

PART 6

M1

CONFIDENTIAL FILING

RELATIONS BETWEEN CENTRAL & LOCAL GOVT.

LOCAL GOVERNMENT

LOCAL AUTHORITY EXPENDITURE

PART 1 : MAY 1949

ACCOUNTS COMMISSION FOR LA AUDIT

PART 6 : JUNE 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18.9.87							
23.9.87							
24.9.87							
28.9.87							
1.10.87							
6.10.87							
7.10.87							
9.10.87							
10.10.87							
15.10.87							
22.10.87							
29.10.87							
30.10.87							

PREM 19/516

PART 6 ends:-

Scottish Office to MAP tends
30.10.87

PART 7 begins:-

E(87) 31st - 2.11.87,



Local Govt
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mike Pattison Esq
Private Secretary
10 Downing Street
Whitehall
LONDON

Seen today
ms 5/4

30 October 1981

Dear Mike,

I enclose a copy of a letter my Secretary of State sent to the Home Secretary and Members of H Committee on 28 October suggesting an alternative approach to the referendum proposals agreed by E Committee on 23 September. I understand this issue is now to be discussed at E Committee on Monday 2 November together with Mr Heseltine's minute to the Prime Minister of 29 October.

I am copying this letter to the Private Secretaries to Members of E and H Committees, the Attorney General, Lord Advocate and to David Wright (Cabinet Office).

Yours sincerely
John Wilson

JOHN WILSON
Private Secretary



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Mike Pattison Esq
Private Secretary
10 Downing Street
Whitehall
LONDON

30 October 1981

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*Yours sincerely
John Wilson*

JOHN WILSON
Private Secretary



FB

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon William Whitelaw CH MC MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

COPY ALSO TO:

PS/Mr Rifkind
PS/CS
PS/US of S
PS/SDD

28 October 1981

Dear Willie,

At E Committee on 23 September I received agreement from colleagues to proposals for certain changes to the 1981 Local Government (Miscellaneous Provisions) (Scotland) Act. This Act has, as you know, enabled us to curb the excessive expenditure of certain Scottish local authorities during the current year. My proposals were intended, through the means of occasional referendums, to protect the ratepayer from excessive rate increases.

I have been giving further thought to these proposals and believe that an alternative approach would, in fact, achieve the desired effect with much less controversy in Parliament and equal benefit to the ratepayer. This alternative approach is only relevant to Scotland where we are able to build on the existing 1981 Act and where supplementary rates have never existed.

What I have in mind is a minor amendment to the 1981 Act. Under existing legislation a local authority whose proposed expenditure has been judged to be excessive and unreasonable can choose to reduce its rates as an alternative to losing grant. In the current year only one of the local authorities against whom I used my selective powers did cut its rates; the others (including Lothian) declined to do so. As a result their expenditure was reduced but there was no direct benefit to the ratepayers.

I understand, from representations I have received, that most of our supporters in local government would acquiesce in a minor change to the 1981 Act that would enable the Secretary of State to insist on a high spending local authority reducing its rates poundage as an alternative to losing grant. They would prefer this to the more complicated and expensive procedure of local referendum which, in the Scottish context they are probably right in considering to be unnecessary. Moreover there is an overwhelming feeling that it would be unacceptable for the Government if the outcome of a referendum were to be in favour of increased expenditure, then to use the 1981 Act to withdraw grant. That really would seem a denial of local democracy. My proposal would resolve this problem. Because the administrative cost of rerating could be disproportionate in a small minority

of cases to the actual amount returned to ratepayers, both domestic and non-domestic, I would propose to leave it to the discretion of the Secretary of State to decide whether to withdraw grant or to require the local authority to return money to ratepayers. Either way public expenditure would be reduced.

I have no doubt that we would have a relatively easier task in getting such a legislative change through Parliament. Indeed it would only be a very minor part of the proposed local Government Bill (which in other respects is unlikely to be politically controversial). My proposals will afford at least equal protection to the ratepayer and maintain our ability to control local authority expenditure. I therefore seek approval of colleagues to adjust the draft proposals in the forthcoming Bill accordingly.

I am sending copies of this to Members of H Committee, the Attorney General the Lord Advocate and Sir Robert Armstrong.

Yours very,

George.

CONFIDENTIAL



10 DOWNING STREET

cc Cabinet
CO
FPC

2/6/81

From the Principal Private Secretary

30 October 1981

for 'E' Meeting

Dear David,

LOCAL GOVERNMENT FINANCE BILL :
INTERIM RATING MEASURES

The Prime Minister has seen your Secretary of State's minute of 29 October 1981 about the Local Government Finance Bill.

She believes that the changes which he is now proposing to make to the proposals which were earlier approved by E are sufficient to warrant bringing the matter back to the committee for further consideration. She has accordingly arranged for it to be discussed, on the basis of Mr Heseltine's minute, at the meeting of E already arranged for the morning of Monday 2 November.

I am sending copies of this letter to the Private Secretaries to other members of the Cabinet, to David Wright (Cabinet Office) and to First Parliamentary Counsel.

Yours sincerely,

Sheila Whittam.

David Edmonds Esq.,
Department of the Environment.

AK

CONFIDENTIAL

PRIME MINISTER (for information)

RSG SETTLEMENT

2

Mr. Heseltine's paper deals with a number of RSG issues.

(i) He prefers a system of individual expenditure targets, with the possibility of grant abatement for authorities which fail to meet them, to a reduced grant percentage. I understand the Treasury think the best way of keeping up maximum pressure would be to have both expenditure targets and a reduced grant percentage. The Chief Secretary is likely to take this to Cabinet.

(ii) He sets out some of the considerations on the level of local authority current expenditure next year - should it be reduced by 3%, 4% or 7%. Mr. Heseltine ^{*} has minuted you separately about this, saying that on grounds of realism the reduction can be no more than 3%. The Treasury, I understand, think this conclusion is unavoidable (their estimate of the overspend for 1981-82 is more pessimistic than DOE's). The Chief Secretary is likely to minute you on this. The 3% reduction is already accounted for within the Chancellor's £113.5 billion.

* in another
box with you

MLs

30 October 1981

Ref. A05869

PRIME MINISTERLocal Government Finance Bill: Interim Rating Measures

(Secretary of State for the Environment's minute to you of 29 October)

BACKGROUND

You agreed that the Ministerial Committee on Economic Strategy should discuss as an additional item the Secretary of State for the Environment's minute to you of 29 October on interim rating measures. This is because the proposals made in that minute represent an important change in the policy agreed by the E Committee on 23 September. Legislation Committee cannot properly consider the Local Government Finance Bill on 3 November unless there is policy approval of the proposals contained in it.

2. The main features of the interim rating measures for England and Wales approved by the E Committee on 23 September were set out in E(81) 93, read in conjunction with E(81) 85. In summary they were as follows -

- a. There should be limits for each local authority on both the initial main rate and the first supplementary rate which it may levy.
- b. Any second supplementary rate should be subject to a referendum.
- c. If the answer is No, there would be temporary borrowing approval for the rest of the financial year sufficient only to meet committed expenditure, and prior approval by the Secretary of State of the budget for the following year.



3. The new proposals are -

a. There would be a limit on the main rate which an authority could levy at the start of the year. ✓

b. The authority could levy only one supplementary rate in excess of that limit and this would have to be approved by referendum in June. ✓

c. If the answer is No, there would be temporary borrowing approval for the rest of the financial year sufficient only to meet committed expenditure and the rate would be subject to a ceiling for the following year.

← d. The Secretary of State would have powers to give directions (subject to affirmative resolution) to an authority which fails a referendum, in respect of the extent of its service provision and of its fees and charges, including rents and fares; these powers would extend to Passenger Transport Executives and London Transport.

e. There would be powers to exempt classes of authorities or authorities meeting certain specified conditions from the scheme.

4. The Secretary of State for Scotland, in a letter to the Home Secretary of 28 October, has proposed a different approach to excessive rates in Scotland from that set out in his paper E(81) 90 approved at E Committee on 23 September. His proposals were always different in detail from those affecting England and Wales, but they included the use of a referendum in certain circumstances. He now proposes instead a minor amendment to the 1981 Local Government (Miscellaneous Provisions)(Scotland) Act which would enable the Secretary of State to insist on a high spending local authority reducing its rates poundage as an alternative to losing grant. He thinks that this approach will be just as effective in the Scottish context, will avoid expensive local referenda, and will be much easier to get through Parliament.



MAIN ISSUES

5. The Secretary of State for the Environment's new proposals for England and Wales are designed to reflect points raised in consultations and to be more workable than the earlier ones. Ministers are likely to welcome this. They may however be concerned whether the new proposals will achieve the same objectives as the earlier ones, and will be defensible. Ministers approved the referendum proposal before on the understanding that only a few local authorities would have to use the procedure; for the vast majority the legislation would serve as a deterrent to high spending. But, now that the referendum is to bite on the first supplementary rate, more local authorities may be caught. There is therefore a new provision to exclude classes of authority and particular authorities from the scheme - such as, for example, all local authorities in Wales. Will this seem indefensibly arbitrary? Finally the new provision to determine, in the case of a local authority which has failed a referendum, the extent of service provision and the levels of rents and fares, raises difficult issues. It may draw the Government into the kind of detailed intervention which seemed unattractive when the earlier proposals for dealing with London Transport and the Passenger Transport Executives were under consideration.

6. The Secretary of State for Scotland's proposed change is less difficult. Since however a referendum is no longer envisaged in Scotland, it may be more difficult to justify referendum provisions in England and Wales - especially if the eventual intention to exclude all Welsh authorities.

7. More generally we understand that the Home Secretary and several other Ministers are becoming increasingly worried about the prospects for the Local Government Finance Bill in Parliament, in the light of evidence about the reactions of the Government's own supporters.



HANDLING

8. Since time will be short, your main concern will be to establish quickly whether the policy changes outlined in the Secretary of State for the Environment's minute of 29 October command fairly general support. If they do, there will be no difficulty and discussion of the Local Government Finance Bill can proceed in Legislation Committee on Tuesday 3 November as planned. If however several Ministers have serious reservations about the changes or want to reopen the question of whether a Bill of this kind should be introduced, time will have to be found for a substantive discussion by the E Committee. This will further complicate the timetable for the Bill which has to be introduced very early in the Session if it is to take effect in 1982/83.

9. It is less important for the Committee to reach conclusions on the Secretary of State for Scotland's proposals in his letter of 28 October (which appeared too late to be referred to in the revised agenda for E) since the timetable for that Bill is less critical and it might be cleared in correspondence. But the Committee will need to be aware of the proposed new approach in Scotland when considering the revised proposals for England and Wales.

CONCLUSIONS

10. You will wish to reach conclusions, in the light of the discussion on -

i. whether the Committee approves the revised proposals for interim rating measures in England and Wales set out in the Secretary of State for the Environment's minute of 29 October, for inclusion in the Local Government Finance Bill;

ii. whether the Committee approves the revised proposals for interim rating measures in Scotland set out in the Secretary of State for Scotland's letter to the Home Secretary of 28 October.

ROBERT ARMSTRONG

RA

30 October 1981



CONFIDENTIAL

Local Govt

Note I have already reported
the substance of this to

the PM

11/10/81

Reference No: E 0270

- 1. MR WRIGHT
- 3. MR SCHOLAR

JW 30/10

2. Sir R. Angus

cc Mr Gregson

LOCAL AUTHORITY CURRENT EXPENDITURE

In his minute of 28 October to the Prime Minister, the Secretary of State for the Environment says that, while he would wish to make a further statement soon on the total of local authority current expenditure in 1982-83, he will not be able to do so until he can see his way clearly through the Rate Support Grant settlement. He suggested that it might be appropriate for the Home Secretary to report to the Prime Minister further on this after the meeting today of the MISC 21 Group (which considers the RSG settlement) but that, otherwise, he would write again to her with his own proposals.

2. The cash figures for 1982-83 in the Chief Secretary's public expenditure paper to Cabinet, C(81)51, assume, in line with Cabinet's discussion on 24 September, a volume reduction of 3 per cent; in addition, and for realism, the Chief Secretary has made contingency provision for a further £500 million overspend. The Secretary of State for the Environment implies - but he has not yet said so in terms - that he might now wish some of this contingency provision, and possibly more, to be transferred to local authority programmes now. At the meeting of MISC 21 this morning, the Home Secretary made clear that any proposal to go further than Cabinet provisionally agreed on 24 September, would be for Cabinet rather than for MISC 21 to resolve. Subject to that, his aim was for MISC 21 to reach agreed recommendations which Cabinet could endorse without detailed discussion. The Group will meet again next Tuesday, and the Secretary of State for the Environment's position may then be clarified. In the meantime no proposals will be put to the Prime Minister and no further action is called for on the Secretary of State's minute of 28 October.

JM.

D J L MOORE

30 October, 1981

CONFIDENTIAL

*H. D. Quinn
A. Walters*

2pm



29 October 1981

Prime Minister

LOCAL GOVERNMENT FINANCE BILL: INTERIM RATING MEASURES

The Local Government Finance Bill, including the proposals on interim rating measures, is to be taken by L Committee on 3 November. Since the policy was approved by E last month (E(81)29th on 23 September) and endorsed by Cabinet there have been certain developments which I should draw to your attention and that of colleagues.

You will recall that in our discussion at E, several colleagues raised the question of whether the scheme might prove to be too cumbersome to be workable; at the time, we took the view that if the scheme were cumbersome and inconvenient for authorities, it would help to deter them from maintaining excessively high levels of expenditure.

Following my announcement of the proposals at the local government conference at Torquay on 24 September, I issued a technical memorandum setting out details of the scheme on which the views of local government were sought. In the last week or so there has been a very heavy response to the document, not only from local authorities and their associations but from independent professional bodies in the field. In addition I have privately consulted a recently retired London Borough Treasurer who is still actively engaged in local government finance as a consultant in the City.

Although in theory it might be desirable to make the scheme very unattractive to authorities so as to provide them with an incentive to reduce expenditure, the plain fact is that the rate limits we eventually set are bound to catch some authorities. We therefore do need to be concerned about the workability of the scheme; it would be entirely counter-productive to our objectives if the financial machinery of local authorities caught by the scheme simply collapsed under its weight.

In the light of the reaction to my consultations I have therefore concluded that the scheme as proposed, involving two supplementary rates, needs to be modified if it is to operate effectively and if we are to avoid the risk of seriously adding to local authorities' costs and manpower.

limit

I therefore propose a simplification of the scheme which I think will help make it more effective. My proposal is simply to cut out the first supplementary rate from the process. Since the first supplementary rate stage would then be removed, I also propose to bring forward the date of the referendum. There would be a limit on the main rate which an authority could levy at the start of the year. If its expenditure plans required a rate in excess of that limit the authority would have to proceed straight to a referendum in June. If it succeeded in the referendum it could levy its supplementary rate (the amount of which it would have had to announce before the referendum), which would have to be applied at a higher rate to domestic ratepayers than to non-domestic ratepayers. If the authority failed in the referendum it would, as envisaged under the original scheme, have to come to me for borrowing approval for the remainder of the year, and its rate would be subject to a ceiling for the following year.

CONFIDENTIAL

There are two other points I should draw to colleagues' attention:

(i) it has become clear to me that in order to make effective the controls I will have to take over an authority which fails a referendum, I will need to have a power to give directions to such an authority in respect of the extent of its service provision and of its fees and charges, including rents and fares. This power would extend to Passenger Transport Executives and London Transport. Such powers of direction would obviously be highly controversial and I propose that any directions I might give to an individual authority under these powers should be subject to ratification by the House of Commons by means of an Order subject to affirmative resolution;

(ii) Colleagues will recall from a discussion in E that I considered that it would probably be necessary to provide a means for modifying the application of the scheme in respect of historically high-spending authorities who could not get down to the threshold limits under the scheme, but who nevertheless had made exceptional efforts to reduce their expenditure. My intention has been to relate such modifications to the RSG expenditure targets. However, there are questions about the feasibility of these targets which we are to discuss at MISC 21 this Friday. Without prejudging the outcome of that discussion I think it would be better to provide in the Bill for a more widely-drawn power to enable me to exempt classes of authorities or authorities meeting certain specified conditions from the scheme. I am advised that this power could also be used by Nick Edwards to exempt all Welsh authorities from the provisions if he wished to do so in the light of the circumstances in Wales.

In view of the very tight timetable for introduction of the Bill, Parliamentary Counsel has already been instructed to provide for the provisions I have described in this minute in the draft which will go to L on 3 November. These changes are designed to facilitate the achievement of the agreed policy and do not represent a change in our objectives; however, since they do involve modifications of certain aspects of the agreed scheme I thought it only right to warn you and colleagues before L and introduction of the Bill.

Copies of this minute go to other members of the Cabinet, to Sir Robert Armstrong and to First Parliamentary Counsel.

myth

MH

CONFIDENTIAL

Mr Whitmore

Ref. A05849

MR. WHITMORE

Prime Minister.
The changes which Mr Herelton is proposing are major ones. Agree we they should be considered by E on Monday?

Yes no

29x.

Local Government Finance Bill: Interim Rating Measures

I have just seen a copy of the Secretary of State for the Environment's minute of 29th October, giving notice of the changes he proposes in his scheme for detering local authorities from maintaining excessively high levels of expenditure.

2. The timetable is very tight. If the Bill is to be introduced as early as possible in the new Session - which the business managers regard as essential - it has to go to Legislation Committee on 3rd November. The Bill which will be before Legislation Committee will reflect the changes now proposed by the Secretary of State.

3. But Legislation Committee is not the body to consider major changes of policy. The changes which the Secretary of State is proposing seem to me to constitute major changes from the scheme approved by the Ministerial Committee on Economic Strategy:

- (a) He proposes to have only one supplementary rate (instead of two), and to attach the referendum to that one supplementary rate.
- (b) He proposes to take powers in effect to fix the fees and charges, including rents and fares, levied by an individual local authority which has failed a referendum.

4. I believe that these changes ought to be considered by the Ministerial Committee on Economic Strategy before the Bill goes to Legislation Committee.

5. We have a meeting of E fixed for Monday 2nd November at 10.30 am. The main subject for discussion is the Secretary of State for Employment's employment and training measures. I understand that he has reached agreement with the Chief Secretary on the financial provision for these measures; this should help to shorten the discussion. We could therefore, if the Prime Minister agrees, put on as an additional item a discussion of the changes now proposed in the Local Government Finance Bill.

CONFIDENTIAL

CONFIDENTIAL

6. I am afraid that, given the shortage of time, the discussion would have to be on the basis of the Secretary of State for the Environment's minute of 29th October, rather than have a special memorandum circulated to the Committee.

RIA

ROBERT ARMSTRONG

29th October, 1981

CONFIDENTIAL



FB

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

COPY ALSO TO:

PS/Mr Rifkind
PS/CS
PS/US of S
PS/SDD

The Rt Hon William Whitelaw CE MC MP
Secretary of State for the Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

28 October 1981

Dear Willie,

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of cases to the actual amount returned to ratepayers, both domestic and non-domestic, I would propose to leave it to the discretion of the Secretary of State to decide whether to withdraw grant or to require the local authority to return money to ratepayers. Either way public expenditure would be reduced.

I have no doubt that we would have a relatively easier task in getting such a legislative change through Parliament. Indeed it would only be a very minor part of the proposed local Government Bill (which in other respects is unlikely to be politically controversial). My proposals will afford at least equal protection to the ratepayer and maintain our ability to control local authority expenditure. I therefore seek approval of colleagues to adjust the draft proposals in the forthcoming Bill accordingly.

I am sending copies of this to Members of H Committee, the Attorney General the Lord Advocate and Sir Robert Armstrong.

Yours very,

George.

Prime Minister

CONFIDENTIAL

cc A. Walton
A. Duguid

(2)

I understand that the Chief Secretary is likely to agree - reluctantly on grounds of realism - with the 3% reduction. This will

Prime Minister have to come back to

Cabinet in the public expenditure context. No need for you to react immediately. M/S 29/10



28 October 1981

Cabinet agreed on 24 September that a final decision on the provision to be made for local government current expenditure in 1982-83 would be taken in the light of my further discussions with local authority leaders about the prospects for further reductions (CC(81)32nd, Minute 4). Meanwhile work on the RSG settlement was to proceed on three alternative assumptions of real reductions of 7% (as implied in our present plans), 4% and 3%. (In this context "current expenditure" excludes housing. Housing raises separate issues which I am taking up separately).

Several of my colleagues have attended these meetings and I can only report in all fairness that whilst the associations are prepared to criticise aspects of our policies there is no possibility of a constructive dialogue about alternatives. As time has passed and as I have increased the pressure they concede more and more openly that there is no purpose in a discussion of alternatives because they are in no position to deliver any deal even if they could agree one.

Independently therefore we have begun to work through the RSG settlement procedures using the assumption that the most we could argue as possible is 3%. I am now about to put the first exemplifications to colleagues in MISC 21. We face very difficult decisions.

Cabinet agreed on 24 September that we should aim for an RSG settlement before Christmas. Whether we succeed in having the settlement before Christmas will depend partly on the speed with which we can reach final decisions on public expenditure.

As soon as possible before the settlement itself, we need to give local authorities the clearest possible statement of our intentions for next year, in order to influence the budgets which they are now preparing. We made a general statement to the Consultative Council on 4 August. I would like to follow this up by making a further statement about the overall cash provision to be allowed for local authority current expenditure next year. I am not yet in a position to do this and will not be until I can see my way through the RSG settlement clearly. It may be appropriate for the Home Secretary to report to you further after the first meeting of MISC 21 but, failing that, I will write again setting out my proposals.

I am sending copies of this minute to other members of the Cabinet and to Sir Robert Armstrong.

Key St.

MH

CONFIDENTIAL



cc ✓ A. Walters
A. Duquid
NBPM

FROM THE LEADER OF THE HOUSE
HOUSE OF LORDS

27 October 1981

Dear Michael,

I have seen a copy of your letter of 12 October to Michael Havers about the problem that has arisen over the adequacy of your powers under the Local Government Etc Act of 1980.

As you know, I am very concerned at the timetable for the Bill in the House of Lords after the Christmas Recess and also its likely reception in the Lords. It is obviously most important to limit the provisions in your Bill to the absolute minimum and I hope that the extra provisions which you outline will only be included if the Law Officers consider them to be essential. If they do prove necessary, I will be very grateful for an early indication of their likely length and complexity.

I am copying this letter to the recipients of yours of 12 October.

*Yours ever
Janet*

BARONESS YOUNG

The Rt Hon Michael Heseltine MP



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

22 October 1981

✓ *MM*
Willie

✓ *Dear*
I attach a copy of the draft statement which my Secretary of State proposes to make this afternoon about yesterday's High Court judgement on the Rate Support Grant 1980/81. It would be helpful to have any comments which the Attorney General wishes to make on the proposed statement immediately.

I am copying this to Mr Narsaw (Attorney General's office), Nick Huxtable (Leader of the House of Commons Office), Keith Long (Paymaster General's office) and Bernard Ingham (Chief Press Secretary, No 10).

Yours sincerely
Jed Jacobs

J JACOBS
Private Secretary

Willie Rickett Esq - No 10

STATEMENT

1. With permission, Mr Speaker, I wish to make a statement about the judgement given yesterday in the High Court in respect of my decisions last January to abate the rate support grant payable to eight London boroughs.

2. Six of these authorities - the London boroughs of Brent, Camden, Hackney, Hounslow, Tower Hamlets and Waltham Forest - challenged my decisions on the following four grounds:

(i) that the Rate Support Grant (Principles for Multipliers Order) 1980 was ultra vires;

(ii) that I misdirected myself in law under sections 48-50 of the Local Government, Planning and Land Act 1980;

(iii) that my decisions were decisions to which no reasonable Secretary of State could have come;

(iv) that I failed validly to exercise my discretion to abate grant under sections 48-50 of the Local Government Planning and Land Act 1980 on the grounds that after enactment of the powers and before reaching my decision, I failed to listen to representations from the authorities concerned.

3. In respect of the first three of these grounds the Court found as follows:

firstly, that the Multipliers Order was not ultra vires and is therefore valid;

secondly, that I did not misdirect myself in law as to the nature of my powers under section 48-50 of the Act;

thirdly, that my policy was not unreasonable, and that my decision was a decision which I was entitled to reach, subject, however, to their ruling on the fourth ground of the challenge.

4. On that ground, the Court ruled that, although there had been extensive discussions and consultations over a period of almost a year prior to the enactment of the Act, I should have been prepared to

hear any new representations after enactment before reaching my decision. The Court's decision turned in particular on two late approaches made by or on behalf of the authorities, approaches which in their judgement the Court referred to as having "something of the air of legal manoeuvre". Notwithstanding this, however, they ruled that I should have been prepared to hear those representations and that I had therefore not validly exercised my discretion. On that ground alone my decision to reduce the grant of these authorities was quashed by the Court.

5. The Court did, however, say that it is of course open to me, after considering the authorities' representations, now fully documented, to reach any decision I consider right, and which is within the terms of the 1980 Act and the Multipliers Order.

6. The judgement itself runs to nearly a hundred pages of foolscap. The House will appreciate that the Government will have to study its terms carefully before deciding what its response will be. I shall keep the House informed when these decisions have been made.

CONFIDENTIAL

CONFIDENTIAL

FM F C O 221853Z OCT 81
TO IMMEDIATE UKDEL CANCUN
TELEGRAM NUMBER 66 OF 22 OCTOBER 1981

FOLLOWING FOR PATTISON, PRIME MINISTER'S PARTY, FROM RICKETT,
10 DOWNING STREET.

MR HESELTINE MADE A STATEMENT THIS AFTERNOON ABOUT THE HIGH COURT JUDGEMENT GIVEN YESTERDAY ON HIS DECISIONS LAST JANUARY TO ABATE THE RATE SUPPORT GRANT PAYABLE TO EIGHT LONDON BOROUGHS.

MR HESELTINE BRIEFLY SET OUT THE HISTORY OF THE CASE, AND DESCRIBED IN OUTLINE THE COURT'S DECISIONS. ALTHOUGH THE COURT HAD RULED THAT THE ABATEMENT ORDER WAS NOT ULTRA VIRES, AND THAT MR HESELTINE'S POLICY WAS NOT UNREASONABLE, THEY DID RULE THAT HE HAD FAILED TO LISTEN TO REPRESENTATIONS MADE BY THE AUTHORITIES CONCERNED, AND THAT HE HAD THEREFORE NOT VALIDLY EXERCISED HIS DISCRETION. IN OTHER WORDS, HE HAD ACTED UNLAWFULLY, BUT ONLY FROM A PROCEDURAL POINT OF VIEW.

MR HESELTINE POINTED OUT THAT THE COURT HAD MADE IT QUITE CLEAR THAT HE COULD NOW CONSIDER THE AUTHORITIES' REPRESENTATIONS PROPERLY AND REACH ANY DECISION HE CONSIDERED RIGHT. MR HESELTINE ENDED BY SAYING THAT THE JUDGEMENT WAS 100 PAGES LONG, AND THAT THE GOVERNMENT WOULD HAVE TO STUDY IT CAREFULLY BEFORE DECIDING ON ITS RESPONSE. THERE WAS NO HINT OF APOLOGY IN ANYTHING THAT MR HESELTINE SAID.

GARALD KAUFMAN LED FOR THE OPPOSITION. HE SAID THAT MR HESELTINE'S STATEMENT WAS CHARACTERISTICALLY UNGRACIOUS AND SHIFTY. MR HESELTINE HAD ACTED LIKE A COMMISSAR, AND HAD HIGH-HANDEDLY PLACED CONVENIENCE BEFORE JUSTICE. THE OPPOSITION HAD HOPED THAT HE WOULD AT LEAST HAVE THE DECENCY TO APOLOGISE. HE CALLED ON MR HESELTINE TO REMOVE THE SHACKLES HE WAS PLACING ON LOCAL DEMOCRACY, AND PAID A TRIBUTE TO THE COUNCILS FOR BRINGING THE COURT CASE. MR HESELTINE REPLIED THAT MR KAUFMAN'S INTEMPERATE OUTBURST CONFIRMED HIM IN HIS DECISION TO TAKE THE TIME TO MAKE A CALM AND CONSIDERED RESPONSE TO THE COURT'S JUDGEMENT. HE WOULD PLACE A COPY OF THE JUDGEMENT IN THE LIBRARY OF THE HOUSE AND INFORM THEM LATER OF HIS RESPONSE.

IN THE ENSUING QUESTIONS, THE OPPOSITION CALLED ON MR HESELTINE TO APOLOGISE, AND ARGUED THAT THE COURT'S DECISION CALLED IN QUESTION HIS WHOLE POLICY ON LOCAL GOVERNMENT EXPENDITURE. NONE OF THE QUESTIONS COULD COMPARE WITH THE VICIOUSNESS OF MR KAUFMAN'S OUTBURST, AND MR HESELTINE DEALT SUCCESSFULLY WITH THEM BY SAYING THAT A CALM LOOK AT THE COURT'S JUDGEMENT WAS NEEDED, AND THAT THE GOVERNMENT WOULD MAKE ITS RESPONSE KNOWN IN DUE COURSE.

CARRINGTON

NNNN

CONFIDENTIAL



10 DOWNING STREET

Michael

You will have seen that Joe have now circulated their brief for the meeting with LAESAB on local authority pay.

We agreed in PSP(0) last week that the brief ought to have an Objectives paragraph which says Ministers want the lowest possible settlement, and one which clearly takes account of the 4% pay factor. Otherwise the brief becomes too vague and technical.

I doubt if we need bother the PM with the draft, if you think you could make this point without doing so.

↓

From the Private Secretary



Chancellor of the Duchy of Lancaster

Jeff Jacobs Esq
Private Secretary to the
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3ED

24ps
Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 4400

22 October 1981

Dear Jeff,

LOCAL GOVERNMENT PAY

Thank you for your letter of 20 October. We are content with the references in the brief on Civil Service pay. The factual position is described in Annex E. As paragraph 3(e) points out, Ministers are not in a position at the present time to make any promises to the local authority employers about the outcome of Civil Service pay negotiations. It is important to avoid any embroidery of the assurances which have been given to the Civil Service unions in a way which could, if made public, lead them to make charges of bad faith or which would imply a commitment to the local authorities on the handling of the negotiations which the Government may be in no position to fulfil when the time comes.

Clearly it would be unhelpful to get into any prolonged discussion with the local authorities on Civil Service pay, and there seems to be no need for the Chancellor of the Duchy or our Minister of State to attend the meeting, assuming that other Ministers are content with the line on this in the brief.

Although they do not touch directly on our own interests there are two points on the brief which I have been asked to mention:-

- a. Paragraph 4(d) on the NHS appears to apply only to the position of NHS ancillaries. But nurses and other non-manual staff account for more than half of the NHS workforce and Ministers will be considering next week the case for a higher pay factor for the NHS. It will obviously be important not to mislead the local authorities in any way or to cause unnecessary difficulties with the health service unions as a result of what is said on their negotiations.
- b. The last sentence of paragraph 4(d) refers a little misleadingly to a "range" without quoting one.

I am copying this letter to the recipients of yours.

Yours sincerely,
Jim Buckley
J BUCKLEY

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*J. Vereker
A. Walters
A. Duguid*

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

20 October 1981

Note

*Told Mr Jacobs that
we hoped the brief would make
clearly the two points in Mr Vereker's
note attached.*

MS 21/10

*will request if
required*

Dear Jill

LOCAL GOVERNMENT PAY

The Ministerial meeting with the local authority employers, about which my Secretary of State wrote to the Chancellor on 28 September, has now been arranged for Friday afternoon this week, 23 October, at 3.30 pm; Ministers attending are invited to join the Secretary of State for a talk beforehand at 2.45 pm.

As you know, the local authority employers themselves asked for this meeting. Since they did so, however, their political line-up has changed: notably, the Chairman of the Manuals' NJC is now Roy Thwaites (South Yorkshire CC). Their object will, we think, be to warn Ministers of the difficulties they face in achieving low settlements in this pay round, stressing particularly the implications for their own negotiations of settlements for groups for which the Government has responsibility (such as the Civil Service).

For the Government's part, my Secretary of State suggests that Ministers should stress the economic importance of low settlements, repeat if necessary the points on the 4% cash planning factor made in the Chancellor's statement of 15 September, give appropriate warnings about the prospects for the RSG settlement, and offer such limited reassurances as Ministers can about their intentions in respect of their own groups.

I attach a copy of a brief for the meeting, which has been discussed inter-departmentally in draft.

and envelope

I am sending copies of this letter to Michael Scholar at No 10, to the Private Secretaries of the other members of E(PSP), the Home Secretary, the Secretaries of State for Education, Scotland and Wales and Sir Robert Armstrong.

*Yours sincerely
Jeff Jacobs*

J JACOBS
Private Secretary

Ms Jill Rutter
PS/Chancellor of the Exchequer

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MEETING WITH LOCAL GOVERNMENT EMPLOYERS - 23 OCTOBER 1981

BRIEF FOR MINISTERS

1. The meeting is arranged at the local government employers' request. It will provide the opportunity for Ministers to impress on the employers the importance of reaching pay settlements which take full account of the 4% cash planning pay assumption. But the employers will be seeking reassurances about the Government's intentions towards public sector pay generally and that of its own employees in particular.

2. The employers are likely to say that their record in achieving responsible settlements in the last two years was good, and that they intend to negotiate responsibly in the coming round, but:

- the pressures will be greater than hitherto because of union determination not to fall further behind other groups or RPI;
- the 4% factor is unrealistically low;
- the manuals will claim credit for the fact that the outturn wagebill increase last year was 2% not 7½%;
- their own efforts will be undermined by more generous settlements elsewhere in the public sector (in general - miners, water workers; in particular - Civil Service, NHS);
- there is a growing possibility that the unions will seek to co-ordinate their pay claims, in terms of timing and content, and any industrial action.

3. Ministers might respond on the following lines:

- a. acknowledge reasonably successful record (figures at Annex A - last year mostly 7½% as against 8½ - 9% in public sector as a whole and private sector)

nevertheless total wagebill costs will exceed the cash limit provision for 1981/82 (assuming 4% for manuals in November 1981) by 6½%;

b. refer to general economic background (Chancellor's statement of 15 September and Treasury note at Annexes B and C respectively);

- if public sector pay increases are excessive the burden is thrown on public finances and taxation or borrowing increase;
- hinders recovery in private sector on which prosperity depends;
- lower pay settlements key to new and soundly based employment and greater competitiveness;
- pay increases must be based on realistic assessment of what economy can afford not on price changes;
- economic decline inevitable unless unit labour costs reduced.

c. stress that local government will be expected to live within the 1982/83 RSG cash provision. On present plans the cash provision will imply overall volume reductions of about 7% below the likely 1981/82 outturn. Any settlements above 4% from now on will work against achieving this reduction, awards below will work towards it;

d. last year's RSG settlement implied a 3% volume squeeze but allowed 6% for pay. The manuals outturn wagebill costs are therefore likely to be just within the

Against which Ministers wish to be the lowest possible settlement, on the following grounds

provision made and cannot justify, in isolation, a higher settlement for the manuals this year. Given the influence of the level of the manuals settlement within local government, it will be important for that group either to set a precedent which if followed by the other groups will lead to the required outturn overall, or ways must be found to achieve differential settlements which reflect the particular circumstances of the various groups.

[See Financial Fact Sheet at Annex D]

- e. Ministers will do whatever they can to support the employers position, but they are in no position at this time to make any promises about the pay of the groups for which they themselves have direct responsibility.

[Background Note on Civil Service pay negotiations at Annex E]

4. Other general issues which might arise and appropriate responses are:

- a. A negotiated settlement above the limit may be cheaper than industrial action, arbitration, special inquiries etc, and the employers must exercise discretion in this respect.

Possibly true but in the short term only. Beware of the potential knock-on effects of a high negotiated settlement, and the long term encouragement to militants and cost effects (raising the expenditure base). It must be realised that expenditure incurred above the target level for any reason will have to be offset by job losses and/or service cuts.

- b. The ability of individual authorities to cut jobs and/or services varies widely. Negotiating on the basis of anticipated improvements in productivity is therefore difficult.

This is understood and it places the onus on the national employers to negotiate settlements which do not place the more efficient LAs in intolerable positions.

- c. 4% is too low to permit sensible negotiations; it has already been undermined by the offer /settlement/ made to the miners.

The pay factor is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public service pay bill was to be met. The constraints on each sector of the economy and each group within will vary, and each must negotiate according to its own circumstances. Catching up with other groups (or the RPI) is not justified. There is bound to be a spread of settlements round the Government's desired objective. There are already precedents of tough bargaining in the private sector to counter-balance the effect of the miners situation.

- d. NHS Pay.

The level of pay increases in the NHS will be consistent with the terms of the Chancellor's statement of 15 September on cash planning factors.

It is constitutionally a matter for the Management Side of the NHS Ancillary Staffs Council to negotiate the settlement for the ancillaries; but Health Ministers would see great difficulty in approving an offer for this group in excess of the NHS pay factor. But the question is most unlikely to arise since the established policies of both the NHS Management Side and the trade unions (who represent both Local Government manual workers and NHS ancillary staff) are to keep pay increases for the two groups in line. The 7½% increase in Local Government last year was matched in the settlement for the NHS

ancillaries within the 6% pay factor only by the adoption of a 15 month settlement. This device cannot be repeated and there must be a serious risk of industrial action in the NHS if in the coming negotiations the manual workers receive an offer above the 4% pay factor that cannot be matched in the NHS.

5. Specific matters may include:

- a. Why the RSG base includes full provision for the police settlement (September) but the firemen's settlement (November) will be subject to the 4% factor.

The 4% pay factor does not apply to settlements made before it was promulgated on 15 September. The continuation of the indexation of the firemen's pay is a matter for negotiation after due notice, and it is therefore right that it should be subject to the same overall constraint as other LG settlements. But Government is committed to the Edmund-Davies recommendations and therefore to indexed pay for the police. However, the official side of the Police Negotiating Board has notified its intention to review the operation of indexation over the last 3 years, and it remains to be seen what will flow from that.

- b. Why should other groups have to accept less than 4% to accommodate a higher settlement for the firemen?

The effect is marginal if spread overall (c 0.1% for a 10% settlement). But if this is a matter of concern within local government it is up to the employers to end indexation.

- c. Manuals

It will be more difficult to persuade the unions which are aware of the low outturn figures for this group in the last 2 years that jobs will be at risk if they press for a high settlement.

Understood. But on the basis of last year's figures alone, previous outturn was only just within expenditure plans (assuming that 3% volume cut applied evenly to the manuals). A settlement at or above the RSG pay assumption is dependent upon the required volume cut being met. This has not happened in local government as a whole and the manuals are clearly the most vulnerable group when, overall, wagebill exceeds provision.

The manuals settlement overlaps two financial years, can it take advantage of the 6% pay factor for the balance of 1981/82?

No. The overspend this year more than offsets the original 6% provision, the cash provision for 1982/83 will assume a 4% settlement for the manuals at November 1981.

Because of the agency agreements (whereby local authorities carry out sewerage functions) and the Scottish situation (water workers are LA employees) the employers will probably argue that the water settlement is critical to them and Government should take action to contain or defer it.

Government will bring to bear such influence as it can but this is limited, direct co-ordination between the local government and water employers may well be more effective.

∟The water settlement is, of course, a potential embarrassment as are all high settlements but there is no indication that it has a decisive effect on the manuals negotiations. In any case Government can do no more than seek to influence the water negotiations, and attempts to do more this year when they are

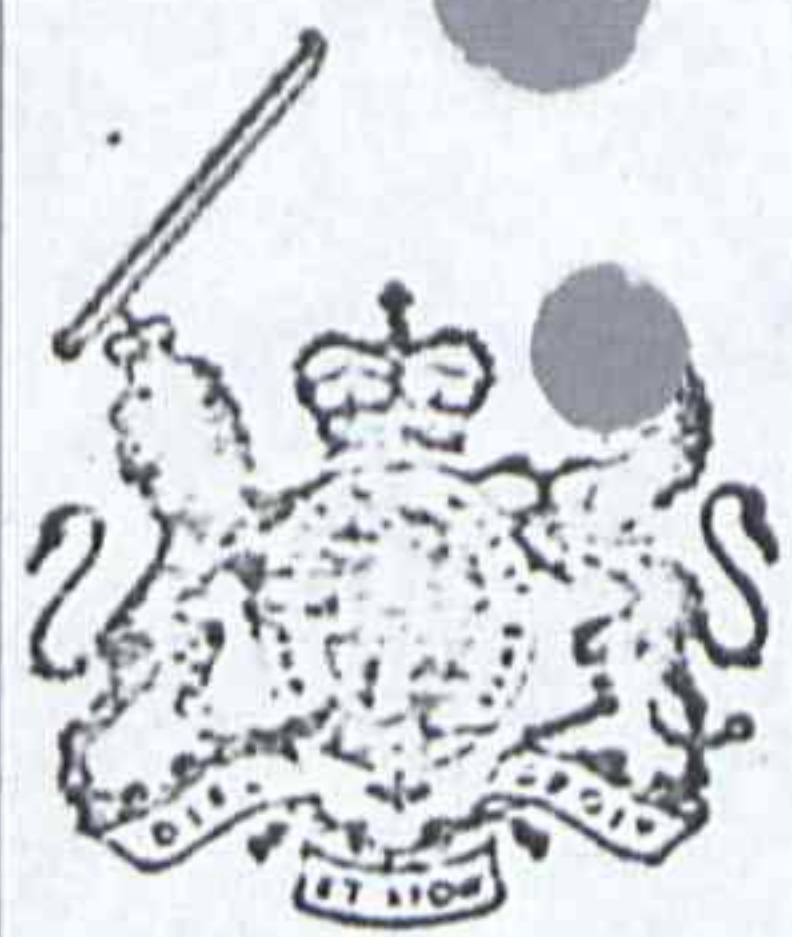
looking for an early settlement could lead to industrial action which might have a more damaging effect on the manual negotiations than a relatively high settlement within the level achieved by the miners/.

d. Burnham

Burnham teachers account for about 40% of the local authority pay bill. Their settlement will therefore have a major effect on the end-of-round outturn. It is important that a satisfactory settlement be reached for that reason, and because of the repercussive effects elsewhere if ground is conceded to the teachers. Their claim is now expected in December, well ahead of the settlement date of 1 April. It must be uncertain how far they will seek to make common cause with other public service unions, but if they do strive strenuously to do so the national interest requires that negotiation should not be conducted on a "going rate" or "follow-my-leader" basis. The pay factor is not pay norm and a range of settlements above and below 4% must be expected. A teachers' settlement in the upper part of that range would, because of the numbers involved, seriously stretch local authority finances and put unnecessary pressures on the level of service which needs to be provided.

LOCAL GOVERNMENT EMPLOYEES - PAY SETTLEMENTS

		<u>79/80 PAY ROUND</u>	<u>80/81 PAY ROUND</u>
<u>Group</u>	<u>(Settlement Date)</u>	<u>Total Cost</u>	<u>Total Cost</u>
1)	POLICE (SEPTEMBER)	- 13.5% (index-linked)	- 21.3% (index-linked)
2)	FIRE (NOVEMBER)	- 20.45% (index-linked)	- 18.8% (full year)/16.4% (settlement year) (index-linked)
3)	MANUALS (NOVEMBER)	- 13%	- 7.5%
4)	CRAFTSMEN (NOVEMBER)		
	a) Engineering Craftsmen	- 13%	- 7.5%
	b) Electricians	- 13%	- 5% (+ unknown additional cost which depends on number of bonus schemes reviewed and size of savings achieved)
	c) Building Trade Operatives	- 13%	- 5.5% (+ additional cost as for electricians)
5)	TEACHERS (APRIL)	- 14.6% (in full year)/13.5% (settlement year) (based on arbitration award)	- 7.5%
6)	APT&C (JULY)	- 15% (based on arbitration award)	- 7.5%
7)	CHIEF OFFICERS (JULY)	- 13%	- 7.5% (+ 2% on June 1980 salaries from 1.4.81).
8)	CHIEF EXECUTIVES (JULY)	- 12.5%	- 7.5% (+ 2% on June 1980 salaries from 1.4.81).
<u>AVERAGE WEIGHTED LEVEL OF SETTLEMENTS FOR PAY ROUND</u>			
a)	PUBLIC TRADING SECTOR	- 18%	- JUST UNDER 9.5%
b)	PUBLIC SERVICES SECTOR	- 15%	- 8%
c)	PRIVATE SECTOR	- 18.5%	- JUST UNDER 9%
d)	OVERALL	- 17%	- 8.5%



H. M. TREASURY

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.15.9.81

PUBLIC EXPENDITURE PLANNING: CASH FACTORS

The Chancellor of the Exchequer announced in his Budget statement on 10 March, 1981 that the Public Expenditure Survey this year would, for the first time, be conducted in terms of prospective cash expenditure, rather than in terms of "constant prices". For this reason, the plans in the last Public Expenditure White Paper (Cmnd 8175) were, at the outset of the Survey, put onto a prospective cash basis, which included an allowance for cost increases between now and future years.

In the spring a provisional allowance was made for general increases in costs of 7 per cent between 1981-82 and 1982-83 and of 6 per cent and 5 per cent respectively for the following two years.

In now preparing for the main decisions on the cash totals for each programme, the Government has reviewed the provisional allowance for 1982-83 and has decided to use separate factors for pay and for other cost increases. These factors will be, for earnings, an increase of 4 per cent from due settlement dates in the coming year, and for other costs an increase of 9 per cent between this financial year (1981-82) and next (1982-83). This change has little net effect on the overall cash total of public expenditure, but it does affect the distribution between

The pay factor does not imply that all public service pay increases will or should be 4 per cent. Some may be less, and some may be more. There is no automatic entitlement to any particular pay increase: each must be justified on its merits. The pay factor is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay, at this stage of fixing the programme from which the public service wage bill has to be met.

All public service wages are paid for from rates, taxes or borrowing. Excessive wage increases can only mean higher rates or taxes or further cut-backs, for example in public sector capital investment, which will cost jobs in both public and private sectors. The lower the level of pay settlements, the more there could be available for job creating investment throughout the economy.

The cash expenditure figures arrived at by applying these pay and price factors provide a framework for the further Ministerial decisions to be taken later. The final cash provisions for individual programmes, and where appropriate cash limits for next year, will follow from those further Ministerial decisions to be taken subsequently.

The Rate Support Grant paid to the local authorities for 1982-83 will be determined by Ministers' decisions on the cash provision for local authority services which may themselves be affected by overspending in the current year. But the

framework will be the plans revalued using these factors of
4 per cent for pay increases and 9 per cent for increases
in other costs.

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136/81

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Notes for Editors

Public expenditure surveys, Ministerial decisions on them, and public expenditure White Papers have hitherto been expressed throughout/prices ruling at an earlier time, known as "constant prices" or "survey prices", rather than the prices which might be expected to rule at the time the money is actually spent. For example the March 1981 White Paper set out the plans for 1981-82 and later years in terms of "1980 survey prices": these were broadly the prices ruling in autumn 1979. The Chancellor announced in his Budget/speech the decision to express plans in future in terms of the prospective cash spend. He explained the objectives of the move to be to get away from the presumption inherent in the old volume system that what was once planned could always be afforded, however much its costs might have risen, to focus much more closely on the money actually spent, and to relate decisions to the cash that would be available. (Hansard, 10 March 1981, Col 768-9)

2. This year, as part of the change to cash planning, it is necessary to convert the existing plans in constant prices - 1980 survey prices - in the last public expenditure White Paper (Cmd 8175) to the new prospective cash basis, to act as a starting point for this year's survey.

3. This conversion was done on a provisional basis in the Spring so that work on the survey could be in cash from the outset. It allowed for a general increase in all costs of 7% between 1981-82 and 1982-83, and increases of 6% and 5% respectively for the following 2 years.

It was envisaged from the outset that this provisional basis of revaluation would be reviewed at this point before the final stages of the survey, in which Ministers take their decisions. This review has now been made.

4. The 7% general factor provisionally applied for increases in all elements of cost between 1981-82 and 1982-83 is, as the notice says, to be replaced by separate factors of 4% for pay and 9% for other costs. The weighted average of these two factors is close to the provisional 7%. The change therefore will have very little net effect on the total for expenditure plans in 1982-83 in the last White Paper revalued to cash. But it does affect the split of totals by programmes.

5. The single factors for general increases in the subsequent 2 years, 6% and 5% respectively, are not changed.

6. The switch to cash planning has changed the sequence of decisions.

Decisions are no longer taken first on the plans in terms of "survey prices" and then on the cash limit factors to be used and Estimates. as part of the conversion of those decisions to cash limits/ Discussions and decisions on the survey are taken in cash throughout. This requires, at least for this year of the change, the general cash factors used in revaluing the existing plans from the old price basis to be confirmed - or to be revised - before the main decisions are taken. (This is some weeks earlier than the first cash limits factors would have been settled under the old system.)

7. Decisions on programmes may lead to reductions in some, increases in others compared with the last White Paper converted to cash. Such

decisions may include among other things, an adjustment upward or downward to the cash provision for a particular programme to allow, in whole or in part for movements in pay and prices which are especially affecting that programme and which are expected to differ significantly from these general factors.

8. As the decisions will be in cash, it will be possible to derive the cash limits from them without any further change in price basis. The presumption will be that cash limits will be set to correspond exactly to the decisions on programmes. Also, as now, the presumption will then be that cash limits, once set, will not be changed. If in an exceptional case, Ministers decide later to provide more cash than allowed in their original decisions on the programmes, that increase will have to be met from within the Contingency Reserve.

9. The 9% price factor represents what is considered realistic provision, on the basis of the information at present available, for the prices to be paid by departments. It is not a precise forecast.

10. The pay factor applies to the increase in earnings (basic pay plus overtime etc), not basic rates, and applies from settlement dates.

11. If a reduction in ^{manpower} numbers is planned (as in the Civil Service) that will be taken into account in the calculation of the provision for the relevant programmes.

GENERAL ECONOMIC ISSUES
(SPEAKING NOTE DRAFTED BY HMT)

The levels of pay in the public services have a major influence on the health of the economy. Pay accounts for about 30% of public expenditure in general, and over 70% of LA current expenditure. If pay increases are excessive the burden is thrown on to the public finances. Taxation or borrowing has to increase. Additional taxation harms the competitiveness of industry. The higher interest rates which necessarily accompany increased borrowing are equally damaging and affect investment in particular. Either higher taxation or higher borrowing will hinder recovery in the private sector on which the prosperity of the whole economy and the long-term health of the public services depends.

2. There can be no doubt then that, though the public services are not themselves subject to the direct rigours of competition, they cannot be shielded from its effects - as they have been to some extent in the past. [Over the three years 1978-79 to 1981-82, pay in the public services as a whole rose half as fast again as in the private sector. This year settlements in the public services were on average slightly lower than in the private sector. But that fact has to be placed in the context of the disparity over the previous two years.]

3. Within the Government's financial framework - so essential to the defeat of inflation - lower pay settlements across the economy are the key to new and soundly based employment. This places responsibility on both employees and employers. But the Government also has a two-fold responsibility. First, to refuse to finance pay settlements in the public services which would impose excessive burdens on the private sector, and secondly, ensuring that the efforts of management and employees in other parts of the economy to achieve realistic wage settlements are not undermined by unjustifiably high pay awards in the areas for which it is directly responsible. In the public sector, as in the private, managers cannot and should not escape the pressure labour costs place on services and job opportunities.

4. This is not to talk in terms of norms and guidelines, but of a realistic assessment of what the economy - and in the private sector - individual firms can afford if the decline in output and employment is to be reversed. That - rather than changes in prices - must be the major factor in determining wage settlements. Last year's pay round, with its halving of wage settlements and signs of improvement in productivity, saw greater stability in wage and salary costs per unit of output. That was an essential first step. But in view of the substantial role played by the excessive wage settlements of recent years in damaging UK competitiveness, there is still no room for complacency.

5. Any increase in pay which is not justified by increased output raises unit labour costs and makes an already bad situation worse. The figures speak for themselves. Over the second half of the last decade UK manufacturing industry's unit labour costs virtually doubled. Those of Canada increased by less than half, the United States by about one-third, West Germany by less than one-fifth while Japan's showed no increase at all. Economic decline is inevitable unless the UK does better in future. We are determined it should and that the public sector should play its part.

MANPOWER AND THE EXPENDITURE TARGETS

Local Government has been given expenditure volume targets, but, in general, has not been given manpower targets. We may, however, assume that the overall expenditure targets, expressed as percentage reductions apply to the wage bill, or, indeed, to the wage bill of individual groups of employees (e.g. manuals).

THE MANUALS

Local Government was asked to cut its expenditure by 2% between 1979/80 and 1980/81 and by a further 3% in 1981/82. The number of manuals was reduced by 6% between 1978/79 and 1980/81, and, on the realistic assumption that their wage drift did not exceed $+1\frac{1}{2}$ -2% per annum, they were "on target" at the beginning of 1981/82. Similarly, a further $4\frac{1}{2}$ % (assumed) reduction in their numbers in 1981/82 would leave them "on target" at the beginning of 1982/83. (Considering the manuals' pay-year (November 1980 to November 1981), they have reduced their numbers by about $4\frac{1}{2}$ %, and had a pay settlement of $7\frac{1}{2}$ %, increasing their pay bill by 2.7% - a little under that required by a 3% volume cut and a 6% cash limit factor for pay. Unless there was a strongly positive wage drift, they are unlikely to have greatly exceeded their "target" in their pay year.)

OTHER PAY GROUPS

At the beginning of 1981/82, local government was carrying forward a volume excess of about $2\frac{1}{4}$ %. It was asked for a further 3%, and the pay cash limit factor was 6%. Assuming proportional contributions from both pay and non-pay, there would need to be a standstill on the total wage bill in 1981/82 to meet this target. It is likely that manpower will fall by only $2\frac{1}{2}$ % in 1981/82 with wage settlements averaging around 9%. So, if wage drift is zero, the cash excess on pay would be $6\frac{1}{2}$ %. Given our assumption that manuals are "on target", then non-manuals must be some $7\frac{1}{2}$ % above "target".

1982/83

If there is no validation of pay, the original PES plans are adhered to, and all pay settlements are at 4%, manuals would need to cut their numbers by only about $\frac{1}{2}$ % to remain "on target", whereas non-manuals would need to reduce their numbers by 8% (more if wage-drift is positive). To the extent that pay settlements exceed 4%, the manpower reductions would need to be greater to remain "on target".

PAY SETTLEMENTS IN PAY ROUND 1981/82

- Q1 What will the RSG base figures include:
- (a) pay settlements Police, Fire;
 - (b) other inflation provision?
- A1 (a) Police: full effect of September 1981 award,
Fire: for the 1982/83 base 4% will be assumed for the November 1981 award;
- (b) 4% for pay and 9% for non-pay (the former factored to due settlement dates from 15 September 1981 up to and including 31 March 1983, the latter 1982/83 on 1981/82).
- Q2 What will be the position within RSG on:
- (a) 6% allowed for pay settlements in 1981/82;
 - (b) 4% (?) allowed for pay settlements in 1982/83?
- A2 (a) 6% in the 1981/82 cash limit will stand for remaining settlements (eg fire and manuals), but 4% settlements for the rest of 1981/82 will be assumed for the 1982/83 base;
- (b) as quoted in the Treasury press release, ie an increase in 4% for earnings from due settlement dates in the coming year: the framework for the RSG will be the plans revalued using the factor of 4% for increases in earnings from settlement dates.
- Q3 What is the 4% pay provision on:
- (a) pay of individuals [or]
 - (b) pay bills of groups?
- A3 The 4% applies to all elements of pay costs from due settlement dates for the numbers and mix of different pay groups and individuals on different pay scales already incorporated into the baseline.
- Q4 What is the possibility for 4% to be exceeded where:
- (a) reductions in earnings have occurred or are expected (negative wage drift in basic hours, overtime, bonus earnings etc);

- (b) reductions in numbers employed up to and beyond those implied by planned reductions in volume;
- (c) Reductions in 1981/82 to be cited in negotiations for 1982/83?

A4 Local government will be expected to live within its cash provision. On present plans the cash provision implies an overall volume reduction of about 7% below the likely 1981/82 outturn. There is no headroom until all the savings which have been taken into account in arriving at the base provisions, eg in manpower reductions, have been delivered. Reductions in earnings will obviously make it easier for local government to comply with the 1982/83 case limit but there can be no question of the 4% limit or increase in earnings being exceeded on that account.

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CIVIL SERVICE PAY ASPECTS

1. So far as the Civil Service is concerned, Ministers will need to take care not to appear to be adding to, nor detracting from, the assurances which have already been given to the Civil Service unions about their 1982 negotiations. These are some way ahead and Ministers will want to avoid any comment at this stage on how the negotiations might turn out. Obviously the way the pay round develops will be an important factor in this but the Government has already made it clear that it has not set a "norm" for the public services and that some may get more and some get less.
2. So far as the non-industrial Civil Service is concerned, the unions have been told that while the cost of the settlement will be a factor the Government will be prepared to enter into negotiations without a pre-determined cash limit. They have also been assured that in the event of disagreement the Government will accept recourse to the Civil Service Arbitration Tribunal but on the understanding that the Government reserves the right, if necessary, to ask the House of Commons to approve the setting aside of the Tribunal's award on grounds of overriding national policy. It would be undesirable to speculate in discussion with the local authority employers on the circumstances in which that right might be exercised. With Ministerial approval the unions have been told that these assurances are unaffected by the announcement on 15 September of the cash factors for public expenditure planning.
3. The non-industrial Civil Service settlement is on 1 April; the settlement for industrials not until 1 July. The industrial unions have been told that the Government is prepared to have discussions on next year's settlement before the cash limit is finally fixed but they have been given no promise of access to arbitration.

CONFIDENTIAL

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cc CST
CO

Mr Verelov
Mr Dugoid.

15 October 1981

RSG and Local Authority Pay

Following our telephone conversation this morning, I am writing to confirm that in the papers produced in the run-up to the 5 November Cabinet discussion on the Rate Support Grant the Prime Minister will be looking for an assessment of the impact on the local authorities' pay bill of the different options put forward for the Rate Support Grant settlement. I was grateful for your assurance that this complex issue would be tackled directly in these papers.

I understand that DOE Ministers are to meet LACSAB on 23 October. I would be grateful for your confirmation that there will be an opportunity before that date for the Prime Minister to consider the line that they are proposing to take.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office).

MICHAEL SCHOLAR

Jeff Jacobs, Esq.,
Department of the Environment.

CONFIDENTIAL

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cc walkie
Duged

CONFIDENTIAL

head gut

2 MARSHAM STREET
LONDON SW1P 3EB

NBPM

My ref:

Your ref:

12. October 1981

See below

I am writing to let you know about a problem that has arisen about the adequacy of my powers in respect of block grant under the Local Government, Planning and Land Act 1980.

As you may know, colleagues in E have already agreed that in re-determining under S61 of the 1980 Act the total block grant in respect of 1981-82 I should determine less than would otherwise have been the case to take account of the overspending by local government. We have also agreed that any authorities which have met their expenditure targets or are spending below their Grant Related Expenditure (GRE) should receive the amounts they would have received had I not, in redetermining the global amount, taken into account the overspend. The redetermination would be specified in a Supplementary Rate Support Grant Report to be laid before Parliament in the autumn.

When this policy was first developed earlier this year, I was advised that it was open to me to achieve this effect by giving the benefitting authorities a "multiplier" under S59 which would increase their grant entitlement to the appropriate higher amount.

More recently, however, my advisers have had doubts about this use of my powers under S59 in the light of the arguments used in the current case before the Divisional Court brought by Camden and certain other authorities in respect of use of powers to reduce rate support grant for 1980-81. My actions for that year were taken under different powers, namely S48-50 of the 1980 Act. These powers were transitional to deal with the situation between the block grant system being enacted and its operating for the year 1981-82. We have now taken the opinion of Counsel who appeared for me in the Divisional Court case (judgement is to be given on 21 October). I attach a note by the Department's Solicitor of the advice given by Counsel in conference which, as you will see, confirms the legal doubts about the adequacy of my present powers.

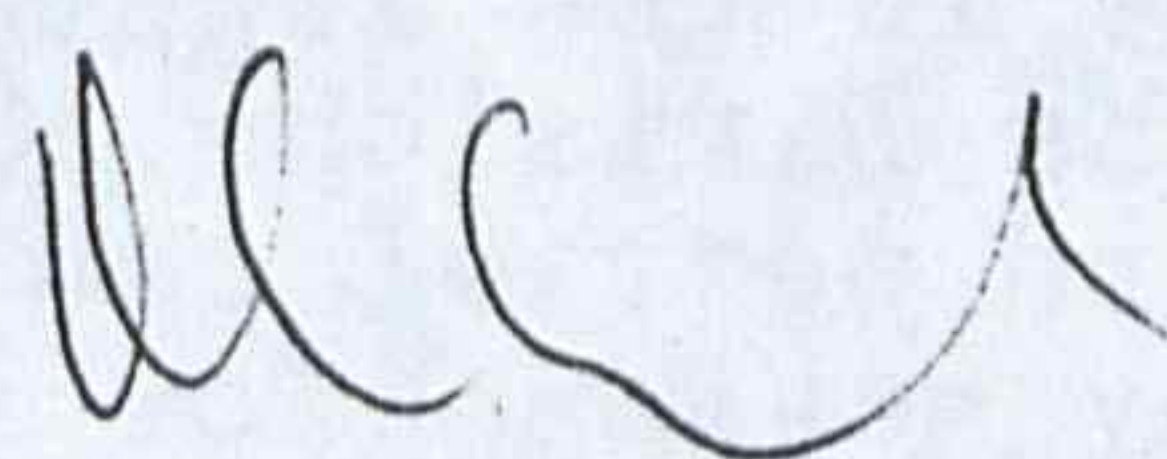
In view of these doubts I believe that it is necessary to make the position absolutely secure by including a provision in the forthcoming Rating Bill to provide firm authority for the action I am proposing in the Supplementary Report, and for any similar grant reduction scheme that may be needed to influence overspending in future years. (I am advised that what will probably be needed is an amendment to Part VI of the 1980 Act to give me an express power to determine new

"multipliers" at Supplementary Report to protect authorities which have complied with any expenditure guidelines I have issued from any lower redetermination of the total amount of grant. Subject to Parliamentary Counsel's views I think this should only require one or perhaps two Clauses.) It will be important to ensure that the power does not enable an Administration of a different political persuasion to give less grant than they would otherwise receive to authorities which spend less than a guideline figure specified by the Secretary of State.

If provisions on these lines are included in the Bill to be published in November I have in mind to go ahead and present the Supplementary Report to Parliament in December as part of the Rate Support Grant Settlement in the normal way. I would include in it the proposals for lower grant redetermination and protective multipliers on the lines I have indicated above. But I would not invite Parliament to approve the Supplementary Report (thus making it operative) until after the Bill is enacted next spring.

Given that the Government is firmly and publicly committed to the policy of abating grant this year for failure to meet the non-statutory expenditure targets which I issued at the beginning of the year, and given the legal advice that I have now received, do you agree that there is no alternative but to seek to amend the 1980 Act so as to put the statutory basis for my proposals beyond the risk of legal challenge?

If we are to include provisions on these lines in the forthcoming Bill it will of course be necessary to instruct Counsel very quickly. I should therefore be grateful for a very early response. I am meanwhile copying this letter by way of advance warning to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Scotland and Wales, the Lord President, the Chief Whip, Lady Young and First Parliamentary Counsel.

Yes em


MICHAEL HESELTINE

THE LOCAL GOVERNMENT, PLANNING AND LAND ACT 1980, SECTIONS 56-59
BLOCK GRANT HOLDBACK 1981/82

1. The Department has taken the advice of Counsel who appeared for the Secretary of State in the Brent, Camden, etc. litigation (Mr Robert Alexander QC, Mr Simon Brown and Mr Paul Walker) on the legality of the proposed block grant "holdback" for 1981/82.

2. In the Department's view, it was open to the Secretary of State to use his power under S.61 (Supplementary Reports) of the Local Government, Planning and Land Act 1980 to reduce, by reference to the total amount of volume expenditure target "overspend", the amount of block grant which he otherwise would have paid to all local authorities but to restore the amount so lost (in whole or in part) to those authorities who had met (in whole or in part) the targets; this restoration to be effected under S.59 (Adjustments of Distribution of Block Grant) by the application of a multiplier to increase the amount of grant payable to any such authority.

3. Counsel advised jointly in conference on 7 October 1981 as follows:-

- (i) The courts would look to the substance rather than the form of the "holdback" exercise and would be likely to regard the withholding of grant from all authorities and its restoration (in whole or part) to authorities who met (in whole or part) the Secretary of State's volume expenditure targets as a reduction of the grant of those authorities who had not met the targets.
- (ii) The only power available to the Secretary of State to decrease, on a selective basis, the amount of block grant payable to local authorities is S.59(2) and (3) of the 1980 Act.
- (iii) Even if the courts did accept that the general reduction of grant and its restoration to selected authorities were separate and distinct exercises of statutory powers, S.59(6)(d), properly construed, does not enable the Secretary of State to increase grant for a purpose extraneous to the block grant system.

(iv) The block grant system has built into it a disincentive to high spending, namely, the concept of "grant-related poundage"; to use the statutory powers of that system to implement a different disincentive, namely, abatement of grant by reference to non-statutory volume expenditure targets, would be to use those powers for a purpose inconsistent with the policy of the Act and, consequently, an unlawful use of the powers (Padfield v. Minister of Agriculture [1968] A.C. 997).

(v) The above views are independent of the issues raised in the Brent, Camden, etc. litigation and will not be affected by the outcome of that case.

4. Mr Alexander emphasized that the above views, as well as being joint views, had also been arrived at individually by each of the Counsel concerned before they met together to discuss the matter.

12 OCT 1981

12 OCT 1981

7 October 1981



cc with
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local gov

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

NBPM

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

9 October 1981

Dear Chief Secretary,

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND 1981-82

Thank you for your letter of 7 October.

I am grateful to you for letting me have a response to my earlier proposals in time for the meeting with the Convention of Scottish Local Authorities on 9 October.

I note that you would not be prepared to go further than £66 million and with the greatest reluctance I have decided to accept this figure. But I am bound to point out that the decision will cause difficulties in my discussions with the Convention of Scottish Local Authorities since the original holdbacks in Scotland and in England are being abated by the same proportion notwithstanding the substantial reduction which has occurred in the original expenditure excess in Scotland compared with the marginal increase in England.

I am grateful for your agreement that no more selective grant cuts should be made in 1981-82 and that authorities which budgeted on or within guidelines should not suffer general grant reductions. I confirm that these conditions will not impede delivery of the full £66 million grant cut.

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

Yours sincerely

L. Brittan

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

cc Walter
Dugard

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Local
✓ Govt
NBPM
MS.



Treasury Chambers, Parliament Street, SW1P 3AG

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

7 October 1981

George

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND 1981-82

Thank you for your letter of 18 September. I understand that our officials have been discussing your suggestion that the total reduction in Scottish RSG should be rather lower than the £80 million which I had suggested, perhaps £54 million.

I should be prepared to accept a total reduction of £66 million, but I must make it clear that I could go no lower. Otherwise we would risk accusations that the abatement in the grant cut exceeded the expected reductions in Scottish local authority expenditure. Criticisms such as these would be difficult to answer.

I understand that you would, in addition to the abatement in grant, like to tell Scottish local authorities:

- (i) that no more selective grant cuts under the 1981 Act will be sought; and
- (ii) that local authorities which will comply with their guideline expenditures in 1981-82 will not suffer general expenditure reductions out of the remainder of the total.

So long as these conditions do not impede delivery of the £66 million grant cut this year, I have no objection to them.

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

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LEON BRITTAN

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

NSPM.

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

1 October 1981

See Muted.

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

Thank you for sending me a copy of your letter of 28 September to Leon Brittan.

We shall be discussing in MISC21 on 9 October the apportionment between services of any additional cash provision. But I should let you know at once that I see serious objections to the approach you have in mind ie to adjust the distribution which we determined in Cmnd 8175 to take account of the planned pattern of spending by local authorities this year. The effect of this would be to distribute any additions to the existing cash figures for 1982-83 simply by reference to the probable overspending of local authorities on particular services in 1981-82. This overspending seems likely to range from more than 50 per cent on school meals to almost nothing on the rest of education and on Home Office services and from 50 per cent by eg ILEA to nothing by many shire counties.

Although we must recognise the discretion of local authorities, I do not think that we should allow them to dictate to us in this way policies on national issues and services. School meals are a good example. Under your approach the excess spending on school meals this year will be "validated" through the GREs for next year. This will be very embarrassing to me just as I am seeking ways and means of restricting expenditure on this service. By contrast, spending on the rest of education, which is likely to be close to our target for this year, will be unrealistically restrained next year. If, as your method implies, an extra £100m is allocated to school meals, Manchester's GRE is increased by nearly £1.5m and Buckinghamshire's by just over £1m. If the same £100m is allocated to primary education, Manchester gets £1.1m and Buckinghamshire nearly £1.25m. The broad effect of your proposal will be to reward highspending authorities in London and the

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metropolitan areas and to penalise the counties, exactly the opposite effect from that we hope to achieve from your new legislation.

The alternative approach, which I much prefer, is to base the cash provision for local authorities next year on our plans for individual services in Cmnd 8175. In this way we shall maintain pressure on the highspenders and help to ensure that our priorities are achieved.

I am sending copies of this letter to the Prime Minister, the other members of the Cabinet, the Paymaster General and Sir Robert Armstrong.

Emmerson,
Kear

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*cc Deputy
Waller*

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

28 September 1981

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29/9

Dear Chief Secretary

LOCAL AUTHORITY CURRENT EXPENDITURE AND RATE SUPPORT GRANT (RSG)
SETTLEMENT 1982-83

Now that Cabinet has agreed to the proposals in paper C(81)48, it may be helpful to you and other colleagues if I set out the timetable which we must meet if we are to have the RSG settlement before Christmas. A pre-Christmas settlement is needed in order to show local authorities how the limits on rates will be set under the new legislation, and to exert the greatest possible influence on their budgets.

If the settlement is to be before Christmas, the Cabinet ought to take final and detailed decisions by 12 November at the latest, and if possible earlier, since a clear month is required for checking the voluminous data and preparing the complex documents. That in turn means that the MISC Committee must start to review the options as early as possible next month, and be ready by the end of the month with firm proposals for colleagues to consider and for me to put to local government under the statutory consultation procedure.

Colleagues in MISC will want to know how alternative options would affect individual authorities. In order to produce detailed exemplifications, we shall have to calculate for each authority the Grant Related Expenditure Assessment (GRE) which is a major determinant of its share of grant. We have already provisionally agreed the methodology for calculating GREs (apart from housing) but before definitive calculations can be made we need to know not only the total cash provision for local authority current expenditure, but also the apportionment between services, since the latter affects the share of GRE going to each class of authority.

Cabinet have agreed that officials should be instructed to advise urgently on the apportionment between services of any increase in the total cash provision. To allow time for preparation of the detailed exemplifications which colleagues in MISC will need when they consider options, the apportionment needs to be settled no later than the week beginning 5 October. Since agreement may not be reached at official level, Cabinet Office are, I understand, making contingency plans for an ad hoc meeting of Ministers during that week.

As regards the methodology for the apportionment, our view is that the service breakdown for 1982-83 given in Cmnd 8175 should be adjusted to take account of local authorities' planned pattern of expenditure in 1981-82, after discounting the distortions introduced by those who decided to increase expenditure in their revised budgets instead of reducing it as the Government had requested. In addition,

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the increased provision already agreed for police and education will have to be added in. I recognise that further adjustments between programmes may be required as we reach detailed decisions on our public expenditure plans, but we cannot wait for such decisions before starting work on the RSG settlement if we are to meet our pre-Christmas deadline. Moreover I must warn colleagues that if decisions of this kind are taken after the end of October, the RSG timetable will be bound to slip, with serious implications for the rating legislation.

A decision on the total cash provision for local authority current expenditure need not be taken as early as the week of 5 October. For the time being I can prepare RSG options for MISC on the alternative assumptions set out in C(81)48, even though this will inevitably complicate their presentation. But a firm decision needs to be taken by the end of October if we are to stay on course for a pre-Christmas settlement. I hope that you will bear this in mind when organising any remaining bilateral discussions with colleagues on public expenditure and preparing your conclusions for the Cabinet.

There are some points about housing which I should draw to your attention at this stage. The proposals in C(81)48 were concerned with the current expenditure of local government for RSG purposes, which as so defined excludes contributions made by local authorities from the rate fund to the housing revenue account and vice-versa. I have already made my views clear to you about the rent increase for 1982-83 assumed in PESC, and this is an issue which will have to be resolved in our further discussions about public expenditure. In that context we shall need to decide how far to allow an adjustment for realism, of the kind which we are contemplating for local government current expenditure in the strict sense, to take account of local authorities' higher aggregate expenditure in 1981-82 on rate fund contributions to housing revenue accounts (in so far as attributable to higher expenditure on management and maintenance) than was assumed in our plans. We shall shortly be putting suggestions to you about the assumptions which should be made for the purpose of preparing RSG options, pending our decision on the substantive issue. There are some other important housing points as well which need to be drawn to the attention of colleagues, and we shall also be writing to you about these.

I am copying this to the Prime Minister and Members of the Cabinet, to the Paymaster General, and to Sir Robert Armstrong.

12:00 SEP 21 1981
11 12 1 2 3 4 5 6 7 8 9 10 11 12

John King
MHE

cc MICHAEL HESELTINE
(draft approved by the Secretary of State and signed in his absence)

Local Gov

Ref. A0 5641

PRIME MINISTER

Local Authority Current Expenditure 1982-83
(C(81)48)

BACKGROUND

In C(81)48 the Secretary of State for the Environment makes proposals for dealing with local authority current expenditure in 1982-83. His paper follows a meeting he held with the Chief Secretary and with Ministers from all the Departments concerned with local authority expenditure; they are in general agreement with his recommendations.

2. The problem is that to conform with present public expenditure plans the English local authorities would have to cut their current expenditure in 1982-83 by at least 7 per cent from the likely outturn for 1981-82: $3\frac{1}{2}$ per cent to eliminate likely volume overspend in 1981-82; 3 per cent because their pay and price increases in 1981-82 were higher than the cash limit factors for the year (the "validation" problem); $\frac{1}{2}$ per cent to achieve further reductions assumed in the Public Expenditure White Paper.

3. All the Ministers concerned judge that it is totally unrealistic to expect reductions of 7 per cent. The maximum year on year reductions ever achieved by English local authorities overall is 3 per cent. 7 per cent is an average and some local authorities would have to make substantially bigger savings. 70 per cent of local authority current costs are for manpower; a 7 per cent cut implies a manpower reduction of about 150,000 in a year compared with the present annual rate of reduction of 40,000 (see Annex B).

4. Ministers further agree that it would be unwise to stick willy nilly to 7 per cent in the knowledge that it is an unrealistic target but in the hope that it would keep some pressure on the local authorities. Public expenditure ceilings, assuming the 7 per cent cut, would certainly be broken and the next Public Expenditure White Paper could be discredited. They think that the local authorities will be much more likely to respond to targets which they regard as tough but not wholly unrealistic and impracticable.



5. Ministers judge that the reality is that the maximum reductions which could be looked for are either 3 per cent or 4 per cent, implying increases over the present total cash planning figure of £17,050 million of £700 million and £500 million respectively. They recommend, however, that for the moment, and for internal purposes, the three alternatives of 7, 4 and 3 should all be kept in play. The Secretary of State for the Environment, without revealing these figures, will open discussions with local Government leaders about the means of securing the maximum feasible reductions next year; a firm decision would be taken in the light of those consultations.

6. In the meantime officials, under the Treasury, need to advise further on how any increase in cash provision might be apportioned between the different services - education and transport and so on. Separately from that, the Chief Secretary will need to reach agreement with the Secretaries of State for Scotland, Wales and Northern Ireland on precisely how similar adjustments, to those proposed for England, should be made for the three other countries. The additions could total about £200 million. In these discussions he will need to take account of the point made by the Secretary of State for Wales in his letter of 23 September - that virtue must not appear to be penalised. But the Cabinet will not be in a position to settle the details of the Welsh arrangement.

7. It is essential that the momentum should be kept up on this work. Unless the Rate Support Grant can be settled before Christmas, there will be serious difficulties for the passage of the Bill to give effect to the interim measures on the rates: the RSG settlement needs to be made before the various limits on supplementary rates can be calculated. Working back from the target of an RSG settlement in mid-December, firm decisions will be needed no later than the 20 October Cabinet confirming the totals of local authority current expenditure and also their distribution between programmes. I suggest that you should invite the Home Secretary to chair any collective Ministerial discussions which may be necessary in your absence, and to do so with a view to making as much progress as possible. An appropriate forum would be his MISC 21 Group which annually reports to Cabinet on the details of the RSG settlement.



8. The Ministers concerned attach a good deal of importance to the presentation of these decisions. They strongly advise that when the decision is made public it should be in terms of a cash adjustment for 1982-83 alone which takes account of the latest position on local authority expenditure overall. There would be no specific mention of validation this is important if a key part of the cash planning system is not to be discredited in the first year, and in order to discourage any notion, which would be damaging in the coming pay negotiations, that the Government is soft on local authority pay and willing to condone excessive settlements. The decision would be presented in the context of the wider measures on rates which the Government is taking to deal with high spending local authorities. Treasury Ministers will be anxious to take care that it is not seen as a relaxation of the Government's public expenditure and monetary stance.

HANDLING

9. After the Secretary of State for the Environment has introduced his paper you might ask the Chief Secretary to respond. The other Ministers concerned with local authority expenditure will probably wish to comment but, given the meeting which has already taken place, there should not be a need for long or detailed discussion.

CONCLUSIONS

10. You will wish to sum up with reference to the conclusions listed in paragraph 22 of C(81)48 and, subject to the points made in discussion -

1. Authorise the Secretary of State for the Environment to pursue his discussions with local authority leaders on the basis he proposes.
2. Invite the Chief Secretary, Treasury -
 - a. to arrange for officials of the Departments concerned to examine how any increase in cash provision might be apportioned between programmes;



b. to discuss with the Secretaries of State for Scotland, Wales and Northern Ireland how any 'matching adjustments' should be calculated for their programmes.

3. Invite the Home Secretary to convene meetings of his MISC 21 Group to resolve any questions which require collective Ministerial discussion and with a view to reaching as much agreement as possible in advance of the next meeting of the Cabinet on 20 October.

A handwritten signature in dark ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

23 September 1981

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

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

23 September 1981

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23/9

Dear Secretary of State,

LOCAL AUTHORITY EXPENDITURE

You said at our meeting on Monday that you were planning to announce the interim measures in a speech to a local government audience at Torquay on Thursday; and you also mentioned that you might impart a flavour of our willingness to discuss next year's expenditure with local government leaders.

My purpose in writing now is to put a point to you that bears on market confidence. The balance of your remarks is of great importance, especially if the fact that we are looking at 7%, 4% and 3% assumptions leaks. Your speech could, as it were, nullify in advance any damage (especially to market confidence) from such a leak if it got across the point (made in your Cabinet paper) that there is no question of increasing public expenditure but of seeking the maximum feasible reduction. At the same time, this would guard against public opinion expecting too much from the interim measures, and then reacting adversely if the expenditure total is eventually increased.

I am copying this letter to the Prime Minister, other members of E Committee and Sir Robert Armstrong.

yours sincerely

LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

CONFIDENTIAL

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hatter*

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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01-233 6106 (Direct Line)

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

CONFIDENTIAL

23 September 1981

De Medad

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Cabinet file*

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83
- being evaluated

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In your paper C(81)48, paragraph 21 you record that I endorse the approach you suggest and that I propose a matching adjustment to my programme. I thought it would be helpful to you and colleagues to have some more detail of how I propose to proceed in Wales.

As Annex C to your paper shows, local authorities in Wales have come close to meeting the expenditure target I set for them, and indeed I expect the out-turn to be just about on target. This is gratifying, but it does present me with a position of some delicacy in moving forward to next year. I agree with you that we must not relax our pressure on local authorities to meet the targets we set; at the same time we must avoid the appearance of rewarding those who do not succeed in doing so whilst keeping the screws on those who do.

Present PES plans imply a volume reduction of 3 per cent in the Welsh target for next year. This reduction would be cancelled out if there was full validation. However, if the English target was revised as in the 3% option and presented in cash terms it would be essential for Wales to receive a proper consequential of the cash increase in the English provision if we are to avoid Welsh local authorities drawing the conclusion that virtue is to be penalised. I would not assign all the extra cash to local authority current spending since in broad terms I think the target reflecting constant volume would be a reasonable and achievable one in the Welsh context (it would compare with a slight increase in the planned level of local authority expenditure in England if the 3% option is eventually adopted). I would use the balance of the extra resources to increase the provision for capital spending within my block, in accordance with our general wish to alter our spending in that direction.

/If this approach

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



If this approach is agreed I propose to discuss with my local authorities their spending plans for the coming year, in parallel with the consultations you will be holding in England. In the meantime, for internal purposes only, I should consider alternative assumptions about the volume reduction: 3% (ie present plans) and zero.

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

J. er

Nick

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23 SEP 1981



HOUSE OF LORDS,
SW1A 0PW

CONFIDENTIAL

22 September 1981

My

My dear Michael:

Interim Rating Measures

Your letter to Michael Havers of 18 September asked for my comments on the problem set out in your letter relating to the timing of the legislation which it is proposed to introduce to influence local authority rates.

I am of course in full support of the principles underlying the proposed legislation, but I am bound to say that I have profound reservations about the retrospective element which would appear to be involved if the "relaxed" timetable were adopted. As I understand the position, before the legislation had come into force authorities would have been under a statutory obligation to set their rates for 1982/83 at a level sufficient to cover their expenditure as currently planned. To include in a Bill a provision to invalidate these rates retrospectively or to relieve ratepayers of the liability to pay would, as you say, potentially cause considerable confusion. More seriously, however, it would to my mind raise strong objection on constitutional grounds. When in Opposition we have as a party never been slow to criticise retrospective measures of this kind, and I would not wish to give any future Labour Government the sort of precedent which this measure could involve.

Although this is more a matter for the Whips than for me, we should not underrate the degree of opposition which these proposals are likely to encounter in the Lords, not least from our own supporters. Local Government is strongly represented on the Government Back Benches, and I understand that your proposals are likely to be as unwelcome to Conservative Councils as to Labour ones.

. contd

We must be alive to the risk of the kind of alliance between Back Bench -- Government supporters, Cross Benchers and the Opposition which defeated us on school transport, and on the Gibraltar amendment to the British Nationality Bill. The proposals will be severely criticised in any event, but if retrospection is added to the other causes of criticism this might be the last straw. My feeling, therefore is that, notwithstanding the problems that it will cause for the business managers, and the other attendant difficulties, it would be better for us to go for the tight timetable to avoid retrospection.

I am sending a copy of this letter to the recipients of yours.

Yrs:

A handwritten signature in black ink, consisting of a large, stylized initial 'M' followed by several loops and a final flourish.

The Right Hon. Michael Heseltine MP
Department of the Environment
2 Marsham Street
London SW1P 3EB

cc J. Verkal
A Duguid
A Walters

GWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
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Oddi wrth Ysgrifennydd Gwladol Cymru

The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

CONFIDENTIAL

22-September 1981

D. Medford

R.

INTERIM MEASURES: REFERENDUM BEFORE SUPPLEMENTARY RATE

You asked me yesterday to let you have any ideas about how to avoid the difficulties you envisage in E(81)93, in advance of the discussion in E Committee tomorrow.

The difficulty arises in the case of a Council which loses a referendum but then cannot (or will not) contain its expenditure for the remainder of the financial year so as to finish up with total expenditure matched by revenue. I agree with your conclusion that the right course would be for you (and I) to have power to grant temporary borrowing approval sufficient to meet the balance of its committed expenditure in that year (Year 1).

You then suggest in your paper that a deliberately recalcitrant authority might then again budget excessively in Year 2, thus starting the whole process again and devaluing it as a disincentive to excessive expenditure. The only solution you see is to take power to prevent an authority losing a referendum in Year 1 from fixing a rate for Year 2 until you (or I) had approved its budget. Councillors attempting to maintain a higher level of expenditure would be liable to surcharge.

I agree with you that the detailed scrutiny of individual local authority budgets is an unenticing prospect, and better avoided. I suggest that a better course would be to include in the legislation a limit on the Year 2 budget of any authority which lost a referendum in Year 1. It is for consideration what that limit should be, but as an example it might be the level of expenditure implied by the actual rate call in Year 1, uplifted by the inflation factors used in the RSG Settlement for Year 2. This would be a tough limit, and your detailed calculations may show it would be too tough on individual authorities in the sense that they would be presented with the need to make impractical cuts. We should

/have to see

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



have to see what trimming might be necessary in this respect, but this line of approach is I am sure a better one than seeking discretionary interventionist powers. It would also serve to make potential recalcitrants think twice before proceeding to a referendum in Year 1: they would be taking a calculated risk of landing themselves in severe difficulties in Year 2.

Under this approach, councillors would be liable to surcharge if they attempted to maintain expenditure at a level higher than the statutory limit in Year 2. If an individual authority could prove that it had existing contractual commitments in excess of the limit (which on the face of it would seem unlikely) then the temporary borrowing powers might again come into play, but I think such a case could hardly occur.

In Year 3, the whole thing would start again from scratch. We should then be very near an election for the affected authorities.

I really do think we ought to work up something on these lines rather than keep the election option open. The more one thinks about the election option the more objections can be seen to it.

I am copying this letter to the Prime Minister, other members of E Committee and Sir Robert Armstrong.

W. C. O. S. W.

W. C. O. S. W.

23 SEP 1981





Ref A05634

PRIME MINISTERLocal Authority Rates

(E(81) 90 and 93.)

BACKGROUND

In E(81) 93 the Secretary of State for the Environment makes recommendations on how best to give effect to the Committee's decision last week that any second supplementary rate increases should be subject to mandatory referenda; he still thinks, however, that elections would be better. In E(81) 90 the Secretary of State for Scotland recommends that he should add to legislation already in the programme provisions to enable him to direct Scottish local authorities to reduce their proposed rates unless the higher rate were endorsed by referendum.

2. In his letter of 18 September to the Attorney General, the Secretary of State for the Environment sought advice on whether there was any way of deferring the date by which the Bill had to reach the Statute Book while still making its measures effectively binding upon rating decisions to be taken in March 1982. In his reply of 21 September the Attorney General advises that, provided that the legislation is in force before the rate demand is issued the question of retrospection does not arise and that, even if it were not in force until after the rate demand was issued, limited retrospection could be justified in the circumstances. The Lord Chancellor in his letter of 22 September advises against retrospection and warns of the opposition which the proposals are likely to meet in the Lords.

3. The Secretary of State for the Environment will briefly refer to this correspondence tomorrow. He will probably say that, in view of the differences in the advice offered to him, he will wish to discuss the constitutional issues further with the Attorney General and the Lord Chancellor and with the

business managers. He would then report the outcome of this separately. It would not affect the policy issues in the main papers now before E. It could ease the problems of managing the legislative programme next Session, but it would be most unlikely to remove the need for dropping one or two other Bills now in the programme to permit acceleration of the legislation on rating measures; this question will be discussed by Cabinet on Thursday when they consider the Home Secretary's paper (C(81) 87) on the Queen's Speeches.

England and Wales

4. The main features of the Secretary of State for the Environment's proposals in E(81) 93 for referenda are -

(i) The question 'do you agree that a supplementary rate of - p should be levied?' to be specified in the legislation.

(ii) The local authority to be free to finance from its own funds the issue of a leaflet justifying the second supplementary rate and to be required to finance the largest opposition party in preparing a leaflet opposing the proposal.

(iii) If the answer is No, a limit on the authority's temporary borrowing for the rest of the financial year and prior approval by the Secretary of State of its budget for the following year.

- This is necessary because, by November when a referendum result would be known, some local authorities would not be able to cut back their expenditure sufficiently in the remaining months of the financial year and provision would be necessary to stop the problem recurring in the following year.

(iv) Surcharges on Councillors would be confined to instances where they tried to maintain expenditure higher than that approved by the Secretary of State for their budget (paragraph 10).



5. The Secretary of State for the Environment would be willing to go through with a scheme of referenda on these lines but he would strongly prefer a system of re-election. He fears that, following a No vote in the referendum, he and his Department could be dragged into direct confrontation over detailed and contentious expenditure decisions with a hostile authority reluctant to make economies - eg whether to close an old people's home rather than go over a borrowing limit. In his judgement it is a situation which a skilful Labour authority could exploit to the full. He continues to believe that the threat of re-election, and the risks that would entail, would be a powerful deterrent on high spending authorities.

6. You will recall, however, that, in their discussion last week, an overwhelming majority of the Committee favoured referenda, despite the difficulties which will undoubtedly arise. They feared that elections would be on much wider issues than the rate increase and could risk supporters of the Government's policies losing their seats. The ILEA, which is a major over-spender, would not be caught by elections.

7. If the Committee confirms its decision in favour of referenda, there is one point of detail which you may wish to examine. Is it defensible for the Government to require the local authorities to finance leaflets prepared by the largest opposition party, but to do nothing for other opposition parties which could be pretty big? (eg situations could arise of the local authority financing a Liberal/SDP leaflet but not a Conservative leaflet, and vice versa). Would it be preferable for the local authority to finance one leaflet opposing the proposal, irrespective of which party or parties sponsored it?

8. Whether the Committee decides on referenda or elections, the Secretary of State for the Environment wishes to announce the outcome, and the Government's broad proposals for the interim measures, on Thursday afternoon when he is to speak in Torquay to a joint meeting of the Local Authority Associations.

Scotland

9. The Secretary of State for Scotland already has powers to reduce grants to individual local authorities planning excessive and unreasonable expenditure. → Scottish local authorities cannot raise supplementary rates. The Secretary of State for Scotland now proposes, in E(81) 90, that he should take powers to intervene in the rate fixing process if he thinks that in determining its rate poundage an authority is planning for excessive and unreasonable expenditure. He would then prescribe a lower rate which would stand unless a proposal to re-adopt the original rate were endorsed by referendum by 31 July. He would thus have powers to operate either on rates or on grants or on both. The provisions would be added to the Local Government and Planning (Scotland) Bill, though this would not be enacted in time for them to be effective in the financial year 1982-83. This will mean that the Second Reading of the Bill will have to be taken on the Floor of the House, rather than in Scottish Grand Committee, and this is a problem which the business managers will need to consider; the proposals do not, however, present the timetabling problems which arise with the legislation for England and Wales. The Secretary of State would announce his proposals as soon as possible.

HANDLING

10. After the Secretary of State for the Environment has introduced his paper, you might ask the Secretary of State for Scotland briefly to explain his proposals. The Home Secretary has specific responsibility for electoral procedures and he will wish to comment. The Committee will also wish to hear, in particular, the views of the Secretary of State for Wales and the Chief Secretary.

11. The main questions seems to be -

(i) Does the Committee still prefer referenda to re-elections?

(ii) If so, do they approve the Secretary of State for the Environment's proposals in E(81) 93?



- Do they see any difficulties in the proposal that the Government should require the local authority to finance leaflets prepared by the largest opposition party?

If not, should the arrangements for re-elections be on the lines proposed in the earlier paper, E(81) 85, and should the ILEA be subject to referenda?

(iii) In either event can the Secretary of State for the Environment announce the Government's decisions on interim measures in general terms in his speech in Torquay on Thursday afternoon?

(iv) Does the Committee approve the Secretary of State for Scotland's proposals in E(81) 90?

- If referenda are approved for England and Wales the Scottish proposals should be straightforward, but otherwise would it be defensible to have referenda in Scotland and elections South of the Border?

CONCLUSIONS

12. You will wish to record conclusions on the questions listed above. Any detailed issues on the management of the legislative programme could be considered separately by the business managers and the Ministers concerned; the implications for other Bills in the programme will be considered by Cabinet the following day.

ROBERT ARMSTRONG

22 September 1981



01-405 7641 Extn 3201

ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

21 September 1981

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment
DEPARTMENT OF THE ENVIRONMENT
2 Marsham Street
SW1

E from

Dear Michael,

*DL
my*

You wrote to me on 18 September about the time-table for your legislation to impose limits on the main and supplementary rates for 1982/83.

I assume that the legislation will provide for the situation where a rating authority exceeds those limits and will operate so as to relieve a ratepayer from the liability to pay the difference between the actual rate demanded and the rate which would lawfully be demanded under the legislation.

I consider that if the principal and secondary legislation is "in force" after the rate is made but before the rate demand is issued (generally at the beginning of May) then the question of retrospection does not arise.

If however the legislation is not "in force" until after the rate demand is issued and therefore after the ratepayer is liable to pay the rates (section 96 GRA 1967) then there would be an element of retrospection in the sense that the legislation would be impairing the rating authority's right to recover rates lawfully demanded. In this case the legislation must clearly state that it is to have retrospective effect. There will also have to be provisions enabling those ratepayers who have paid their rate demands in full to recover the excess from the rating authority.

/As a

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01-405 7641 Extn

ROYAL COURTS OF JUSTICE,

LONDON, WC2A 2LL

- 2 -

As a general rule I dislike retrospective legislation and the limited retrospection I have referred to would have to be justified. In the special circumstances of this case and in view of the fact that these proposals will be well publicised beforehand it seems to me to be justifiable.

Your Wm. Michael.

PS I am copying this letter to the recipients of yours.

CONFIDENTIAL

*cc Duguid
Miller*



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

MBM

18 September 1981

13

2/19

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND 1981-82

main part

Thank you for your letter of 14 September in reply to mine of 4 September concerning the reduction to be made in the amount of RSG holdback from Scottish local authorities. I regret to say that your proposal for a holdback of £80m is quite unacceptable.

My proposal was that the adjustment in the grant holdback for Scotland should be on the same basis as that which has already been announced for England. At our meeting on 3 June we discussed what should be the consequences for Scottish local authorities of the decision that rate support grant for 1981-82 payable to English local authorities should be abated by £450 million (the figure which we had earlier decided upon collectively following Michael Heseltine's proposal of holdback of £900 million) in relation to a prospective volume overspend in England of some £800 million. The decision reached on 3 June was that the grant holdback in Scotland should bear a similar proportion to the aggregate potential volume overspend, and that was the basis which was adopted. Moreover we addressed ourselves to aggregate overspend, not to the manner in which overspend was distributed among authorities.

Now, with an actual increase in the potential volume overspend, Michael has announced, with the agreement of colleagues and for reasons which I support, that the grant withholding in England should be reduced from £450 million to £300 million and possibly less.

What is at issue is the base figure of grant withholding in response to the level of volume overspend which we were expecting last June. For good reasons which I support, the figure for England has now been reduced by one-third. It is inconceivable that I should not now make a reduction calculated on a similar basis in the previously announced figure for Scotland, and I ask for your concurrence in an early announcement.

The grant withholding now being implemented in England represents approximately $\frac{3}{8}$ ths of the volume overspend that is now expected. In Scotland the volume overspend now expected has been reduced in the light of the budget exercise mentioned in my earlier letter from approx £180m to approx £145m. It is essential that the total grant withholding in Scotland bears the same relation to volume overspend as has been decided for England. This leads to a figure of approx £54m. To accept any higher figure would leave me in an utterly indefensible position. Although my new powers would have successfully reduced the proposed volume overspend in Scotland, Scottish local authorities would still have imposed on them a higher penalty than English local authorities where there is to be, if anything, a slight increase in the proposed volume overspend. I am sure you will accept that that is not a realistic proposition.

What is beyond argument is that we must adhere to the manifest basis for the determination of the grant withholdings announced on 2 and 4 June. We shall lose considerable credit if there is any further delay in an announcement on this matter, on which there has already been Press speculation and pressure from the Convention of Scottish Local Authorities. I hope therefore that I may have your early agreement to such an announcement, so that it is not necessary to trouble colleagues further with the matter.

In your letter you also raised the possibility of default by Lothian Regional Council. On this matter, I agree with the assessment in Malcolm Rifkind's letter of 4 September and I do not think that we need pursue the question meanwhile.

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

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



*cf. Duguid
Walker*

Local Gov.

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

18 September 1981

See Attorney General
INTERIM RATING MEASURES

*MBM 21
R*

R 1879

You will know from the minutes of E(81)27th meeting held on 16 September that my proposals for interim rating measures to come into operation in 1982/83 set out in the consultation paper annexed to E(81)85 were approved subject to certain further points to be discussed at a later E Committee meeting, now fixed for 23 September.

One of these points related to the timing of the legislation and on this I think the Committee would find your advice most helpful.

Section 2(1) of the General Rate Act 1967 (c9) requires every rating authority to make such rates as will be sufficient (inter alia) to provide for its budgeted deficit for the period in respect of which the rate is made. Annexed to this letter is a copy of section 2(1) and of section 11 which is the corresponding provision dealing with precepting authorities. These statutory duties are presumably enforceable by an application under Order 53 of the Rules of the Supreme Court for an order of mandamus. Local authorities normally make their precepts and rates during February and March (Section 12(b) of the 1967 Act requires a precepting authority to make its precept by 9 March if it wishes it to become effective at the start of the new financial year).

My original intention was that the legislation should be introduced into Parliament as soon as possible in the new Session and should become law by early February. We would then need at least 2 weeks to bring into force the statutory instruments which would, inter alia, prescribe the limits on the main and supplementary rates which are the key features of the proposals. I would, however, have actually announced these limits earlier - probably in December when I made the RSG settlement. This timing would have meant that not only would authorities have had time to consider the limits when making their plans for expenditure and revenue, but that all the necessary legislation would have been in place when they actually made their rates and precepts. Although, therefore, authorities might have grumbled at the speed of the legislation and lack of time for consultation, they would in no way have complained that they were being forced to act before their duties under sections 2(1) and 11 of the 1967 Act were modified and I had power to prescribe the limits within which they were constrained.

You will appreciate, however, that such a very tight timetable causes great difficulty for the business managers. E Committee have, therefore, asked me to consider whether the timetable cannot be somewhat relaxed - for example, would it be possible to have the statutory instruments coming into force at the end of March, which would mean the main legislation need not be enacted until the

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beginning of March - say 11 March at the latest. (I would still announce the figures as soon as I could).

I think any legal problem which arises over such a proposal could be dealt with in the legislation itself either by retrospectively invalidating the rate or prospectively relieving the ratepayer or precepting authority of the liability to pay. The problems are basically those of practice and of what I might call legislative propriety.

Perhaps I can illustrate this by looking at what the position will be if the legislation is passed on the timetable as now suggested. A Council will be considering the rate it has to levy to finance a level of expenditure (which it may, in practice, not be able to alter very significantly). They will be under a duty to make the rate appropriate to that expenditure but they will know that such a rate if made would exceed the limit which I would have announced on the main rate. Legislation (or subordinate legislation) would be before Parliament which could, when passed either invalidate either the whole or that part of the rate which is above my limit or, alternatively, make it impossible to recover payment. What does the Council do? It may reasonably (or otherwise) claim that it cannot reduce its planned expenditure, must make a rate at the level required to finance it because there is no legislation in force which relieves it from that liability and may issue its rate demands. By the time these become payable, the legislation will be in force. However great confusion may result about how much is to be paid by the individual ratepayer and how much the local authority actually may get.

Most authorities will no doubt avoid this situation and have regard to the impending legislation. But there may be some either because they are cautious or want to expose the Government to criticism, who may act in such a way. One could argue that we need not be too concerned about the effects of such activities by them. But I can see arguments being raised which would allege that no legislation affecting rate and precepts demands ought to come into operation after the rates and precepts have lawfully been made and that such legislation is basically retrospective.

Report
A possible means of shortening the timetable would be to put the material that would otherwise go into the statutory instrument to be made after the legislation receives Royal Assent into the Rate Support Grant. This Report, which deals with all Rate Support Grant matters is normally presented in December and is approved by the Commons only. If we did follow this course the Lords might well complain that they were being deprived of a chance to debate material which was not covered by financial privilege.

I should be grateful for your views, and those of the Lord Chancellor, on the force of the arguments set out above - and any other matters - and whether they are sufficiently strong to prevent us from adopting the more relaxed timetable.

I am copying this to all Members of E Committee, the Lord Chancellor, the Secretaries of State for Scotland, Wales, Social Services and Transport, the Leader of the House of Lords, the Chief Whips (Lords and Commons), Sir Robert Armstrong, and to the First Parliamentary Council.

Rt Hon Sir Michael Havers QC MP

Yours sincerely
J. J. J.
MICHAEL HESELTINE
Approved by the Secretary of State and signed by

GENERAL RATE ACT 1967

2. The general rate

(1) Every rating authority shall from time to time in exercise of their powers under section 1(2) of this Act make such rates as will be sufficient to provide for such part of the total estimated expenditure to be incurred by the authority during the period in respect of which the rate is made as is not to be met by other means or by means of excepted rates, including in that expenditure any sums payable to any other authority under precepts issued by that other authority, together with such additional amount as is in the opinion of the rating authority required to cover expenditure previously incurred, or to meet contingencies, or to defray any expenditure which may fall to be defrayed before the date on which the moneys to be received in respect of the next subsequent rate made under this subsection will become available.

11. Power and duty to make sufficient precepts

Every authority having power to issue a precept to a rating authority shall from time to time issue such precepts as will be sufficient to provide for such part of the total estimated expenditure to be incurred by the authority during the period in respect of which the precept is issued as is to be met out of moneys raised by rates, together with such additional amount as is in the opinion of the authority required to cover expenditure previously incurred, or to meet contingencies, or to defray any expenditure which may fall to be defrayed before the date on which the moneys to be received in respect of the next subsequent precept will become available.



DEPARTMENT OF THE ENVIRONMENT

2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

Local Gov
Mr Inghid
Mr Watten

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

My Ref: K/PSO/34342/81

16th September 1981

Dear Norman,

R
17/9

I am replying to Norman Tebbit's letter of 10 August about the skeleton Green Paper on alternatives to domestic rates and the associated work programme which I enclosed with my minute of 27 July to the Prime Minister.

I agree that all of the points that Norman mentioned need at least to be touched on in the Green Paper, with the exception of effects on wage bargaining. Just what the significant effects on wage bargaining would be and how they would work is a little uncertain, and I think we might be inviting trouble if we included in the Green Paper anything which could be taken to imply, however indirectly, that a change away from domestic rates could be quoted in support of higher wage demands even though there might be no net change in the amount of revenue raised. I understand that your officials have already provided mine with material about the possible effect that alternatives might have on wage rates, and that the other matters that Norman mentioned are now referred to in the draft.

I have also seen Norman's letter of 26 August commenting on mine of 14 August and Malcolm Rifkind's of 12 August about the possibility of a rating revaluation of non-domestic property. I agree with him that we need to take a decision before the end of the year about whether we should have such a revaluation in Scotland or in England and Wales or both. The draft Green Paper on alternatives to domestic rates which has been prepared by an interdepartmental working group contains a reference to the possible need for a non-domestic revaluation and makes it clear that a decision will be needed very shortly. I think that the

precise timing of the implementation of the revaluation or revaluations, if they take place, is something we ought to consider collectively when we come to take our decision.

/ Copies of this letter go to members of E Committee to Sir Robert Armstrong and also to Peter Rees, Malcolm Rifkind and Wyn Roberts.

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TOM KING



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PRIME MINISTER

Local Government Finance
(E(81) 85 and 86)

BACKGROUND

In E(81) 85 the Secretary of State for the Environment proposes interim measures, for introduction as soon as possible, to discourage high rates, and the publication of a Green Paper on alternatives to domestic rates in the longer term. On present plans, his interim measures are in the 1981-82 Legislative Programme but will not receive Royal Assent in time for implementation before the financial year 1983-84. In his minute to you of 8th September, the Secretary of State recommended that the legislation should be accelerated, with Second Reading on 18th November and Royal Assent on 5th February, to allow for implementation in 1982-83. The Leaders of the House of Commons and the House of Lords, and the Chief Whip strongly advise that this is impracticable (see in particular Mr. Pym's letter to you of 14th September).

2. The memorandum circulated by Mr. Fowler as Secretary of State for Transport (E(81) 86) proposes legislation to control the subsidies paid by the Greater London Council (GLC) and the Metropolitan Counties to London Transport (LT) and the Passenger Transport Executives (PTE). He would drop this proposal if the Secretary of State for the Environment's measures were introduced in time for implementation in 1982-83. Otherwise he would want to go ahead as planned and to add the provisions to existing transport legislation in the programme.

Interim Measures on Rates

3. The main features of the Secretary of State for the Environment's proposals are:-

- (i) Limits for each authority on both the initial main rate and the first supplementary rate which they may levy.
- (ii) Any second supplementary rate to be subject not to a limit but either to referendum or to re-election of the Council.

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- (iii) All supplementary rates to be levied at a reduced poundage on non-domestic rate payers.

There would be swift consultation with the local authorities on these proposals on the basis of the draft consultation paper at Annex A to E(81) 85.

4. The Chief Secretary, Treasury supports these proposals but he wants the consultative document to canvas the possibility of the introduction, in the longer term, of the three possible systems for controlling the rates summarised at Annex C of the paper. Under these options, ceilings would be put on rates or expenditure with escape-routes via borrowing blocked off.

5. The main immediate issue is whether to make a second supplementary rate subject to re-election or to referendum; the pros and cons are set out in the note immediately following the draft consultation paper at Annex A. The Secretary of State for the Environment recommends re-election with the following main features:-

- (i) They should take place before the second supplementary rate was levied (around October).
- (ii) All members should be subject to re-election.
- (iii) The system could not apply to the Inner London Education Authority or other non-elected preceptors, and no special arrangements would be made for them.
- (iv) The franchise would be as now and the costs would fall on the local authorities.

The hope would be that the risk of an election would be a strong deterrent to the majority group on a council; though, if the risk were taken, members in favour of increased expenditure could come back with a new mandate and moderates could lose their seats, on this or on 'wider' issues. The main disadvantage of referenda seems to be that the members of the majority group would still be in office and, even assuming the result was binding on them, they might be slow in cutting back expenditure as necessary or otherwise try to frustrate business.


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6. There is a good case for giving effect to these measures as quickly as possible; this points to rushing the legislation through in time to give effect to it in 1982-83. It also has the advantage, if the Secretary of State for Transport then drops his proposals, of having one measure rather than two consecutive measures in the same legislative programme and of avoiding two different approaches - the Secretary of State for Transport's measures imposing Central Government decisions on local authorities, and the Secretary of State for the Environment's measures discouraging, but not denying, higher expenditure and rates if that is what the local electorate want. On the other hand the business managers see overwhelming objections to changing the timetable in this way.

Transport Subsidies

7. If the Secretary of State for the Environment's measures cannot come into force before 1983-84, or if there is uncertainty, the Secretary of State for Transport will want his proposals to be discussed with a view to their introduction in 1982-83. They would provide for him to set each local transport undertaking an External Finance Limit covering all income other than fares and receipts so that, even if an authority increased the rates for the purpose, they could not pass the yield on to the transport undertaking to finance expenditure over the EFL. The Secretary of State would also have powers to require information and to override local authorities' powers if necessary and to dismiss and appoint members of transport undertakings.

8. The case for these measures, and their introduction as soon as possible, is the need to curb the very large rate increases, and public expenditure increases, in prospect at the moment, and to save something in the order of £250 million to £300 million of the likely excess of £400 million next year. The disadvantages are that the Department of Transport could find itself enmeshed in the details of particular transport undertakings, and the local authorities could claim that Central Government were ignoring the mandate they won at the local elections.

Longer Term alternatives to the Domestic Rates

9. Following discussions by the Committee in the summer, the Secretary of State for the Environment announced on 2nd June that the Government intended to issue in the autumn a consultation document on the alternatives to

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domestic rates. You said at the time that you would wish this to be done before the Party Conference. The outlines of the present draft, at Annex B to E(81)85, were agreed in Ministerial correspondence before the Recess.

10. The draft paper discusses, without commitment, the alternatives of local sales tax, local income tax, poll tax, the assigning by Central Government of a share of the revenue from national taxes, and combinations of these approaches; and indicates willingness to consider proposals for the retention of a reformed system of domestic rating. The distributional effects of these changes - as between types of household and as between geographical areas - is discussed in chapter 12 and in more detail in Appendix C of the draft. There are no proposals yet for the period to be allowed for consultation.

HANDLING

11. Because the proposals for interim measures on the rates and for dealing with transport subsidies are so closely linked, you might ask the Secretaries of State for the Environment and for Transport each to introduce their papers before the discussion is opened up. You might then break down the discussion by dealing first with the substance of the interim measures on the rates and then with the question of the timing of their implementation. In the light of decisions on timing, either the transport measures can be dropped or the Committee will need to discuss them. Finally, you can deal with the largely separate question of the Green Paper on longer term alternatives to the domestic rates.

12. You will wish to hear in particular the views of the Chancellor of the Exchequer, the Home Secretary and the Secretaries of State for Wales, for Education and Science and for Social Services. Apart from the alternatives to the domestic rates the Secretary of State for Scotland is not directly concerned, but he will wish to give his views in the light of Scottish experience and he may want to put in a paper for discussion next week. The Lord President of the Council and the Chief Whip are unable to be present but their views on the legislative implications are on the record. The Chancellor of the Duchy of Lancaster has minuted on the implications for business in the Lords. If it were not possible to resolve the question of timing this week, the Committee might wish to return to it next.

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13. The main questions you will wish to cover are:-

Interim Measures

- (i) Elections or referenda, and the details of the preferred option?;
- (ii) Are the proposals for reducing the burden on non-domestic rate payers acceptable?
- (iii) Should the consultative document on the interim measures also discuss the possibility of introducing in the longer term the controls on the rates summarised in Annex C, as the Chief Secretary wishes?
- (iv) In spite of the business managers' objections, is there any possibility of accelerating the legislation in time for implementation of the measures in 1982-83?

Transport

- (v) If the interim measures on the rates are to be implemented in 1982-83, is it agreed that the transport measures should be dropped?

or:

- (vi) If the interim measures cannot be implemented until 1983-84, are the transport measures in E(81) 86 acceptable?

Green Paper on Alternatives to the Domestic Rates

- (vii) Is it agreed that the Secretary of State for the Environment should publish this paper before the Party Conference subject to any drafting points which other Ministers might put to him as soon as possible? (In particular, the Secretary of State wants views on whether the annex on the distributional effects of the alternative is necessary).

CONCLUSIONS

14. In the light of the discussion you will wish to record conclusions on the questions listed above. If it is not possible to settle all of them, you could return to any outstanding points next week.



Robert Armstrong

15th September 1981



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

PRIME MINISTER

ALTERNATIVES TO RATES

I have now read the draft Green Paper on alternatives to domestic rates which Michael Heseltine has circulated for consideration by E Committee tomorrow.

2. If we are to publish the Green Paper before the Party Conference very little time remains for any further work on the draft before us. But I am bound to say that I think we would be unwise to publish a document of such political importance without allowing ourselves more time to consider the issues it raises and how they can best be presented.

3. May I sketch out briefly my main concerns about the present draft? I recognise that it is based largely on the work done by officials a year ago. The purpose of that work was simply to establish the practicability of the alternatives to domestic rates. But we ourselves need to consider the wider implications of abolishing the present system and replacing it with another major source of local revenue. Would a different method of local finance enable us to control the level of local government expenditure more effectively, or would it leave us in a still weaker position than at present? Is there not a risk that the replacement of rates by another local tax or taxes could require more manpower in the public sector with damaging implications for our manpower policy? How do we view and present the prospect of significant new administrative burdens falling on employers or the trading community which are implied by a local income tax or local sales tax? Above all, do we know enough about the likely redistributational consequences of moving to a different system of local taxation to present the choices fairly in this Green Paper?



4. The present draft does of course acknowledge the importance of these issues. But the plain fact is that, in the time available, it has not been possible for officials to do much more than identify the lines along which further work needs to be carried out. If we were to published the Green Paper in this form I fear it would be evident that in certain critical respects we lack the sort of comprehensive assessment of the strengths and weaknesses both of the present system and the alternatives that is needed before we can invite public consideration of this important political issue.

5. The risk is that without some of this additional analysis we could find ourselves effectively committed by public reactions to an alternative tax or taxes whose consequences we have not fully appraised.

6. Of course I recognise that this is an issue on which we have got to make progress if we are not to vacate this ground to our political opponents. But I wonder whether with this Green Paper we are not also in danger of narrowing the range of options too much, too quickly. The present draft of the Green Paper looks only at solutions which would provide a total replacement to domestic rates. None looks easy and a major tax change of this kind cannot avoid having far reaching consequences. We ought at least to ask ourselves whether our objectives could not be met by building on the reforms of the present system which Michael Heseltine and Leon Brittan have proposed. This suggests looking at the alternative taxes not simply as ways of totally replacing domestic rates but perhaps as a means of giving local authorities a supplementary source of local revenue which would take some of the weight off the rates.

7. This leads me to conclude that the present draft is not really satisfactory and that a good deal more work is needed before we can confidently put out a Green Paper on this most difficult of issues.

8. I am copying this minute to the other members of E Committee.



FROM THE LEADER OF THE HOUSE
HOUSE OF LORDS

PRIME MINISTER

RATES

I have seen Michael Heseltine's minute of 8 September to you on the proposed legislation to control local authority expenditure. I have also seen the minutes from Francis Pym and Michael Jopling both of 14 September.

The proposed timetable for legislation would also cause acute problems for the Lords. There could be no question of adhering to the recommended minimum intervals between stages of Bills and judging by our experience on last session's Local Government Bill, we could expect prolonged discussion on the floor of the House, not least from our own supporters and especially from those representing the local authority associations.

Whether at the end of the day the House would accept the sort of accelerated programme which is envisaged (even if this programme was announced from the start at introduction in the Commons), I really could not say. But in any event it would certainly be unwise to allow less time in the Lords than in the Commons. In these circumstances we would without any doubt need the Bill in the Lords before the Christmas recess. Indeed I doubt if 5th February for Royal Assent could be envisaged without achieving Second Reading in the Lords before the recess. Even then to bring both Houses back as early as 11th January would be singularly unpopular, particularly in the Lords which have now sat for 5 weeks without the Commons over the last year or so.

I agree with Francis Pym that the proposed programme looks unrealistic and I would have grave reservations about embarking upon it.

I am copying this to the recipients of Michael Heseltine's minute.

Baroness Young

BARONESS YOUNG
15 September 1981

CONFIDENTIAL



Government Chief Whip
12 Downing Street, London SW1

PRIME MINISTER

E from

B. 14/9

RATES

I have seen a copy of Michael Heseltine's minute of 8 September to you about legislation to control local authority expenditure.

As I will not be able to attend the meeting of E Committee on 16 September I would like to take the opportunity of commenting on his proposed timetable for this legislation in the new Session.

I think it is fair to say that we are faced with one of the heaviest ever early Session programmes, with intense pressure on us to get Bills through as quickly as possible. I have repeatedly warned QL Committee of this problem.

At present there are nine Bills (including the Canada Bill) which require early Royal Assent and of these only one is considered suitable for introduction in the Lords.

With State Opening on 4 November, and allowing for the conventions of the House, the earliest date for a Second Reading would be 16 November. This leaves very little time in which to get the urgent Bills underway before the Christmas recess. In addition, the further complication of the introduction of a Canada Bill whose Committee and remaining stages would need to be taken on the Floor means, therefore, that there is no possibility of the Committee stage of Michael Heseltine's Bill being taken on the Floor.

(Continued)

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Chief Whip - 2 -

For these reasons, it is my view that it would be absolutely impossible to comply with the timetable Michael Heseltine has outlined for this Bill, without a guillotine. If, on the other hand, E Committee decide that it is essential for the Bill to be enacted within this timescale, then I think there will need to be a drastic reappraisal of the Bills currently in the 1981/82 programme.

I am copying this to the recipients of Michael Heseltine's minute.



MICHAEL JOPLING

14 September 1981

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

Chancellor of the Duchy of Lancaster
and
Paymaster General

Princess Margaret

14 September 1981

[E from]

Dear Margaret,

12
1415

I shall not be able to attend next Wednesday's meeting of E Committee which is to discuss papers by the Secretary of State for the Environment for interim and longer-term measures on rates, but I think that I should draw attention to the Parliamentary implications of attempting to accelerate the timetable for next Session's Local Government Finance Bill in the way discussed in the Secretary of State's minute of 8 September.

I am doubtful whether the timetable set out in the annex to the Secretary of State's minute could in any circumstances be regarded as a reasonable one for a Bill of this kind. There is obviously no prospect of agreeing a voluntary timetable for the Bill, and I would certainly not want to contemplate a guillotine motion until there was some evidence of deliberate obstruction in Committee. On the Secretary of State's own timetable, this would probably not emerge until well into January (even if the House comes back after the Christmas recess on 11 rather than 18 January), and it would then be almost impossible to carry a timetable motion, complete the Commons stage, take the Bill through the Lords, and deal with Commons consideration of Lords amendments by the proposed deadline of 5 February. We could, of course, deal with the Bill as an emergency measure, with all stages taken on the Floor of the House, but I could not convince myself that this was a sensible way of dealing with a Bill of this importance, and it would inevitably mean that one or more of our other main programme had to be dropped or severely delayed. Quite apart from the constraints imposed by the Parliamentary timetable, I understand that Parliamentary Counsel does not have the resources to draft the Bill and assist in its passage to the suggested time scale without putting aside the drafting of other programme bills.

.../...

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

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I fully appreciate the importance of giving rate payers some protection from the worst excesses of the overspending authorities at the earliest possible opportunity, but I hope that colleagues will accept my judgement that the timetable now put forward by the Secretary of State for the Environment is simply not a realistic one.

I am copying this to Cabinet colleagues, to the Chief Whip, and to Sir Robert Armstrong.

*James
Francis*

FRANCIS PYM

CONFIDENTIAL



Cabinet from Mr.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger Esq MP
Secretary of State for Scotland
New St Andrew's House
St James Centre
Edinburgh

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14 September 1981

Mr George,

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND 1981-82

Thank you for your letter of 4 September proposing a reduction in the amount of grant holdback from Scottish local authorities.

I regret that it was not possible to consult you about the holdback proposals for England. Michael Heseltine felt it imperative to make the announcement very quickly in order to prevent some authorities levying supplementary precepts which might be unnecessary and in the time available it was not possible to arrange an E Committee meeting at which you and other Ministers who also undoubtedly had a legitimate interest in being consulted could be present.

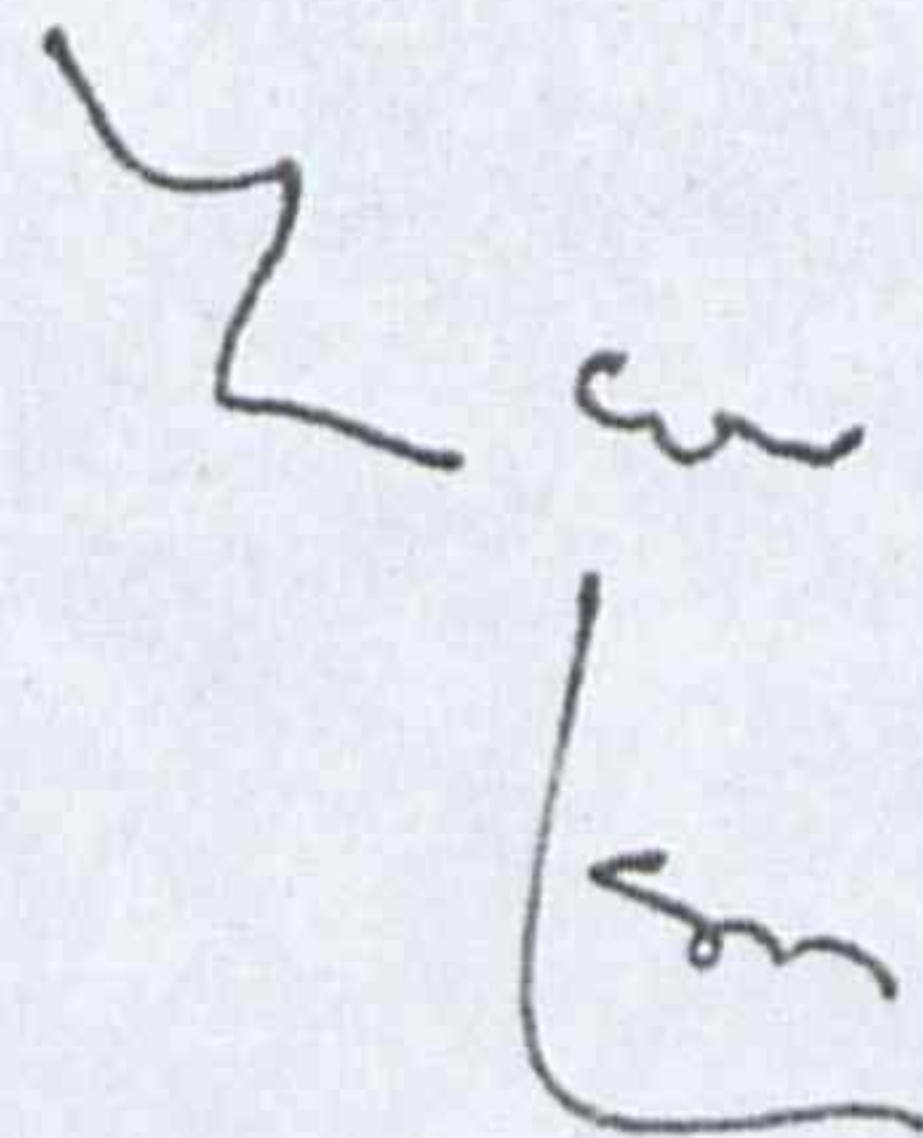
While I appreciate that following the announcement for England, Scottish local authorities will expect you to make a statement about your intentions on rate support grant reductions this year, I am afraid that I do not find your proposal that the reduction in grant holdback announced for England should apply equally in percentage terms to Scotland, an attractive one. The circumstances of the two countries are very different and I think we must look at each separately.

In England although the aggregate of revised budgets shows little change, this is in large part due to the action of a few, mostly politically-motivated, authorities which have increased their budgets. Most authorities have made considerable efforts to conform to the Government's plans and as a result, the majority are now planning expenditure at or below target. In response to these very real efforts we decided to exempt from holdback all those authorities spending below their Grant Related Expenditure assessment, of which, of course there is no equivalent in Scotland. The amount of holdback has been further reduced simply because of the distribution arrangements for block grant; again there is no exact Scottish parallel. A further difference between North and South of the border is the need for riot-related expenditure which accounts for a further decrease in the amount of holdback from that originally proposed.

I understand that the picture in Scotland is very different in that hardly any authorities have made attempts to reduce their budgets and that the savings that have been achieved have been forced as a result of the selective cuts you have imposed. Even if the total amount of cuts you estimate is eventually delivered, the extent of total overspending remains proportionately worse than in England. Moreover, the vast majority of Scottish authorities have shown no willingness whatever to conform to the Government's targets and voluntary savings are minimal. Nevertheless, I appreciate that some savings have been achieved, even if they have been forced, and that it would be appropriate to recognise this by a reduction in grant penalty. However, for the reasons I have outlined, I think this abatement should be moderate in extent and suggest that an appropriate figure for holdback should be £80m.

Finally, on a separate although related point, I am still worried about the possibility of default by Lothian. Malcolm Rifkind's letter of 4 September suggests that there is no cause for concern as Lothian do not wish to provoke such an eventuality, but I am less sanguine. Although the possibility of default may be remote it does nevertheless exist and since the consequences would be very serious I do think you need to have some contingency plans.

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

A handwritten signature in dark ink, appearing to read 'Leon Brittan', written in a cursive style.

LEON BRITTAN



cc. A. Duguid
A. Walters.

Treasury Chambers, Parliament Street, SW1P 3AG

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

14 September 1981

Dear Secretary of State,

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

Thank you for your letter of 11 September to Geoffrey Howe, with whom I have discussed it.

I understand your reasons for arguing that we should increase our public expenditure plans so as to give local authorities more easily attainable targets, but I am afraid that I see some difficulty in our discussing this point at Cabinet tomorrow. The increase you propose in the plans would appear very large, even though in the event local authorities' actual expenditure might turn out no higher than would be the case on present plans. But it would be difficult to get this latter point across successfully, especially in advance of the main decisions and announcement on cash programmes. I think we must consider the substance and presentation of such a large increase in planned public expenditure very carefully.

I therefore suggest that we should discuss your letter either at Cabinet next week or, as perhaps would be more appropriate, at the meetings on public expenditure generally which are scheduled for the latter half of next month. In any case, it is essential that we decide on cash factors for use in the public expenditure Survey tomorrow and I see no reason why we should not settle on them then. We can consider the realism of our plans for local authority expenditure rather more easily when that element of the framework is clear.

I am sending copies of this letter to the other members of the Cabinet and to Sir Robert Armstrong.

yours sincerely

[Signature]
LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

CONFIDENTIAL

E. F. Elder



cc/ Mr. Dwyer
✓ Mr. Walters

PRIME MINISTER

RATES

I have seen Michael Heseltine's minute of 8 September to you about legislation to control local authority expenditure.

I would much prefer to see wider legislation which would make my own proposals unnecessary. I would therefore strongly support the enactment of Michael Heseltine's interim measures on an accelerated timetable if they could be made to bite in 1982/83. But I am afraid I have considerable doubt about whether that would actually be feasible. There would obviously be strong opposition to rushing through a measure with such far reaching constitutional implications. And the administrative task of setting up the scheme covering all local authorities would be formidable.

On the point that counties might still raise the money and try to divert it to other spending, I recognise the risk though I am doubtful how much scope they really have for this given their limited range of powers. Moreover, my proposals would be published before the GLC and Metropolitan Counties fixed their precepts for next year, and there could well be resistance to imposing a heavy extra burden on ratepayers once it was known that the money could not be used to carry through the policies on which they were elected.

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For the reasons I set out in E(81)82 we cannot risk leaving local authority subsidies for public transport unchecked for another year. I therefore feel I must press ahead with preparing my own proposals in case Michael Heseltine's cannot be introduced in time. I shall be circulating a paper to "E" Committee so that we can discuss all these issues on 16 September.

I am copying this to the recipients of Michael Heseltine's minute.

A handwritten signature in blue ink, appearing to be 'N. Fowler', is written above the printed name.

~~NORMAN FOWLER~~

11 September 1981

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB

*Marsham levels
in local authorities?
Reds over last year?
2?*

My ref:

Your ref:

11 September 1981

2 1/2%

1 1/2

Dear Chancellor of the Exchequer

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

Current expenditure by local government represents about a fifth of total public expenditure. It is therefore vital, if our economic strategy is to succeed, that we should continue to exert the maximum possible pressure on local government to keep this expenditure within reasonable limits. I have circulated to E Committee a paper setting out proposals for dealing with high spending authorities, and colleagues will be able to decide next week whether we should legislate to bring these measures into force for 1982-83. But we also need to consider the situation of the vast majority of authorities, on whom they neither can nor should bite.

In this context I have been considering carefully the implications of the level of current expenditure shown in the revised budgets which local authorities have recently submitted. This is the point from which we are obliged to start in considering the Rate Support Grant settlement for 1982-83 and measures for securing the Government's declared objective for the level of local government expenditure in that year. I appreciate that this expenditure is composed of elements from various programmes which are the responsibility of other Departments, but as the Minister responsible for local government as a whole I have an obligation to advise colleagues on the whole picture. It is disquieting.

Let me give you some basic figures. Local government budgets (including the Metropolitan Police) show a volume excess over the Government's planned level for this year of just under 6%. On the basis of past experience, a relatively optimistic assessment is that this excess will be reduced at outturn to about 3 1/2% above our target. There are no grounds at all for assuming a more favourable result. We are looking to local government to eliminate this excess in 1982-83, and to make a further reduction of about 1/2%, representing the 1% reduction planned in Cmd 8175, as modified by the bids already accepted for further education

and the police. We are therefore looking to local government to make a reduction of at least 4% in real terms. To this must be added 3% for the excess movement of pay and prices in 1981-82 over and above the cash limits set for this year. Local government is therefore being expected to find real reductions of about 7% in 1982-83 even before we reach judgments about the pay and price factors to be set for next year. To the extent that we set tight pay and price cash factors which are below the actual rate of inflation a further squeeze would be imposed.

Colleagues will know as well as I do that reductions on this scale across the total of local government expenditure in 1982-83 are not deliverable. We are therefore faced with unpalatable alternatives. We could start by modifying the overall target. If we choose this course, the first step would be to validate the 3% excess inflation of 1981-82. I do not like the idea, but in the real world I think we have no choice. I have already argued the case for validation in C(81)40, which we have not yet discussed. However the problem does not end there, for there are no grounds for believing that even a reduction of as much as 4% is deliverable. So the unpalatable alternatives still remain. If we stick to our published objective, even with validation of this year's inflation, it will mean setting targets for local government which both individually and in aggregate are unrealistic. If we reinforce such targets through a tough RSG settlement, this will force local authorities into making very substantial rate increases which would not otherwise take place.

We have to recognise that in spite of considerable pressure from central government, both since we came to office and during the period of the previous administration, local authorities overall have only ever managed to reduce current expenditure in 3 years - between 1976-77 and 1977-78, by 2%; between 1979-80 and 1980-81, by 2½% to 3% (DOE forecast); and between 1980-81 and 1981-82 by perhaps 1% (DOE forecast). There have been examples of individual local authorities reducing current expenditure by large amounts (10% or more), but few of the larger spenders have achieved much more than 5% in any one year; and those that have done have often failed to sustain the reductions in the following year.

Nevertheless, most local authorities are making a real effort to comply with our guidelines. The revised budgets showed a gross reduction of some £200m (at November 1980 prices) and this was only offset by increases of the same amount because of Labour successes in the local elections earlier in the year. Had it not been for these, the budgetted excess might be about £250m less, that is an excess over target of about 4% instead of about 6%. The Labour Party has effectively set us back a year in achieving our objectives.

We must also recognise that local authorities face a basic difficulty in reducing current expenditure; 70% of their costs are manpower, and real reductions are therefore constrained by the unavoidable costs of redundancies. In some circumstances a rapid run-down of staff can cost more than keeping them on.

What then is to be done? In my view we have only two options: to set local government a realistic objective or an unrealistic one.

For the reasons set out above, I believe that our present target, even with validation of this year's excess inflation, is quite unrealistic. If we stick to it, we shall be derided by local government as a whole, including our friends, both at the time of the RSG settlement and as it becomes clear in the course of 1982-83 that the reductions for which we have asked are not being achieved.

There is a further problem. We announced to the Consultative Council on 4 August that we were considering setting individual expenditure targets for local authorities, and I would like to do so as a means of bringing maximum pressure to bear. These targets would be reinforced through the block grant mechanism. But if the aggregate target is unrealistic, the individual targets will also be so; indeed, because of the legal and presentational difficulties involved in securing reductions from those already spending at or below their GRE, the reductions which we should be obliged to seek from those spending at high levels would be seen as absurd. The distribution of grant would also have to be based on these expenditure targets; in so far as they diverged from reality, the grant distribution would be distorted and the system would come into disrepute. I could not recommend a system of individual targets which rested on a base so lacking in credibility. I would rather not have a system of individual targets at all.

The political aspects of this also need to be considered. Most of our friends in the counties and districts have already made substantial efforts to achieve the objectives we have so far set them of reducing the volume of their expenditure by 5.6% from 1978/79 levels. This is also true of a large number of moderate Labour authorities. We cannot reasonably expect either of these groups to give us more than another 1-2% reduction in real terms at best in 1982-83. The big overspending Labour authorities in London and elsewhere ought of course to be pressed to make bigger reductions, and I intend that the interim measures and a tough RSG settlement should be designed to maximise pressure on them. But at the end of the day I think we must realise that there are also powerful political pressures working in the opposite direction in these areas, and we should be unlikely to secure more than say an average 3% reduction in real terms at best from this group of authorities. Overall therefore I believe that the most favourable possible outcome would be a 2% real reduction in the outturn of local authority current expenditure from the 1981/82 level.

In my view therefore we must adjust our target to reality by making a nominal increase in public expenditure provision. The increased expenditure will of course be real enough; but it will happen irrespective of our PESC decisions, and my proposal is therefore for a paper adjustment which recognises the facts

of life rather than for an actual change in the real world. The main advantage of such an adjustment is that it would create a better climate for co-operation with local government. I would like to explore urgently with local authority leaders the possibilities for a serious negotiation about levels of current expenditure next year, and I believe that there will be much better prospects of success if we aim for an objective which is seen as reasonable. It might be possible, in these discussions and subsequently, to isolate the high-spending Labour mavericks by providing a reasonable RSG settlement for the generality of local authorities together with tough grant pressures coupled with the "interim" measures directed at the high spenders. This approach would also avoid the distortions that I have referred to, and it would enable me to set individual targets which were defensible as realistic. As I said in C(81)40, by asking for more we might well get less.

I have already argued that we must validate this year's inflation. Now that you are proposing to go hard and public on the inflation factors for next year of 4% for earnings and 9% for prices, the case for validation is further strengthened. As pay is already 2½% above the planning level used last year, both unions and employers will argue that the genuine financial provision for pay increases is only 1½%. The announcement of the 4% factor will therefore not have its intended effect of encouraging a very tough but realistic approach to pay bargaining unless I can clearly state that the excess inflation this year has been allowed for in setting the overall cash target.

On the basis that we validate this year's inflation, the salient figures for likely cash spend this year, and for the cash spend for 1982-83 implied by various planning assumptions open to us, are as follows (assuming a composite inflation factor of about 6% between the two years, as implied by the pay and price factors which you have proposed):

<u>1981-82</u>	£m, cash
Revised budgets	17,610
Likely outturn	17,200
 <u>1982-83</u>	
1. Provision in Cmnd 8175 (modified by bids already accepted)	
a) without validation of excess inflation in 1981-82 (ie about 7% volume reduction)	17,050
b) with validation of excess inflation in 1981-82 (ie about 4% volume reduction)	17,500
2. A more realistic volume reduction of 2%	17,850

My present proposal is therefore for a nominal increase in next year's cash provision from about £17,500m to about £17,850m. This would represent a cash increase of about £250m on the revised budgets figure for 1981-82 rather than a cash reduction of about £100m.

If colleagues agree that an adjustment to realism should be made, officials would need to discuss urgently how the adjustment should be apportioned between the relevant PESC programmes. We should also need to consider further how and when to announce our decision to local government and Parliament. But first of all, colleagues have to decide whether we are to go ahead with an increasingly unconvincing charade, or whether the time has now come to recognise the real limits on the options available both to central and to local government.

I shall be seeing local government leaders at the Consultative Council on 17 September to discuss prospects for the RSG settlement, and I should like to be able to give them an indication that we intend to adopt a realistic attitude towards next year's expenditure plans.

I hope that we can discuss this problem at next week's Cabinet. I am sending copies of this letter to the Prime Minister, to Cabinet colleagues, and to Sir R Armstrong.

Yes Sir
MAH

For MICHAEL HESELTINE

*(letter approved by the Secretary of State
and signed in his absence)*

PART 5 ends:-

s/s Environment & PM 8.9.81

PART 6 begins:-

E(81) 8/5 11.9.81