

PRIME MINISTER

c. Mr. Ingham
Mr. Duguid

Local Government Finance

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

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

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

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

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

/ You may also

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

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

Mr. Heseltine is asking for comments from colleagues by tomorrow. He will then produce a revised draft for circulation on Monday. I doubt whether you will wish to suggest specific drafting changes, but can I say that you think it can be improved? And what is your view about committing the Government to legislation in 1982/83?

Unwise to commit us to a year without having got a little further on deciding what we want to do.

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

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

Oral statement

/ My own view

Yes

Yes

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

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

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28 May 1981