate increases through sound and prudent financial management. Such authorities have effected considerable reductions in order to comply with government revenue expenditure targets or to come as close to them as they can. I am very concerned that such authorities, having abided by government revenue targets, should now be able to respond to your wish for increased capital spending without incurring penalties such as presently obtain under the R.S.G. procedure. Perhaps the excess revenue consequences of additional capital expenditure could be excluded from the revenue expenditure totals for R.S.G. target purposes? This would be a great help and avoid the dilemma which otherwise would be created for those authorities which consistently seek to meet government policies.

I am sure you will want to give favourable consideration to this suggestion.

Rt. Hon. Margaret Thatcher MP,  
The Prime Minister,  
10, Downing Street,  
London S.W.1.

Yours sincerely  
P. S. Bowness



Prime Minister:

Group of eight

London School of Economics

London School of Economics  
London, E.C.4

I am writing you in regard to the letter of the 10th of June 1971. I am sorry that I have not been able to see you in person but I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest.

The enclosed letter of interest is a copy of the letter of the 10th of June 1971. I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest.

I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest.

I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest. I am sure that you will find the enclosed letter of interest.

Yours faithfully,  
[Signature]



# Briefing Note

THE TRUTH ABOUT LOCAL GOVERNMENT EXPENDITURE

No. 38  
17.11.82

Some observers have claimed to detect a contradiction between the Government's general policy of downward pressure on public authority spending, and Ministers' recent exhortations to local authorities to spend more on capital projects. There is no contradiction; two quite different aspects of expenditure are at issue.

The Government is indeed anxious to see substantial further reductions in the burden of public expenditure. Great progress has been made in the past three years, but there is a long way still to go.

Last year the increase in public expenditure was held below its expected level. The estimates for 1983-84 actually point to a fall in cost terms. In Central Government the reduction in the number of civil servants is well on course from 730,000 to the target of 630,000 by 1984. At the Department of the Environment one in four posts has been eliminated.

However, in the particular area of local government outlay on capital projects, actual expenditure in both 1981-82 and the current year has fallen well below planned expenditure. This sort of shortfall is helpful to nobody; it means a shortage of work for the construction industry and it means that desirable works, for which money has already been allocated, are not being carried out.

As a general rule, this underspending is not occurring because of planning delays or other practical obstacles, but because certain local authorities see in it a way of thwarting the Central Government's intentions. All too often, resources intended for capital projects have found their way into current account expenditure - on excessive wage and salary increases for example.

Local Government's Record. For the last eight years, and more, most local authorities have increased current spending at the expense of capital investment. This point was highlighted by Mr. Michael Heseltine, Secretary of State for the Environment, in a speech on 20th October: "between 1974-75 and 1981-82 current expenditure by local government in England has gone up, in real terms, by about 6 per cent, over the same period capital expenditure by local government has gone down, in real terms by 62 per cent ..."

Mr. Heseltine went on to compare local government spending with the provision made for it in the Government's own expenditure plans: "Take current expenditure first: in 1981-82 local authorities spent some £1.3 billion above provision; that is about 8 per cent. In 1982-83 they are budgeting to overspend by about the same cash amount or 7 per cent of this year's cash provision. Then take capital. In 1981-82 authorities underspent provision by some £600 million. For 1982-83 it looks like being £1 billion."

The attack on capital spending was led by the Labour Government in 1976, when it ordered local government to cut capital spending by nearly £400 million over the 3 years 1976-7 to 1978-9.

Insufficient Staff Reduction in Local Government. Too many local authorities are still overstaffed; this is crucially important to their expenditure totals, since staffing costs amount to come two-thirds of all local government current expenditure. Between June 1979 and June 1982 staff



numbers in local government fell by only 4½ per cent, compared with a reduction in the Civil Service of 10 per cent over the same period. In the Department of the Environment staff numbers fell by 26 per cent in the three years 1979-82.

New Flexibility in Capital Spending. This Government has substantially increased local authorities' discretion over their capital spending. No longer do local authorities have to submit each project to the detailed scrutiny of government departments. This has been replaced by a control on the total of local authority capital expenditure, within which local authorities enjoy much greater discretion. Most important of all, authorities can now reinvest the proceeds of capital disposals. The Government has strongly encouraged authorities to dispose of surplus assets which are lying idle. There has been a good response from many authorities. Sales of assets, including council housing, yielded £1,000 million in the last financial year. Other capital receipts produced another £400 million. These are very considerable sums when it is recognised that total capital expenditure allocations in 1981-82 were £3,000 million.

There are many reasons why local authorities fail to apply their capital receipts to new capital expenditure: For example, there are long lead times for capital investment. But the main reason is that local authorities have been using capital receipts to make loans from one department to another within the authority and releasing rate fund balances for revenue expenditure.

The Prime Minister's Letter. It was this failure to invest capital receipts which was the main reason behind the Prime Minister's letter of 2nd November to the leaders of the local authority associations. In it she reiterated the Government's firm policy of restraint in public expenditure as a whole, but pointed out that there was scope for a shift from current to capital spending. "That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations."

Labour's Red Herring. The Labour Party, through its Environment spokesman, Mr. Gerald Kaufman, has sought to make political capital and scare the local authorities by claiming that additional capital expenditure will generate fresh revenue spending, for example on staff, and hence involve them in penalties under the grant system. Mr. Heseltine dealt with this in the debate on Urban Affairs on 5th November: "many capital projects do not have ... staffing consequences, although they all have interest charge consequences. For example, home improvement grants and derelict land projects do not have such staff consequences. Many infrastructure programmes on local government's capital account do not have those staffing consequences ... It is possible for local authorities to increase their capital expenditure in many cases without running into penalties from the Government" (Hansard, Col. 284).

Some other capital schemes such as energy conservation measures, replacement of Victorian schools, or modern, efficient offices could even reduce revenue expenditure. Mr. Heseltine has also urged local authorities to buy completed, or nearly completed, low-cost homes direct from house builders for sale, under shared ownership arrangements, to first-time buyers and those on the waiting list.

Future Capital Spending. Local authority association leaders have also expressed concern over the future commitment to capital expenditure levels after March 1983. This anxiety will have been allayed by Mr. Heseltine's statement on 15th November when he said that sales of council houses and other assets should be worth about £1,750 million in 1983-84. "This allows for a market increase in certain capital programmes" (Hansard, Col. 19).



010

CONFIDENTIAL

J/C JV



Prime Minister (2)

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

Local Govt

My ref:

Your ref:

16 November 1982

Local authorities

will continue

to pay NIS at

2 1/2 % in 1983-84.

MCS 16/11

mt

*[Handwritten signature]*

RSG SETTLEMENT 1983-4: NATIONAL INSURANCE SURCHARGE

I have been considering further the consequences for the RSG settlement of the reduction in the rate of national insurance surcharge (NIS).

We have agreed, and the Chancellor has stated publicly, that the public sector will not benefit from the change. But the application of this principle to the different parts of the public sector is not straightforward. In the case of local government we have to take account of 3 special problems.

First, several large and wealthy authorities do not receive block grant, which makes it impossible to claw back from them the benefit they gain from any reduction in the NIS. They include Camden, ILEA, Westminster, and possibly the GLC (depending on the level at which they spend next year).

Second, local authority expenditure is financed in part by the rates; more than half of total rate income is contributed by industry and commerce. If the rate of NIS paid by local authorities is reduced, ratepayers will expect to receive some benefit; and it would be particularly difficult to refuse such benefit to the industrial and commercial sector, which the reduction in NIS is designed to help.

Third, any reduction in grant will tend to fall disproportionately on authorities with high rateable values and a low overall rate of grant, including several of the Home Counties. This is a consequence of the principle of rate poundage equalisation on which the distribution of grant is based.

We could solve all 3 problems by keeping the rate of NIS at 2 1/2 % for local authorities in 1983-4 and leaving the public expenditure provision and the grant unchanged. This would be consistent with the arrangements made this year, under which local authorities have continued to pay 3 1/2 %. while other employers have paid 2 1/2 %. It would have the further advantage of not requiring any adjustments to the provisional RSG settlement, including the provisional targets issued in July.

I have discussed this issue with Leon Brittan, We believe there is no other satisfactory way of dealing with the problem. Leon had earlier proposed that the full amount of the estimated expenditure savings accruing to local authorities should be clawed back by means of a reduction in grant, but he accepts that this would have the undesirable



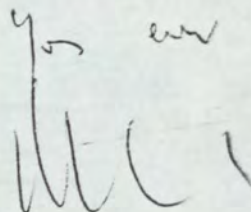
CONFIDENTIAL

consequences I have mentioned. Even if the reduction in grant were less than the estimated saving in expenditure - an option which Leon would be reluctant to accept - the problems of maldistribution would still remain.

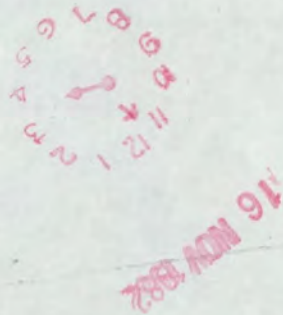
In the circumstances it seems to us both that the best course is to keep the rate of NIS for local authorities at 2½% for 1983-4 (Keith Joseph has also recommended it in his letter to me of 15 November). We could present this as a temporary arrangement, adopting so as to avoid upsetting the provisional RSG figures issued in July. Although the change has been announced well before the start of the financial year - unlike the 1982-3 change, which was not announced until the Budget - it does impinge on the RSG settlement, for which we have this year issued provisional figures earlier than ever before. Tom King and I see substantial presentational advantages in keeping these figures unchanged. Keeping NIS at 2½% for local authorities would of course be entirely consistent with our policy of confining the benefit of the NIS reduction to the private sector.

I hope that you can agree to this proposal. If you or other colleagues wished to discuss it we could perhaps do so at MISC 21 tomorrow - though I appreciate that this is very short notice.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Leon Brittan, Michael Jopling, other members of MISC 21, and to Sir Robert Armstrong.



MICHAEL HESELTINE



Rt Hon Norman Fowler MP



Statement on Environment Programmes

I attach a copy of the final version of Mr. Heseltine's statement about certain of his public expenditure programmes, and about the designation of new enterprise zones.

There were two themes to the Opposition Questions. First, Mr. Kaufman pressed Mr. Heseltine on whether he would exempt the revenue consequences of any increased capital spending by local authorities from the Government's targets. Second, a series of Labour MPs welcomed the new enterprise zones, particularly where these covered parts of their constituencies, while others claimed, in line with the new Labour policy, that enterprise zones do little to create jobs. Mr. Heseltine stuck to the line that the plans for local authorities' current expenditure allow for the financing cost of the full planned capital programme. He attacked the Opposition for scorning our plans to encourage capital spending by local authorities, and pointed out that, under the Opposition, local authority capital expenditure had halved, and that current expenditure had reached record levels. He was able to make some play with the Opposition's confusion over its attitude to enterprise zones, and pointed out that the Government had received over 50 applications from local authorities, including many Labour authorities, for the latest batch of nine.

The Speaker allowed Questions to run on for almost an hour, and the questioning became somewhat lifeless.

The Speaker then had to consider the three SO9 applications put down today:



1. Denis Howell calling for a debate on Government interference in the pay negotiations in the water industry;
2. David Watkins calling for a debate on the situation in the steel industry, and the options put to the Government by Mr. MacGregor.
3. Ian Wrigglesworth calling for a debate on the security issues raised by the Prime case.

All three refused.

The Opposition seem to have made it a policy to put down at least 2 or 3 SO9 applications a week, if not more, simply to gain publicity.

---

WA

15 November, 1982.



STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT:

MONDAY 15 NOVEMBER 1982

DEPARTMENT OF THE ENVIRONMENT PROGRAMMES

With permission, Mr Speaker, I will make a statement about certain public expenditure programmes, for the Department of the Environment.

This follows the statement made by my Rt Hon Friend the Chancellor of the Exchequer on 8 November.

Details are being laid in the Vote Office.

I shall also announce the designation of new Enterprise Zones.

As my Rt Hon Friend said, for the first time since 1977 a government's public expenditure plans have not had to be revised upwards from one year to the next.

The total of planned expenditure for my own programmes has also remained broadly the same.

However, as a result of the considerable success of the programme of sales of council houses and of other assets, significant additional resources are now being realised by local government. In 1983-4 these sales should be worth some £1,750 millions. This allows for a marked increase in certain capital programmes.

I deal first with housing.

For the current year I have asked local authorities to accelerate their capital programmes in order to spend closer to the national provision.

I have offered additional capital allocations for all authorities which need them.

Local authorities can increase their expenditure on home improvement grants this year without limit.

The Government agrees with the proposal - endorsed by the House Builders Federation - that local authorities should buy completed, or nearly completed, low cost homes directly from housebuilders for sale, under shared ownership arrangements, to first time buyers and those on the waiting list.

I urge local authorities to promote these schemes.

I have also discussed with the Housing Corporation the effective use of additional resources this year.

I have agreed an increase of £150 million in the Corporation's cash limit for 1982-3 to £680 millions.

This allows additional expenditure on fair rent, hostel and low



most home ownership schemes and the refinancing of private borrowing guaranteed by the Corporation.

For 1983-4 the gross capital provision for housing will be increased from this year's provision of £3,190m to £3,243m.

This is some £340m above the expected outturn for the current year, taking account of the forecast additional spend from my statement today.

It will sustain a substantial increase in construction and improvement activity.

I have already announced the continuation of the higher improvement grant rates until the end of 1983-4.

I shall be taking additional steps to assist local authorities to meet the resulting demand.

I deal now with other DOE programmes.

For the current year, 1982-3, local authorities have been invited to seek any additional allocations they need for derelict land, urban programme expenditure, or other projects.

The grant to the Sports Council is also being increased to enable increased capital expenditure, particularly in communities where the needs are greatest and where the development of small facilities can provide a basis for partnership between voluntary organisations and local government. The Minister for the Arts and I are making a further grant of £5m to the National Heritage Memorial Fund. I will also provide additions to the grants to the Nature Conservancy Council and the Countryside Commission.

I turn now to 1983-4. A breakdown of DOE programmes is shown in the figures placed in the Vote Office. The external finance limit for water authorities will allow capital investment to be increased from £632m to £677m. Provision for gross capital expenditure on local environmental services will be £605m compared with forecast outturn this year of £481m. Within the smaller programmes there will be an increase in the heritage, conservation and sports budgets, from £156m to £165m.

I shall be concentrating further additional resources on the urban and derelict land programmes. The House will be aware that I recently launched a new initiative under the urban and derelict land programmes, and invited local authorities to submit viable schemes providing that they attract substantial funds from the private sector. The response from local government and the private sector has greatly exceeded expectations. We have bids of £275m



from the public sector put forward in conjunction with a potential further £900m of investment from the private sector, spread over a number of years. Our initial appraisal indicates that in the first year a public contribution of £85 million could be necessary, and I have therefore increased accordingly the £70 million originally earmarked. Substantial private sector funds will flow as a consequence of this injection of government support. The balance of both public and private expenditure will be invested over subsequent years.

In addition, I am increasing the remaining special budgets for the urban and derelict land programmes. Including the £85m for the joint schemes, the urban programme will be increased from an expected outturn of £280m this year to £348m; the derelict land programme will be increased from £59m to £75m; and the resources of the UDCs of London and Merseyside will be increased from £64m to £67m. In total, the public expenditure provision for these programmes next year will be £490m, an increase of £87 million or 22% on the likely outturn for this year.

As a further part of our efforts to restore economic health to run-down industrial areas, I can tell the House the Government's decisions on the designation of new Enterprise Zones in England.

My Rt Hon Friend the Chancellor of the Exchequer announced on the 27 July that the Government intended to designate 11 new Zones, 7 of them in England. More than 50 English authorities have submitted bids, many of high quality.

As a result, the Government has decided that, in England, we should go ahead with 9 new Zones: in Allerdale and North East Lancs in the North West; Rotherham and Scunthorpe in Yorkshire and Humberside; Telford in the West Midlands; North East Derbyshire and Wellingborough in the East Midlands; Middlesbrough in the North East; and in North West Kent, including parts of Rochester, Gillingham and Gravesham. The Government has also decided to extend the existing Zones at Speke in Liverpool, and Wakefield in West Yorkshire. There will be further detailed discussions.

Mr Speaker, these programmes give priority to capital expenditure.

Significant additional resources arise from the success of local government - which I commend - in selling council houses to their tenants and in realising other assets. The announcements today



Underline our commitment to the inner cities, and to the restoration and improvement of some of the most run-down and depressed industrial areas of our society. And there is an enhanced opportunity for capital investment by much of local government.



EXPENDITURE ON DOE CAPITAL PROGRAMMES IN 1983-4 COMPARED WITH  
 1982-3 PROVISIONAL OUTTURN (All figures are shown gross, and the provision  
 for 1983-4 includes estimates of capital receipts in that year where relevant.)

|  | 1983-4 | Provisional Outturn<br>1982-3 |
|--|--------|-------------------------------|
| Housing Capital  | 3243   | 2900                          |
| Regional Water Authorities <sup>1</sup>  | 677    | 632                           |
| Grants to British Waterways Board  | 41     | 38                            |
| Local Environmental Services, Capital<br>(including New Towns Commercial and Industrial) | 605    | 481                           |
| Coast protection   | 19     | 16                            |
| Derelict Land Reclamation <sup>3</sup>   | 75     | 59                            |
| Urban Programme  | 348    | 280                           |
| Urban Development Corporations   | 67     | 64                            |
| Royal Palaces, Parks Ancient Monuments<br>Historic Buildings, the Heritage               | 85     | 80                            |
| Grants to Environmental Bodies etc<br>inc. Sports Council & Development<br>Fund          | 80     | 76                            |
| PSA  | 470    | 437                           |

FOR PUBLIC EXPENDITURE PROGRAMMES

1982-3 In order to enable the level of capital expenditure on DOE programmes to be brought closer to the overall provision made at the start of the year, the following increases to cash limits or changes to grants are being made:

|   | INCREASE                       | RESULTING REVISED<br>CASH LIMIT |
|---|--------------------------------|---------------------------------|
| Housing Corporation <sup>2</sup> (DOE/HCl)                                | £150m                          | £680m                           |
| Central Environmental Services<br>(Vote VIII, 2)                          | £3m (increased grants)         |                                 |
| National Heritage Memorial Fund<br>(DOE Vote VIII, 4)<br>(DES Vote X, 22) | £2½m<br>£2½m (increased grant) |                                 |

NOTES

1. The programme total published in the Autumn Statement includes the Water Authorities' external financing requirement not their investment.
2. The increase in the Housing Corporation cash limit is after abatement for a small overspend in 1981-2.
3. The urban programme figure includes public expenditure provision by other Departments.



42 NOV 1982

10  
9  
8  
7  
6  
5  
4  
3  
2  
1  
12  
11



Prime Minister ①

✓ Press Office

Content with this statement?

LOCAL GOVERNMENT

CONFIDENTIAL

Ms 12/11



2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:  
12 November 1982

*Dear John*

STATEMENT ON MONDAY 15 NOVEMBER

I attach, as promised, a revised version of the oral statement to be made on Monday, 15 November by my Secretary of State. I hope you will find that it takes into account the points made by the Treasury. My Secretary of State will be looking at it over the weekend and, of course, further changes are therefore possible.

Copies of this go, as before, to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Leader of the House of Commons, the Secretaries of State for Industry, Employment, Scotland and Wales, the Paymaster General and to Sir Robert Armstrong.

D A EDMONDS  
Private Secretary

John Gieve Esq  
PS/Chief Secretary to the Treasury



DEPT (PM:12.11.81)

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT:

MONDAY 15 NOVEMBER 1982

With permission, Mr Speaker, I will make a statement about certain public expenditure programmes, following the statement made by my Rt Hon Friend the Chancellor of the Exchequer on 8 November. Full details are being laid in the Vote Office. I shall also announce the designation of new Enterprise Zones.

As my Rt Hon Friend said, for the first time since 1977 a government's public expenditure plans have not had to be revised upwards from one year to the next.

The total of planned expenditure for my own programmes has also remained broadly the same.

As a result of the considerable success of the council house sales programme, and through the disposal of assets, additional significant cash is now flowing into local government.

In 1983-4 these sales should be worth some £1½ billion.

This allows for a marked increase in certain capital programmes.

I deal first with housing.

For the current year I have asked local authorities to accelerate their capital programmes in order to spend closer to the national provision.

I have offered additional capital allocations for all authorities which need them.

Local authorities can increase their expenditure on home improvement grants this year without limit.

The Government agrees with the proposal - endorsed by the House Builders Federation - that local authorities should buy completed, or nearly completed, low cost homes directly from housebuilders for sale, under shared ownership arrangements, to first time buyers and those on the waiting list.

I urge local authorities to promote these schemes.

I have also discussed with the Housing Corporation the effective use of additional resources this year.

I have agreed an increase in the Corporation's cash limit for 1982-3 of £150m to £680m.

This allows additional expenditure on fair rent, hostel and low cost home ownership schemes and the refinancing of private borrowing guaranteed by the Corporation.



For 1983-4 the gross capital provision for housing will be increased from this year's provision of £3,165m to £3,243m.

This is some £340m above the expected outturn for the current year, taking account of the forecast additional spend from my statement today.

It will sustain a substantial increase in construction and improvement activity.

I have already announced the continuation of the higher improvement grant rates until the end of 1983-4.

I shall be taking additional steps to assist local authorities to meet the resulting demand.

I deal now with other DOE programmes.

For the current year local authorities have been invited to seek any additional allocations they need for derelict land, urban programme expenditure, or other projects.

The grant to the Sports Council is also being increased to enable increased capital expenditure, with particular emphasis on urban and rural deprivation.

The Minister for the Arts and I are making grant of £5m to the National Heritage Memorial Fund. I will also provide small additions to the grants to the Nature Conservancy Council and the Countryside Commission.

For 1983-4, a detailed breakdown of DOE programmes is shown in the figures placed in the Vote Office. The external finance limit for water authorities will allow capital investment to be increased from £632m to £677m. Provision for gross capital expenditure on local environmental services will be £605m compared with forecast outturn this year of £481m. Within the smaller programmes there will be a small increase in the heritage, conservation and sports budgets, from £156m to £165m.

I shall be concentrating further additional gross resources on the urban and derelict land programmes. The House will be aware that I have already earmarked a sum of up to £70m of public expenditure from the 1983-4 urban and derelict land programmes, on condition that local authorities submit viable schemes attracting significant private funds to add to that figure. Mr Speaker, the response from local government and the private sector has greatly exceeded expectations. We have bids of £275m from the public sector. These could realise a potential further £900m of investment from the private sector. We are anxious to make all reasonable progress.

I am therefore increasing the provision to £85m. This should enable



us to meet the first year costs of all the schemes that after scrutiny we shall be able to approve. Substantial private sector funds will flow as a consequence of this injection of government support. The balance of both public and private expenditure will be invested over subsequent years.

In addition, I am increasing the remaining special budgets for the urban and derelict land programmes. Including the £85m for the joint schemes, the urban programme will be increased from an expected outturn of £270m this year to £348m; the derelict land programme will be increased from £46m to £75m; and the resources of the UDCs of London and Merseyside will be increased from £64m to £67m. In total, the public expenditure on these programmes next year will be £490m, an increase of £104m or 27% on this year.

As a further part of our efforts to restore economic health to run-down urban areas, I can tell the House the Government's decisions on the designation of new Enterprise Zones in England.

My Rt Hon Friend the Chancellor of the Exchequer announced on the 27 July that the Government intended to designate 11 new Zones, 7 of them in England. More than 50 English authorities have submitted bids, many of high quality.

As a result, the Government has decided that, in England, we should go ahead with 9 new Zones: in Allerdale and North East Lancs in the North West; Rotherham and Scunthorpe in Yorkshire and Humberside; Telford in the West Midlands; North East Derbyshire and Wellingborough in the East Midlands; Middlesbrough in the North East; and in North West Kent, including parts of Rochester, Gillingham and Gravesham. The Government has also decided to extend the existing Zones at Speke in Liverpool, and Wakefield in West Yorkshire. There will be further detailed discussions.

Mr Speaker, it has always been this Government's policy to give priority to capital expenditure. The success of our programme of council houses and land sales means that local authorities will have the resources next year to achieve a significant increase.

Our commitment to the inner cities is illustrated by the additional backing the Government is giving to partnership with the private sector in restoring dereliction and improving conditions in what are often the most run-down and depressed areas of our society.



GROSS EXPENDITURE ON DOE CAPITAL PROGRAMMES IN 1983-4 COMPARED WITH  
1982-3 PROVISIONAL OUTTURN

|   | 1983-4 | Provisional Outturn<br>1982-3 |      |
|---|--------|-------------------------------|------|
| Housing Capital   |        |                               |      |
| Local Authorities 2486)   |        | 2068                          |      |
| Housing Corporation 695)  | 3243   | 750                           | 2900 |
| New Towns 75)   |        | 82                            |      |
| Regional Water Authorities  | 677    |                               | 632  |
| Grants to British Waterways Board   | 41     |                               | 38   |
| Local Environmental Services, Capital   | 605    |                               | 481  |
| Coast protection  | 19     |                               | 16   |
| Derelict Land Reclamation   | 75     |                               | 52   |
| Urban Programme   | 348    |                               | 270  |
| Urban Development Corporations  | 67     |                               | 64   |
| Royal Palaces, Parks Ancient Monuments<br>Historic Buildings, the Heritage      | 85     |                               | 80   |
| Grants to Environmental Bodies etc<br>inc. Sports Council & Development<br>Fund | 80     |                               | 76   |
| PSA   | 470    |                               | 437  |

FOR PUBLIC EXPENDITURE PROGRAMMES

1982-3 In order to enable the level of capital expenditure on DOE programmes to be brought closer to the overall provision made at the start of the year, the following increases to cash limits or changes to grants are being made:

|   | INCREASE     | RESULTING REVISED<br>CASH LIMIT |
|---|--------------|---------------------------------|
| Housing Corporation (DOE/HC1)   | £150m        | £680m                           |
| Central Environmental Services<br>(Vote VIII,2)                         | £3m          | £111m                           |
| National Heritage Memorial Fund<br>(DOE Vote VIII,4)<br>(DES Vote X,22) | £2½m<br>£2½m |                                 |

NOTES

1. The programme total published in the Autumn Statement includes the Water Authorities' external financing requirement not their investment.
2. The increase in the Housing Corporation cash limit is after abatement for a small overspend in 1981-2.



010



CONFIDENTIAL

local Govt

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

- 1. Mr Rickett <sup>12/11</sup> (1)
- 2. Prime Minister

My ref:

Your ref:

11 November 1982

Content with this draft  
statement?

ms 12/11

PA.

Dear John

As you will have heard from the discussions earlier today, my Secretary of State proposes to make an oral statement on Monday, 15 November, following up the Chancellor's statement of earlier this week with a description of the implications for DOE programmes. In the light of his discussions with the Chief Secretary, my Secretary of State has prepared the attached first draft of a possible statement. It is, of course, subject to drafting changes. He would, however, be grateful for any comments which the Chief Secretary might have on the draft. It would be helpful if these could reach this office by 2.30 pm tomorrow, Friday, 12 November.

I am copying this letter, and the enclosure, to the Private Secretaries to the Prime Minister, the Chancellor of the Exchequer, the Leader of the House of Commons, the Secretaries of State for Industry, Employment, Scotland and Wales, and to Sir Robert Armstrong.

*D A Edmonds*

D A EDMONDS  
Private Secretary

CONFIDENTIAL

John Gieve Esq  
PS/Chief Secretary



DR. T (PM:11.11.81)

STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT:

MONDAY 15 NOVEMBER 1982

With permission, Mr Speaker, I will now make a statement about certain of my capital expenditure programmes.

Full details are being laid in the Vote Office.

I shall also refer to decisions on the designation of new Enterprise Zones.

As a result of the very considerable success of the council house sales programme and the disposal of local authority assets additional significant cash is now flowing into local government which allows for a significant increase in capital expenditure on certain programmes.

I deal first with housing.

For the current year I have asked local authorities to accelerate their capital programmes in order to spend closer to the national provision, and have offered additional capital allocations for any authorities which need them.

Local authorities have been told that they can increase their expenditure on home improvement grants this year without limit.

The Government has been urging for some time a proposal recently highlighted by the President of the House Builders Federation that local authorities should buy completed, or nearly completed low cost homes directly from housebuilders for sale to first time buyers and those on the waiting list under shared ownership arrangements. I urge all local authorities to promote these schemes.

I have also discussed with the Chairman of the Housing Corporation whether the Corporation could use additional resources effectively this year.

As a result, it has been agreed that the Corporation's cash limit for 1982-3 should be increased by £150m to £680m allow additional expenditure on fair rent, hostel and low cost home ownership schemes and the refinancing of private borrowing guaranteed by the Corporation.

For 1983-4 the gross capital provision for housing will be increased



from this year's provision of £3,190m to £3,240m.

This is some £340m above the presently expected outturn for the current year, taking account of the forecast additional spend from my statement today, and will sustain a substantial increase in construction and improvement activity.

In addition I can now announce that authorities will be allowed to continue to incur expenditure on home improvement grants throughout 1983-4 even if that would mean exceeding the amount they proposed to spend on grants when they originally submitted their HIP bids for allocations this year.

I deal now with other DOE programmes.

For the current year local authorities have been invited to reconsider their plans and to seek any additional allocations they need for derelict land or urban programme expenditure or other projects in the same way as for housing.

The grant in aid to the Sports Council (and the Nature Conservancy Council and Countryside Commission) is also being increased so as to enable it to increase its capital expenditure moderately in the current year, with particular emphasis on schemes to assist areas of urban and rural deprivation.

For 1983-4 a detailed breakdown of DOE's programmes is shown in the figures I have placed in the Vote Office.

Water authority capital investment will be increased from £632m to £677m, and provision for gross capital expenditure on local environmental services will be increased from £400m to £605m.

Within the smaller programmes I am able to announce a useful increase in the heritage, conservation and sports budget from £148m to £165m.

I shall be concentrating further additional gross resources on the greater part of the additional on the urban and derelict land programmes.

The House will be aware that I have already earmarked a sum of up to £70m of public expenditure from next year's urban programme and derelict land programme providing that local authorities submit viable schemes attracting significant private funds to add to that figure.



Mr Speaker, the response from both local government and the private sector has greatly exceeded our expectations.

We have bids of £275m from the public sector which could realise a further potential £900m of investment from the private sector. We are anxious to make all reasonable progress.

We are therefore increasing the provision to £85m which we calculate will enable us to meet the first year costs of all the schemes that after scrutiny we shall be able to approve.

Substantial private sector funds will flow as a consequence of this injection of government support and the balance of both public and private expenditure will continue to be spent over subsequent years.

In addition, I shall be increasing the remaining special budgets for the urban areas.

The totals - including the £85m for the joint schemes - are as follows:

the urban programme will be increased from £270m to £348m;  
the derelict land programme will be increased from £46m to £75m;  
and the resources of the UDCs of London and Liverpool will be increased from £64m to £67m.

In total, the public expenditure on these programmes next year will be £490m, an increase of 29% on this year.

As a further part of our efforts to restore economic health to run-down urban areas, I am able to tell the House about the Government's decisions on the designation of new Enterprise Zones in England.

My Rt Hon Friend the Chancellor of the Exchequer announced on the 27 July that the Government intended to designate 11 new Zones, 7 of them in England.

Local authorities were invited to submit proposals for Zones in their areas.

The response was considerable: more than 50 authorities from all over the country submitted bids to have one of the new Zones in their area.

The quality of many of the bids was very high.

As a result, the Government has decided that, in England, we should go ahead with 9 new Zones and that 2 existing Zones should be



extended.

The 9 new Zones will be in Allerdale and North East Lancs in the North West; Rotherham and Scunthorpe in Yorkshire and Humberside; Telford in the West Midlands; North East Derbyshire and Wellingborough in the East Midlands; Middlesbrough in the North East; and North West Kent including parts of Rochester, Gillingham and Gravesham.

The Government has also decided to extend the existing Zones at Speke in Liverpool, and Wakefield in West Yorkshire.

There will be further discussions with the Local Authorities concerned about the details of the new Zones.

Mr Speaker, the announcements I have made today represent a significant reversal in the overall decline in capital programmes that has characterised much of public expenditure since 1975. They are by far the largest Government programmes backing partnership with the private sector to restore dereliction and to support inner urban schemes that have been launched and illustrate our commitment to the improvement of conditions in what are often the most run-down and depressed areas of our society.



GROSS EXPENDITURE ON DOE CAPITAL PROGRAMMES IN 1983-4 COMPARED WITH  
1982-3 PROVISIONAL OUTTURN

|   | 1983-4 | Provisional Outturn<br>1982-3 |      |
|---|--------|-------------------------------|------|
| Housing Capital   |        |                               |      |
| Local Authorities 2486)   |        | 2068                          |      |
| Housing Corporation 695)  | 3238   | 750                           | 2900 |
| New Towns 75)   |        | 82                            |      |
| Regional Water Authorities  | 677    |                               | 632  |
| Grants to British Waterways Board   | 41     |                               | 38   |
| Local Environmental Services, Capital   | 605    |                               | 400  |
| Coast protection  | 19     |                               | 16   |
| Derelict Land Reclamation   | 75     |                               | 52   |
| Urban Programme   | 348    |                               | 270  |
| Urban Development Corporations  | 67     |                               | 64   |
| Royal Palaces, Parks Ancient Monuments<br>Historic Buildings, the Heritage      | 85     |                               | 75   |
| Grants to Environmental Bodies etc<br>inc. Sports Council & Development<br>Fund | 80     |                               | 73   |
| PSA   | 470    |                               | 437  |

FOR PUBLIC EXPENDITURE PROGRAMMES

1982-3 In order to enable the level of capital expenditure on DOE programmes to be brought closer to the overall provision made at the start of the year, the following increases to cash limits or changes to grants are being made:

|  | INCREASE | RESULTING REVISED<br>CASH LIMIT |
|--|----------|---------------------------------|
| Housing Corporation (DOE/HCl)                    | £150m    | £680m                           |
| Central Environmental Services<br>(Vote VIII,2)  | £3m      | £111m                           |
| National Heritage Memorial Fund<br>(Vote VIII,4) |          |                                 |





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

*NBPM*

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

*MUS 80/11*

9 November 1982

*Ice To*

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

Thank you for your letter of 1 November.

I was grateful for your agreement to the White Paper going forward in its present draft, including paragraph 25 from which you quoted.

The Bill is of course clear that payments up to the guidance are to be regarded as a proper exercise of power. I recognise however that it is very desirable that there should be careful handling of the relationship between the targets and guidance, or protected expenditure levels, and I am sure our officials need to keep in close touch about material to be prepared for Second Reading and for Standing Committee.

I am copying this letter to recipients of our earlier correspondence.

*Yours*

*David Howell*

DAVID HOWELL



LOCAL GOV; RELATIONS BETWEEN CENTRAL  
AND LOCAL GOV ; PT 14.

29 NOV 1982

11 12 1  
10 2  
9 3  
8 4  
7 5 6



From: Altyd Harrington, J.P.  
Deputy Leader of the Council  
Greater London Council

MEMBERS' LOBBY  
THE COUNTY HALL  
LONDON SE1 7PB

The Rt. Hon Margaret Thatcher  
The Prime Minister  
10, Downing Street  
London  
S.W.1.

Original on Prime  
Minister's desk

5/1 with copy of  
enclt Ag 1982

9th. November 1982

Dear Prime Minister

You wrote to me personally to encourage the Council to do what it can to increase its expenditure in the current financial year on capital investment projects, particularly on those of benefit to the construction industry and to employment in that industry.

Let me reply, at once, that the Council is doing, and will do, all it can to expend its authorised capital programmes this year. But there is precious little more it can do between the 3rd November 1982 and 31st March 1983 to increase capital investment to benefit the construction and other industries and their workers in the absence of increased commitment in 1983/4 and beyond.

The reasons why my Council, and many others, find themselves forced, in practice, by Government processes to 'underspend' on capital are so well known in its Central Departments and have been the subject of so many protests that I am frankly puzzled that the letter you sent to me should have been put before you for signature.

There is only one action which can now have any measurable effect in capital expenditure/investment terms in the few remaining weeks of this financial year and give substance to your intent. This is Government's agreement now to the increased level of capital expenditure/investment in 1983/4 which the Council has represented to the Department of the Environment.

Yours faithfully  
Altyd Harrington





# ASSOCIATION OF DISTRICT COUNCILS

From the Chairman:

COUNCILLOR IAN S. McCALLUM

*Original on Prime Minister  
Meeting with Group of  
8 Aug 82*

8 November 1982

*Dear Prime Minister,*

Thank you for your letter dated 2 November 1982.

I welcome the Government's initiative in encouraging local authorities to step up capital expenditure in the current year and I feel sure that many authorities will make the effort to respond positively. You may rest assured that I will do all I can to encourage our authorities to take up the challenge.

There are, however, one or two areas of difficulty which, if overcome, could help local authorities to make an even better response to your call. I have said publicly that the Government's initiative will provide an opportunity for some authorities to bring forward schemes presently scheduled for commencement in the next financial year. To be realistic, it will be difficult for any local authority to embark on major expenditure involving new construction without some much firmer assurances about the carry-over from this year. Personally, I am convinced that there are many substantial construction schemes which could get underway very quickly if the Government would respond with some help on the carry-over commitment.

A second area of deep concern to local authorities is the Government's proposal to restrict the use of capital receipts to supplement allocations next year to 50% of the total in hand. My soundings amongst district councils indicate that this proposal will have a very serious affect on the plans of many local authorities intending to embark on capital expenditure during the next twelve months, but you will understand that the present capital expenditure controls and the selling of council houses under the Housing Act 1980 provisions have only been in operation for a relatively short period of time. It is now that local authorities are feeling the benefits of the power to accumulate and use capital receipts and I know it is from here on that many councils were planning to finance substantial construction programmes by this means. A 50% limit will jeopardise capital programmes which have been drawn up to span the next two or three financial years. I hope that the Government will look again at this proposal, or at least ensure that local authorities in the position which I have described are awarded compensating additional capital allocations to enable them to proceed.

.../....



The third point I would invite you to consider is the possibility of the Government helping local authorities with commitments in capital expenditure which extend beyond one financial year. There are very few capital projects of any substance which do not span more than one year and most forward looking local authorities plan their capital programmes over a three or five year period. I believe that experience of the new capital expenditure control system highlights the difficulty of planning capital programmes on the basis of annual allocations. I would ask you to invite the Secretary of State for the Environment to look at this particular problem again.

May I say in conclusion that this Association and the local authorities it represents welcome any initiative by the Government to stimulate capital expenditure, but those authorities have to operate within the Government's statutory controls and within the constraints of revenue budgets for which substantial capital expenditure inevitably has implications. If you feel that it would be helpful to discuss the issues involved I shall be happy to respond.

*Your sincerely*

*Jan S. McAllen*

---

The Rt. Hon. Margaret Thatcher, MP.,  
Prime Minister,  
10 Downing Street,  
London,  
S.W.1.

AA27/2/ISM/PO





Association of Metropolitan Authorities  
36 Old Queen Street Westminster London SW1H 9JE Telephone 01-222 8100

From the Chairman Sir Jack Smart CBE

5 November 1982

The Rt Hon Margaret Thatcher  
The Prime Minister  
10 Downing Street  
London SW1

*Original on Prime Minister  
meeting with Geoffrey  
Eight ~~at~~ August  
1982*

Dear Prime Minister

Thank you for your letter of 2 November 1982. I share your concern at the underspending on local authority capital expenditure; the AMA has been saying for some time that we need more public investment.

Your letter appears to begin to appreciate some of the problems faced by local authorities in achieving our common aim but I feel it does not go far enough. First, you say that local authorities "are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision". This is the nub. The Local Government, Planning and Land Act, 1980 changed the system of controlling capital expenditure. Before the Act our borrowing to finance projects was strictly controlled. Local government accepted this for our borrowing contributes to the PSBR. But when a Government Department gave borrowing approval it related, in most services, to a complete project. That made sense. A local authority could start a project with the reasonable certainty of having the borrowing approval to allow its completion. The present system controls how much local government spends in a year (no matter how it is financed), not a programme of "starts". We have yet to receive any indication of the level of capital allocations for 1983-84. And we were told only two weeks ago of a change in the rules for 1983-84 which could thwart many worthwhile projects. Is it any surprise that local authorities are reluctant to undertake projects, or that they store up capital receipts to iron out expected shortfalls in capital allocations? A good deal of the culpability for present capital underspending rests with the present system of capital controls.

I am also concerned at the implications of our being encouraged to spend only in the remaining five months of the year. It really does the image of government no good at all when local authorities - at the sharp end - attempt to explain to the public that we are trying to stimulate the construction industry, but only until 31 March 1983. Projects can be undertaken between now and then as a worthwhile investment of public funds, but the project must be completed by 31 March 1983 because we cannot guarantee the funds after that date. This is a nonsense.

Thirdly, my colleagues and I on the Consultative Council on Local Government Finance have searched hard for capital investment projects which do not generate increased revenue expenditure. We have asked your Ministers for examples. The truth of the matter is that they are few and far between and tend not to relate to the main areas of local government spending. You cannot expect a major increase in local authority investment if at the same time you penalise and castigate local government for "overspending" on the revenue account.



Finally, Prime Minister, I must put the record straight. In the House of Commons on 3 November 1982 (Column 21) you said that you were urging us to make full use of the sums that you had "allocated" to capital. That is just what local authorities have been doing. What they have not been doing is using their capital receipts to increase these allocations. They are planning to use them in future years but they have not done so yet. Michael Heseltine's plans for the use of capital receipts jeopardise that future use.

I shall, as you have asked, draw your letter to the attention of the Association's member authorities, but unless something is done about the problems I have outlined in this letter the results will be nugatory.

Yours sincerely

*Jack Sweet*



BI  
JV  
ms

Prime Minister 2



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

Wh  
2/11

The Rt Hon Cecil Parkinson MP  
Chancellor of the Duchy of Lancaster  
and Paymaster General  
Management and Personnel Office  
Whitehall  
SW1A 2AZ

4 November 1982

*Cecil*

*[Handwritten signature]*

The Transport Bill, whose main purpose is to control public transport subsidies in the GLC and the Metropolitan Counties, is to be published on Friday. A White Paper will be published simultaneously. An inevitable implication of our intention to squeeze down public transport subsidy next year is that even allowing for considerable service cuts and possible efficiency savings, fares will have to rise significantly in real terms everywhere except in Manchester and London. As soon as the GLC and Metropolitan Councillors have had time to study the guidance figures, they will no doubt make much of this and accuse us among other things of directly pushing up the cost of living.

I thought it might therefore be helpful for you and other Cabinet colleagues to know the line I shall be taking. This will be that the figures envisaged

- cannot and do not ignore the need to contain the growth of public expenditure. Transport cannot be immune;
- aim to mitigate the damaging impact of high rates on householders and businesses;
- create stability by clarifying what is a reasonable balance between the interests of travellers and those who provide subsidies. People will then be able once more to plan their affairs and their finances;



and transport undertakings to concentrate on greater cost-effectiveness.

More specifically, on London I shall say that the figures do not require any general fare increase (whatever the GLC claim); that it will be right for LT to continue to seek to remove some of the glaring fares anomalies but that this process must have regard to what can be afforded now; and that lower fares should be financed by the cost savings that could be secured in LT. I shall categorically refute that in London the cost of travel will be pushed up if they keep to the guidance figure.

On the Metropolitan Counties I shall seek to avoid being drawn on fares effects (our figures assume rises between 15% and 32% with over 100% in South Yorkshire). My line will be that my guidance figures are all well above the level of revenue support accepted for Transport Subsidy Grant in 1982/3 so that provided they contain their costs, there is ample scope for them to strike the right balance of fares and services. The provisions do not constrain the (generous) concessions to the elderly and disabled. But I shall take a more aggressive line on South Yorkshire that fares will certainly be expected to increase substantially from their present quite unrealistic level towards something representing better value for money.

On the overall point that the price increases in the Metropolitan Counties are inflationary, my response will be:

- first that what people have to pay in rates is also part of the cost of living - there is no avoiding rises in the RPI if costs are rising;



- second, the reason rises may be needed in some places is that fares were deliberately and irresponsibly cut regardless of cost;
- third, increases in public expenditure beyond what we can afford will undermine our counter-inflationary strategy on which our whole economic future depends.

Colleagues visiting metropolitan areas over the next few weeks might like to get further briefing from my Department especially on the effect of high fare subsidies on business rates and therefore jobs in these areas. I shall also be liaising closely with our London Parliamentary colleagues (as well as those with seats in the Metropolitan areas) and with our GLC and Metropolitan Authority councillors to get our message across.

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

*Yours  
David*

DAVID HOWELL



10

11 12 1  
R  
8 7 6 9  
4

24 NOV 1962



From: Mr J R Horrell CBE TD DL, Chairman of the Executive Council

ASSOCIATION OF COUNTY COUNCILS

EATON HOUSE, 66A, EATON SQUARE, LONDON, SW1W 9BH

MCS  
ellen

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

Original Prime Minister  
Meeting with Gray 8

4 November 1982

Angela  
1982

Dear Prime Minister

Thank you for your letter of 2 November.

Immediately after I met the Secretary of State for the Environment, the Association alerted all our members to the Government's offer and I am sure that our members will do all they can to respond and increase worthwhile investment in the present financial year. My colleagues and I share the views of the Government on the need for capital investment, not only to help the construction industry and the general employment situation, but also to maintain the fabric of our infrastructure and the needs of the services which local government provides.

I know that you understand the limited possibilities available in the present financial year and that the use of capital receipts is not the only factor. You recognise the difficulties in planning forward programmes when it is not possible for the Government to give firm indications of future levels of provision. Another factor is the requirement that additional projects for the present year must be such that any expenditure falling in 1983/84 or thereafter must be borne within the normal resources for those years and the revenue consequences must be borne without any amendment to GREs or targets.

Some of my colleagues are due to meet Michael Heseltine next week and I know they hope to explore with him positive proposals to enable local government to respond to the Government's objective of additional investment which we all share.

Yours Sincerely  
John Horrell



MR. MOUNT

The Prime Minister would be grateful if you would pass on to the appropriate quarter your suggestion in paragraph 5(iii) of your minute to her of 27 October.

MUS

4 November 1982



CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

4 November 1982

cc DES  
cc Home Office  
INDUSTRY  
WELSH OFFICE

16/12.

LOCAL AUTHORITY CAPITAL UNDER-SPENDING

I attach a copy of a note by the Policy Unit here on under-spending by local authorities.

The Prime Minister would be grateful for your Secretary of State's comments, and for those of the Chief Secretary, on the suggestion that Government approval of capital projects should be time-limited so as to provide a mechanism whereby the Government could speed up capital expenditure, and ensure that capital expenditure would form a prior unalterable charge on local authorities' budgets before current spending came to be discussed at all.

I am sending a copy of this letter and enclosure to John Gieve (Chief Secretary's Office, H.M. Treasury).

M. C. SCHOLAR

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

CONFIDENTIAL





10 DOWNING STREET

(1)

Prime Minister

You saw Ferdy's note  
on underspending (attached)

Shall I ask DoE / Treasury  
to examine x? ✓ ~~Am~~

And Ferdy to feed Y  
into the appropriate quarter?

Yes  
ml MCS 3/11



CG Local Government:  
Relations: Pt 14

Original Prime Minister  
Meeting with Group of Eight  
August 1982



*file*

DOE  
CS, HMT  
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

*Dear* *Councillor Horley.*

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is

/needed to



needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely  
Raymond Hulse



Relations: FT 14  
Original  
Prime Minister: M. J. Smith  
Group of Eight: 8/82



file

FILE  
CSDOE  
CS, TMT  
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Bowdler,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will

/agree that



agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely  
Raymond Stedman

---

Councillor P.S. Bowness, C.B.E.



cc local Government  
Relations; PMH

Original on Prime Minister  
Mtg with group of eight 8/12



file

CS, HMT  
Press

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councilor Mc Culham

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you

/will agree



will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely  
Raymond Stiller

---



cc Local Government  
Relations: P114

Original: Prime Minister

Group of Eight: 8/82

Myself



file

JR  
CCS/HR  
DOE  
PRESS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Hamplin,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

/Michael Heseltine



Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely  
Raymond Storer

---



cc Local Government  
Relations: Pt 14

~~HTU~~ THU

Original in: Prime Minister's  
Meeting with Group of Eight 8/82



file

CS, HTU  
PDS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Sir Tade,

I am concerned to learn that after underspending on capital substantially in 1981/82 local authorities show every sign of doing the same in 1982/83 because they are making little use of their capital receipts. As local authorities have some £1½ billion of capital receipts, the scope for additional investment is very considerable indeed.

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry, and they drew particular attention to the way in which local authority (and nationalised industry) capital investment is falling below the Government's public expenditure provision.

The Government maintains its firm policy of restraint of public expenditure as a whole. Within that, there is scope for some shift from current to capital spending. In the Government's view this is highly desirable. That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations.

I recognise that authorities are still developing their expertise in operating the capital allocation system and that there are difficulties in planning forward programmes when it is not possible for us to give firm indications of future levels of provision. Long lead times and the need to provide for the revenue consequences of higher capital spending are also significant factors. The fact remains, however, that some authorities made full use of both their allocations and their receipts last year and there is clearly no insuperable difficulty to others doing likewise. I feel sure you

/will agree



will agree that much investment is needed to plan for future economic recovery, and that the present time, when the construction industry has spare capacity is the moment to be making provision for those future needs.

Michael Heseltine has just announced that in view of this year's underspend extra allocations will be available to authorities which can achieve local additional investment before the end of the year. We believe that there is much which can be done if local authorities, the construction industry and central government work together to minimise delays.

I would ask you, therefore, to urge your members to do all they can to respond to the Government's offer and increase worthwhile investment in the present financial year.

Yours sincerely  
Margaret Thatcher

---

Councillor Sir Jack Smart, C.B.E., J.P.



cc Local Government  
Relations: Pt 14

Originator Prime Minister  
Mtg with Group of Eight 8/82



file  
cc CS, AMT  
DOE  
PWS

10 DOWNING STREET

THE PRIME MINISTER

2 November 1982

Dear Councillor Sewel,

I recently met the Group of Eight, the body which represents all sides and parts of the construction industry. They expressed concern about the way in which local authority expenditure is falling below the Government's public expenditure provision. I told the Group that I would write to local authority associations, setting out the Government's views.

I fully understand that, with the strong emphasis we have placed on reducing current expenditure, some authorities may tend to be particularly cautious in planning their capital spending because of its current expenditure implications. Stringent control of current expenditure is of course essential; nevertheless, as you will appreciate, we have made every effort at a time of great difficulty to allocate as much as possible for capital programmes. It is therefore a great pity if so much of this goes unspent because of undershooting of targets; in 1981-82 there was a substantial underspend on the capital allocations made to local authorities in Scotland. The construction industry is obviously hit hard by this at a time when it is very short of work. I am therefore writing to express the hope that Scottish local authorities will do all they can to avoid underspending in 1982-83 and in later years.

I do understand that local authorities try hard to spend their annual allocations but can often be held back by circumstances beyond their control like last winter's severe weather. I am writing to reassure you however that we in Government will do what we can to help Scottish local authorities to utilise efficiently

/ all the



all the resources available to them. I know that the Secretary of State has in mind to issue whatever supplementary allocations may be available as early as possible and for next year to arrange for authorities to receive early intimation of their final allocations.

I very much hope that I may count on the assistance of the Convention in encouraging authorities to make full use of the resources made available to them.

Yours sincerely  
Margaret Thatcher

---

Councillor John Sewel



**CONFIDENTIAL**

*cc J.V.  
Local Govt*



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

MINISTER FOR LOCAL GOVERNMENT  
AND ENVIRONMENTAL SERVICES

*NB PM  
ms 2/4*

*2 m's*

My Ref: H/PSO/17455/82

*1st* November 1982

*D. D. D.*

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

*below*

I have seen a copy of your letter of 29 October to Leon Brittan.

I am sorry that you are not willing to accept Leon's suggestion for amending paragraph 13, which would have made it clear beyond any doubts that the expenditure targets will be paramount. That was one of the points on which I thought we had agreed at Leon's meeting on 26 October. However, I would not wish to press the point, provided that paragraph 25 is retained; this makes it clear that local authorities "will have to decide on the amount within their transport guidance figure that they can afford to spend on subsidy in the light of the expenditure targets".

But while that resolves the immediate question of the text of the White Paper, I am afraid that there may still be an underlying ambiguity about the relative status of the expenditure targets and the transport guidelines. I should therefore be grateful if you would ensure that my Department is consulted on what you propose to say about this both on Second Reading of your Bill and in Standing Committee.

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

*2*  
*u*  
*1*  
*u*

TOM KING

**CONFIDENTIAL**



CONFIDENTIAL

99 JV



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

NBPM  
mwr 2/11

29 October 1982

Dear Chief Secretary

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

Thank you for your letter of 28 October commenting on my draft White Paper.

I am afraid that I cannot accept the amendments you suggest to paragraph 13. Our officials have been trying hard to find a form of words which we can both accept but it appears that there may be a difference of view between us about the intention underlying the Bill.

As I understand it, the purpose of the amendment to the draft which you are suggesting is to make it clear that the protection afforded by Clause 5(2) of the Bill for expenditure up to my guideline should apply only in the context of what is lawful under Transport legislation.

It envisages that expenditure within the guideline might still be challenged if an authority's total current expenditure exceeds its target. However I am advised that as the Bill stands, any level of subsidy up to the guideline would be protected in these circumstances. If the White Paper casts doubt on this, there would inevitably be probing amendments during the passage of the Bill which would place me in a very difficult position.

CONFIDENTIAL



**CONFIDENTIAL**

I could not agree to amend the Bill to meet your point since this would actually reduce its effectiveness in containing public expenditure. If reasonable transport subsidies by over-spending authorities were not protected by my guideline it would greatly reduce the incentive for them to keep within them. This would be particularly dangerous in the case of the GLC.

I quite understand your wish for the White Paper to make it clear early on that authorities must take their decisions on subsidy in the context of their overall targets. I am attaching a suggested redraft of the end of paragraph 13 and beginning of paragraph 14 which I believe meets this point. I must finalise the text for printing at proof stage on Monday afternoon. If you see any difficulty I should be grateful if you would let me know as early as possible on Monday morning.

I am copying this to the recipients of our earlier correspondence.

*Yours sincerely*

*Sue Faulkner*  
PRIVATE SECRETARY:

*for* DAVID HOWELL

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

**CONFIDENTIAL**



# CONFIDENTIAL

## WHITE PAPER ON PUBLIC TRANSPORT IN CITIES

### Suggested re-draft

#### Para 13, line 13

..... The proposed legislation will state that subsidy payments up to the level indicated by the Secretary of State for Transport are to be a proper exercise of the Authority's power. Councillors will then be able to take decisions on the overall amount of current expenditure, taking account both of the targets set by the Secretary of State for the Environment and also of the guidance by the Secretary of State for Transport. If nevertheless, the Authority should decide for a higher level of subsidy, councillors will know that they run the risk of surcharge should their action be challenged by the Auditor and found by the Courts to be unlawful.

Ratepayers will continue to have the right to challenge expenditure above the indicated level where they think it is unreasonable.

There is a need for a common framework for determining subsidy in London and the Metropolitan Counties, and there is no justification for the present difference in financial duties. The legislation will provide a common framework and a common financial duty. The level of subsidy .....

CONFIDENTIAL



Local Gov

Relations

11 12 1  
2 3 4  
5 6 7  
8 9 10

11 NOV 1982



FILE

CONFIDENTIAL



10 DOWNING STREET

CCHD SO CAZ  
 KCO WO DOT  
 HMT D/Ind ewo  
 FLO KPO CO  
 DES DHSS  
 NIO CSO  
 MOD KPSO  
 MAFF DIN  
 DOE DIM

da

be JV

From the Private Secretary

28 October 1982

Dear Richard,

White Paper on Public Transport Subsidy in Cities

The Prime Minister was grateful for your Secretary of State's minute of 26 October to which was attached a draft White Paper on public transport subsidy in cities.

The Prime Minister has commented that the last sentence of the White Paper goes some way beyond agreed policy. Subject, therefore, to the deletion of the last clause in this sentence, and subject to the agreement of colleagues, the Prime Minister agrees to publication of this White Paper as proposed.

I am sending a copy of this letter to the Private Secretaries to the other members of the Cabinet, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Richard Bird, Esq.,  
Department of Transport.

CONFIDENTIAL

da





Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP  
 Secretary of State  
 Department of Transport  
 2 Marsham Street  
 London SW1P 3EB

28 October 1982

*David*

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

I am broadly content with the draft White Paper which you circulated with your minute to the Prime Minister of 26 October.

However, I think it is important that the White Paper should make it absolutely clear that the Bill will not affect the need for authorities to comply with targets for total spending, and that the protection it affords should be construed as limited to the extent that payment of subsidy is consistent with their observance. For reasons with which you are familiar, we shall still have to tell authorities that they may not be able to afford to spend up to the limit set by the guidelines if they choose to spend such amounts on other services that their total expenditure may exceed their target.

To avoid misunderstanding on the part of readers, I think that the overriding importance of targets should be brought out early in the paper, at the time that the guidelines are first explained. This could be done by inserting as the fourth sentence of paragraph 13:-

"It will, of course, still be necessary for authorities to take account of the targets for total expenditure set by the Secretary of State for the Environment (see also paragraph 24 below). This may affect the amount an authority can spend on transport."

The paragraph would then continue:

"But with that proviso, the proposed legislation will put beyond doubt....."



I suggest that paragraph 14 should then begin:

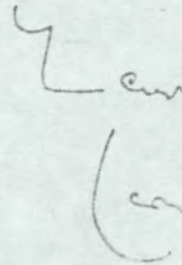
"The new legislation will provide that what is a reasonable and lawful level of subsidy so far as transport considerations are concerned will be determined on a common basis for London and the Metropolitan Counties."

In the last line of paragraph 18 it would be better to say "those considerations and procedures relating to transport": and in paragraph 19 I believe it is necessary to add at the end of the first sentence the words "on transport grounds".

I understand that my officials have already suggested an alternative version of paragraph 24, and I hope it will be acceptable. Indeed, I trust you will agree that all these changes are consistent with the understanding that we have reached on the position of the guidelines in relation to targets and, in particular, with the agreement we have reached on the target for the GLC.

Finally, I doubt if we should go so far as to say in the final paragraph of the White Paper that the present arrangements for London "are no longer tolerable". That would let the GLC see itself as already condemned in its transport function, with nothing to lose whatever actions it took. We have not, after all announced or even concluded our decisions on what should be done. I would therefore prefer that the White Paper should end by saying simply that the Government will be setting out its proposals for change in its reply to the House of Commons Select Committee.

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



LEON BRITTAN



Local Govt. Central/Local Relations,  
P7-14

UNIVERSITY OF  
TORONTO

20 OCT 1982



FILE

CONFIDENTIAL

cc: DES ✓ CDL ✓ da  
WO ✓ SO ✓  
CO ✓ D/Ind ✓  
LOD ✓ CWO ✓  
DHSS ✓ CO ✓  
DOE (2)  
D/Trans ✓ bc: JV ✓



10 DOWNING STREET

From the Private Secretary

28 October 1982

Dear John,

MINISTERIAL GROUP ON RATE SUPPORT GRANT (MISC 21)

The Prime Minister endorses the decision of MISC 21 recorded in the Home Secretary's minute of 28 October, that there should be no exemption from holdback for local authorities spending more than their expenditure targets but less than their grant-related expenditure assessments.

I am sending a copy of this letter to the Private Secretaries to the other members of MISC 21, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

John Halliday, Esq.,  
Home Office.

CONFIDENTIAL

da



CONFIDENTIAL



Prime Minister

dc JV  
①

The very existence of GRE seems to have become an embarrassment.

PRIME MINISTER

Endorse the decision that there should be no exemption from holdback for Authorities

MINISTERIAL GROUP ON RATE SUPPORT GRANT (MISC 21)

Spending more than

The first two meetings of the Ministerial Group on Rate Support Grant (MISC 21) took place under my chairmanship on 21 and 26 October. One of the main topics we discussed was the basis on which the Secretary of State for the Environment should consult the local authorities about schemes of grant abatement: in particular, whether those authorities spending more than their expenditure target but less than their grant-related expenditure assessment (GRE) should be exempt from abatement of grant ('holdback'). In view of the political implications I thought it right to report our conclusions to you.

target but  
less than  
GRE?

Misc 27/10

The Ministerial Committee on Economic Strategy (E) agreed in July that the expenditure targets for low-spending English local authorities in 1983-84 should be based on the budgets of those authorities in 1982-83. In some cases, the target so calculated will be less than the GRE, which is regarded as assessing the need of each local authority to incur current expenditure, given the range of services which it provides, the size and age structure of its population, and so on. Many of the authorities in this position are controlled by our own supporters. Under pressure from them we conceded that the scheme of holdback for 1982-83 should not penalise authorities spending more than their target but less than their GRE.

Yes  
not

The Secretary of State for the Environment is required by statute to consult the local authorities about holdback methods. As foreshadowed in the memorandum which he put to E Committee in July (E(82)59) he proposes to consult them on the basis that in 1983-84 there will be no exemption from holdback for those authorities spending more than target but less than GRE. He and most other members of the Group take the view that local authorities in this position will typically have targets for 1983-84 some five per cent higher in cash terms than their expenditure in 1982-83 and that, with declining inflation, this will allow a perfectly adequate real level of expenditure; that to concede exemption from holdback for authorities spending less than GRE would result in additional public expenditure (the difference between target and GRE for the authorities involved is £380 million, though in practice the additional expenditure would no doubt be less than this); and that to concede at this stage exemption for authorities spending less than GRE would be regarded as an indication of a weakening in our determination to curb local authority current expenditure.

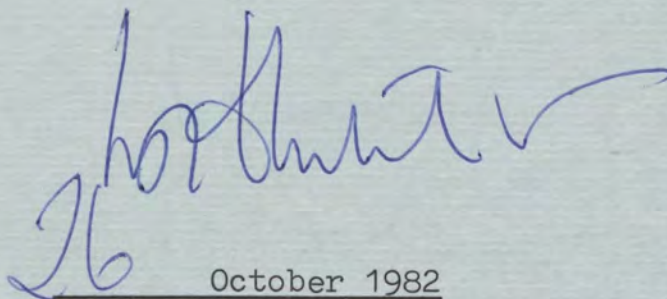
CONFIDENTIAL



Some members of the Group took the view that we should come under such heavy pressure from our supporters and others to exempt authorities spending less than GRE from holdback that we should have to give way sooner or later; that it would be hard to justify penalising authorities spending less than the Government's own assessment of need, as shown by the GRE; and that it would be better to make the concession at the outset rather than stir up unnecessary trouble by consulting local authorities on a basis which, in the event, we could not sustain. Against this, however, it was pointed out that the Secretary of State for Wales had already consulted local authorities on the basis of no exemption, without provoking undue difficulty. Moreover, there are a good many local authorities, especially among the district councils, who are holding expenditure to target even if it is less than GRE, and resent the fact that, at present, those spending more than target but less than GRE receive favourable treatment.

Despite the certainty of protests from many of our supporters, the Group concluded that it was right to consult the local authorities on the basis of no exemption from holdback for authorities spending less than GRE; and the Secretary of State for the Environment will proceed accordingly. It will, of course, still be possible to include such an exemption in the scheme of holdback eventually adopted if it seems right to do so in the light of the consultations; the other features of the holdback scheme, and the severity with which it treats different levels of expenditure, will also be relevant. These matters will be for Ministers collectively to decide on the basis of recommendations from MISC 21.

I am sending copies of this minute to the other members of MISC 21, to the Chief Whip, and to Sir Robert Armstrong.

  
26 October 1982





Local Gov

Relations





10 DOWNING STREET

3

Prime Minister

Underspending on capital

I attach 7 letters to sign

urging local authorities and nationalised  
industries to spend their capital  
allocations.

Please see, too, Ferd's note (attached)

Shall I ask DOE / Treasury to  
examine X? and Ferd to feed Y  
into the appropriate quarter?

MUS 27/10



CONFIDENTIAL

Prime Minister <sup>①</sup> *CC JR*

✓BI  
WR

Agree publication of  
this White Paper on 5 Nov,  
subject to Wleynnes' agreement?

PRIME MINISTER

*Yes*

WHITE PAPER ON PUBLIC TRANSPORT SUBSIDY IN CITIES

*MS 26/10*

It will be important to set the Passenger Transport Bill to control subsidies in London and the Metropolitan Counties in a context that commands as widespread support as possible. I feel the best way of doing this would be through a White Paper on the same day as publication of the Bill - probably 5 November.

In this way, I can not only set the initial guidance figures in the context of what we are aiming to do, but set out our approach to public transport subsidies and establish ground on which to resist the main lines of attack which our opponents will undoubtedly launch. I expect these to be that the legislation is an assault on local democracy and that it is our aim to destroy local transport by removing all subsidies.

The White Paper will also provide an explanatory framework for the figures I am publishing as an indication of what are likely to be the levels I shall set as soon as the legislation enables me to do so. The advantage of making these available now is that there will be no excuse for authorities to fail to take them into account in their preparation of plans and budgets for next year. The relevant paragraphs (24 and 25) explain the relationship with other figures we are setting local authorities. Following MISC 21 today the schedule of figures, which is still provisional, is to be finally settled before the White Paper has to be sent to the printers at the end of this week.

CONFIDENTIAL





I hope you and colleagues will agree that the balance I have sought to strike in the White Paper is the most appropriate one, both to reassure our own supporters about our determination to see that the interests of ratepayers are properly taken into account and to ensure that better value is obtained from transport undertakings. The document will undoubtedly be scanned to see what we have to say about major reorganisation and allocation of transport responsibilities, particularly in the light of the Select Committee Report. Clearly we cannot anticipate the outcome of the work of MISC 79 and other bodies, but I think it is essential that we should end on a firm note that we are deeply dissatisfied with the present situation and, by implication, reinforce cautious tendencies among local authorities to have regard to our policies on subsidy expenditure. I therefore very much hope that there will be general agreement with the concluding paragraph I have included in the White Paper which is intended to show that we are moving forward with determination.

As time is so short, given the requirement for early introduction of the legislation, I should be most grateful if colleagues could let me know by Thursday if they have any revisions they would wish to suggest. Friday would be the deadline for getting to the printers.

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

JH.  
2

DAVID HOWELL  
26 October 1982



PROVISIONAL PROTECTED EXPENDITURE LEVELS FOR REVENUE GRANTS IN 1983/4 (£M CASH)

| <u>COUNTY</u>                               | <u>PROVISIONAL PROTECTED EXPENDITURE LEVELS</u> | <u>COMPOSITION OF LEVELS</u> |                   |
|---|---|------------------------------|-------------------|
|   |   | BUS + OTHER                  | S20 GRANTS        |
| Greater London Council -<br>revenue support | 125 <sup>(2)</sup>                              | 125 <sup>(2)</sup>           | -                 |
| depreciation and<br>renewals                | 95 <sup>(3)</sup>                               | 95 <sup>(3)</sup>            | -                 |
| Greater Manchester Council                  | 46 <sup>(2)</sup>                               | 28 <sup>(2)</sup>            | 18 <sup>(2)</sup> |
| Mersey                                      | 40  | 25½                          | 14½               |
| South Yorkshire                             | 40  | 37                           | 3                 |
| Tyne and Wear                               | 18 <sup>(4)</sup>                               | 16½                          | 1½                |
| West Midlands                               | 28 <sup>(2)</sup>                               | 22½ <sup>(2)</sup>           | 5½ <sup>(2)</sup> |
| West Yorkshire                              | 44  | 35                           | 9                 |

Footnotes:-

- (1) Protected expenditure levels are the amounts of revenue grant which the Secretary of State thinks appropriate. Revenue grant is defined in the new Transport Bill and covers grants under Section 3(1)(a) of the Transport (London) Act 1969 and under Section 13 of the Transport Act 1968. Grants to reduce children's fares are included. The payment for concessions for the elderly and disabled is not affected by the Bill and the sums involved are not included in these totals.
- (2) These amounts are still under consideration by Ministers.
- (3) This sum reflects the different funding arrangements for London. [Note for Ministers: This £95m. scores in public expenditure terms under capital expenditure and is irrelevant to DOE targets.]
- (4) Assumes £7m. application of cash reserves to meet operating deficit.



DRAFT WHITE PAPER

PUBLIC TRANSPORT SUBSIDY IN CITIES

- Revise of 25th October 1982

1. Efficient transport is vital to the economic and social life of our great cities. London and the six Metropolitan Counties - Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire - house more than a third of the population of England. Millions of others work, shop or visit there.
2. Both private and public transport have major and essential roles to play. The car is for many the first choice. But the streets could not cope if everyone tried to travel by car and many people do not have the option of doing so. It is therefore of deep concern to all who live or work there that the systems for running and financing public transport operate smoothly and effectively.
3. This process has been threatened by recent uncertainties about the role and the legality of subsidy. That is why the Government is now bringing forward legislation to remove the uncertainties. A clear and consistent legal framework is needed for the payment of reasonable levels of subsidy. The legislation will also improve value for money by requiring Authorities to seek greater efficiency by reviewing and if necessary reforming management structures. It will develop further opportunities for the private sector to provide urban passenger transport, by requiring the Transport Executives to review which services and facilities should be put out to competitive tender so that they can be provided most economically.

THE ROLE OF PUBLIC TRANSPORT SUBSIDY

4. The provision of public transport, like other services, must reflect demand. The amount of travel by bus has been falling steadily for 30 years, averaging about 3½% a year. The principal cause is the seven-fold increase in private motoring in the same period. In many of our large cities journey patterns have changed as people and jobs have moved out of the centres. Public transport is labour-intensive and the cost has been rising sharply. Operators have therefore found it increasingly difficult to meet their costs through fare income and to provide reasonable service levels in the face of the combination of falling demand and rising costs. Appropriate adjustment cannot be



CONFIDENTIAL

achieved over night. The gap has been bridged by increasing levels of subsidy.

5. Far and away the lion's share of total subsidy to public transport in England is spent in the areas of the Greater London Council and the six Metropolitan Counties. Between them they are receiving some £300m - two-thirds - of the Transport Supplementary Grant (TSG) allocated by central government to support local transport in England. In addition around £250m - approaching 30% of the Government's annual grant to the whole of the railway system - goes to commuter services in the London and the South East sector. These figures reflect the very considerable importance the Government attaches to maintaining effective local public transport.

6. Because transport subsidies are so large, can escalate so rapidly and sharp changes in their level are so disruptive it is important that decisions about them are taken on a well-informed basis, with the expenditure directed to clearly defined purposes. In the Government's view some of the recent and proposed big increases in the subsidy bill have not been justified. It is not acceptable for subsidies to be squandered on excessive costs, poorly tailored services or unnecessarily low fares. That would produce the worst form of runaway deficit financing, and would be neither in the best interests of local rate-payers nor in the national interest.

7. Subsidy needs to provide demonstrable benefits over and above the straight financial gain to those who use public transport. Rising costs are not in themselves a legitimate reason for rising subsidy. Indeed the willingness to pay subsidy can itself be a cause of rising cost, because it reduces the incentive for stringent control of costs. The need for subsidy has to be demonstrated. It should be paid only if its benefits are manifestly greater than the disbenefits of the extra taxes and rates needed to finance it. The Government's proposals will lay on London and the Metropolitan Authorities a requirement to describe and evaluate properly the benefits it regards as justifying any subsidy it proposes to pay.

8. Nor is keeping down the fares in itself a sufficient reason for subsidy; for it only transfers the cost of paying for services from users to taxpayers and ratepayers. General fare subsidies are not a sensible way of redistributing income from rich to poor - those who commute farthest on public transport are not usually the worst off.



There must be genuine transport benefits, such as the provision of specific services in areas or at times that could not support a viable public transport service; or the alleviation of road congestion through the attraction of drivers from their cars. Such benefits should, wherever possible, be specified, measured and assessed. The actual numbers who transfer from their cars to public transport because of low fares, for example need to be set against the expenditure involved. In evidence to the Select Committee in February the GLC recognised that their low fares policy was not expected to make more than a 1% difference to traffic levels, and this reflects experience elsewhere. In general, where subsidies are offered it should be demonstrated that the benefits so obtained are well worth the costs involved.

9. Those costs fall to a significant extent on local ratepayers. It is appropriate for local people to contribute through the rates to the cost of necessary subsidy to local transport. But any subsidy increases the total burden of rates and taxes, and excessive subsidies have required large sums from local ratepayers, many of whom benefit little from the services and may be poorer than those who do. Old people for example often travel cheaply, but high subsidies hurt them with high rate bills. High rates add to industrial and commercial costs and reduce the number of jobs. The whole issue of subsidies and the speed with which they can mount creates local tensions and uncertainties, which may then be reflected in political responses which can be damaging to the sensible long-term planning of transport undertakings. Such damage can be aggravated if hasty and indiscriminate subsidies induce higher costs.

10. Londoners have suffered special problems over the last year or so as a result of a political decision to plunge ahead with artificially low fares. Huge rises in subsidy were required when the GLC increased the costs of London Transport and rushed through hastily-considered major cuts in fares. The Courts, following the challenge by Bromley ratepayers, found that the GLC's supplementary rate to finance those fare cuts was unlawful. The GLC had failed to maintain a proper balance between the ratepayers, taxpayers and travellers. Fares were then increased by 100% in the Spring. These events caused large rate increases and damage and disruption to London Transport.



They also led to inconvenience and in some cases hardship to people who live and work in London. Ratepayers are still shouldering the £125m bill for the six months of the high-cost/low-fares policies which the GLC adopted. The uncertainty and damage was increased by the GLC's delays in approving London Transport's budget and investment proposals. Ratepayers' money was <sup>instead</sup> used to finance a publicity campaign to change the law so that the GLC might without risk of further challenge revert to the policies that had been found unlawful.

11. These actions have had consequences outside London as well. Following the events in London questions were inevitably raised about the legality of some of the policies being pursued by the Metropolitan Authorities and about the provision of subsidies under the Transport Act 1968, which is similar to the Transport (London) Act 1969 but with some important differences in wording. There were two actions in the High Court earlier this year and Authorities have had a variety of advice from leading Counsel on the lawfulness of their subsidies. Uncertainty about the legality of subsidy payments, both in London and in the Metropolitan Counties has been created which is damaging and the inadequate basis on which some subsidy decisions are being taken has been revealed. Now the GLC are considering a further regime of sharp fare cuts and rate increases, which could lead to fresh legal challenges and create further confusion and damage to London's transport.

12. The Government have therefore concluded that legislation is needed to remedy this and provide for a reasonable, stable and lawful subsidy regime.

THE PROPOSED LEGISLATION

13. Under the Passenger Transport Bill now being brought before Parliament, detailed planning and decisions about services, fares and subsidy will continue to rest with local authorities and their Transport Executives. But this will be within an overall framework that encourages coherent forward planning and efficient use of resources, taking account of all the competing claims and the need for the private sector to invest in growth. The Transport Executives and the GLC and Metropolitan Authorities will be required to set out annually on a common basis their proposals for fares, service levels and subsidy, leading to guidance by the Secretary of State for Transport on the



level of subsidy. It will put beyond doubt that subsidy payments up to the level indicated by the Secretary of State are to be a proper exercise of the power of the Authority. Councillors will be given a firm basis for lawful decisions. Should an Authority nevertheless decide for a higher level of subsidy, ratepayers will continue to have the right to challenge expenditure where they think it is unrea-  
unreasonable.

14. The new legislation will provide that what is a reasonable and lawful level of subsidy will be determined on a common basis for London and the Metropolitan Counties. There is no justification for the present difference in financial duties. The level of subsidy decided by the Secretary of State will reflect the total national resources available, the benefits which the subsidy would provide and the current and past levels of subsidy in the area.

15. The Monopolies and Mergers Commission in their recent report on the bus industry have drawn attention to the desirability of comprehensive three-year rolling plans for bus undertakings. The Government believe that such plans will provide the right framework for transport provision and are building three-year planning into the legislation. <sup>Railways Board</sup> Agreements between Transport Executives and the British for the provision of rail services in the area of the Metropolitan Authorities (under Section 20 of the Transport Act 1968) already run for a three-year period. The Government also believe that London and the Metropolitan Counties must take their subsidy decisions on a properly informed basis. This is particularly important and urgent in these cities, where hundreds of millions of pounds of subsidy are involved and where the relationships between those providing services and those providing subsidies have become in many cases blurred.

16. The Transport Executives will be required to prepare three-year plans covering financial prospects, capital provision and the most effective options for balancing services and fares in relation to costs, revenues and travel needs. The Secretary of State will provide initial guidance each year about the factors to be taken into account. The aim will be to build on and develop the existing arrangements for preparing annual budgets and forward plans, so as to improve their value. Discussions will be held with Authorities and Executives about how this can best be achieved. Metropolitan Authorities and the GLC will consider these plans in the light of their own responsibilities and of



the resources available and seek adjustments they think desirable. In doing so they will need to balance the interests of ratepayers and transport users, to assess the costs and benefits of what is proposed and take account of advice given by the Secretary of State. The plan, together with any proposed modifications, will then be submitted by the Authority to the Secretary of State, no doubt in association with the annual Transport Policy and Programme, which is used as a basis for bids for Transport Supplementary Grant. The Secretary of State will issue as soon as possible thereafter his guidance about the amount of subsidy for the year ahead.

17. Payments by an Authority for concessionary fares for the elderly and disabled will not be included within these figures. Following the House of Lords decision in the Bromley case, the Government immediately introduced legislation in the Travel Concessions (London) Act 1982 to give the GLC the same powers as other Authorities to pay for travel concessions for the elderly and disabled. The new Bill will not affect the powers of the GLC and the Metropolitan County Councils to pay for such concessions.

18. Under this new system of planning and guidance figures it will be easier for subsidising authorities and for ratepayers to identify what benefits are being provided in return for the subsidy, and whether these benefits are being provided in a cost-effective way. The result should be better value for money from the subsidy. And it will be easier for the ratepayer to reach a view on whether the level of subsidy proposed in his area is reasonable and adequately takes account of those considerations and procedures to which his councillors should have regard.

19. Second, where the plans provide for a level of subsidy which falls within the level indicated by the Secretary of State, councillors and passenger transport undertakings will not be subject to the present uncertainty about the likelihood of challenge on their reasonableness. It will not necessarily be unlawful for an Authority to adopt a subsidy policy in excess of the indicated level. But if they do so, they will not have the protection of the new provisions and the councillors will know they run the risk of surcharge should their action be challenged by the Auditor and found by the Courts to be unlawful.



CONFIDENTIAL

20. Third, transport operators will be able to provide and plan services in a more stable and longer-term framework. They will have an indication relatively early of the resources likely to be available in the following year together with a more general indication of prospects for two further years. The three-year rolling plans will allow proper consideration to be given to projects with long-term benefits and costs. This has not been possible when year-by-year pressures, ad hoc decisions and concentration on revenue budgets has been so intense.



## GUIDANCE FIGURES

CONFIDENTIAL

21. In giving guidance figures the Secretary of State will relate the Government's view of what can be afforded nationally on revenue support to the particular circumstances in each area. A factor will be the extent to which subsidies in each area provide comparable value for money. In assessing value for money, account will be taken both of the benefits to users of public transport and of the benefits to other road users in terms of reduced congestion and accidents. It is not possible to measure all the benefits of subsidies, particularly the longer-term effects. The Secretary of State will take account of local authorities' views on these matters, but considerable weight will be given to those more direct economic and social benefits which can be measured on a comparable basis in different areas. Officials of the Department of Transport will discuss with those concerned the information and procedures needed for this purpose.

figures

22. The first guidance <sup>figures</sup> will apply to subsidy in the financial year 1983/84. There will not be time between now and the enactment of the provisions to follow the planning cycle outlined above. The figures for 1983/84 will therefore be based largely on assessments by the Secretary of State of information in the Transport Policies and Programmes that have been submitted to him and his judgement of the circumstances of the Authorities concerned, including recent fares policies and service changes. The schedule at the end of this White Paper sets out the figures which the Secretary of State proposes to publish for next year, once legislation provides for this. Authorities have said they would like this early indication of the proposed figures in order to take account of them in their preparation of budgets and rate requirements. The Secretary of State will of course be looking at any evidence which arises during the passage of the Bill which he feels is relevant, before advising on the effective figures immediately after Royal Assent.



23. Work will begin early in 1983 on the preliminary stages of the cycle for 1984/85, to include the discussions described above. The broad object of the cycle as a whole will be to ensure equitable treatment between Authorities having regard to their different circumstances, the resources available and, on a comparable basis, the costs and benefits to be derived from subsidy.

THE RELATIONSHIP BETWEEN THE GUIDANCE AND TARGETS FOR LOCAL AUTHORITY  
CURRENT EXPENDITURE

24. The figures will establish a legal basis for Authorities to provide a reasonable level of subsidy. In setting them, the Secretary of State will be indicating the maximum level which he considers should be exempt from challenge. It will be for Authorities to select any level of subsidy up to this. If they decide on a higher level, they would not have the protection the legislation provides. The figures <sup>will</sup>, among other things, take account of the circumstances of Authorities and if necessary, the extent to which, and the speed with which, it is reasonable for them to move towards more balanced policies. The provision of figures by the Secretary of State does not mean that he considers it necessary that Authorities should spend that amount on subsidies for public transport. Authorities will have to decide what they can afford to spend in the light of their overall budgets and the targets set by the Secretary of State for the Environment. They will have to take such targets into account when drawing up their budgets and rate demands and when deciding on the amount of subsidy. The target set by the Secretary of State for the Environment for total expenditure, and the hold-back arrangements in the block grant, will not in themselves affect the protection from legal challenge afforded by the Bill.



25. In the initial years at least, the figures will not necessarily be the same as the expenditure figures which the Secretary of State accepts for the purposes of Transport Supplementary Grant (TSG). They will indicate what is a proper exercise of powers at that time but the Secretary of State may decide that the Government should not give financial support to such a high level of subsidy and may therefore decide to accept for TSG a lower level of expenditure.

#### BETTER VALUE FOR MONEY

26. The processes described above should improve the value to be obtained from subsidy. Two other provisions in the legislation will help Councils and undertakings to secure better value for money. First, Authorities will be required to review the management structure and operations of their undertakings with a particular view to identifying whether small and more accountable units within the whole would bring greater efficiency. Some Authorities have already begun to review these aspects with the assistance of management consultants. The Government wishes to encourage this. The experience in the bus industry indicates that above a certain size there is no operating efficiency benefit. Co-ordination and integration can be achieved without a monolithic approach.

27. Second, Executives will be required to review where tenders to carry out certain of their activities would be appropriate and should be sought. Activities here cover both the provision by persons other than Executives of transport services and the supply of services such as catering and maintenance that are ancillary to the provision by the Executive of transport services. Executives already contract out some work of both types. Most rail services are contracted from BR and in most counties some bus services are contracted from NBC. But most bus services and main ancillary



services are provided directly by the Executive's own staff with no obligation on the Executives to consider systematically whether others could provide them more effectively and more cheaply. Wherever others can better carry out such activities they should have the chance to bid for the contract and go on to provide the service. This is especially true of the ancillary services, for the oversight of these can distract management attention from the central task of planning and running the bus services. But the search must not be confined to these; there may also be scope for some outside provision of bus services - especially perhaps for meeting these by other than traditional means for special types of transport services, for example those late at night or at week-ends. The requirement to review the scope for tendering plus the obligation to adopt such tenders where, but only where, they are more effective and cheaper will help to get better value for money both directly and because it will act as a spur for the constant self-scrutiny of the Executives' directly provided services. The Executives will be required to report annually on the progress they have made, so that councillors and ratepayers may assess this.

28. The Secretary of State, when accepting expenditure for TSG, will take into account the progress made by the Authority and Executive in seeking cost-effective management structures and securing value for money from contracting out services.

#### THE FRAMEWORK FOR THE FUTURE

29. The proposals set out in this White Paper are directed to achieving better public transport in some of our major cities. The Government believes that the way to provide a sound and stable basis is to plan realistically within the resources available, to have an effective system for doing this and clear responsibilities for operating services in an effective way. The framework for local transport decisions needs to encourage the balanced and accountable use of resources, better value for money and continued responsiveness to changing needs. The Government believes this will provide a permanent and stable basis for those whose job it is to provide transport services.



~~CONFIDENTIAL~~

30. There will continue to be a need for services planned in this way irrespective of the outcome of the consideration currently being given to wider issues of the organisation of transport responsibilities in our cities. In the case of London, the Select Committee on Transport has analysed a number of weaknesses in the present organisational arrangements and made far-reaching recommendations about how these might be tackled. The Government is currently considering these recommendations as part of its own examination of the problems of urban transport and will also shortly be receiving the recommendations of the Serpell Committee which is looking at the provision of London and South Eastern railway services. A major consideration for the Government is the need to ensure that public transport is given a firm and assured future, and that the institutional arrangements provide for this. The proposals now being brought forward in legislation tackle the immediately urgent defects that have emerged in the arrangements established in London and the Metropolitan Counties in 1968 and 1969. The Government believes this is necessary to provide stability. The Government is also examining whether a more fundamental re-organisation of transport responsibilities in cities is now required and will be setting out in its reply to the House of Commons Select Committee on Transport its proposals for change in London where it recognises that the present arrangements are no longer tolerable.



local Govt .

COPIED TO:

Private Secretaries to:

CDL

S/S for Trade

Chief Sec's Office

Lord President

S/S for Scotland

S/S for Industry

S/S for Wales

S/S for the Environment

S/S for Education

S/S for Health and Social Services

Minister of State, Environment (Tom King)

Attorney General

Chief Whip

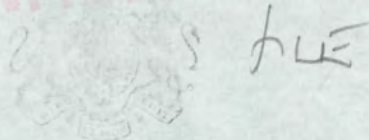
Sir Robert Armstrong

bcc: J. Vereker



CONFIDENTIAL

RM.



By C. J. VEREKENY.

10 DOWNING STREET

*From the Private Secretary*

25 October, 1982

PASSENGER TRANSPORT BILL : GUIDELINES

The Prime Minister saw over the weekend a copy of your Secretary of State's letter of 22 October to the Home Secretary.

The Prime Minister has commented that she hopes that this issue can go to Legislation Committee during this week.

I am sending a copy of this letter to the Private Secretaries to members of MISC 21, Jim Nursaw (Attorney General's Office), Murdo Maclean (Chief Whip's Office), and Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

R Bird, Esq.,  
Department of Transport

CONFIDENTIAL



PRIME MINISTER

UNDERSPENDING BY LOCAL AUTHORITIES

1. Local authorities are underspending on their capital investment programmes. And it is entirely fair for us to point out this fact to our critics and to urge the local authorities concerned to "increase worthwhile capital investment in the present financial year", as the Department of the Environment suggests.

At the same time, our critics might reasonably point out that we have had 3½ years and two local government bills in which to get this question right.

Yet here we are, still suffering from the problem which has bedevilled almost every post-war British Government: when asked to cut, local authorities always tend to cut capital at the expense of current spending.

If we wish to give the impression that we are getting on top of the problem, we ought surely to go beyond an appeal to the local authority associations.

2. At present, the cycle of local authority capital spending is the precise opposite of what is desirable. They tend to underspend in a recession and so deepen the slump and add to unemployment, particularly in the building industry. In a boom they tend to overspend often on frivolous projects or superfluous capacity, and so overheat the labour market just when it needs cooling.

Government does have the power to hold back cash and withhold approval from individual projects. But governments do not have "push-on powers", that is, powers to stimulate capital spending without at the same time stimulating current spending on more staff and higher wages. Extra allocations for capital spending all too often leak away into current spending via the debt servicing process.

3. Why should not government approval of capital projects be linked to their timing? It would surely be possible to link project approval to the approval of each year's total capital spending

/programmes



programmes so that both the total and the composition of each year's programme had to be agreed as a whole by government and would accordingly form a prior and unalterable charge on the local authority's budget for that year, before current spending came to be discussed at all.

The objection that powers of this sort would interfere with the independence of local authorities is surely spurious. We would not be forcing them to carry out any project which they had not themselves conceived and submitted. Authorisation (which has to be given anyway) would merely be conditional upon the observance of a timetable. Local authorities would do only those things that they wished to do, but they would do those things according to our timetable, in the national interest of reducing both inflation and unemployment.

4. I am sure that there would be difficulties, but I am equally sure that it is humiliating that government (which normally finds no difficulty in taking powers) should be driven to say: "We'd like local authorities to spend more on worthwhile capital projects, but we do not possess the power to force them and we don't see how to take that power". There is increasing discontent among our supporters that while the rates go on rising, our towns go on getting shabbier and unemployment goes on rising. Only government can resolve this embarrassing contradiction.

5. I suggest therefore:

(i) that your letter to the leaders of local authority associations should indicate that unless allocations are fully spent in future, the Government intends to take powers to ensure that they are, in the interests of securing a programme of capital spending which accords with the needs of the working population;

(ii) that the DoE and the Treasury should start work on a scheme to carry this out;

/(iii) that our manifesto



CONFIDENTIAL

(iii) that our manifesto should include a commitment  
"to ensure that the rebuilding of Britain's  
streets and cities should be the first charge  
upon local authority expenditure, and not the  
last".

*fm*

FERDINAND MOUNT

CONFIDENTIAL



CONFIDENTIAL

ZPM

CF/51

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434



Prime Minister (2)

The Rt Hon William Whitelaw CH, MC, MP  
Secretary of State for the Home Department  
Home Office  
50 Queen Anne's Gate  
SW1H 9AT

MUS 22/10

I hope this can go to  
leg: committee  
then bump into  
me

22 October 1982

mt

Dear Secretary of State,

PASSENGER TRANSPORT BILL: GUIDELINES

I understand that a meeting of MISC 21 has now been arranged for next Tuesday. It is very important that we should settle at this meeting the guideline figures for public transport subsidies next year to accompany publication of my Bill the following week. My letter of 15 October to Michael Heseltine explained why I regard a 1983/4 transport subsidy guideline of £125million for London as essential and the problem of reconciling the proposed RSG target for London with this figure. I have since written to the Attorney General on the legal issues and I hope we shall have the benefit of his advice when we discuss this. Subject to his views there should not be much difficulty about the figures for the metropolitan counties. But as time is so short, I feel I ought to let you know in advance of the meeting of the very serious concern I feel about the political and practical problems we are facing over the London figures which are at issue.

It is already clear that the GLC will ignore the overall expenditure target which Michael Heseltine is proposing. It is so tight that GLC officers are advising the Council that they do not expect to receive any grant on even their minimum budget. The holdback arrangements will therefore exercise no restraint over the GLC's wilder excesses.

CONFIDENTIAL



# CONFIDENTIAL

My Bill offers the only prospect of preventing extra transport spending of some £100m in London next year, and the consequent increase in rate burdens. My advice from within the GLC is that we have a good chance of heading off Livingstone's proposed 25% fare cut provided that our guideline is clearly seen as reasonable and workable.

There is no question of setting a lower guideline. That would mean still higher fares after the huge increase this year when we have already said that they are too high as it is and our supporters have made their views known in the strongest possible terms. London Transport fares are already half as high again as those on BR. If they were increased further they would become even more inconsistent with other fare levels and would be higher than in any other city I know of in the world.

A further point is that the GLC for their part are likely to claim, on the basis of Counsel's opinion, that a cut in their subsidy which required further significant fare rises early next year could breach their statutory duty to Londoners under the 1969 Act. There would be three consequences of an unrealistic guideline:

- (1) Livingstone would disregard the guideline and go ahead with fares cuts;
- (2) there would be another period of instability and the guideline would probably prove a flimsy weapon for challenges by ratepayers;
- (3) we would be left with the odium of proposing unpopular fare increases while in practice failing to hold down public expenditure and rate rises.

CONFIDENTIAL



# CONFIDENTIAL

I think we should find ourselves in a quite indefensible position which we would have great difficulty in explaining to our supporters in London.

We are now at an absolutely crucial point in timing. My Bill did not go to Legislation Committee this week on account of the problem over reconciling the guidelines with overall expenditure targets. Unless we can settle this on Tuesday, it will miss next week as well. Yet if I do not introduce the Bill by 5 November, we will be at direct risk of failing to achieve enactment in time for the end of the financial year, even with a guillotine, with all that implies for our aim of restraining excessive spending. I must therefore ask my colleagues to agree that there are overriding political and practical reasons for deciding on a guideline of around £125m for London, and that we shape our overall policies on holdback and targets to allow the transport subsidies legislation to do its job.

I am copying this to the Prime Minister, other members of MISC 21, the Attorney General, the Chief Whip and Sir Robert Armstrong.

*Yours sincerely,  
R. Bird*

for DAVID HOWELL

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

CONFIDENTIAL



local  
govt

cc Ho MOD WPO CBZ  
WCO MAFF DUSJ JOT  
HMU JOE CSO CWO  
KCO SO WPSO CO  
DES WO JLN  
NIO D/Ind file D/m

bc JV

local Govt.

da

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

20 October 1982

Dear Richard,

Passenger Transport Bill

The Prime Minister has seen your Secretary of State's minute of 18 October proposing two modifications to what was agreed at Cabinet on 12 July about curbing excessive subsidies to public transport in the GLC and the Metropolitan Counties.

The Prime Minister agrees to these two modifications, and does not think that it will be necessary to take the matter back to Cabinet.

I am sending copies of this letter to the Private Secretaries to the other members of the Cabinet, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Michael Scholar

Richard Bird, Esq.,  
Department of Transport.

CONFIDENTIAL

da





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister (2)

ms 22/10

CONFIDENTIAL

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

19 October 1982

Dear Michael,

RATE SUPPORT GRANT SETTLEMENT 1983-84 - HOLDBACK

I have followed with interest your recent exchanges with Leon Brittan about grant holdback in England in 1983-84, and I have now seen the proposals set out in MISC 21(82)1 which we are to discuss on Thursday.

I shall as usual discuss Scottish arrangements separately with Leon Brittan, keeping you and Nick Edwards in touch with my proposals. But I have a strong interest in your proposals because they are likely to set the tone of the relationship between the Government and local authorities as a whole in 1983-84. In addition the decision on holdback in England will exercise some influence on the corresponding decision for Scotland although the Scottish figure cannot be calculated as a simple proportion of the English figure. The administrative and political feasibility of achieving any particular total in Scotland must be considered on merits.

Paragraph 25 of your paper indicates that you expect severe criticism from local government and from our supporters as well as from our opponents. I agree that the proposals for holdback in 1983-84 are likely to encounter considerable difficulties and will need to be carefully judged. In making the judgement I believe it is important that we should take into account the best estimate that can be made in advance of the total withholding likely to result from the various options since the effect on total grant will feature prominently in public discussion. I therefore hope that at the outset of Thursday's discussion you will be able to give the Committee some estimate of the effect of each option on expenditure levels and of the resultant grant withholding.

I am sending copies of this letter to the members of E Committee and of MISC 21.

Yours ever,  
George



Local Govt, Central/Local Relations  
10-4

1981 OCT 1981





CONFIDENTIAL

*cc: [unclear]*  
Prime Minister (1)

Prime Minister

*Agree these  
two changes?*

PASSENGER TRANSPORT BILL

*Yes not*

*MUS 29/10*

The Bill that Cabinet agreed on 12th July should be introduced as soon as possible to curb excessive subsidies to public transport in the GLC and the Metropolitan Counties is now drafted and will be taken by Legislation Committee on 20 October. During the process of drafting, I have given further consideration to two elements of the package I proposed and have agreed with Michael Heseltine and Leon Brittan that we should make two modifications.

The first is to drop the inclusion of a reserve power for taking over the role of the GLC or a Metropolitan County Council. In due course, probably after a General Election, we may be taking London transport away from the GLC anyway. But in the meantime I have come to the conclusion that to include the reserve powers in the Bill would weaken our hand and arouse the very resentments among our own supporters which have dogged earlier legislation. Also the inclusion of reserve powers might give some of the local authorities the incentive deliberately to try and make us use the powers, whereas I would prefer to see them left in the position where they are the ones at risk if they step too far. It seems to me therefore right not to include the powers in the Bill but to rely - as elsewhere in the provisions - on the discipline of the courts and the auditors to deal with authorities that step out of line. Under local government legislation which becomes law next year we will be able to order an extraordinary audit of local government expenditure and I believe this is the right weapon to use. The work we had done on the provisions means that were it essential the reserve powers could be introduced at short notice, but I have concluded it is tactically wrong to include them at this stage.

CONFIDENTIAL



CONFIDENTIAL

The second point is the way we can encourage more private sector competition and participation through requiring executives to examine the possibility of putting services out to tender. Again, I concluded that a direct role by myself for example through an Appeal procedure, would be complicated, bureaucratic and probably unworkable because of the time it would take. Instead I shall be requiring statements on tendering to feature in the Executives' Annual Reports. I would also make clear that if I felt authorities were not getting the best value for money because of their failure to make much progress in this direction I would take this into account in deciding the level of accepted expenditure for transport supplementary grant.

Because these are changes following a decision by Cabinet, I thought it right to tell you what was proposed and what those of us most directly concerned had agreed was the best way forward. I very much hope you will agree it will not be necessary to take the matter back to Cabinet since to meet our target of getting the Bill through the House before the end of the financial year I am hoping to get agreement at L Committee to introduction for 4th November.

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

DH.

DAVID HOWELL  
18 October 1982

CONFIDENTIAL



Local Govt, Central/Local Relations, P44



17 OCT 1952

1234567890



PART 13 ends:-

M/S ENV to CST 15.10.82.

PART 14. begins:-

s/s Transport to Am.

~~L(82)69~~ 18.10.82



