

S
809

PREM 19/1308

Confidential Filing

relations between Central and Local
Government

Local Authority Expenditure

Local Authority Elections

Abolition of GLC and MCC's

LOCAL

GOVERNMENT

PE 1: MAY 1979

PE 23: OCTOBER 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
10.84		30.11.81					
1.10.84		31.12.84					
5.10.84		30/11/84					
10/10/84		PT 23 ENDS		PREM 19/1308			
16.10.84							
17.10.84							
25/10/84							
26.10.84							
1.11.84							
2.11.84							
5.11.84							
8.11.84							
11.84							
13.11.84							
16.11.84							
20.11.84							
22/11/84							
23.11.84							
26.11.84							
29.11.84							

PART 23 ends:-

CST's office to DOE November 1984

PART 24 begins:-

CST to ^{S/S} DOE 3/12/84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A) (84) 61	15/11/1984
E(LA) (84) 6 th Meeting	05/11/1984
E(LA) (84) 15	29/10/1984
MISC 95 (84) 17	29/10/1984
MISC 95 (84) 16	17/10/1984
MISC 95 (84) 15	17/10/1984
CC (84) 32 nd Item 7	04/10/1984
C (84) 25	02/10/1984
C (84) 28	01/10/1984

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

Signed 

Date 26/09/2013

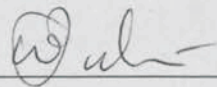
PREM Records Team

Published Papers

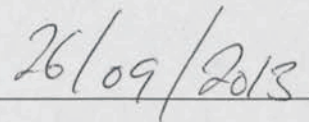
The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 22 November 1984, column
283 to 284: GLC

Signed



Date



PREM Records Team

CONFIDENTIAL



NBPM
AF
4/12

CCND

Treasury Chambers, Parliament Street, SW1P 3AG

John Ballard Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

November 1984

Dear John

E(LF)

The Chief Secretary has seen Sir Keith Joseph's minute of 19 November and subsequently the minutes of the E(LF) meeting on 21 November (E(LF)(84) 1st Meeting).

attached As he said in E(LF) he thinks it is important that the scope of the studies should be as unconstrained as possible. While acknowledging the force of Sir Keith's points on education, he believes that the studies must not exclude the financing of the education service, since it accounts for such a large proportion of local authority expenditure. He understands the conclusions of E(LF) not to rule this out.

I am copying this to Andrew Turnbull at No. 10, to the Private Secretaries to other members of E(LF) and to Richard Hatfield (Cabinet Office).

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

FERB

William Waldegrave is telling Lord Rothschild that he should go ahead with his letter. William warned that there could be a row from the local authority associations who may feel that they are being cut out by this backdoor consultation. We agreed that it would be better to run this risk rather than dictate to Lord Rothschild how he comes out his work or involve No 10 in arbitrating on detailed questions of procedure.

I have left open the question of a meeting with the Prime Minister for you to deal with on your return.

AT.

30/4

Prime Minutes (2)
AF 30/11

VALUE-FOR-MONEY IN LOCAL GOVERNMENT

I have been reading the Audit Commission's report for the year ended 31 March 1984.

It reveals:

1. Regularity auditing.

Auditors unearthed 65 cases of fraud during 1983/4 involving a total of £340,000. This figure seems quite low.

2. Value-for-money audits.

a. Purchasing. Local Authorities buy £3 billion of supplies and equipment per annum. Price differentials are wider than you would expect by looking at quality, volume and distribution. The Audit Commission estimate savings of £200 million a year could be achievable.

b. Refuse collection. Since 1978 productivity has risen by 25 per cent under the impact of better management and some contracting out. Further improvements worth £20 million a year could be achievable without changing standards of service.

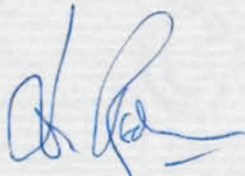
c. Tenants' arrears. At the end of September 1983 £240 million of tenants' arrears was outstanding. Auditors are now chasing the worst authorities to try and get them to collect their rents more promptly.

d. School meals. Improvements which could save over £10 million a year are being pursued by the worst authorities.

e. Changes to improve police productivity worth over £10 million a year have been identified within the police service. Discussions with the Chief Constables and police committees are now in hand. Improvements have been identified which will save £2 million a year.

f. Further education - as we previously reported there is enormous scope for savings in this field. The main ones relate to teaching hours and to the 33-week teaching year.

Added up, these savings amount to well over £250 million - an important contribution to public expenditure control. We feel certain that they are an underestimate and that, given the will, they can be achieved.



JOHN REDWOOD

GUIDE TO THE BILL

ABOLITION OF GLC AND MCCS

Part I of the Bill provides that the GLC and MCCs shall cease to exist on the "abolition date", defined as 1 April 1986.

TRANSFER OF FUNCTIONS TO BOROUGH AND DISTRICT COUNCILS AND OTHER EXISTING AUTHORITIES

Part II of the Bill, together with Schedules 1 to 8, deals with the transfer of those functions of the GLC and MCCs which are being passed to existing authorities. Generally, functions passed to London boroughs are also passed to the Common Council of the City. The Bill deals explicitly with those functions conferred in the GLC and MCCs by public primary legislation. Functions under secondary legislation or local Acts will be dealt with by order. These arrangements are in accordance with the precedent of previous reorganisation legislation.

The limited functions of the GLC and MCCs relating to development control (including control of mineral extraction) are to be passed to the boroughs and districts (clause 3). The present two-tier system of development plans is to be replaced in the metropolitan areas by a system of all-purpose plans, to be known as "unitary development plans", which will be drawn up by the boroughs and districts, within the wider context of any strategic guidance issued by the Secretary of State (clause 4 and schedule 1). A London Planning Commission is to be appointed to assist the Secretary of State in preparing the strategic guidance for London borough councils.

Metropolitan district councils already have concurrent powers to perform the limited functions of the MCC's functions in respect of historic buildings, ancient monuments and support for archaeology. They will now take over these responsibilities completely.

The GLC has wider powers than the MCCs in this field. The GLC's responsibilities for listed buildings and conservation areas will pass to the Historic Buildings and Monuments Commission for England, together with the GLC's powers to undertake research and to publish information on the history, architecture and archaeology of London. This encompasses the GLC's role in the Blue Plaque Scheme (clause 5 and schedule 2).

The GLC's and MCCs' existing responsibilities for National Parks and countryside matters will be transferred to the borough/district councils (clause 6 and schedule 3). The Bill gives power for the Peak Park Planning Board to be reconstituted; and it is intended that the relevant metropolitan district councils will take over the MCCs' responsibilities for funding and membership.

The borough/district councils will take over responsibility for highways and traffic management (clause 7 and schedules 4 and 5).

There will be power for the Secretary of State for Transport to issue guidance and to exercise reserve powers in relation to traffic management functions.

In London, all except 65 of the 895 miles of roads currently the responsibility of the GLC will pass to the borough councils. The Secretary of State for Transport will take responsibility for the 65 miles as part of the trunk road network. In addition a strategic network of some 500 miles of roads will be designated to ensure co-ordination of traffic management. This will comprise the 200 miles of trunk road and 300 miles of borough roads. On this 300 or so miles the boroughs will need to secure the consent of the Secretary of State before implementing any traffic management schemes which would alter the capacity of these roads.

In the metropolitan counties highways and traffic management functions will pass to the districts.

Waste regulation and disposal powers are passed to the borough/district councils (clause 8 and schedule 6). The Government have invited the authorities concerned to discuss co-operative arrangements and the Secretary of State will have a reserve power to establish joint arrangements for waste disposal functions in default of satisfactory voluntary arrangements being made (clause 9).

The few land drainage powers of the MCCs are passed to the district councils; one power will become a reserve power of the relevant water authorities (clause 10 and schedule 7). It is intended that the land drainage powers of the GLC in the London Excluded Area, and responsibility for the Thames Barrier will be passed to the Thames Water Authority by order.

The administration of the magistrates' courts service in outer London is restructured (clause 11). The four existing outer London Commission areas are replaced by new areas coterminous with the boroughs, and those borough councils take over the GLC's existing responsibilities for funding the service.

Borough/district councils are to take over the GLC's and MCCs' functions of appointing coroners, with appointments subject to the approval of the Secretary of State (clause 12). Where a coroner's district includes two or more London boroughs or metropolitan districts, the Bill provides for the Secretary of State to designate a particular borough or district council to be responsible for appointing coroners, after consultation with other councils affected.

The GLC's and MCCs' powers to make schemes for local valuation panels are to pass to the borough/district councils. Panel boundaries will remain unaltered (clause 13). There is a power for the Secretary of State, before the abolition date, to direct any borough/district councils to make schemes for their areas.

The Bill provides a new scheme for apportioning the expenses of the probation service in a probation area which includes a London borough or metropolitan district (clause 14). It also obliges probation committees to co-opt members of the borough/district councils in their areas.

GLC and MCC powers in relation to a range of other functions, including entertainments, night cafés, betting tracks, sports grounds, new towns and town development, commons, gipsy encampments, the rent officer service, poisons, building control in inner London, animals, fisheries, and records are passed to the borough and district councils (clause 15 and schedule 8).

Trading standards and related functions are passed to the districts with a requirement for them to establish joint committees in each county to seek to co-ordinate enforcement and the use of specialist staff and facilities employed in enforcement work (schedule 8). In London, these functions are already carried out by the borough councils.

A small number of housing functions are also passed from the GLC to the London boroughs (schedule 8) but the majority of housing powers are already held concurrently by the boroughs.

EDUCATION IN INNER LONDON

Part III of the Bill provides for the establishment of the directly elected Inner London Education Authority (clause 17). The new authority will be established as a corporate body before the abolition date on a day to be appointed by the Secretary of State. It will consist initially of the members of the existing ILEA and will be known as the Inner London Interim Education Authority. From the abolition date, the new authority will assume the title "Inner London Education Authority" and on that date will assume responsibility for its functions. The initial members will continue to serve until the first elections.

The Bill prescribes arrangements for the direct elections of members to the new authority. These are to be held every four years at the same time as the London borough elections (clause 18 and schedule 9). The first elections will be in May 1986.

The new authority is to be obliged to consult inner London borough councils about its budget and its main policy objectives (clause 20). The Bill places an obligation on the Secretary of State to review, before 1991, the exercise by the new authority of its education functions (clause 21). There is also provision for subsequent reviews. Following such a review, the Secretary of State may decide to transfer any or all of its functions to any or all of the inner London boroughs.

POLICE, FIRE SERVICES, CIVIL DEFENCE AND TRANSPORT

Part IV provides for the establishment, before the abolition date of new joint authorities, composed of members of borough/district councils appointed by their councils, to assume responsibility, as from the abolition date, for particular functions.

In London, there will be only one joint authority, with responsibility for the fire service and civil defence (clause 26). In each of the metropolitan counties, there will be three joint authorities, with responsibility respectively for the police (clause 23), fire services (clause 25) and passenger transport (clause 27). As now, the joint authorities for the police will have as members, in addition to the district councillors, local magistrates. There are special arrangements for the reconstitution of the Northumbria Police Authority, which will, as now, have responsibility for the police force for the counties of Northumberland and Tyne and Wear (clause 24).

Schedule 11 to the Act provides for the vesting of relevant functions in the police and fire authorities. Schedule 12 vests functions in the metropolitan county passenger transport authorities.

The Bill provides a power for the Secretary of State by order to transfer functions from joint authorities to one or more borough or district councils in the area to enable them to run services themselves (clause 40).

In relation to the airports in which the MCCs currently have an interest, there is a power for the Secretary of State to transfer any relevant property, rights and liabilities of a MCC to any or all of the district councils in the area, in accordance with agreements between those authorities on the future operation of the airport in question (clause 39). In the absence of such agreements, the Secretary of State is empowered to transfer the property, etc, to the relevant metropolitan county passenger transport authority.

THE ARTS, RECREATION AND VOLUNTARY ORGANISATIONS

Part V makes arrangements for a number of matters connected with the arts, recreation and voluntary organisations.

Those members of the Board of Governors of the Museum of London appointed by the GLC are to be replaced by members appointed by the Prime Minister (who currently has the right to appoint a number of Governors). Government funding for the Museum is also to be increased to replace the GLC's share. The City of London's appointment and funding responsibilities are unchanged (clause 41).

Kenwood House, Marble Hill House and Ranger's House are to be transferred to the Historic Buildings and Monuments Commission for England (clause 42). The Horniman and Geffrye Museums are to be transferred to the Inner London Education Authority (clause 43).

In order to safeguard the future of any nationally important metropolitan museum collection there is a power for the appropriate Minister to recommend that Her Majesty make an Order in Council constituting a body of trustees to have custody of collections of works of art or objects of historical or scientific interest currently belonging to a MCC (clause 44).

The South Bank arts complex in London is to be transferred to the Arts Council (clause 45).

The Bill provides a scheme for all London borough councils, or all district councils in a particular metropolitan county, to share the cost of making grants to voluntary organisations which serve more than a single borough or district, subject to the prior agreement of at least two-thirds of the councils in question (clause 46). The Secretary of State is empowered to prescribe maximum amounts which may be expended in each area in any year under this scheme.

STAFF

Part VI provides for a number of matters related to the staffing implications of the abolition of the GLC and MCCs.

The functions of the Staff Commission established by the Local Government (Interim Provisions) Act 1984 are amended so that it can protect the interests of all the staff affected by abolition (clause 47). There is to be a means for the Secretary of State to regulate excessive pay increases proposed for or made to employees of the GLC, MCCs, London borough and metropolitan district councils by designating or establishing a body to review such increases (clause 48). This follows similar provisions in s261 of the Local Government Act 1972. There is provision to transfer staff by Order to any of the successor authorities (clause 49). It is envisaged that this provision will be used for the operational staff of the new joint authorities, in particular, firemen and ILEA staff. Police officers are not employees of the MCCs.

Successor authorities will be required to take steps to complete, before the abolition date, the recruitment of any staff they require currently employed by the GLC or the MCCs (clause 52). Those staff who obtain posts with successor authorities will, in most cases, have continuity of employment for the purposes of rights or entitlements under contracts or employment protection legislation (clause 51). The compensation payable to those staff made redundant or who suffer loss or diminution of emoluments is to be limited to that prescribed by Regulations to be made under the Superannuation Act 1972 although contractual rights obtained before 2 March 1984 will be protected (clause 50). Successor local authorities will be required to provide to the Secretary of State during the three years after abolition such information as he may prescribe about the number of staff employed by them (clause 53). This will enable him to monitor the additional staff employed on the functions and activities transferred to these authorities.

The Government's proposals for the terms of redundancy and compensation were set out in the White Paper and will be amplified in a paper to be made available shortly.

RESIDUARY BODIES

Schedule 13 sets out the detailed arrangements for these bodies including the constitution, audit, control and general powers. They will be required to comply with any directions from the Secretary of State (clause 61).

The residuary bodies will inherit the liability for all outstanding external debt of the authorities being abolished; successor authorities will be deemed to have borrowed specified sums from the residuary bodies and will be required to make repayments sufficient to service and redeem the debt (clause 55). The residuary bodies will be responsible for making redundancy and compensation payments to former GLC and MCC staff which fall to be made after the abolition date (clause 56). The residuary bodies will become the administering authorities for the superannuation funds currently administered by the GLC and the MCCs. Payments to existing pensioners will be fully safeguarded (clauses 57 and 58).

All property, rights and liabilities which are not extinguished or transferred to other bodies will fall to be discharged by the residuary bodies (clause 59). There is provision to substitute a lead district in place of the residuary body in a metropolitan county in relation to the administration of debt or of superannuation funds (clause 62).

The residuary bodies are required to use their best endeavours to secure that their work is completed as soon as possible, and at the latest within five years of the abolition date, and to make or propose to the Secretary of State arrangements for transferring to other bodies any responsibilities which cannot be discharged within that time (clause 63).

FINANCIAL PROVISIONS

Part VIII makes arrangements for the finances of the new ILEA, the joint authorities and the residuary bodies; and also contains transitional arrangements in respect of block grant.

The new ILEA and the joint authorities (the new authorities) are given power to precept in the same manner and using the same procedure as other precepting authorities. The new authorities will be brought within the local government finance system and they will be eligible to receive block grant. They will also be subject to rate limitation under Part I of the Rates Act 1984 and will in any event be deemed to have been designated under that Act in respect of the three years following the abolition date (clauses

64 and 65). The residuary bodies are given power to make levies on the rating authorities in their areas, ie, the boroughs and districts. The levy on each authority is determined in proportion to the population of that authority in relation to the population of the area as a whole. Levies will form part of the expenditure of the authority for block grant purposes (clause 70).

The residuary bodies will be empowered to distribute to the boroughs and districts any surpluses and any capital money received. Prescribed proportions of such capital monies may count as capital receipts by those authorities (clause 73).

There are provisions for the borrowing, lending, funds, accounts and audit of these new bodies (clauses 66, 68, 69, 71, 74 and 75) and for the new bodies to borrow for their initial expenses before the abolition date, such borrowing to be repaid from the precepts or levies in the year in which they are first raised (clauses 67 and 72).

MISCELLANEOUS AND SUPPLEMENTARY

Part IX of the Bill contains miscellaneous and supplementary provisions, generally intended either to facilitate the operation of the revised arrangements introduced by the Bill or to settle certain relatively minor matters which are consequential upon the abolition of the GLC and MCCs.

The miscellaneous provisions include:

- the application of general local authority provisions to the new authorities (clause 79 and schedule 14) and provision for the first meetings of the new authorities (clause 81);
- a power for the Secretary of State to make or approve schemes ensuring that the new authorities are set up economically (clause 80);
- power for boroughs/districts to collaborate in promoting local Bills (clause 82);
- a duty on boroughs/districts to collaborate on research and the collection of information (clause 83)

- power to implement the controls announced on 24 July 1984 by the Secretary of State for the Environment over financial assistance by the GLC and MCCs to boroughs/districts (clause 86 and schedule 15);
- a duty on the boroughs and districts in each area to form joint committees to prepare for the transfer of functions (clause 88); this follows similar provisions in the 1972 Act.

The transitional provisions include:

- power to transfer by order the property rights and liabilities of the GLC and MCCs to successor authorities (clauses 92, 84 and 85);
- power to determine by order which functions shall be exercisable in the Temples by the authorities of the Inner and Middle Temples and which exercisable by the Common Council of the City of London, this follows the approach adopted in 1963 (clause 87);
- continuity of the exercise of functions (clause 90);
- extension of the power in section 5 of the Local Government (Interim Provisions) Act to secure information to include all successor bodies (clause 89).

Department of the Environment
November 1984



From the Minister of State for Industry

NBPM AF 30/11 CEMP
DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

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

30 November 1984

Dear Patrick

Thank you for copying to Norman Tebbit your letter of 12 November to the Prime Minister concerning the Association of London Authorities (ALA).

I agree that, like the other local authority bodies, the ALA should be consulted on non-statutory matters and I am content with the draft guidelines.

Copies of this letter go to the Prime Minister and Members of the Cabinet, to the Solicitor General and to Sir Robert Armstrong.

Jan e
N

NORMAN LAMONT

1MOAJA

Relatives : LOCAL SORT. H 23

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

NOV 10 1953



Treasury Chambers, Parliament Street, SW1P 3AG
 Rt Hon Viscount Whitelaw CH MC
 Lord President of the Council
 Privy Council Office
 Whitehall
 London
 SW1A 2AT

C.C. Chancellor
 Mr Bailey
 Mr Anson
 Mr Jameson
 Mr Scholer
 Mr Watson
 Miss Rutter
 Ms Spicer
 Mr Speedy
 Mr Evershed
 Mr Lord

29 November 1984

John Millie

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86

Following E(LA) (84)7 and my subsequent agreement with Patrick Jenkin on English Aggregate Exchequer Grant I have been discussing with George Younger the implications for Scotland.

We have agreed that Scottish guidelines will be modified to allow a maximum 4½ per cent increase on 1984-85 budgets. The additional £1 million of local authority current provision required will be found from within the existing Scottish block provision. We have also agreed that Aggregate Exchequer Grant in 1985-86 will be revised to a new total of £1,924 million.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong.

Yours ever Peter

PETER REES



FROM: R J BROADBENT
DATE: 27 November 1984

MR JAMESON

cc Chancellor
Mr Bailey
Mr Anson
Mr Scholar
Mr Watson
Mr Pirie
Ms Rutter
Ms Spencer
Mr Spedy
Mr Lord

SCOTTISH LOCAL AUTHORITY EXPENDITURE

This is to confirm, as I told you on the telephone, that the Chief Secretary and the Secretary of State for Scotland met after OD(HD) this afternoon and agreed on an addition of £19 million to the AEG figure agreed on 1 August. You agreed to clear with Scottish Office officials the terms of a letter from the Chief Secretary to the Lord President, as Chairman of E(LA), reporting this agreement.

2. You also agreed to provide later today a draft letter to the Secretary of State for Wales confirming an addition of £1.1 million to AEG for Wales consequent on the £30 million addition agreed in E(LA) for AEG in England.

R J BROADBENT



cc Chancellor
 Mr Bailey
 Mr Anson
 Mr Jameson
 Mr Scholar
 Mr Watson
 Mr Pirie
 Ms Rutter
 Mr Evershed
 Mr Speedy
 Mr Lord

Treasury Chambers, Parliament Street, SW1P 3AG

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

26 November 1984

Dear Secretary of State,

1985-86 SCOTTISH LOCAL AUTHORITY AGGREGATE EXPENDITURE GRANT

Following our meeting on 22 November your officials and mine have been analysing the rates burden on Scottish ratepayers in the low spending regions and in Scotland as a whole. I believe that good progress has been made except in one area where I thought it would be useful to put my views in writing before our next meeting.

In your letter of 2 November you quoted Patrick Jenkin's E(LA) paper exemplifications as evidence that Scotland was facing unfair rate rises in 1985-86 when compared to England. In my reply I argued that the comparison of single year rate implications was misleading but at your insistence I have looked more closely at the figures.

First, the figures exemplified for E(LA) were local contribution figures, whereas the Scottish figure at that time of 4.6 per cent was for rate contributions only. Correcting for this officials have derived the following table based on increases from 1984-85 budgets to the 1985-86 effects on the two countries of the present agreed provision and grant for spending at Target/Guideline:

Rate and Local Contribution Changes Implied by the
Summer Settlement (Scotland) and the Revised Settlement
(England) in 1985-86

	Local Contribution	Rates
England	+ 0.5%	+2.8%
Scotland	+ 2.7%	+5.1%

These figures show changes from 1984-85 budgets to the consequences of spending at guideline/target in 1985-86.

The figures exclude any adjustment for water services (estimated as accounting for a 0.6 per cent gap).

However, these figures make no allowance for the fact that in England authorities budget for grant holdback in the year in which it occurs, but this is not the case in Scotland. Thus the Scottish local contribution in 1984-85 appears lower than it will ultimately turn out to be once grant penalties take effect. Consequently these figures show an artificially sharp rise in the local contribution between the two years in question.

You may of course argue that authorities will respond to the penalty by reducing spending. I hope they do. In fact, in the most optimistic case where they make a full cut the effect will be for them to obtain grant repayments in 1985-86 not only reducing the local contribution but also enabling them on average to make a small rates cut.

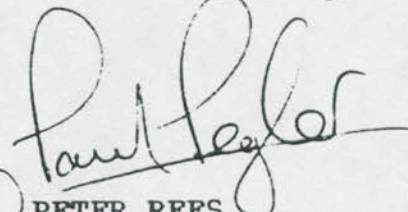
The actual percentage change in rates in 1985-86 will depend on the reductions achieved by the authorities, and so the amount of grant restored to them. The table below sets out on an illustrative basis estimates by Treasury officials of the range of possible outcomes:

	Scotland	
	% increase Local Contribution	% increase in Rates
(a) Assuming no expenditure cuts in response to penalties	- 3.0	+5.1
(b) Assuming £45m cuts and £45m grant restored in 1985-86	- 3.1	+2.1
(c) Assuming £90m cuts and £90m grant restored in 1985-86	- 3.0	-0.7

I am bound to conclude from these figures that to give you additional grant on the grounds of average rate rises would simply be to insulate your authorities from some of the effects of the grant penalty system and I cannot agree to that.

We also agreed at our meeting that officials should produce definitive figures for rate increases in low spending Scottish regions compared with those projected for low spending English counties. The attached table which I understand has been agreed between our officials, gives this comparison excluding the special effects in Scotland of the rating revaluation and taking into account late revisions I gather you have found it necessary to make to your figures.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong

Yours Sincerely

PETER REES

(approved by the Chief Secretary
and signed in his absence)

OVERALL RATE INCREASES FOR LOW SPENDING* REGIONS/COUNTIES
 IMPLIED BY THE 1985-86 SETTLEMENT ALONE+

<u>ENGLAND</u>	Summer Settlements	E(LA) Revisions
Berkshire	11.9	9.9
Dorset	8.0	5.8
East Sussex	9.7	7.2
Gloucestershire	9.3	8.1
Hampshire	9.8	7.6
Leicester	9.8	7.3
Norfolk	7.5	4.4
North Yorkshire	10.4	8.4
Oxfordshire	10.6	9.1
Suffolk	9.0	7.0
Wiltshire	10.9	8.4
Average	9.7	7.5

<u>SCOTLAND</u>	No Redistribution	Maximum Progress
Borders	18	12
Dumfries	15	9
Grampian	13	9
Average		10

* defined as at or below Target/Guideline in 1984/85

+ excludes effects of revaluation, assumes spending at Target/Guideline in 1985/86

Option C of Secretary of State's consultation paper on progress to Client Group Assessment distribution.



cc:Chancellor
Mr Bailey
Mr Anson
Mr Jameson
Mr Scholar
Mr Watson
Ms Rutter
Ms Spencer
Mr Pirie
Mr Evershed

Treasury Chambers, Parliament Street, SW1P 3AG

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

Mr Speedy
Mr Lord

16 November 1984

Alan George

SCOTTISH LOCAL AUTHORITY EXPENDITURE

Thank you for your letter of 2 November in which you raise again certain aspects of the Scottish Local Authority package agreed in the summer.

As you know, we accepted in the summer a full formula consequence of the increase in English provision, despite the fact that this gave the majority of Scottish authorities more generous guidelines than their English counterparts. In return for this you accepted, however reluctantly, tougher grant and penalty arrangements in order to minimise any risk of overspending. You now ask me to agree to leave your authorities with the generous provision while weakening the constraints encouraging them to keep within it. I cannot accept that.

Turning to your detailed arguments I must first discount the points on Scottish revaluation. This is an alteration in the distribution of the rates burden in Scotland arrived at after a fair and independent review. Its conclusions suggest that the domestic rate payer north of the border has been doing very well at the expense of industry and commerce. The revaluation simply redresses this injustice. I cannot accept that the national taxpayer should step in to subsidise them instead by increasing grant. If you do not want the full effects of the revaluation to come through in the first year you should take transitional measures to cushion the effect - recognising that this inevitably means delaying some of the benefits

to the gainers - within the agreed grant total. Domestic rate relief is one tool available. You could also reduce the level of industrial derating. In fact, using both these devices it would be possible for you significantly to ease the transition to a more equitable rates burden without any increase in aggregate grant. For example, I understand that if you were to increase domestic rate relief to 5p and reduce industrial derating to 40%, then the average domestic rate rise from revaluation would fall to 9 per cent while still leaving industry the first year benefit of a 9 per cent decrease.

On the position of co-operative, low spending, authorities, you will be aware of the outcome of our E(LA) deliberations. In England we have agreed an increase of £30m (or 0.25 per cent) in grant to bring the implied increased in local contributions for spending at target down to a maximum of 9.9 per cent for these authorities. Most of this is achieved by redistributing grant between authorities. The effect of that change is to hold the "grant percentage" at 48.7 per cent, compared to 48.8 per cent in the summer. Your proposal would increase the grant percentage in Scotland from 56 per cent in July to 58.3 per cent.

In Scotland the three regions spending at or below guideline and client group assessment are Borders, Dumfries and Galloway, and Grampian. I understand that you could also do much to help these authorities by moving faster towards distribution on the basis of client group assessment. In the annex I have set out the best available estimates of the rate increases in these regions assuming no change (column a), some progress (column b) and maximum progress (column c). You will see that maximum progress brings these three regions into approximately the same position as the worst case English shire.

Furthermore, to make a true comparison I should have to adjust these figures for water services. The Scottish regions provide sewerage and some other water services (excluding domestic supply). In England these are provided by Regional Water Authorities. In the recently concluded nationalised industries investment and financing review external finance limits and investment levels were set on the basis that domestic water charges might have to rise by up to 12 per cent on average. Allowing for this I would expect rate rises in Scotland to be some 0.6 per cent higher.

You also refer to the average implied rate rise in Scotland compared to that in England. It is highly misleading to look at one year in isolation

in this way. In the last three years Scotland has enjoyed comparatively low rate rises. We certainly do not expect the consequence of settlements to be identical rate rises in the various countries. The point in my Private Secretary's letter was merely that the general pressure from a much lower grant figure would not be unreasonable in view of the tough line with the English shires.

On targets I would be prepared to consider any technical adjustments you might propose within your existing provision for the Scottish block, as has been done for England. There is no PES increase in England to which to apply the formula. Since I understand your guidelines for authorities have again been based on "revalued" rather than actual budgets, there can be no direct read-through from the maximum increase allowed in England to that in Scotland.

Copies of this letter go to other members of E(LA), John Selwyn Gummer and Sir Robert Armstrong.

Peter Rees

PETER REES

RATE INCREASES IMPLIED BY SETTLEMENT

<u>Region</u>	No Change	Some Progress	Maximum Progress
Borders	10.5	6.5	4.6
Dumfries and Galloway	15.0	10.3	9.2
Grampian	13.0	11.8	10.0



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

CHIEF SECRETARY	
REC'D	- 2 NOV 1984
ACTION	Mr Pirie
COPIES TO	PPS, Mr Barclay
	Mr Jameson, Mr Schiller
	Mr Howell, Mrs Kelly
	Mr Walker, Mr McWilliam
	Mr C Allen, Mr Culpin

2 November 1984

Miss Rutter

Mr Lord

Mr Norton.

Dear Chief Secretary

SCOTTISH LOCAL AUTHORITY EXPENDITURE 1985-86

1. I have read with interest Patrick Jenkin's memorandum on Rate Support Grant Distribution 1985-86 (E(LA)(84)15) which is to be discussed on Monday 5 November. I would like to raise with you certain aspects of the Scottish grant settlement for next year which arise from Patrick's paper and from information which has become available since July.

2. We have in Scotland authorities in exactly the same position as the shire counties referred to in paragraph 3 of Patrick's paper. They are cooperative, largely rural, authorities spending at their guidelines. When AEG is cut they cannot reduce the effect on their rates by reducing their expenditure towards guidelines. They have to pass the full effect onto the ratepayer who finds his rates going up by more than inflation although his authority is cooperating with Government policy. It is not realistic for these authorities to consider spending below guideline since their guidelines are already below their client group assessments of need. I have had strong representations from these authorities about the injustice of their position and I find it hard to give them a good answer. The only way I can do something to help them is if I have more AEG to enable a swifter movement towards the grant distribution system based on the client group approach from which these authorities stand to benefit. They have pressed hard for this. At present, with a reduced grant figure of £1915m for 1985-86 it is impossible for me to move in this way without massive increases in the rates of the other authorities who would have to lose grant for this purpose. I am thus in the same position as Patrick Jenkin on this and support him strongly in his request for additional grant.

3. As you may remember, when we discussed the Scottish AEG figure for 1985-86 in July you were insistent that our AEG figure should be lower than in 1984-85 although the English figure was frozen and the Welsh figure increased. The basis of your view, as recorded in your Private Secretary's letter of 25 July was that: "A grant of say £1840 million would lead to rate increases of only 7% or so for spending in line with provision. This would be comparable with the implications of the RSG settlement for English authorities". The figures in Table 1 of Patrick Jenkin's E(LA) paper show, however, that for spending at provision with a frozen grant English rates will in fact go down by 0.2%, not up by 7%. The decrease would be 1.4% if AEG were increased by £150 million as

he proposes. In the light of this information, it appears that it is essential to reconsider what the Scottish AEG figure should be if there is to be equity for the ratepayers in the two countries. The need for strict attention to equity is increased by the problems arising from the Scottish revaluation next year, a factor of which I warned you during our discussions in the summer.

4. In Scotland we have, as you know, gone ahead with a full revaluation. This is in keeping with the well understood principle that if the valuation system is to work, the roll must be regularly reviewed. By going ahead we have avoided many valid criticisms, such as those advanced by the Audit Commission in England, of the folly of trying to manage a grant system based on out of date valuations. I now have preliminary estimates from Assessors of the effects of the Scottish revaluation. The most striking feature is the large shift of the rating burden towards domestic subjects. This means that if expenditure and grant stay unchanged at their 1984/85 level, domestic rate bills would go up by 16.6% for revaluation alone. Of course expenditure will go up to meet inflation and grant is to come down in cash terms. A realistic estimate of the effect of these two factors is an 8% increase in rates. The total result for domestic rates - an average increase of 25% - is really quite unacceptable. It is higher still in the cooperative authorities I referred to earlier where domestic ratepayers would on average see increases of approaching 30%. Already the public pressure for action is building up as these figures become known.

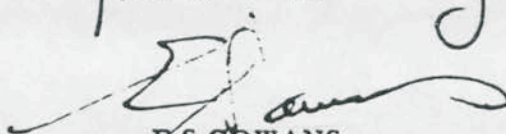
5. While you may suggest tackling this problem by increasing domestic rate relief, the scope for this is severely limited by the fact that I have to work within a reduced grant figure. Anything I do in that way will be at the expense of industrial and commercial ratepayers who will justifiably complain that I am cancelling the benefits of the revaluation. I make no apology for quoting from my minute of 1 August to the Prime Minister in which I very reluctantly accepted the reduced AEG figure:

"I feel I must inform you about this so that you will not be taken by surprise if, as I expect, we run into a very serious political situation in Scotland with the whole of local government of all parties, and all the ratepayer and industrial interests ranged up against us".

6. I am afraid that the situation I foresaw is coming about and it is necessary to take action rapidly to prevent it getting worse. I propose that in the light of the fresh information I set out in this letter that Scottish AEG for 1985-86 be increased by £94 million. This is the figure necessary to put Scottish ratepayers in the same position as English in the event of an addition of £150 million to English AEG. An addition of £94 million would allow an average decrease of 1.4% in rates for spending at provision, the basis on which you approached the assessment of the Scottish AEG figure in July. With this addition I would be able to increase the domestic element and head off the serious political problems emerging as a result of revaluation with politically unacceptable increases in domestic rates. I would also be able to do something useful for those cooperative authorities whose rates are set to go up above the rate of inflation despite spending at guideline.

7. Patrick's letter of 25 October to you sought authority to make some limited adjustments to his targets. I very much support him and trust that you will agree that I should be allowed to make comparable adjustments to guidelines in Scotland.

I am copying this letter to members of E(LA), John Selwyn Gummer and to Sir Robert Armstrong.

Yours Sincerely


E S GOWANS
Private Secretary

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

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.

New Court

St. Swithin's Lane

London EC4P 4DU

29. 11. 84



Confidential

Dear Robin,

Local Authority finance/administration

Two points have arisen, on the first of which I would welcome your advice.

I was under the impression that Lennie Hoffmann and I were making an independent study of this subject, though I must mention that the DoE seems peculiarly anxious that this study should be presented as part of the work being organised by Mr. Ken Baker. Pursuing the independent line, I wish to write to the Chairmen and Chief Executives of the Local Authorities, see attached draft which Hoffmann and I have very carefully concocted. Its object is twofold. First, Lennie and I are far from convinced that all wisdom about this very complicated subject resides in Whitehall and, although some of the Chairmen and Chief Executives are bad and/or ill-disposed, some are clearly intelligent and thoughtful.

Secondly, it seems obvious that two outsiders with little or no knowledge should, as the draft letter says, seek the views of those actively and continuously engaged in the subject; I will even go so far as to say that such a course seems politically desirable.

Instead of going my own way as I normally do, I showed the draft to William Waldegrave who seemed fairly neutral about it. Officials in the DoE, however, seem almost hysterically opposed to my sending the letter, without, of course, giving any reasons. I therefore agreed to refer the matter to you.*

** It would clearly be useless for you to consult DoE officials.*

The second point is one I have already mentioned to you: that I would like to have a brief word with the Prime Minister, in about ten days' time and obviously before she leaves on her travels, about our progress. I would like to ask her advice about some of the projects Lennie and I have in mind for further intensive study. Could you arrange this? Any time will suit me. I think it might be desirable for the Prime Minister to allow William Waldegrave to come with me. It is unlikely that Lennie Hoffmann will be able to do so as I believe he is going to Hong Kong shortly on legal business.

*Yours
Victoria*

DRAFT

Confidential

[Dear Mr. Jones,]

You may have seen that the Government has asked Mr. L. Hoffmann QC and myself to participate in departmental studies of local government finance. A very brief look at the present situation has led us to appreciate the great complexity of the administrative problems and to believe that some changes may be desirable.

Clearly, much of the knowledge about this subject and the expertise on it rests with the Chairmen and Chief Executives of County and District Councils and the Local Authority Associations. The purpose of this letter is to ask for your help in a particular way.

Would you be prepared to write and let me know what, in your opinion, are the important changes which should be made? I am not asking for memoranda but simply a few pithy headings. Examples, not related to our study, might be: "Further simplification of income tax forms" (Inland Revenue's responsibility), or "65 mph speed limit for lorries on all motorways" (Department of Transport's responsibility). A series of brief statements of this kind concerning local government finance and its administration would be most helpful.

You might perhaps have some ten or so headings which you consider of particular importance.

Any information you care to let me have will be treated as wholly confidential.

If you were good enough to help in this way, I should be extremely grateful. Mr. William Waldegrave, Under Secretary of State at the Department of the Environment, has I understand, written to the Local Authority Associations.

Local Govt file

THIS TRANSCRIPT WAS TYPED FROM A TELEDIPHONE RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT: BECAUSE OF THE POSSIBILITY OF MIS-HEARING AND THE DIFFICULTY, IN SOME CASES, OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS ACCURACY.

A Party Political Broadcast
For

The Conservative Party

RECORDED FROM TRANSMISSION:

2100

BBC-1

DATE:

28th November, 1984.

VOICE OVER: In 1964 a birth took place on the banks of the River Thames. It was a big baby, it was intended to be responsible for a large range of essential services across London. It was the GLC, the Greater London Council. By 1979, it was clear that in practise it wasn't working too well. The Marshall Report tried to find a useful function for the GLC, but even then, there was one man who believed that the GLC should go:-

KEN LIVINGSTONE: I regret that Marshall did not push on and say, abolish the GLC, because I think it would have been a major saving and would have released massive resources. I do not believe that you need tiers of local government.

V/O: The speaker was Ken Livingstone, in a debate on the GLC in March, 1979.

KENNETH BAKER MP: Well, what had gone wrong ? Simply that although the baby had grown and grown, the things it was doing had become fewer and fewer. The running of London's ambulances had been handed over to the National Heath Service. London's sewage services had been handed over to the Thames Water Authority, and by 1982, even the GLC's council housing had been handed over to the local boroughs.

When that decision was being taken, a member of the GLC said this:-

LIVINGSTONE: If the housing role of the GLC is virtually obliterated which is basically what we are moving towards in this council, I fail to see what role there is for this body at all.

V/O: The speaker was Ken Livingstone, before he had took power, of course.

BAKER: 12 year's ago, the GLC was responsible for London's ambulances, buses and tubes, its council housing had made it one of the largest land-lords in the Western world. Today, it no longer runs any of these services, yet it is now spending much more money. So what does it spend its money on, what services does it provide ?

: That's a good question, I'm not sure I could actually list them.
: The ambulance services, that's one. The hospitals, that's two.
: Libraries, well Social Services.
: Police, ambulances and stuff like that, I think they just really rule London.

BAKER: The fact is, none of the services you've just heard mentioned come under the GLC. The GLC doesn't run London's water or police services. It doesn't run hospitals or libraries, it doesn't provide Meals-on-Wheels, or Home Helps.

It doesn't collect refuse. It has very little to do with London's highways or London's planning. It no longer runs London's buses or tubes and is not responsible for education in most of London. In fact, the only major service that the GLC is responsible for is the Fire Brigade. So what is the GLC doing with its money now. I'll give you some examples; It has given tens of thousands of pounds to organisations whose sole purpose is to house the police. It's given hundreds of thousands more pounds to groups like these. And it is spending ten million pounds of rate-payers' money to tell them how much they will miss the GLC. But they won't miss it at all. Ken Livingstone likes to talk about democracy, but it is under Ken Livingstone that Londoners have had no say, they've just had to pay.

On March 31st, 1986 the GLC will cease to exist. The decision on how London's money will be spent will be given back to the 32 London Borough Councils, where London's voters will decide just how they want their services to be run. And you know, this shouldn't displease Ken Livingstone because two year's ago, even after becoming Leader of the GLC, he said this:-

LIVINGSTONE: I believe that we should on principle have a system in which Government is done at the lowest possible, the level closest to people, by borough councils in the Metropolitan areas.

BAKER: Well I couldn't agree more and that's exactly what we will achieve when the GLC goes. I want to make one final point. Do you remember those people we asked to say what the GLC does? Well the only people we filmed were those in favour of keeping the GLC. And even they couldn't tell us what the GLC does. The truth is, the GLC is not essential to London. I've been through all the facts and all the figures, and one thing is clear, London will be run a lot better and for less money when the GLC is gone. Maybe some people will miss Ken Livingstone, but I promise you, no one will miss the GLC.



10 DOWNING STREET

26th November, 1984

Dear Councillor Beresford

I am now writing to you again following your letter to me of 31st October.

The Prime Minister understands your grave concern about the terms of the various transfer orders, the amount of discretion available to the GLC, and the forthcoming review. I am glad that you have talked to George Young about these concerns, and I know that Department of Environment lawyers are now investigating thoroughly, to see whether the Government has any room for action.

You yourself mention the 'wider significance' of these matters. They do, indeed, have such significance. In particular, the Government naturally wishes to avoid any risk of a successful legal challenge by the GLC or other interested parties. I am sure that you will understand this point and the consequent need for caution.

I am sure that Patrick Jenkin will be writing to you once he has received further legal advice; you may then want to talk with him further about the matter. This is, I think, the right way to proceed.

Yours sincerely
Stephen Sherbourne

STEPHEN SHERBOURNE
Political Secretary

Councillor Paul Beresford



File

10 DOWNING STREET

With the compliments of

STEPHEN SHERBOURNE

bcc	Mr. Turnbull	No 10
	Dr. Letwin	No 10
	Mr. Ballard	DOE



Wandsworth

From the Leader of the Council

*Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU*

S. Sherbourne, Esq.,
10 Downing Street,
London, S.W.1.

31st October 1984

CONFIDENTIAL

Dear Mr. Sherbourne,

I enclose the letter to Mrs. Thatcher as suggested by you during our telephone conversation last Friday.

I have been fighting this particular problem for approximately three years now and have only just managed to get the Department of the Environment officials to understand and accept the magnitude of the figures.

The magnitude of the full political effect seems to have escaped realisation.

I await your response.

Yours sincerely,

Paul Beresford
Leader of the Council.

Encl.



Wandsworth

From the Leader of the Council

*Leader's Room
The Town Hall, Wandsworth High Street,
London SW18 2PU*

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

31st October 1984

Dear Mrs Thatcher,

*No! never
even
mentioned*

I have been in contact with Mr. Sherbourne in an attempt to arrange for my Chief Whip and I to meet you briefly.

The principal theme being to discuss the aggrieved feelings, over some years, of Conservatives in Wandsworth to the treatment received by the Department of the Environment relative to similar inner London Boroughs.

However, following an abortive meeting with Sir George Young at Marsham Street last Friday, I feel bound to seek your urgent intervention in the major issue: the latitude he proposes to give to the G.L.C. in making or withholding payments to London boroughs, for deficits on housing transferred from the G.L.C. in the period 1980 to 1982.

Sir George has already announced that he considers the G.L.C. should be allowed the freedom it seeks to discriminate between one borough and another. The extent of the G.L.C.'s abuse of this freedom, partially anticipating the formal approval of the Secretary of State, is shown on the attached table and chart. For 1983/84 the gains to Labour boroughs range up to £2.2m, while losses for Conservative boroughs range up to £1.2m - the equivalent of a 3p rate out of our 20p borough rate. The urgency of the issue is underlined by the potential figures for 1985/86: gains of up to £3.6m and losses of up to £4.7m. If the additional loss for Wandsworth could not be offset by cuts to keep within the Government target, then the cost to our ratepayers would be a 17p rate - an example of the effects of the massive distortion of the London borough rates pattern which the G.L.C. would then have achieved, destroying the Conservative borough track-record of low rates.

The gains and losses, from 1982/83 to 1984/85, arise if the statutory Transfer Orders allow the G.L.C. to assume lower rent increases and higher costs for the favoured boroughs. The 1980 Order, which provided for the voluntary transfer to willing recipients, allowed no such discretion. The 1981 Orders, for compulsory transfers and for dealing with a few voluntary transfers omitted previously, unintentionally allowed discrimination. The G.L.C. is now seeking to bring the 1980 Order in line with these later Orders, against the opposition of the majority of the 1980 transferees, and of the London Boroughs Association. Although he recognised that the G.L.C. was openly inciting boroughs to flout Government guidance on rent increases, Sir George has already indicated that he is prepared to grant the G.L.C.'s request, on the grounds that the 1980 transferees accepted the 1981 terms in relation to their few dwellings omitted from the 1980 arrangements. Faced with this announcement, we were reluctantly forced to press only for similar

/Cont'd.....

Rt. Hon. Margaret Thatcher, M.P.

31st October 1984

safeguards to be incorporated in the amended 1980 Order as were afforded to the compulsory transferees in the 1981 Order, i.e. the Order should specify appropriate initial figures for rents and/or costs, to compensate for what the G.L.C. proposes to deduct through using its new discretion in the updating arrangements.

The more dramatic gains and losses in 1985/86 would arise from continuing the G.L.C.'s existing policy, but applying it also to the prescribed 1985 review of the need for continuing the deficit payments. The boroughs who lose as a result of this review will not have the opportunity to challenge it before making their rates for 1985/86. The G.L.C. is therefore likely to make the most of this opportunity, in its final year of existence, to upset the Conservative rating record and to bypass the restrictions imposed by the "Paving Act" on their powers to subsidise selected boroughs' expenditure. The Leaders of all the Conservative boroughs, at a meeting on 26th September 1984, agreed that the only solution was for the Secretary of State to use his powers to defer the 1985 review. They wrote accordingly to Kenneth Baker, but he has apparently referred the matter to Sir George.

My meeting with Sir George last Friday was to press for action on both points: the amendment of the 1980 Order and the deferral of the 1985 review. Sir George, however, was clearly unwilling to intervene. The only reason he offered was his fear that such intervention could face legal challenge by the G.L.C. He could not give me any basis for his expectation that such a challenge would succeed, and I left him with a copy of an Opinion obtained by Wandsworth from Leading Counsel that there would be no such risk. He undertook to consider this Opinion, but I was left with no real hope of a change of view.

I suspect the difficulty is that Sir George has been relying on advice from officials dealing only with London housing matters, and unable to appreciate the significance of the issue in terms of borough rates and G.L.C. abolition. All the London Conservative Leaders would be grateful if you could direct this into the hands of those who will recognise its wider significance and be prepared to intervene.

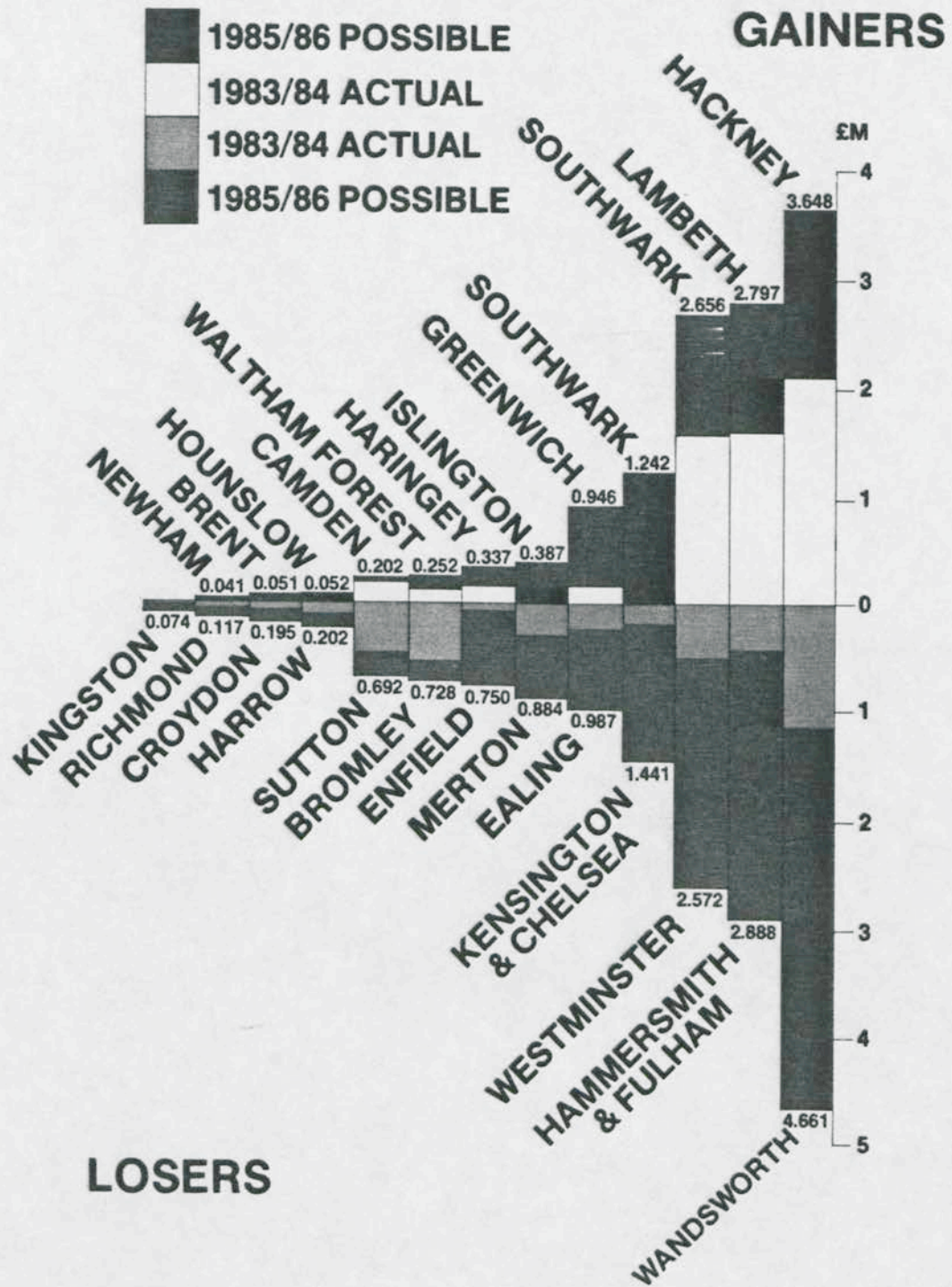
Yours sincerely
Paul [Signature]

GLC USE OF DISCRETION UNDER TRANSFERRED HOUSING ARRANGEMENTS

	1983/84 Actual £'000	1985/86 Possible £'000
<u>GAINERS</u>		
Brent	26	51
Camden	204	202
Greenwich	178	946
Hackney	2,209	3,648
Haringey	169	337
Hounslow	26	52
Islington	-	387
Lambeth	1,618	2,797
Lewisham	1,611	2,656
Newham	-	41
Southwark	-	1,242
Waltham Forest	127	252
	<hr/>	<hr/>
	6,168	12,611
	<hr/>	<hr/>
	£'000	£'000
<u>LOSERS</u>		
Bromley	568	728
Croydon	85	195
Ealing	237	987
Enfield	70	750
Hammersmith and Fulham	438	2,888
Harrow	122	202
Kensington and Chelsea	201	1,441
Kingston	24	74
Merton	304	884
Richmond	57	117
Sutton	482	692
Wandsworth	1,181	4,661
Westminster	512	2,572
	<hr/>	<hr/>
	4,281	16,191
	<hr/>	<hr/>

NOTE: Gains and losses are measured in relation to assumed rent increases in line with Government guidelines, and management and maintenance allowances comparable with compulsory transferees.

GLC USE OF DISCRETION UNDER TRANSFERRED HOUSING ARRANGEMENTS



CONFIDENTIAL



WJPM
AF 27/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
2 Marsham Street
LONDON SW1P 2AL

26 November 1984

Dear Secretary of State,

LOCAL AUTHORITY CAPITAL CONTROLS SYSTEM

We are to meet with other colleagues on Tuesday to devise a compromise between the proposals in E(A)(84)62, which the Prime Minister said would not be strong enough to reduce the potential overspend next year, and those in E(A)(84)61, which she thought might well be too restrictive.

I start from the fundamental principle, recognised in E(A), that it would not be acceptable to put the planning total at risk to the extent of £½ billion or more. This must mean some reduction in potential spending powers. But I accept equally that we do not want massive underspending or a breach of commitments about the total of future allocations or measures which bear hard on those authorities, especially in the shire counties, who have co-operated with us.

With these points in mind I put forward the following modification of my original proposals:

- (i) If a prescribed proportion of 15 per cent is agreed, I would be willing to abate by £200m the deduction for accumulated receipts for the purpose of arriving at allocations, which would then be £700m instead of £900m. Allocations would then total (England and Wales) about £3.0bn, very close to the figure that would have resulted from the application of the present control system to the provision for 1985-86 to which we agreed in the Survey. In announcing the new total, there would be no need to explain precisely how we had arrived at it.

- 1 -

CONFIDENTIAL

CONFIDENTIAL

(ii) I take the point that for some services, especially those (education and transport) administered by the shire counties, the accumulated receipts are relatively small. We cannot obtain precise information in the time available; but I would suggest that the aggregate reduction of £700m on account of accumulated receipts might best be divided between services in England in proportion to the estimated receipts in 1985-86 for which we allowed in the Survey. On this basis the reduction for transport would be negligible (perhaps £1 million) and that for education very small (perhaps £25 million). We could still broadly satisfy the commitments on housing and other environmental services given for 1985-86 and I would agree, if colleagues wished, to repeat these commitments with figures of 80 per cent for both forward years. For Wales I would be content with the proposals in Nick Edwards' letter of 16 November.

(iii) I am also willing to couple the 5 per cent allowance for carry-forward to unspent provision with an agreement that in-year corrective action would not be taken for prospective over-spending up to that level.

The attached table amplifies that which I handed round at the E(A) meeting, with an additional column showing my new proposals. The effect of (i) above would be to give authorities extra spending power from accumulated receipts of £200m. There are of course other potential pressures on the cash limits for which we are still making no allowance (eg the local tolerance of 10 per cent and the possibility that in-year receipts will fall short of our estimates), as well as my concession at (iii). My proposals do not mean that overspending is acceptable: rather they are designed to build some flexibility into the system to allow spending in line with our plans. We cannot afford to go further.

Finally, these decisions would of course apply only to 1985-86. For future years we should ask officials to produce proposals based on the principles in paragraph 2 of this letter, by Easter. They should also examine means of restricting borrowing approvals in order to reduce the element of doublecounting which we discussed in E(A), and take account of the consultations now in progress with the local authority associations.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, Leon Brittan, Keith Joseph, George Younger and Nick Edwards and to Sir Robert Armstrong.

Paul Rees
PETER REES
Approved by the Chief Secretary and

£ billion England and Wales	1 1984/5	2 1985/6	3 1985/6 Proposals in E(A)(84)61	4 1985/6 Proposals in E(A)(84)62	5 1985/6 Chief Secretary's new proposals
	40% pp housing 50% the rest present allocation policy	Same basis	15% pp, full allowance for acc. receipts	30% pp housing, 50% the rest, 2½% reduction of allocations for non-compliance	15% pp, £200m abatement of deduction for acc. receipts
<u>Net Survey</u>	2.5	2.0	2.0	2.0	2.0
<u>Add estimated in-year receipts</u>	2.1	2.2	2.2	2.2	2.2
<u>Gross provision</u>	4.6	4.2	4.2	4.2	4.2
<u>Deduct:-</u>					
(i) Allowance for pp in-year receipts	0.9	0.9	0.3	0.8	0.3
(ii) Allowance for pp accum. receipts	0	0	0.9	0	0.7
(iii) Non-prescribed expenditure	0.2	0.2	0.2	0.2	0.2
<u>Allocations</u>	3.5	3.1	2.8	3.2	3.0
2½% Reduction				0.1	
<u>Revised Allocations</u>	3.5	3.1	2.8	3.1	3.0
<u>Add</u>					
Prescribed proportion of in-year and accumulated receipts - say	2.9	3.3	1.2	3.2	1.2
Non-prescribed expenditure	0.2	0.2	0.2	0.2	0.2
<u>Total spending power available to local authorities</u>	6.6	6.6	4.2	6.5	4.4
<u>Deduct</u>					
Gross provision	4.6	4.2	4.2	4.2	4.2
<u>Spending power beyond cash limit</u>	2.0	2.4	0	2.3	0.2

pp = prescribed proportion

CONFIDENTIAL



cc No
CONFIDENT

NBPM
AG
26/4

Prime Minister

LOCAL AUTHORITY CAPITAL CONTROLS

I thought it would be helpful if I expanded the views I gave before I had to leave Tuesday's E(A) meeting early. I strongly support the need for the system to be tightened up but we must do so without damaging our own policies in the process.

This question is a very important one for me because transport, next to housing, is the biggest local capital spending programme. It comprises nearly a third of the total. Unlike the other main blocks its main customers are the business community. It is vital to achieving the objectives of my trunk roads programme because it provides for adequate access to the national route system. I am therefore very concerned that it should not be damaged by our decisions on capital controls.

Unlike most other programmes there is no evidence of significant transport overspend. This is not surprising as - unlike any other programme - it is almost entirely in the hands of first tier authorities who do not have access to the substantial housing capital receipts accruing from the "right to buy" policy. This underlines the need to concentrate our action on housing receipts because they are the main cause of the problem. As the attached diagram shows, these account for over 60% of the total "overhang" of authorities' right to spend over the cash limit.

I do not believe it is the size of the service allocations we give which is causing the problem. This is the difficulty with both Peter Rees' and Patrick Jenkin's proposals. They both significantly reduce the total available for service allocations. Any reduction on the already very

CONFIDENTIAL

CONFIDENTIAL



tight transport total which I reluctantly accepted in the PES review will have a devastating effect. Key authorities' programmes will be disrupted in the critical year before abolition and it would cause great political problems.

We could reduce the "overhang" by much more than is achieved by Patrick Jenkin's proposals by a bigger cut in the prescribed proportion of housing receipts. We should reduce this at least down to the level Nick Edwards already uses in Wales, perhaps to the 15% Peter Rees proposes. The non-housing proportion might also be cut to 40%. This option shown on the diagram would cut the "overhang" from £2.2 billion to £1.4 billion, without squeezing the service allocation. I do not believe that an overhang of this order will pose any real threat of overspend.

Patrick Jenkin's extra allocations for authorities who restrained their spending this year would have to be made so far on in the year that they would be a receipt for poor value spending. They would be virtually no use to transport where long lead times make it quite impossible to adjust programmes significantly after the first two to three months of the year. I know this only too well from the trunk road programme despite the fact that its greater size gives much more flexibility than any County has. They would merely run the risk of overspending on those programmes which can be quickly increased. If rewards are important they would be better limited to housing authorities who have restrained their spending, financed by a deduction on the housing allocations only.

Peter Rees' proposals to deduct the prescribed proportion of accumulated receipts as well as in-year receipts could only be implemented on an arbitrary basis because accumulated receipts for each service block cannot be separately identified. Some formula allocation would have to be made - presumably pro rata to past shares of receipts.

CONFIDENTIAL



I appreciate that a big cut on prescribed housing receipts will be very unpopular and seen as a breach of faith. But it has already been pointed out that the main engine driving the increase in housing receipts has not been authorities' incentives to sell them, but individuals' desire to purchase their council houses. I doubt, therefore, that tightening up on housing would have a significant adverse effect on the level of housing receipts. It is a Right to Buy. Any effective action is bound to be unpopular because the "overhang" has got so large. Clearly, we must fundamentally change the system in the longer term to prevent the possibility of such an enormous "overhang" and I hope officials can come up with some options quickly so that we can make an early announcement of what we intend.

I would have liked to attend the meeting next Tuesday under the Chancellor's Chairmanship but, as you know, I have to be in Rome on unavoidable business. I would be grateful therefore if Lynda Chalker could attend in my place in view of the very important transport implications of this issue.

I am copying this minute to the Chancellor of the Exchequer, other members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

H.C. Mervin (Private Secretary)

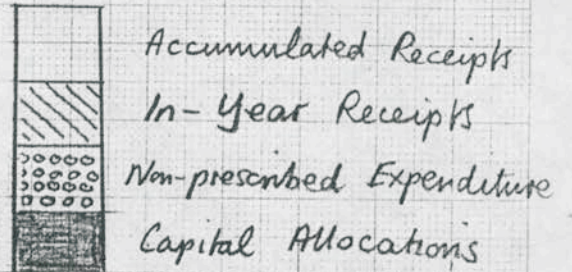
for NICHOLAS RIDLEY
23 November 1984

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

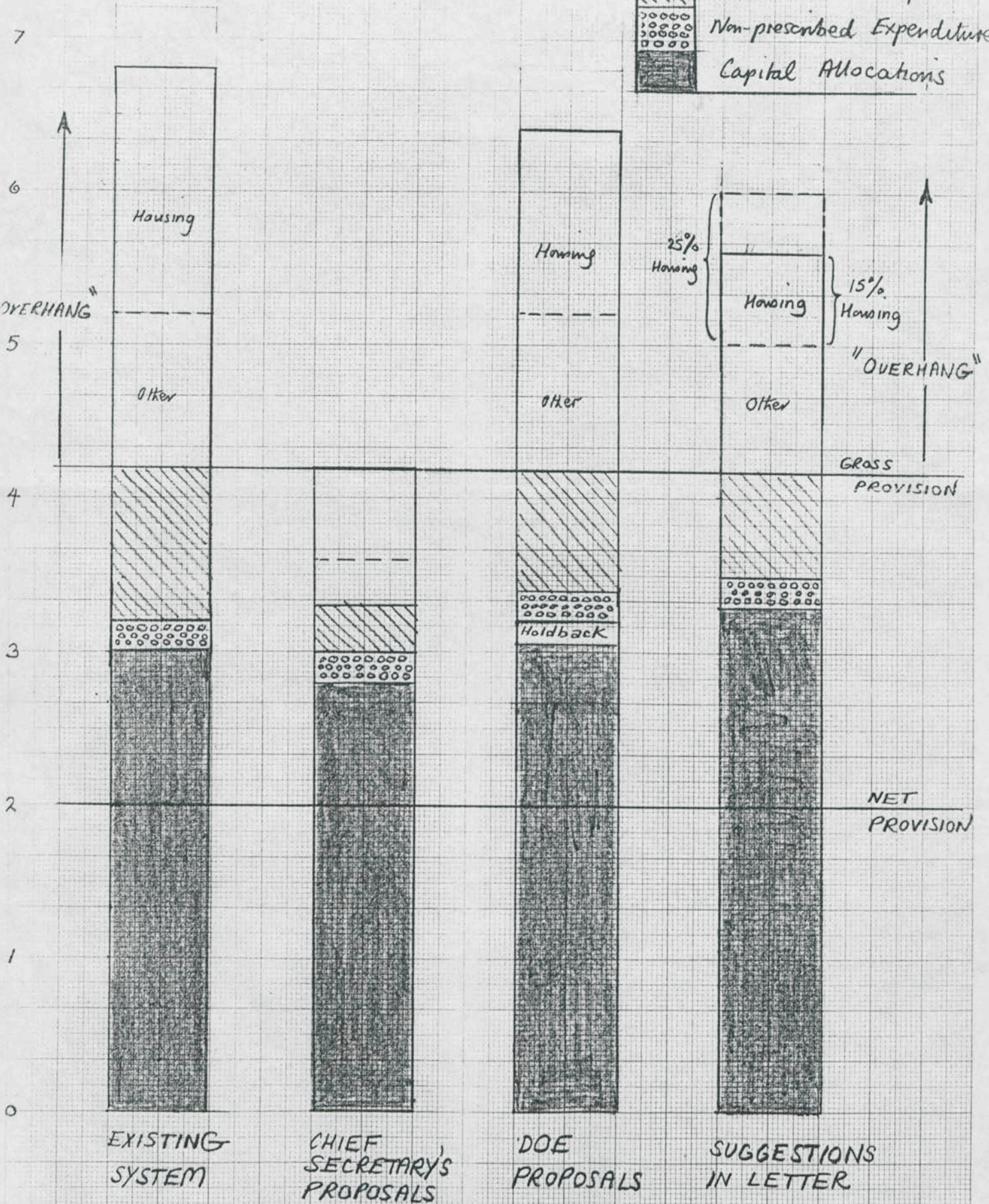
ALTERNATIVE PROPOSALS FOR CAPITAL ALLOCATIONS IN 1985/6

Assumptions
on m E(A)(84)61

Key -



£ billion



22 November 1984

(2)

PRIME MINISTER

AF 22/4

cc Mr Sherbourne
Mr Ingham

MB

GLC/MCC ABOLITION: POLITICAL DEVELOPMENTS

There are likely to be a number of unfortunate developments during the next few days.

The Tory Reform Group is preparing a pamphlet opposing abolition. It will probably appear on Monday 26 or Tuesday 27 November.

Weekend World is planning a programme with Kenneth Baker for Sunday 25 November, which will probably be extremely hostile, portraying the Joint Boards as a flop.

Derek Fatchett MP is intending to put down an all-party early day motion on the recent (unfavourable) PA report.

Charles Morrison MP is attempting to organise a meeting of Conservative backbenchers against abolition.

The MCC campaign liaison committee has engaged the services of Biss Lancaster, a highly professional PR agency. New efforts are being made both to gain media coverage for the MCC case and to brief selected members of the House of Lords.

We are alerting DoE, but you may wish to consider taking action of your own to limit revolts on the backbenches of both Houses, while the propaganda is at its height.

Janet Evison.

pp. OLIVER LETWIN



20 November 1984

Dear Chief Secretary,

ABOLITION BILL: ORGANISING COMMITTEES

Thank you for copying to me your letter of 16 November to Patrick Jenkin.

I do not believe that it can seriously be claimed that the organising committees set up under the 1972 Act were a factor in inflating the costs of that reorganisation. What went wrong in 1972-74 was that expensive new permanent bureaucracies were created. The organising committees were purely a temporary phenomenon, with a pretty low-key role.

It will be clear from my earlier letter that I do not envisage a major role for the committees that I now propose. They would simply provide a somewhat more formal mechanism for the cooperation that should be taking place anyway. They would not be able to build up their own staff - they would have to rely on the constituent councils to provide any necessary servicing.

Although I would not want to overplay their significance, I think there is a good case for arguing that organising committees should help to reduce, rather than increase, costs. The White Paper made it clear that the boroughs and districts would need to cooperate closely on some of the services which are being transferred to them, and to make voluntary arrangements for the sharing of specialist staff and equipment. Organising committees could provide a forum where such arrangements could be worked out in advance, thereby reducing the risks of individual boroughs/districts each making their own arrangements without regard to the scope for more economic joint arrangements. This role for the committees is, of course, reflected in the provision that now appears in the Bill (clause 88(2)(b)).

I also believe that the provision could be useful in enabling Labour districts to participate in planning for abolition. Even after Royal Assent there may be some attempt by local Labour parties to stop their authorities from "collaborating". There are certainly some authorities which would be only too glad to have a statutory duty to point to. Indeed we have been pressed by some Conservative London Boroughs to have Organising Committees.

I hope that, in the light of this further explanation, you will be prepared to withdraw your objection.

/ I am copying this letter to Patrick Jenkin and the other members of MISC 95, to the Lord President, and to Sir Robert Armstrong.

Yours Sincerely,

John Bailey

KENNETH BAKER

(agreed by the Minister and signed
by the Private Secretary in Mr Baker's
absence)

The Rt Hon Peter Rees MP

The Rt Hon

20 NOV 1964

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

Prime Minister (2)

AT 20/11

20 November 1984

MR TURNBULL

ms c Mr Sherbourne

CASH FOR ADVERTISING ON LOCAL GOVERNMENT

I have checked on the assertion in my recent minute that £100,000 was available for a Party advertising campaign. The details are as follows:

- i. Tim Bell has obtained fairly firm promises of £100,000 to fund a campaign against the GLC/MCC propaganda.
- ii. The prospective donors, who are anonymous at present, want to give the money not to the Government or the Party, but rather to some specially formed group of Conservative councillors or other proponents of abolition.
- iii. Tim Bell and Central Office officials have talked to Ken Baker, and are now looking for some allies who might form a group suitable to receive the money.

Oliver Letwin

OLIVER LETWIN

010
CONFIDENTIAL

NRP

MT 22/11

CCNO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

November 1984

Dear Patrick

GRE ASSESSMENT FOR JOINT BOARDS

will request if required

I am most concerned by your reply of 14 November to my letter of 26 October.

When we discussed this in E(LA) there was very full recognition of the exceptional problems that I face in bringing down the grossly excessive expenditure on public transport revenue support by PTEs, and doing that by a precept control for a single purpose authority concurrently with the deregulation of bus services. I must have some flexibility to deal with this limited class of cases if I am to have any prospect of success in cutting back the overspending, and even so there would be major political problems. That is why I proposed that GREs for the joint boards should be set on a judgmental basis. While I recognise that might be thought inconsistent with the rest of the grant system, the work we have done over the last three years shows quite clearly that we cannot devise a national formula which will be defensible for the joint boards.

CONFIDENTIAL

CONFIDENTIAL

I am surprised that you should be under any impression that further work over the next few months can produce acceptable specific proposals for the Met GRE formula. It has taken three years to get to a usable formula for the country as a whole. This year, no less than 12 options were offered, not one of which was supported by any of the local authority associations. The one we have had to choose as the best of a poor bunch is not going to satisfy our supporters or the opposition. If I were to set out to use this formula and to equalise fares and the benefits of service levels, I would have to approve the precepts shown in the attached note. I could not justify such differences as reflecting the different needs or situations in the different areas.

The paper enclosed with my letter of 26 October explained why revenues for public transport were a special case and justified special treatment:

- (a) it is not a service which Local Government delivers but a trading operation to which it gives support;
- (b) the support is the difference between two much larger figures, ie, costs and fare revenue which are influenced by a wide range of factors;
- (c) so far as need can be measured, it varies between areas much more than any other service;
- (d) much more data is available for the metropolitan areas than for the rest of the country.

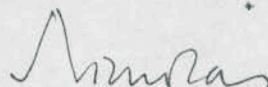
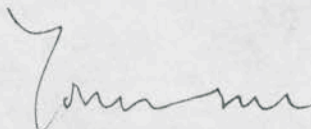
CONFIDENTIAL

CONFIDENTIAL

I was appalled to learn that the provision we need has not been included in the Bill as it will be introduced and indeed that the Instructions that have been prepared have not been sent to Counsel. I have to tell you that Lynda Chalker and I will not be able to defend the abolition proposals for transport to our supporters in the House unless I can give clear assurances about eliminating the overspend with the confidence that I shall have at least the minimum flexibility that I need. This is not a matter of commissioning further exemplifications from officials.

I must therefore ask you to look again urgently at the proposals in my letter.

I am sending copies of this to the Prime Minister, the members of E(LA) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

CONFIDENTIAL

TRANSPORT JOINT BOARDS: PRECEPTS

Table showing precepts of the transport joint boards in 1988/89 assuming national GRE formulae (PWAC X population density for bus subsidies) are applied

	1988/89 <u>Precepts p.</u>
GREATER MANCHESTER	6.1
MERSEYSIDE	12.9
SOUTH YORKS	14.8
TYNE & WEAR	18.4
WEST MIDLANDS	5.6
WEST YORKS	6.6

Note: the precepts are calculated on the basis of 1985/86 block grant mechanisms.

£ Billion	1 1984/5	2 1985/6	3 1985/6	4 1985/6
England and Wales	40% pp housing 50% the rest present allocation policy	Same basis	<u>CST proposal</u> 15% pp, full allowance for acc. receipts	<u>Jenkin proposal</u> 30% pp housing, 50% the rest, 2½% reduction of allocations for non-compliance
<u>Net Survey</u>	2.5	2.0	2.0	2.0
<u>Add estimated in-year receipts</u>	2.1	2.2	2.2	2.2
<u>Gross provision</u>	4.6	4.2	4.2	4.2
<u>Deduct:-</u>				
(i) Allowance for pp in-year receipts	0.9	0.9	0.3	0.8
(ii) Allowance for pp accum. receipts	0	0	0.9	0
(iii) Non-prescribed expenditure	0.2	0.2	0.2	0.2
<u>Allocations</u>	3.5	3.1	2.8	3.2
2½% Reduction				0.1
<u>Revised Allocations</u>	3.5	3.1	2.8	3.1
<u>Add</u>				
Prescribed proportion of in-year <u>and</u> accumulated receipts - say	2.9	3.3	1.2	3.2
Non-prescribed expenditure	0.2	0.2	0.2	0.2
<u>Total spending power available to local authorities</u>	6.6	6.6	4.2	6.5
<u>Deduct</u>				
Gross provision	4.6	4.2	4.2	4.2
<u>Spending power beyond cash limit</u>	2.0	2.4	0	2.3
pp = prescribed proportion				

ditto numbers

2.3

CONFIDENTIAL

P.01436

PRIME MINISTER

Local Government Finance Studies - Work Programme
(E(LF)(84)2)

BACKGROUND

FLAG
A

It was agreed at a meeting chaired by you on 27 September, and subsequently by Cabinet on 4 October (CC(84)32nd Conclusions, Minute 7) that work should be done by Department of the Environment officials, under the guidance of the Minister for Local Government, on the underlying problems of local government. The Sub-Committee on Local Government Finance (E(LF)) has been reconstituted with an expanded membership to steer this work. Studies in the field were referred to by the Secretary of State for the Environment in his speech to the Conservative Party Conference.

2. No formal terms of reference have been set. It was agreed however that, in order to avoid raising expectations unduly, the work should not have the formal status of a review.

3. The Secretary of State for the Environment proposes in E(LF)(84)2 a study in two phases: a "ground clearing" exercise for the first six months to identify subjects for further study, followed by a more prolonged study (twelve to eighteen months) to prepare proposals for implementation in the next Parliament, perhaps using working groups of the type used by Mr Fowler for his DHSS reviews. Mr Waldegrave will be in day to day charge of the studies, reporting to Mr Baker on a regular basis.

FLAG
B

4. The Secretary of State for Education and Science, who is unable to be present, has in his minute of 19 November recorded his opposition to one possible solution to the problem of local government finance - the transfer of responsibility for education from local to central government.

CONFIDENTIAL



CONFIDENTIAL

MAIN ISSUES

5. The main issues are:

- i. what guidance should be given on coverage of the study, especially in the first phase?
- ii. what timetable should be set?
- iii. how should the work be presented publicly?

Coverage

6. The main problems arising from present arrangements for local government finance have been extensively studied and are fairly well understood. In broad outline they are as follows.

- i. The Government and others believe that local government expenditure is too high both on macro-economic grounds and in the interests of ratepayers.
- ii. The system of Rate Support Grant (RSG), which has been overlaid with targets and holdback and now also with rate capping, is too complicated but not effective enough as a means of influencing local spending.
- iii. Not only are local taxes (rates) controversial in themselves; they are inimical to local financial disciplines in three main respects:
 - a. non-domestic ratepayers contribute a great deal by way of rates but do not have (and probably could not be given) an effective local franchise;
 - b. many local people do not pay rates directly because they are not householders but are nevertheless entitled to vote in local elections;

CONFIDENTIAL

CONFIDENTIAL

c. many voters who do pay rates are not as concerned as they otherwise might be about the level of local expenditure because the impact on them is reduced by means-tested benefits.

iv. These chronic problems and the attempts of the Government to deal with them have led to a situation in which both constitutional and working relations between central and local government are in crisis.

7. This analysis is broadly reflected in E(LF)(84)2. Some attention is already being given to the problems of the grant system, and in particular to the possibility of moving (on a rather shorter time-scale than that envisaged for the present exercise) to a targetless system of block grant. Solutions proposed for the underlying problems usually include the following.

i. Increasing the proportion of local spending financed locally either by:

a. removing a slice of local expenditure (eg on education) to be financed by the taxpayer, leaving a much higher proportion than at present of the remaining local expenditure to be financed from local sources; or by

No b. replacing or supplementing rates with a higher-yielding local tax (in practice, probably only income tax would do) and significantly reducing the proportion of local expenditure financed centrally through grant.

ii. Cutting down the mismatch between the coverage of the local franchise and the incidence of local taxation by:

a. for non-domestic ratepayers, introducing a business vote or levying non-domestic rates centrally at a standard national rate and redistributing the proceeds; or by

CONFIDENTIAL

b. for domestic ratepayers, changing the way in which the housing benefit system works to make it less progressive or introducing an element in local taxation based on capitation (poll tax) rather than on property.

8. It seems inevitable that all these matters will have to be looked at. The Secretary of State for the Environment may have more to say orally about the issues which he wants to have examined. The implication of paragraph 8 of his paper is however that, in the first phase of the study, no options, however radical, should be ruled out. The question for the Sub-Committee is whether to endorse this "no holds barred" approach or to decide that some options (eg the question of whether education might become a national service) should be ruled out even at this first stage.

Timetable

9. The main question for the Sub-Committee in considering the timetable is whether they agree with the suggestion in E(LF)(84)2 (paragraph 4) that action arising from the study should be for the next Parliament, not this. If they wished to leave open the possibility of legislation (assuming that they eventually conclude that legislation is necessary or desirable) before the next election, they might want to accelerate the timetable. This might just conceivably be practicable but would carry the danger of rushed legislation discussed in a highly charged pre-electoral political atmosphere. If the Sub-Committee are content to leave any legislation until the next Parliament, it is then a question of ensuring that the work is completed in good time before a Manifesto has to be prepared. Is the autumn of 1986 a suitable deadline for this purpose?

Public presentation

10. There is a major problem over the public presentation of this review. It has been agreed that it should have the lowest possible profile to avoid raising expectations. It has however also now been agreed to

CONFIDENTIAL

involve outside advisers (Lord Rothschild, Professor Christopher Foster, Professor Tom Wilson and Mr Leonard Hoffman QC) and their role will have to be made known publicly. I understand that Department of the Environment Ministers are considering a draft Parliamentary question and answer on the following lines (NB Mr Jenkin has not yet approved this form of words):

" Q. To ask the Secretary of State for the Environment how he is proposing to conduct the proposed ^{internal} Local Government Finance Studies?

A. The studies will be undertaken under the direction of Kenneth Baker and William Waldegrave. They will be in two phases. The first phase, (lasting about six months,) will be a ground clearing exercise. Professor Christopher Foster, Leonard Hoffman QC, Lord Rothschild and Professor Tom Wilson have agreed to act as independent advisors. The second phase, (lasting between 12 and 18 months,) will assess the options identified for changes to the present local government finance arrangements. During this second phase there will be (wide) consultation with outside bodies."

11. An announcement of this kind will inevitably raise the public profile of the review very sharply. In particular it will be very difficult to avoid saying something publicly in about six months' time about the progress of the first phase. Moreover a reference to a second phase involving wide consultation with outside bodies is likely to close off now the option of aborting the exercise if the work in the first phase suggests that there is no politically acceptable way of taking the matter further. Finally, the reference to the timing of the second phase is a clear signal that a major statement of local government policy can be expected in about two years from now. The Sub-Committee will need to consider all these points very carefully.

HANDLING

12. You will want to invite the Secretary of State for the Environment to introduce his paper. The Minister for Local Government and the

See
attached
note
AT



CONFIDENTIAL

Parliamentary Under-Secretary of State for the Environment, who will also be present, may have comments to add. Members generally are likely to have views on the conduct and timing of the study.

CONCLUSIONS

13. You will want the Sub-Committee to reach conclusions on:

- i. the coverage of the study and in particular whether it should be "no holds barred" during the first phase);
- ii. the timetable (ie whether there should be a 6 month first phase followed by a 12-18 month second phase);
- iii. public presentation (ie what should be said about the outside advisers and how far the two-phase timetable should be disclosed).

PLG

P L GREGSON

Vote & Paya.

20 November 1984

CONFIDENTIAL

1 PRIME MINISTER

LOCAL GOVERNMENT FINANCE STUDIES

I believe the case for an announcement is stronger than is implied in paragraph 11 of the Cabinet Office brief. The pressure for an announcement has come from Lord Rothschild who rightly argues that he and the other advisers cannot go round gathering information and discussing ideas with people in the local authority world without their status having been made clear. Secondly, it is right to make public the fact that the studies will have a private and a public phase. Without this, the Department of the Environment will have no way of preventing local authority bodies from making representations. Under the proposed arrangement, they can legitimately ask the people to wait. Finally, I do not believe that the expectation of a major statement could be held as an objection - surely this is expected anyway by now. Aborting the exercise is no longer an option.

AT

20 November 1984

FERB . The announcement is being
raised at E(LF) tomorrow

WITH

AF

LORD ROTHSCHILD'S

COMPLIMENTS

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

Mr. Turnbull - 65 sec ELP
N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

20th November 1984

Dear William,

I wrote to you about the PQ on November 12th saying it was "urgent" for the PQ to be arranged in the House. For various reasons nothing has been done and as I twice predicted to you, there has now been a leakage though not, I think, of a serious nature.

Cannot something be done to get this rather trivial matter of of the way?

Yours
Yvonne

Hon William Waldegrave MP

bc Mr. Robin Butler ***

CONFIDENTIAL

NBPM
RT 20/11
CND

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

20 November 1984

with AT?

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have read your memorandum of 15 November setting out proposals for improving controls over local authority capital expenditure in 1985-86 and beyond. I understand that this is to be discussed in E(A) on Tuesday 20 November when I shall be unable to attend.

As you know my direct interest in local authority capital expenditure is small and the proposals set out in E(A) (84) 61 would not appear to have any significant repercussions for the expenditure plans we have already agreed for land drainage and flood protection, smallholdings and fisheries harbours. On a wider front, overspending by local authorities is clearly a matter of some concern and one that we must remedy if we are to achieve our aim of holding public expenditure to plan. But in seeking improved controls I think we must be careful to ensure that whatever we agree both for 1985-86 and eventually for the longer-term minimises any risk of overkill, and hence unnecessary alienation of local authorities in general and our own supporters in particular.

I am sending copies of this letter to the Prime Minister, the other members of E(A), Leon Brittan, Norman Fowler, Keith Joseph and Sir Robert Armstrong.

MICHAEL JOPLING

20 NOV 1984



PRIME MINISTER

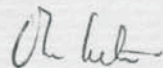
20 November 1984

LA CAPITAL SPENDING: THE SCOTTISH SOLUTION

It has just occurred to me that we may have something to learn from Scotland. The Scots have not suffered from the overspending that has afflicted England and Wales.

Their system is very simple: they allow local authorities to spend 100% of the receipts accruing in any given year, but they do not allow any accumulation of permissions over the years. An authority's allocation in year 2 is not affected by any receipts that it may have kept over from year 1. As a result, the Scots do not have the mountain of accumulated receipts that have caused all the trouble in England and Wales.

If E(A) cannot agree on any of the proposals currently being considered, you might suggest the adoption of the Scottish system for England and Wales. Authorities which have already accumulated receipts would have to be allowed to spend some proportion of them each year until they were exhausted - say 15%. But no new accumulations would be allowed.



OLIVER LETWIN

CONFIDENTIAL

PRIME MINISTER

LOCAL GOVERNMENT FINANCE STUDIES

1. Since I shall miss the E(LF) meeting on 21 November - I am due at an OECD meeting in Paris - perhaps I might comment on Patrick Jenkin's proposals. I have just had a useful talk with Kenneth Baker and William Waldegrave.
2. I am glad that they intend first to identify the objectives and the fundamental questions that we need to address. We shall thereafter better be able to come at questions of particular types of grant regime or methods of funding.
3. At this early stage, I have asked them to keep in mind that for a national service like education the financial regime needs to serve not only our financial objectives but also our policy objectives for raising educational standards. Within any new arrangements, we need machinery that offers the maximum possible leverage on local education authorities to bring their education priorities into line with our objectives and which, at the same time, pushes them to get better value for money from the total provision made for education.
4. I recognise that, in principle, we might achieve what we want by centralising the education service and taking it out of the hands of local government altogether. In my view that would lead us down the wrong path. It would destroy local accountability for education standards, discourage local innovation, require a huge central bureaucracy and expose government to endless local dilemmas and criticism.
5. I am copying this minute to other members of E(LF) and to Sir Robert Armstrong.

14
KJ

19 November 1984

Department of Education and Science

CONFIDENTIAL

Local Govt Relations PT 23



1981 NOV 6 11A

LOCAL AUTHORITY CAPITAL EXPENDITURE

A great many complicated suggestions have been put forward. The simplest way to think about the problem is this:

1. In the public expenditure round, Ministers decided to allow local authorities to spend £4.2 billion on capital projects in 1985/6. If the present system is left unchanged, this figure will be greatly exceeded in practice.
2. The main reason for the lack of control is that local authorities are allowed to spend half of the £6 billion receipts that they have accumulated from past sales, in addition to their basic allocations. This gives them scope to spend up to £3 billion over the PES target figure, with corresponding effects on net PSBR.
3. The Chief Secretary wants to reduce the scope for overspending by:
 - a. allowing local authorities to spend only 15% of their accumulated receipts in 1985/6 instead of 50% - ie £0.9 billion instead of £3 billion; and
 - b. subtracting even this £0.9 billion from basic allocations.
4. Nick Edwards accepts this proposal in principle, with a few detailed amendments.
5. Patrick Jenkin objects strongly. He believes that the Shire Counties and other friends of the Government will be outraged by the imposition of such a stiff limit on their use of accumulated receipts, and he also believes that a rigorous cash limit will in practice cause local authorities to underspend. He therefore proposes:
 - a. to let local authorities spend 30% of accumulated housing receipts and 50% of other accumulated receipts - a total of about £2.5 billion instead of the Chief Secretary's £0.9 billion;
 - b. not to subtract this £2.5 billion from basic allocations.

6. Allowing for all the refinements discussed in the E(A) papers, the Chief Secretary's proposal would keep local authority capital spending very near to the PES maximum of:

£4.2 billion

Patrick Jenkin's proposals would enable local authorities to spend a maximum of roughly:

£6.3 billion

Finding A Solution

We believe that a compromise is needed, since the Chief Secretary's proposal will enrage the Government's friends, whilst Patrick Jenkin's proposal makes a nonsense of the PES decision. The Government will have to give away something, but it needs to end up nearer to the Chief Secretary than to Patrick Jenkin, since it obviously cannot afford to endanger the whole of its contingency reserve.

We therefore recommend that the Prime Minister should ask E(LA) to settle the details of a package along the following lines:

- i. allow local authorities to spend only 15% of their accumulated receipts in 1985/6 (ie £0.9 billion), as the Chief Secretary wants;
- ii. but, as Patrick Jenkin asks, do not subtract this £0.9 billion from basic allocations;
- iii. allow authorities to spend 30% of housing in-year receipts and 50% of other in-year receipts over their basic allocations (cf Patrick Jenkin);
- iv. give authorities additional flexibility by allowing them £0.2 billion of discretionary spending (cf the Chief Secretary) and permission to carry forward 5% underspending or overspending to the following year (cf Nick Edwards);
- v. withdraw £0.2 billion from basic allocations for redistribution to those authorities that have obeyed this year's moratorium (cf Patrick Jenkin).

This package would allow local authorities to spend a maximum of:

£5.1 billion

In practice, this would prevent the PES target being overspent by more than about £0.5 billion, but would also make some concessions to the Government's friends.

The Chief Secretary will argue that this package is too generous; but we believe that anything less will cause havoc in the Shires.

Patrick Jenkin will argue that even such a compromise will provoke loud complaints; but we believe that anything more will cause intolerable problems for the Treasury.

Ol Letwin

OLIVER LETWIN

Prime Minister

I commend Oliver Letwin's
note summarising the position
and offering a compromise

CONFIDENTIAL

P.01435

AT
19/11

PRIME MINISTER

Local Authority Capital Expenditure

(E(A)(84)61 and 62)

BACKGROUND

Twice this year E(A) has discussed prospective overspends for 1984/85 on the cash limit for capital expenditure by local authorities

FLAG A (E(A)(84)18th Meeting, Item 1 and 22nd Meeting, Item 2). The difficulties
FLAG B arose because, as the system of capital allocations and public expenditure accounting stands at present (in England and Wales; Scotland is different), it is possible for local authorities in aggregate to exceed the national cash limit very significantly even if no individual authority spends more than its allocation.

2. E(A)(84)18th Meeting invited the Secretary of State for the Environment, in consultation with the Secretary of State for Wales and the Chief Secretary, Treasury, to arrange for officials to advise on how systems of monitoring and control could be improved.

Flag C 3. The present system is described in paragraphs 2 and 3 of E(A)(84)61. Its main features are as follows.

a. The public expenditure totals, and the corresponding national cash limit, are net figures; they are gross capital expenditure less receipts during the year.

b. Each local authority receives a gross allocation, which is a legally binding limit on capital expenditure, subject to certain flexibilities. The main flexibilities are that each authority may spend a proportion (the "prescribed proportion") of receipts accruing in the year; that it may spend a proportion of receipts accumulated in past years; that certain minor "non-prescribed" expenditure is not controlled; and that there is some end-year flexibility.



CONFIDENTIAL

c. The total of gross allocations is calculated by adding to the net cash limit expected receipts during the year and deducting the "prescribed proportion" of those receipts and estimated non-prescribed expenditure. No deduction is made on account of potential spending financed by accumulated receipts.

4. These features have the consequence that the national cash limit may be exceeded, even though no local authority spends more than it is allowed: in particular, the estimate of in-year receipts may be too high; and no account is taken of spending from accumulated receipts. It would be technically quite easy to change both these features. But doing so would have the effect of reducing total allocations to authorities: spending Ministers wish to keep the total fairly high, so that it is easier to match allocations to needs.

5. The fact that an authority can use about half its accumulated capital receipts but that such receipts are not taken into account at all in making allocations makes it theoretically possible to have a very large overspend above the national cash limit. Since accumulated capital receipts are estimated at around £6 billion, the theoretical overspend could approach £3 billion.

6. The arrangements now proposed by the Chief Secretary, Treasury are described in paragraphs 5-7 of E(A)(84)61. The effect would be to achieve a much closer match between authorities' total spending power and a gross expenditure target set by the Government. This would involve bringing the use of accumulated capital receipts newly into control in relation to gross expenditure. The Chief Secretary says he would be prepared to allow for some slack (he suggests £50 million) to remain in the system to guard against major underspends. The Chief Secretary proposes (paragraph 12 of E(A)(84)61) a "prescribed proportion" of 15 per cent, which compares with prescribed proportions at present of 40 per cent (in England) for housing receipts and 50 per cent for other new and accumulated receipts.

7. These arrangements are based on proposals made by the Secretary of FLAGD State for Wales in a letter dated 2 November to the Chief Secretary, but

CONFIDENTIAL

the latter's figures leave rather less flexibility in the system than it seems the Secretary of State for Wales might have wished to see. Other recent correspondence is summarised at the Annex to this brief.

Page E 8. The Secretary of State for the Environment says (E(A)(84)62, paragraphs 5 and 6) that the Chief Secretary's proposals would be politically unacceptable and would have very drastic effects, reducing spending limits for some authorities below their commitments. He points out that, if accumulated receipts were brought into control on the basis proposed, arrangements retaining some appearance of access to them would be more cosmetic than real. While accepting a reduction in the prescribed proportion of new and accumulated receipts for housing (though not of receipts of other kinds), plus other adjustments to compensate for "non-prescribed" items, he proposes that allocations (presumably either individually or in aggregate) should not be specifically reduced to take account of spending power arising from accumulated receipts. He proposes also that the Government should announce now that it will take no further action on capital spending in the course of 1985/86. He proposes further that 5 per cent of each service block should be held back at the outset of the year, but distributed later to supplement the allocations of authorities which comply with the requirement for restraint.

9. For 1986-87 and later years the Chief Secretary proposes that officials should do further work, and that consultations with local authority associations should continue. These proposals seem likely to be acceptable to other Ministers.

MAIN ISSUES

10. The main issue before the Sub-Committee is what changes, if any, should be made in the system for 1985-86. It will probably be convenient to consider two aspects:

- i. to what extent should account be taken of accumulated receipts?



CONFIDENTIAL

ii. should the "prescribed proportion" of in-year receipts be reduced?

It will also be necessary to confirm that the Chief Secretary's proposals for 1986-87 and later years are acceptable.

Accumulated receipts

11. The Secretary of State for the Environment rightly says that the fundamental point on which he differs with the Chief Secretary is whether allocations should be reduced in respect of accumulated receipts. It is undeniable that accumulated receipts account for most of the slack which exists in the system at present. The Chief Secretary's argument is that the capital expenditure cash limit should be treated as strictly as any other. The Secretary of State for the Environment, however, argues that this cash limit is special because of the major role of receipts in financing local authority capital expenditure and the stress laid on that role by the Government in the past.

12. The Sub-Committee seem likely to agree that in future the system will have to take some account of accumulated receipts: the risk of excessive expenditure financed by an accumulated £6 billion of receipts is clearly very high. There is no need to prevent authorities from using these receipts, but rather to take their possible use into account in deciding the total of allocations. The Sub-Committee may also find unpersuasive the apparent implication in the statement at paragraph 6.d. of E(A)(84)62 that the Chief Secretary's proposal "would bring about a much more drastic reduction in the total level of capital expenditure next year than I believe colleagues thought they were agreeing to in our recent decisions on provision". It was clear during the recent public expenditure discussions that there was an outstanding remit to the Chief Secretary and Secretary of State to find ways of tightening controls within the system.

13. On the other hand, the Sub-Committee may find the Chief Secretary's proposals too restrictive. As the Chief Secretary himself recognises, if

CONFIDENTIAL


CONFIDENTIAL

the potential spending from accumulated receipts is taken 100 per cent into account in deciding the total of allocations, there is likely to be underspending, because not all authorities will make full use of their spending power. The Chief Secretary offers an addition of £50 million to offset this; but spending Ministers may well consider this inadequate.

14. There is a further point to be taken into consideration. The more account is taken of accumulated receipts, the smaller the total of gross allocations must be, and the more difficult spending Ministers will find it to match allocations to need. On the other hand, if the ability of authorities to use accumulated receipts is greatly reduced, there will be accusations of bad faith.

15. These are perhaps rather detailed matters for discussion in full Sub-Committee. But it would be helpful if the Sub-Committee could give guidance on the following questions.

a. Roughly how much 'play' should there be in the system? About the £50 million proposed by the Chief Secretary or something significantly larger?

b. Should the 'play' be created by setting a low "prescribed proportion" for accumulated receipts and largely ignoring them in deciding total allocation, or by setting a fairly high "prescribed proportion" and taking significant account of these in deciding total allocations?

In-year receipts

16. The Chief Secretary proposes that the "prescribed proportion" of in-year receipts should be reduced. This has the somewhat perverse effect of increasing the likely overspend due to a shortfall in receipts (every pound of shortfall in receipts adds a pound to net expenditure but reduces spending power by only the "prescribed proportion" of one pound). But it increases the permissible total of gross allocations. Do the Sub-Committee think this trade-off is acceptable?

CONFIDENTIAL



CONFIDENTIAL

Future years

17. There seems little point in the Sub-Committee seeking to reach conclusions now on detailed arrangements for future years. It will be possible to consider this further when the practical implications of decisions for 1985/86 and the nature of their reception by local government are clearer. Moreover, the Secretary of State for the Environment has recently begun to consult local authorities on the future of the control system and it would be undesirable to appear to prejudice the conclusions either of this consultation or of the further study currently being undertaken by the Audit Commission.

Other matters

18. The Secretary of State for Wales has proposed a way of using borrowing controls in combination with spending controls to ensure that accumulated receipts in the system are spent up over a number of years and do not continue to grow. He originally envisaged this from 1985/86, but in his letter of 16 November has now agreed that this question should be further examined in relation to 1986/87 and future years, as proposed by the Secretary of State for the Environment and the Chief Secretary. He is also now prepared to accept the Chief Secretary's proposal for end-year flexibility of 5 per cent but has asked that this should be a tolerance both ways, rather than just a carry-over of underspend.

Flag F

19. The Secretary of State for the Environment proposes announcing now that the Government will take no action on local authority capital expenditure in the course of 1985/86. It might be unwise to circumscribe the Government's freedom of action in this way, particularly if the Sub-Committee decides either to leave accumulated receipts largely outside the control system, as proposed by the Secretary of State for the Environment; or to bring them into control in relation to gross spending but within a control total which provides for a substantial amount of slack to remain in the system for next year. Such an announcement might be safer (and perhaps useful presentationally), however, if the Sub-Committee decides on stringent controls as proposed by the Chief Secretary.

CONFIDENTIAL

CONFIDENTIAL

HANDLING

20. You will want to invite the Chief Secretary and Secretary of State for the Environment to present their papers and the Secretary of State for Wales to comment. The Home Secretary and the Secretaries of State for Social Services, Education and Science and Transport will have views as Ministers responsible for local services involving capital expenditure. The Paymaster General will have views on the politics and presentation.

CONCLUSIONS

21. You will wish to reach conclusions on the following:

i. ^{*deduct for*} should accumulated capital receipts be taken into account to ~~some extent in setting~~ the total of allocations (as the Chief Secretary proposes) or not at all (as the Secretary of State for the Environment argues)?

ii. broadly how much 'play' should there be in the system (ie the maximum theoretical national overspend, bearing in mind that actual overspend is likely to be much less in practice)?

iii. what guidance does the Sub-Committee wish to give on how this amount of 'play' might best be achieved in respect of accumulated receipts:

a. by fixing a low "prescribed proportion" of receipts but ignoring them in setting the total of allocations; or

b. by fixing a higher "prescribed proportion" of receipts but taking them into account to some extent in setting a total of allocations;

iv. should any change be made in the "prescribed proportion" of in-year receipts?



CONFIDENTIAL

v. whether end-year flexibility should be increased to 5 per cent both for individual authorities and for the national cash limit, and whether it should be a tolerance both ways (as the Secretary of State for Wales would prefer) or a carry-over of underspending only (as proposed by the Chief Secretary)?

vi. should work on 1986/87 and future years go ahead as proposed?

vii. the content and timing of any announcements.

Pg

P L GREGSON

19 November 1984

CONFIDENTIAL

SUMMARY OF RECENT CORRESPONDENCE ON LOCAL AUTHORITY
CAPITAL EXPENDITURE CONTROLSChief Secretary, Treasury to Secretary of State for the
Environment, 19 October

Proposes ensuring the spending power of local authorities does not exceed cash limit and expected in-year receipts. Proposes alternative ways to do so by controlling use of accumulated receipts and other flexibilities with reference to gross expenditure target. Government to help local authorities within more effective control system by extending forward indications now given of some allocations; reviewing remaining project controls; and changes to end-year flexibility.

Secretary of State for the Environment to Chief Secretary,
Treasury, 25 October

Chief Secretary's proposals for cutting off use of accumulated capital receipts immensely controversial, would cause havoc to authorities' plans for 1985/86 and lead to chronic underspending in later years. Folly to embark on further major confrontation with local government, particularly since consultative process with local government underway and report by Audit Commission pending. Authorities would need to use receipts accumulated over past few years in lean years ahead: problem of accumulated receipts would automatically unwind over this period. For 1985/86, present system should be basically retained. For future years, variation should be considered on past system of controls through borrowing approvals.

Secretary of State for Employment to Chief Secretary,
Treasury, 31 October

Allowing access to proportion as low as 10 per cent of accumulated receipts in any one year would be seen as major breach of faith by Government's supporters. Use of accumulated assets key to encouraging authorities to accelerate council house sales and dispose of surplus land and assets.

Secretary of State for Transport to Chief Secretary,
Treasury, 1 November

Concerned both about ineffectiveness of present system and political and practical difficulties of tightening up. Danger of stop-go, leading to underspending in later years. Tightening controls as suggested by Chief Secretary would in practice amount to further cut on top of reductions agreed in bilaterals. This unacceptable. For 1985/86, should consider some reduction in prescribed proportion of receipts, but no reduction in allocations to offset end-year flexibility.

Chief Secretary, Treasury to Secretary of State for the
Environment, 2 November

Withdraws proposals of 19 October. Hopes to put forward revised proposals shortly.

Secretary of State for Wales to Chief Secretary, Treasury,
2 November

Present mechanisms not operating successfully, but with programmes so wide-ranging, complex and remote in terms of operational control, more realistic approach to seek to ensure that net capital spending falls within acceptable range - say 10 per cent - either side of the target. End-year flexibility should be 10 per cent locally and nationally. Forward indications should be raised to 90 per cent for last two years of survey period.

Proposes controls by starting from gross expenditure figure underlying target for net expenditure. From that figure, total for allocation to be arrived at by deducting prescribed proportion of all receipts (accumulated and in-year) together with allowance for non-prescribed expenditure. Ensure that problem of accumulated receipts unwound by ensuring that borrowing approval did not exceed target for net expenditure. Will give further views after meeting with Welsh Consultative Council on 12 November 1984.

Secretary of State for Transport to Chief Secretary,
Treasury, 7 November

Supports Secretary of State for Wales' proposals for 1985/86. Will write with own thoughts on future years shortly.

Paymaster General to Chief Secretary, Treasury, 8 November

Sympathetic to concern about capital spending by local authorities. But stringent action restricting access to accumulated receipts likely to put Government at loggerheads with many of own supporters.

Secretary of State for Education and Science to Chief
Secretary, Treasury, 9 November

Share determination for effective control system but further work and consultation with authorities needed. For 1985/86. deductions in respect of end-year tolerance and "non-prescribed"/^{expenditure}from total sum to be distributed unacceptable as reducing resources below level agreed for education capital expenditure at bilateral. Arrangements proposes for access to accumulated receipts would restrict discretion in making allocations on criteria of need.

Secretary of State for the Environment to Chief Secretary,
Treasury, 9 November

Decisions for 1985/86 urgent to allow capital allocations to be issued in December. Proposes to stick close to present regime for 1985/86, though prepared to see modest reduction in prescribed proportion for housing receipts. Continue to look at improvements for subsequent years, in light of consultations with local authority associations.

Secretary of State for Wales to Chief Secretary, Treasury,
16 November

Prepared to accept Chief Secretary's proposals, subject to: 5 per cent tolerance both ways; modifications to the "prescribed proportions" of receipts; and certain other provisos.



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

16 November 1984

ABOLITION BILL: ORGANISING COMMITTEES

I have seen Kenneth Baker's letter of 14 November.

We surely do not want to follow the precedent of the 1972 Act which, on any reckoning, inflated the cost of the 1974 reorganisation. Kenneth's proposal will add another mandatory and expensive committee structure, with its associated bureaucracy, and reduce the savings from abolition, which are already depressingly small. I must ask you to reject the proposal which, as Kenneth says, may well be ineffective. If the boroughs and districts want to make their own ad hoc arrangements, there is nothing to prevent them from doing so.

I am copying this letter to the other members of MISC 95, the Lord President and Sir Robert Armstrong.

PETER REES

11 DEC 1984

11 12 1 2 3
4 5 6 7 8 9

MR TURNBULL

16 November 1984

E(LF): REVIEW OF LOCAL FINANCE

Patrick Jenkin's plan seems admirable in most respects. He identifies the central issues - confusion, lack of accountability, lack of democratic pressure for low spending - and he sensibly suggests that the ground should be prepared informally before moving into formal review groups.

Our one quibble is that the timetable seems a little lethargic, even given the other activities of DoE. These operations tend to take longer than anyone plans; we suspect that if two years are allowed for the whole project, it may in the event take almost three years to complete. This would be too late. We therefore suggest that he should aim at three months for phase one and nine months for phase two, instead of the six months and 12-18 months that he proposes.

Oliver Letwin

OLIVER LETWIN

F
 For E(A) meeting
 B
 SENO
 CCO6

Y SWYDDFA GYMREIG
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-233 3000 (Switsfwrdd)
 01-233 6106 (Linell Union)



WELSH OFFICE
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-233 3000 (Switchboard)
 01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

16 November 1984

From Chief Secretary

LOCAL AUTHORITY CAPITAL CONTROL SYSTEM

In my letter of 2 November I said that I would write again after consulting the Welsh local authority associations on the basis of a range of options which broadly mirrored those put forward by you, Patrick and myself.

The associations' response to the consultation paper was constructive, if predictable. They are clearly very frustrated and annoyed at what they perceive to be the gross mis-management, at the national level, of a key area of their activity. The rigidity inherent in the cash limit regime came in for particular criticism, and they insisted on their right to use the receipts which they had accumulated, often for later use in connection with specific projects, though they did not argue that they should be free to do so all at once. They re-affirmed their support for forward indications of individual allocations, and for the largely formula-based arrangements we have in Wales for determining the allocations themselves. However, they pressed for the forward indications to represent a higher proportion of the sum available for allocation in each of the future years.

It is against this background, and my previously expressed views, that I comment on your current paper for E(A). I believe that the proposals outlined in that paper form the basis for agreement, certainly in Wales, provided you can accept the following adjustments.

First and foremost I am totally convinced, even if the sector were to remain cash limited, that the unique factors which apply to this area of spending demand that special rules apply. I acknowledge that you are already prepared to accept that there should be flexibility for an underspend, albeit of 5 per cent rather than the 10 per cent I suggest. However, the real point is that local government capital spending will never be susceptible to the degree of control you want. We must recognise this; and the proposal outlined in my letter of 2 November envisaged equal flexibility above the target as well as below it. Only if net spending appeared to be on course to exceed the flexibility margin above the cash limit would remedial action be necessary. Year to year tolerance would take account of disparities of a lesser order. This concession would go a very long way towards meeting the reasonable criticism that we are seeking to control the uncontrollable.

/...

The Rt Hon Peter Rees QC MP
 Chief Secretary to the Treasury



My second concern relates to the prescribed proportion of receipts. You suggest a standard proportion for all services of 15 per cent. At present only housing receipts are subject to a prescribed proportion in Wales (25 per cent in the last two years). There is no compelling case that I can see for introducing a prescribed proportion for other receipts in Wales. The counties have not contributed to my problems in the current year, and districts have only been able to exceed their non-housing allocations by making use of the spending power given by their housing receipts. A lower prescribed proportion for housing receipts would significantly reduce their ability to effect such a transfer. Nevertheless, provided you are willing to concede a 'no-action' margin above the cash limit such as I have suggested I would be prepared to introduce a prescribed proportion of 50% for non-housing receipts. To avoid additional pressure on the cash limit from this I would propose not to change the allocation total for these services from the **net** basis presently adopted in Wales.

In the case of housing, the decision on the level of the prescribed proportion is circumscribed by the aggregate amount of forward indications already offered for the year, and the political importance attached to the headline figure for housing allocations compared with that in the present year. It could be argued that a substantial reduction in the prescribed proportion would act against our policy objectives by reducing the incentive to an authority to generate new receipts. There is something in this, but the major part of this flow of receipts is generated not by the authority itself but by would-be purchasers; and a further substantial component is the repayment of local authority mortgages. The actual prescribed proportion selected is for me to decide in the light of Welsh circumstances, but seems to me likely to lie between 10 and 20 per cent.

On the question of forward indications, I have expressed a preference to link them to 90 per cent of the estimated amount available for allocation in the future years. You are understandably cautious about this. I would be prepared to settle on a compromise figure of 80 per cent for both years if you were, again, prepared to move on the issue of a flexibility margin above the cash limit.

As regards the borrowing cover of allocations I am still uneasy about the double-financing element inherent in the system. However, I am prepared to agree that this should be left for examination before 1986/87 allocations are determined. I think we should make it clear to the associations that we intend examining this area, in order to avoid charges that we are misleading them by not saying in advance that, from henceforth, the forward indications might not carry 100 per cent borrowing cover.

/...



If you and colleagues can agree to my suggestions in this letter I would be prepared to introduce such a revised system in Wales for 1985/86, subject to one extremely important proviso. I believe that the revised system would be considerably more effective than the present one. If the arrangements agreed for England for 1985/86 are different in any important respect, and give rise to an uncorrected excess next year larger than seventeen times that which occurs in Wales (the England/Wales population relativity) then to maintain equity I require an assurance that I would receive a full formula consequential increase in my following year's provision in respect of the difference.

/ I am copying this letter to Patrick Jenkin, other members of E(A), the Prime Minister and Sir Robert Armstrong.

Yours sincerely

R. G. Lawson.

Approved by the Secretary of State
and signed in his absence

E(LF) folder

C.B.I

②

To be discussed
on Monday a.m.
discussed

12 noon
meeting?
no

PRIME MINISTER

Politics of Local Government

The attached note by the Policy Unit sets out very clearly the issues raised by the rate capping revolt. The recommendations on page 4 can be considered at the first meeting of the new MISC.

I would make one addition to the note. My hunch is that the rate capping revolt will first come to a head not over a breakdown through a deliberately contrived default of interest payments. On the Government side the weak link will not be a departmental Minister worrying about a service for which he has responsibility, but the Chancellor, backed by the Bank of England, worrying about the local authority finance market. He is likely to call for Government intervention long before political conditions exist in the local authority which would make successful Government intervention possible.

You will need to consider very carefully the Treasury/Bank arguments. They will argue that a default in the local authority finance market will damage Britain's reputation as a financial centre, and will deny finance to law-abiding authorities. I suspect the result would be tiering, as I cannot see why institutions should be any less ready to lend to Surrey. While tiering will, on average, raise the borrowing costs of local authorities, and hence public expenditure, it should be seen as a step towards greater local accountability.

AT

16 November, 1984

ANDREW TURNBULL



NBAM
AT 20/11
class

OFFICE OF ARTS AND LIBRARIES
Great George Street
London SW1P 3AL
Telephone 01-233 8610

From the Minister for the Arts

The Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

15 November 1984

Jean Kenne,

ABOLITION BILL: ORGANISING COMMITTEES

Thank you for copying to me your letter of 14 November to Patrick Jenkin.

I welcome this low-key provision for the establishment of Organising Committees in each metropolitan area. Although the provision as presently drafted does not exactly fit our potential requirements, I hope it will facilitate discussion and planning among the Tyne and Wear districts for the maintenance after abolition of the excellent existing integrated museum service. It may, though on a much less significant scale, have the same effect in South Yorkshire.

I am copying this to colleagues on MISC 95, to the Lord President and to Sir Robert Armstrong.

*Yours,
T. G. G.*

GOWRIE

15 November 1984

MR TURNBULL

c Mr Sherbourne

THE POLITICS OF LOCAL GOVERNMENT

1. The Problem

Kaleidoscope of Events 1985 and 1986 will be busy years for local government. In addition to Abolition and the Rate-Capping revolt, there will be elections in May 1985 and May 1986, new RSG settlements and capital allocations for 1986/87 and 1987/8, and two new rounds of selective rate-limits. There may be some unfortunate coincidences. For example, in September 1985 the auditors may be initiating disqualification proceedings at roughly the same time as (1) the Abolition Bill receives Royal Assent and (2) the Rate-Capping selection for 1986/7 is announced. (Our full provisional calendar is attached as Annex A).

Increasingly sophisticated opposition. Meanwhile, the campaign against Government policies is becoming ever more vigorous and intelligent:

- i. The GLC's advertising agency, BMP, is reported to be preparing a new programme of film and TV advertisements.
- ii. The 'Local Government Campaign Unit' is expanding and becoming more active. This organisation was founded in 1983, under the aegis of Councillor Blunkett, with local authority and union backing. Its original staff of 8 (headed by an ex-Home Office official) is now growing to 14 and its starting budget of £150,000 pa appears to have increased substantially. It monitors, coordinates and disseminates information about successful methods of attack. Ironically, it claims to be a 'non-political' organisation.
- iii. The MCCs now have an extremely efficient propaganda organisation known as 'The Case For The Metropolitan Counties'. This body employs not only advertising agents but also the lobbyists, GJW, to 'brief' MPs and others; it has identified Charles Morrison and Geoffrey Rippon as the Conservative MPs who are most likely to act as their spokesmen, and is now setting about to 'capture' them.

Disaffected supporters. The Association of County Councils is a bulwark of support for the Government: Conservatives have 100 representatives against 38 Socialists, 6 Liberals, and 2 Independents. Moreover, the Conservative councillors now coming up for re-election mainly gained their seats with reasonable majorities in 1981 despite the fact that it was a fairly bad year.

However, in 9 'Conservative' Counties the Party governs either with an overall minority or with a slender majority. And small gains for others could lead to a major loss of Conservative seats on the ACC because minority parties with sufficient strength can often claim a degree of ACC representation. (Cf Annex B)

In addition, many of the Shire County Conservatives are furious about the RSG settlement. Councillor Alston of Norfolk has gone so far as to accuse William Waldegrave of deceiving Parliament about the 'Pym commitment', and the leader of Buckinghamshire is set to resign on the same grounds. There is also residual discontent because of the Government's refusal to consult the LEAs about the MSC's new role in further education.

No clear policy on rate-capping. The rate-capping revolt is just about to begin in earnest; but there has not yet been a clear statement of Government policy. Experience with the miners' strike shows that a clear line needs to be established from the start. Otherwise, the public become confused, and the Government's opponents constantly receive new opportunities for propaganda triumphs.

2. Tackling the Problem

More Information and Co-ordination. To ensure that the Government is well-informed and capable of avoiding unnecessary dramas, we suggest that the new MISC on rate-capping should establish a shadow group of officials to ensure that the Government prepares properly for the revolt. This official group should:

- i. prepare regular reports on the Government's publicity drive;
- ii. study the likely pattern of service breakdown in the event of a local authority running out of cash;
- iii. identify those service breakdowns which would be hazardous to health and safety;
- iv. specify the most sensible methods of dealing with such hazards;
- v. establish effective methods of monitoring any breakdown that may occur.

The group will, of course, need to cooperate closely with the Civil Contingencies Unit in dealing with items ii-v.

Matching the opposition. Ken Baker's recent broadcasts, speeches, articles and advertisements have been enormously

helpful. We understand that the Party has now also received a £100,000 donation to support a new campaign; and this will apparently be linked with a Party Political Broadcast. But more is needed: the propaganda war is crucial. We suggest that the Prime Minister should ask Lord Whitelaw to instigate another two or three more rounds of well-timed speeches from other Ministers on local government policy. The review of local government abuses should be established quickly, and evidence placed before it should be used as ammunition for Ministerial speeches.

Improving morale amongst the Government's supporters. The main cause of disaffection in the shire counties has been the level of targets for low-spending authorities. The Treasury have now agreed to increase targets for low-spenders in line with the new GDP-deflator. This may placate a number of shire Conservatives, who were on the point of revolt. But the legacy of bitterness remains. To help remove it, and to encourage Conservatives to fight hard in the May 1985 elections, we suggest that the Prime Minister should hold receptions for shire county leaders and majority party councillors. This could have a significant effect on morale. In addition, the Prime Minister might urge John Selwyn-Gummer to organise rotas of properly briefed Ministers to speak in the Counties. An all-out campaign to win the County elections will keep the ACC on our side and bring dividends for years to come.

Clarifying policy on the rate-capping revolt. There are two methods of dealing with the rate-capping revolt:

either seek to "conciliate"
or engage in brinkmanship

Conciliation is popular, but means giving more money to LAs and thereby destroying the policy. But we much prefer the second, tougher option, on the grounds that rate-capping is only worth doing if it is done vigorously.

If Ministers do decide in favour of brinkmanship, they should:

- a. begin the propaganda battle now, by warning the public of the coming defiance and by announcing that the Secretary of State will not protect councils from their own folly;
- b. when the councils begin their campaign, repeat the message that there will be no negotiations and that the councils must suffer the consequences of their own ill-doing, adding that the Government believes in local autonomy and responsibility within reasonable budgets;

- c. take no further action until illegality or breakdown actually occurs;
- d. draft another Contingency Bill enabling the Government to divert RSG payments and other funds to pay for substitute services.
- e. if an illegal budget is set, proceed with disqualifications of offending councillors as fast as possible, but take no other action;
- f. if services break down, do nothing for as long as possible, explaining constantly that the council has the remedy in its own hands;
- g. when health and safety are threatened, pass the new Bill, and divert funds to maintain essential services, using the information prepared by the official back-up group for the new MISC;
- h. impose Commissioners only if popular clamour for further Government action becomes irresistible.

The policy is brinkmanship: it will require nerves of steel; but it stands a real chance of defeating most of the councils, and of causing a rift between the Labour Party and the extremists. It also gives the Government a new means of avoiding Commissioners, and ensures that if they do have to be brought in they will be a response to popular pressure rather than a dictatorial imposition.

Conclusion The outlook is still bleak. To help improve matters, we recommend:

- a. creating a group of officials, reporting to the new MISC, with explicit instructions to report on the Government's publicity, to study and assess likely pattern of service breakdowns, and to identify the least dramatic means of dealing with hazards to health and safety;
- b. asking Lord Whitelaw to instigate two new rounds of speeches from non-DoE Ministers;
- c. giving Prime Ministerial receptions for shire county Conservatives, and a higher Central Office profile for the May 1985 elections;
- d. pursuing a policy of brinkmanship against the rate-capped authorities, permitting, if necessary, even the breakdown of some services, diverting funds to substitute for health and safety functions and keeping Commissioners as a last resort.

Oliver Letwin
OLIVER LETWIN

LOCAL AUTHORITIESPROVISIONAL TIMETABLE FOR 1985 AND 1986

<u>Date</u> <u>1984</u>	<u>Rate-Capping</u> <u>Revolt 1985/6</u>	<u>Abolition of</u> <u>GLC/MCCs</u>	<u>Local Authority</u> <u>Finance</u>
<u>November</u>	20 Nov: ILEA sets budget and (?) proposes precept	21 Nov: Abolition Bill to L Cttee 22 Nov: Abolition Bill published (if approved by L)	
<u>December</u>		3/4 Dec: Abolition Bill 2nd Reading in HoC. (?) 21 Dec: Abolition Bill in Cttee in HoC	Mid-Dec: RSG Report in HoC - final statement of RSG & of Provisional 1985/6 Rate & Precept limits (Debated in January)
<u>1985</u> <u>January</u>	15 Jan: End of period for appeals vs. rate & precept limits.	14 Jan: (?) HoC returns to Cttee work on Ab.Bill	
<u>February</u>			15 Feb: Precept Limits for 1985/86 must be set by DOE - subject to affirmative resolution. May be interim limits for later revision, but will probably be final

<u>Date</u> 1985	<u>Rate-Capping</u> <u>Revolt 1985/6</u>	<u>Abolition of</u> <u>GLC/MCCs</u>	<u>Local Authority</u> <u>Finance</u>
<u>March</u>	<p><u>10 March: 'Capped'</u> precepting authorities (GLC/ILEA/S.Yorks/Mersey- side) have legal duty to set precepts by now</p> <p><u>11 March: 'INTERESTED</u> <u>PARTIES'</u> (ie ratepayers or boroughs/districts in Greater London, S.Yorks, Merseyside) MAY START LEGAL PROCEEDINGS TO OBTAIN WRITS FORCING PRECEPTING AUTHORITIES TO SET LEGAL PRECEPTS</p>	<p><u>Early March: Ab. Bill</u> reaches Report & 3rd Reading in HoC</p> <p><u>Late March: Ab. Bill</u> leaves HoC for HoL</p>	<p><u>1 March: Rate Limits</u> for 1985/6 must be set by now - subject to affirmative resolution in HoC</p> <p><u>During March: LAs</u> announce new rates; Press interest generated</p>
<u>April</u>	<p><u>Early April: 14 'Capped'</u> Rating Authorities would normally have set rates by now</p>		<p><u>Mid-Late April: LA</u> provisional budget for 1985/86 should be sent to DoE - some rate- capped LAs may refuse or be unable to send budgets</p>
<u>May</u>	<p><u>2 MAY: LOCAL GOVERNMENT ELECTIONS - County Councillors stand for re-election</u></p>		
		<p><u>(?)Mid-late May: If</u> Abolition Authorities have refused to supply information as required by Paving Act, court cases may be starting</p>	<p><u>Mid-late May: 1986/7</u> RSG and rate-capping selection process begins</p>

JMOABO

Date
1985

Rate-Capping
Revolt 1985/6

Abolition of
GLC/MCCs

Local Authority
Finance

June

During June (?): LAs acting illegally may now have difficulty obtaining credit on market. PWLB may also begin to have qualms

July

June/July(?): Auditors in Rate-Capped Authorities may notice 'loss' or 'deficiency' of finance due to 'wilful misconduct'.
AUDITORS MAY START COURT PROCEEDINGS TO DISQUALIFY RESPONSIBLE COUNCILLORS

Mid July: Ab. Bill finishes in HoL

End July: Ab. Bill Royal Assent

August

Mid Aug: Both Rating and Precepting Authorities may now be running out of current funds, due to failure to set legal rate/precept

Early July: E(LA) makes basic RSG/Rate-Capping decisions for 1986/87

Mid July: Announcement of basic RSG/Rate-Capping decisions for 1986/7. [This may include predicted precept limits for joint boards following abolition]

Early August(?): Liverpool may be running out of RSG entitlement. (Rate-capped authorities may run out later in year.)

Date
1985

Rate-Capping
Revolt 1985/6

Abolition of
GLC/MCCs

Local Authority
Finance

September

(?) Early Sept: First service breakdowns may occur

2 Sept: Jt Boards start preparations for takeover from GLC/MCCs

2 Sept: Interim-ILEA set up preparatory to new body being established: same membership as ILEA - NB old ILEA remains until March 1986

Mid-Sept: Capped Authorities Capital Spending may dry up: defaults on loans become likely though some authorities may purposefully have defaulted earlier

Late Sept: DoE announces Capital Spending Regime for 1986/7

October

November

Late Nov(?): Decisions on rate limits for 1986/7 made

December

End Dec.: authorities which have set rates but are purposefully engaging in deficit financing may run out of funds by now.

Early Dec: Announcement of revised RSG settlement and GRE for 1986/7. Capital allocations for 1986/7 also announced

<u>Date</u>	<u>Rate-Capping Revolt 1985/6</u>	<u>Abolition of GLC/MCCs</u>	<u>Local Authority Finance</u>	<u>Rate-Capping Revolt 1986/7</u>
<u>1986 January</u>				
<u>February</u>		15 Feb: DoE announces precept-limits for Joint Boards for 1986/7 subject to HoC Affirmative Resolution	15 Feb: precept limits for 1986/7 must be set by DoE subject to HoC Affirmative Resolution	
<u>March</u>	End March: Rating Authorities chosen for 1985 Rate-capping must set rates for 1985/6 by now, or forego rating entirely			10 March: Precepting authorities 'capped' for 1986/7 have legal duty to set precepts by now
<u>April</u>		1 April: GLC/MCCs abolished	Mid-Late April: Local Authority budgets for 1986/7 should be sent to DoE	Early April: 'Capped' rating authorities for 1986/7 would normally have set rates by now
<u>May</u>	5 May: ELECTIONS FOR ILEA & LONDON BOROUGHs (all councillors)		Early May: Decisions on 1987/8 RSG and Rate- Capping begin	

Rate-capping
revolt 1985/6

Local Authority
Finance

Rate-capping
revolt 1986/7

June

During June(?)
If authorities
selected for
1986/7 'capping'
are acting
illegally they may
start to run out
of credit/be making
'losses' noticed by
auditors

July

June/July(?):
Councillors from
Authorities which
set illegal rates
& precepts in 1985
may now be at end
of appeals, and hence
be disqualified

Early July: Basic RSG
and EL decisions for
1987/8 taken by E(LA)

Late July: Announcement
of provisional RSG and EL
settlement, together with
Joint Board precept-limits

August

July/August:
If authorities
selected for
1986/7 capping
are acting
illegally,
they may be
running out of
current funds

Date

Rate-Capping
Revolt 1985/6

Local Authority
Finance

Rate capping
revolt 1986/7

September

Late Sep: DoE
announces capital
spending regime
for 1987/8

October

November

Late Nov: Rate Limits for
1987/8 decided

December

Early Dec: DoE announces
capital allocations
for individual authorities

Mid Dec: Final RSG & Rate-
Capping decisions made and
announced for 1987/8.

ASSOCIATION OF COUNTY COUNCILSPOLITICAL COMPOSITIONPresent Balance of Shire Representatives on ACC

Conservative	100
Socialist	38
Liberal	6
Independent	2

Conservative Representation at Risk

<u>County</u>	<u>Representatives</u> <u>on ACC</u>				<u>Control of Council</u>			
	Con	Soc	Lib	Ind	Con. majority over all other parties	Con. Minority Leadership	Con/Lib majority over all other parties	Con/Ind majority over all other parties
Bedfordshire	2	1	1			(-5)		
Berkshire	2	1	1		1			
Cambs	4				0	(0)		
Essex	4				2			
Glos.	4							7
Leicestershire	2	2					7	
Oxfordshire	4				3			
Shropshire	1	1	1					2
Warwickshire	3					(-2)		
Wiltshire	4				8			

Security of Conservative Councillors

We have taken a sample of 1981 results in 15 wards in each of three vulnerable counties, to see whether the councillors standing for re-election in 1985 are generally secure or insecure. The results (below) indicate that the average Conservative councillor in these areas is probably fairly secure. But it should be remembered that the average disguises a large number of marginal cases [cf column III]:

	Average majority of Conservative Cllrs over nearest rivals		Percentage of Cons. Cllrs who have <10% majorities III
	Votes	Percentage	
	I	II	
Bedfordshire	543	24.9	8
Gloucestershire	380	13.5	33
N.Yorks	532	18.7	20
Overall Ave. of 45 sample Wards	510	20.8	18

Worst Case Result

If Conservatives lose control of all vulnerable counties, and lose all ACC representatives from those counties to the party most likely to gain the biggest political block on each council, the strength of parties on the ACC would be:

Conservative	74
Socialist	64
Liberal	6
Independent	2

It should be remembered that this situation could be aggravated still further if Socialists in counties like Cheshire make small gains and deprive Conservatives of all ACC representation. Under such circumstances, Conservatives might lose overall control of the ACC.

RATE-CAPPED AUTHORITIES IN 1985/61. Precepting Authorities

- ILEA (covers: Camden, Greenwich, Hackney, Hammersmith & Fulham, Islington, Kensington & Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth, Westminster).
- GLC (covers: Boroughs as for ILEA above + Barking & Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Harringey, Harrow, Havering, Hillingdon, Hounslow, Kingston-Upon-Thames, Merton, Newham, Redbridge, Richmond-Upon-Thames, Sutton, Waltham Forest).
- S. Yorks (covers: Sheffield, Rotherham, Barnsley, Doncaster).
- Merseyside (covers: Liverpool, Wirral, Sefton, Knowsley, St Helens).

2. Rating Authoritiesa. Conservative:

Portsmouth

Brent

b. LabourLondonCamden
Greenwich
HackneyHaringey
Islington
LambethLewisham
SouthwarkOut of LondonBasildon
LeicesterSheffield
Thamesdown



file
CCOK

10 DOWNING STREET

From the Principal Private Secretary

14 November 1984

The Prime Minister was grateful for your letter of 12 November. She is entirely content that you and Mr Hoffmann should have a talk with Oliver Letwin.

SECRET

The Lord Rothschild, GBE, GM, FRS



10 DOWNING STREET

FERB

I see no problems with
Lord Rothschild's request.
Do you want to tell
him?

AT

13/4



Five

67

cc Home Office

10 DOWNING STREET

From the Private Secretary

13 November, 1984

ASSOCIATION OF LONDON AUTHORITIES

The Prime Minister has seen and noted your Secretary of State's minute of 12 November.

I am sending a copy of this letter to Henry Steel (Attorney General's Office) and to Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

J. Ballard, Esq.,

Department of the Environment.

CONFIDENTIAL

NBSM AT 14/4 Ce NO.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

13 November 1984

Dear Peter,

NEW BURDENS ON LOCAL GOVERNMENT

Thank you for your letter of 10 October. I am grateful too for those from Keith Joseph, Norman Fowler and Leon Brittan.

I cannot go along with Keith Joseph's view that the existing arrangements are adequate to ensure that we do not add to the pressures on local authority manpower and expenditure unnecessarily. In meetings with individual authorities, one of the commonest complaints is the number of new burdens imposed on them by Government departments, which they not unreasonably ask me to help them over. Naturally, I accept that 'H' Committee provides a forum for collective decisions on whether or not a proposal should proceed having regard to all the circumstances. But I am concerned that such decisions should only be taken after proper consultation and quantification of the resource implications for local government. It is the cumulative effect of a number of burdens, which when considered in isolation might be regarded as insignificant, that is crucial. We cannot continue to add to local authorities' responsibilities and duties at the same time as we are asking them to exercise stringent restraint on their expenditure. Nor can we seriously expect authorities to be able indefinitely to re-order their priorities within available resources, particularly when we know that a large number of authorities cannot spend even up to GRE level without incurring holdback.

Nevertheless, I think your proposal to seek offsetting savings from Departments' own vote-borne expenditure, goes too far. Whilst it would provide some defence to the accusation that we do not transfer PES provision with functions and duties, I am not convinced that in practice such an arrangement would ensure sufficient resource cover for the additional local authority expenditure involved - nor would it help achieve our overall aim of reducing the level of local authority expenditure. I do of course agree that we must continue to press for value for money and economy in the provision of local authority services as part and parcel of our efforts to reduce excessive local authority current spending. But the fact remains that local authorities in aggregate are substantially overspending on provision and to assume that identifiable new burdens can be accommodated within public expenditure plans that take no specific account of them will only add to the overspend.

I do not accept Leon and Keith's suggestion that my proposals for prior consultation would hinder the transaction of government business. We surely all agree that it is important to get an accurate quantification of the likely financial and manpower implications of any new proposal; and I cannot see that it is an unduly onerous task to consult your Department and mine first.

I therefore still believe that the best way to proceed is as proposed in my earlier letter: a regularly updated list of potential new burdens will serve as a constant reminder of the extra tasks that we are asking local authorities to undertake; and proper quantification of the costs and savings will show whether they can indeed be accommodated within existing plans. The experience within my Department is that most new burdens are not properly quantified by the Departments proposing them.

I do however take Norman Fowler's point that it may be necessary in certain cases to have preliminary consultations with the local authority associations in order to achieve a realistic estimate of the resource implications for local government. That seems a much more sensible procedure than happens in several cases now when discussions within Government, which result in subsequent consultation with local government, are based on Department's estimates, or lack of them, which can be shown to be inadequate.

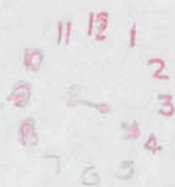
Copies go to the Prime Minister, the Lord President, members of E(LA) and Sir Robert Armstrong.

*You ever
Pat*

PATRICK JENKIN

Werner Carr
Hess
pt 23

NOV 3 1984



23 ST. JAMES'S PLACE
LONDON SW1A 1NH
01-493 4795

12 November, 1984

Dear Prime Minister,

Following your letter of 30 October, I have had quite a long discussion with William Waldegrave and Terry Heiser and am now very happy to try and help you and your colleagues to rationalize what seems a rather over-complicated system. Lennie Hoffmann and I have already started work.

I read recently in The Times that Oliver Letwin is concerned on your behalf with the same subject. I should therefore be very grateful if you would allow Lennie Hoffmann and me to have a talk with him.

*Yes
Victor*

Lord Rothschild



10 DOWNING STREET

Press Notice

NO 10 POLICY UNIT

Mr Hartley Booth has taken up a position in the Prime Minister's Policy Unit on a two year appointment. He will concentrate on home policy, law and order, and environmental pollution. Mr Booth is a barrister and writer. He has written a text book on extradition and has had a common law practice for 14 years.

The Policy Unit comprises 8 full time advisers to the Prime Minister on all domestic policy issues. Mr Booth's appointment completes the replacement of those who have recently left the Policy Unit, having completed their postings.

17 October 1984

NOTES TO EDITORS

1. Mr Booth, aged 38, and his family have their home in Barnham Broom in Norfolk. He has practised from Chambers in the Temple, London EC4.
2. Policy Unit Responsibilities

John Redwood	- Head of Unit Jobs, privatisation, tax, public sector land.
Hartley Booth	- Environmental pollution and planning, Home policy.
David Hobson (part-time)	- ECGD, Scottish Office, Welsh Office, accountancy issues.
Oliver Letwin	- DES, Department of Employment, Local government
Christopher Monckton	- Housing, Parliamentary affairs.
Nicholas Owen	- Defence, competition policy, agriculture, Civil Service.
Peter Warry	- Deregulation, pay, Department of Trade and Industry.
David Willetts	- DHSS, Treasury.
John Wybrew	- Energy, Transport, Financial Management Initiative.

Telephone 01-930 4433



②
PRIME MINISTER

To note AT 12/11

ms

Following my letter to you of 29 October I announced the Government's decision on the status of the Association of London Authorities (ALA) in relation to statutory consultation arrangements. I informed the Consultative Council on Local Government Finance (CCLGF) at its meeting on 30 October that the ALA would now be accepted on the same basis as the other local authority Associations.

This decision does, of course, have implications for the other local authority Associations, and I have been in close contact with their Conservative Leaders since the outcome of the ALA court proceedings. The fabric of consultative arrangements with local government was already under strain and the advent of the ALA has exacerbated the situation. Although the future size, composition and balance of statutory consultative meetings remain live issues, and I fear ones which will take some time to resolve, the other associations recognise that we have no option but to recognise the ALA. And they accept that it will be impracticable to try to restrict our dealings with the ALA to matters where there is a legal requirement to consult.

My own conclusion is that the distinction between statutory and non-statutory consultation is often difficult to make; and it is precisely in these marginal cases that we will be vulnerable to legal challenge by the ALA. I also fear that a decision to exclude the ALA from non-statutory consultations could be used against us. It would provide the ALA with a continuing cause for attracting publicity disproportionate to their importance; and endless scope for mischief. Accordingly I propose in future to consult the ALA in all cases on the same basis as the other Associations.



- / I attach draft guidance notes for my Department which, subject to your views and those of colleagues, reflect my recommendation.
- / I am copying this minute to Cabinet colleagues, the Solicitor General and Sir Robert Armstrong.

PJ

P J

12 November 1984

CONQUEROR

DRAFT HEADS OF DIVISION CIRCULAR
ASSOCIATION OF LONDON AUTHORITIES

1. Two previous HOD Circulars (Environment 26/83 and 11/84, Transport 21/83 and 10/84) provided interim guidelines for Departmental dealings with the Association of London Authorities (ALA). Court proceedings concerning the ALA have now reached a conclusion, and it is therefore now possible for the government to take a view on the consultative status of the ALA.

2. Following the decision of the High Court on 23 March 1984 that the GLC's subscriptions were illegal because the ALA was essentially a political organisation, the Association amended its constitution. Subsequently an action brought by the ALA in the High Court decided that subscriptions could lawfully be paid to the reconstituted ALA under S.143 of the Local Government Act 1972. Appeals were lodged in both cases but were dropped by the mutual agreement of the various parties. The result of these proceedings is therefore that under its amended constitution any local authority in London may pay subscriptions to the ALA on the same basis as to the AMA or LBA.

3. The Secretary of State announced at the Consultative Committee on Local Government Finance on 30 October 1984 that the Government's position towards the ALA on statutory consultation was no longer provisional. The association would now be treated on the same basis as the other associations. This will present practical problems in terms of the size, balance and composition of statutory consultative forums, but that is primarily a matter for the local government side to resolve itself.

4. Further consideration has now been given to the position of the ALA. Ministers have decided that the ALA should now be treated on precisely the same basis as the other associations in relation to all consultations conducted by departments with local government. That means that in instances where it is considered necessary or desirable to seek the views of London local government, the ALA should be consulted in addition to the LBA. There may appear to be good reason in particular circumstances for only consulting one of the London associations, but before proceeding in this way divisions should first consult IGL.

Telephone: 01 405 4682 (8 lines)

Telex: 25733 Advise G

L.D.E. Box No. 305

File

CF R10

9, Old Square,

Lincoln's Inn,

London,

WC2A 3SR.

9 November 1984

Dear Prime Minister,

copy attached
Thank you for your letter. I would be happy to give Lord Rothschild and the Department such assistance as I can in their study of local government finance.

*Yours sincerely,
Leonard Hoffman*

The Prime Minister.

Pyne Minutes ①

Agree I ask Mr Jerkin to minute you
on how he proposes to handle this?

AT 9/11

File
Yes not

MR TURNBULL

9 November 1984

RATE-CAPPING REVOLT

Rumours are reaching us from several sources that the ILEA intends to set, on 20 November, a budget and (possibly) a precept. If this occurs, it will be the first move in the rate-capping revolt.

We believe a new coordinating body, the Local Government Campaign Unit, is probably behind the move. We understand that they have been planning a test case for some while; and the timing of ILEA's action - two days before the intended publication of the Abolition Bill - can hardly be a coincidence.

The budget will probably be slightly below this year's spending in real terms, enabling Frances Morrell to claim that she is being reasonable; but it will be high enough to entail either a precept above the likely limit or an illegal deficit.

If a precept is proposed*, it will not yet be illegal, because the DoE has not so far announced a final precept-limit. But once the limit is finally announced (on or before 15 February) the precept (if approved by the GLC) may become illegal, and Ms Morrell will no doubt be quick to point this fact out.

If no precept is proposed, Ms Morrell may either announce her intention to set one at an illegal level in due course, or threaten to engage in illegal deficit funding, or challenge the Government to impose a generous limit that will enable her to set a legal precept without incurring deficits.

* The GLC is responsible for setting the ILEA precept: ILEA itself merely proposes a figure to the GLC.

The point of any of these variants will be to cajole the DoE into:

i. Negotiations.

ii. A sell-out.

We believe that any negotiations whatsoever would be disastrous. If ILEA wish to apply formally for a redetermination, the DoE must of course hear the request. But any 'beer and sandwiches' meeting will inevitably lead the public to believe that there are 'two parties' to a 'dispute' with 'some right on both sides'; and the result will be a shabby compromise.

On the other hand, the Government can be made to look intransigent if it first allows Ms Morrell to capture the limelight and then refuses to negotiate. She will, of course, say that she is being utterly reasonable and that she just wishes someone would talk to her.

It is therefore vital that DoE Ministers should take the propaganda initiative. They should speak out before 20 November, stating quite clearly that:

- i. Ms Morrell is rumoured to be thinking of defying the Government;
- ii. the ILEA has more than a billion pound to spend, and is free to spend that as it sees fit;
- iii. no final precept limit has yet been set, and the Government is happy to receive formal applications for redetermination ;
- iv. if an authority, refuses to make a formal application, the Government must conclude that it

has no case, under the law, for an alteration in
its expenditure limit;

- v. the law is fixed, and there is no question - nor
can there ever be any question - of the Government
'negotiating about its application': policemen do
not negotiate with people who are contemplating
crimes.

To ensure that Ministers keep to this line as the first step
in a consistent policy of brinkmanship, we suggest that the
Prime Minister should write to Patrick Jenkin or Ken Baker,
stating clearly that negotiations are ruled out, and that the
publicity initiative needs to be seized before 20 November.

Before
telling
Mr Jenkin
what he should do,
you should allow
him to tell you
what he proposes.

AF

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL



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

Alan Davis Esq
Private Secretary to the
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

8 November 1984

Dear Alan,

CONTRACTING OUT OF LOCAL GOVERNMENT SERVICES

Your Secretary of State wrote to the Chancellor on 6 November and you subsequently gave us an amendment to the draft text enclosed with his letter.

As I explained to you on the telephone, we are content with the amended announcement, only on the clear understanding that the consultative document will include the full list of activities to be proposed for competitive tendering, as agreed in the minutes of E(A)(84)24th Meeting, ie refuse collection and street cleaning, cleaning of buildings (schools, offices etc), landscape maintenance (parks, sports grounds etc), vehicle maintenance, school meals and centralised catering.

I am sending a copy of this letter to Andrew Turnbull (No.10), to the Private Secretaries of the other members of E(A), to Hugh Taylor (Home Office), Elizabeth Hodgkinson (DES), Steve Godber (DHSS) and Richard Hatfield (Cabinet Office).

*Yours sincerely,
Margaret O'Mara*

MISS M O'MARA

N3 m

with AT?

- 9 NOV 1954



010

~~CIN~~



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

Norm
TV

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

9 November 1984

There's another one

Dear Patrick,

CONTRACTING OUT OF LOCAL AUTHORITY SERVICES

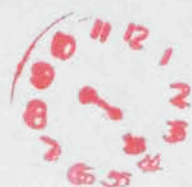
At the 24th meeting of E(A)(84) held on 16 October you were invited along with Norman Fowler and Sir Keith Joseph to agree whether and how the competitive tendering regime should be applied to bus services provided in connection with education.

The scope for this in Scotland is not, of course, likely to be of the same magnitude as for England and Wales. Nevertheless, since I am responsible for both education and transport in Scotland, I should be glad if you would keep me in touch with your deliberations.

I am copying this letter to other members of E(A) and to Sir Robert Armstrong.

Yours we,
George

NOV 9 1984



CONFIDENTIAL



NBPM
AT 12/11
EE NO
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

9 November 1984

Dear Chief Secretary

SS/Wales to CST?

Thank you for your letter of 2 November about local authority capital controls.

I am worried about the way time is passing. If we are to issue capital allocations in December as usual - and there will be a very reasonable outcry if we fail - the timetable is becoming critical. Even more immediately, once the provision for next year is announced in the Autumn Statement, I expect to come under heavy pressure to say what sort of regime will be applied. Authorities' forward planning has been seriously unsettled by this year's mid-year action and it is urgent that they should know what resources they can rely on for next year.

We shall therefore be in real difficulty if we do not take decisions very shortly. I see no prospect now of agreeing a regime for 1985/6 which differs in major respects from the existing system. This rules out anything like your proposals or those put forward by Nick Edwards, at least for next year. In any case, as you know, I believe that what you have proposed would produce uproar in local government; Nick's proposals too would create difficulties in England.

We must of course continue to look at the way the system can be improved for subsequent years, honouring our promise to discuss that issue with the local authority associations as part of our consideration. In the meantime, I propose that for 1985/6 we should stick close to the present regime, though in order to improve prospects for the delivery of the cash limit I am prepared to see a modest reduction in the prescribed proportion for those housing receipts which are now at 40%.

I hope we can reach agreement on these lines within the next few days.

CONFIDENTIAL

I am copying this to the Prime Minister, to the other members of E(A), to Leon Brittan, Keith Joseph, Norman Fowler and Grey Gowrie, and to Sir Robert Armstrong.

Yours sincerely

AH Davis

for

PATRICK JENKIN

*Approved by the SAs and
signed in his absence*

The Rt Hon Peter Rees QC MP

CONFIDENTIAL



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Rt Hon Peter Rees QC MP
 Chief Secretary
 Treasury
 Parliament Street
 SW1P 3AG

9 November 1984

Dear Peter,

LOCAL AUTHORITY CAPITAL EXPENDITURE: THE FUTURE OF THE CONTROL SYSTEM

Since collective discussion of this matter has for the moment been deferred, I am writing about your letter to Patrick Jenkin of 19 October and his response of 25 October. I see that other colleagues have also written.

I share your determination that an effective control system for the future must be worked out and that steps must be taken to avoid further large overspending in 1985-86. But I share Patrick's view that we should not rush into a new system. The issues are very complex and we cannot afford politically to get the arrangements wrong the second time round. More work is needed from officials, and we could, I believe, also learn from the local authority associations. I think that we should concentrate immediately on what is to be done for 1985-86, and that whatever is decided for that year should be without prejudice to longer term arrangements.

So far as 1985-86 is concerned, your original proposals which from your letter of 2 November I see that you are now reconsidering were defective from my point of view in two essential respects. First, you suggested deductions in respect of end year tolerance and "non-prescribed" expenditure from the total sum to be distributed by allocation to authorities. This would have effectively reduced the level of resources on which we agreed for education capital expenditure at our bilateral. That agreement was on the basis of the present rules and I could not accept a change which would amount to a cut in an already attenuated quantum. Secondly, the way in which you proposed, under either "option", to pre-empt an element in allocations so as to preserve the appearance of some access to accumulated receipts would have unacceptably restricted my discretion in making allocations on criteria of need. Taken together, these two features would have left

cont/d

me with insufficient resources in the coming year to assure all authorities of cover for their minimum statutory and contractual obligations and would have left many with nothing for essential value-for-money purposes such as taking surplus school places out of use.

I am copying this letter to the Prime Minister, Patrick Jenkin, the other members of E(A) and E(LA), Leon Brittan, Norman Fowler, Grey Gowrie and Sir Robert Armstrong.

Compton,

Keir.

Relations : LOCAL Govt. Pt 23.

870

NBPT

CCAO



CABINET OFFICE
70 Whitehall,
London SW1A 2AS
Telephone 01-233 3340

8 November 1984

Mr Peter

LOCAL AUTHORITY CAPITAL EXPENDITURE

I am wholly sympathetic to your concern about the cost of capital spending by local authorities. They would themselves admit how damaging are the sudden changes of gear which have become inevitable because of the lack of such control. Nevertheless I am very concerned at the psychological effect of saying to prudent local authorities, overwhelmingly in Conservative areas, "Your money, which you raised by doing what we told you, and which we promised you could spend, can't now be spent". It puts us at loggerheads with many people in local government who have so far supported us very loyally; is extremely difficult to explain; and will be widely interpreted as another Governmental mess produced by people who dislike and don't understand local government. Mr Parker-Jarvis will gain some considerable support from his colleagues from the stand he is taking in any case. Far more so if we undermine this understanding which they feel they have with Government. Most of our efforts to legislate about local government arise because the old consensus has been attacked by the militants. It would do serious damage if we had to legislate to keep our own people in check!

I am sending a copy of this letter to the members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie, and to Sir Robert Armstrong.

Yours ever

JOHN SELWYN GUMMER

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1 3AG

15 NOV 1992

11 12 1
9 2
8 3
7 4
6 5

FILE

WFO



10 DOWNING STREET

THE PRIME MINISTER

8 November 1984

Dear Mr. Hoffmann,

You have, I believe, heard that I have asked Lord Rothschild to make a study, in association with the Department of the Environment, of local government finance; and I know that he is most anxious for you to collaborate with him in this study. If you would agree to do so I should be most grateful.

Yours sincerely

Raymond Delisle

L. Hoffmann, Esq., Q.C.

dl

CMO CONFIDENTIAL

COPY NO 14 OF 24



NBPM

BT

8/11

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

8 November 1984

Dear Keith,

INQUIRY INTO LOCAL GOVERNMENT PRACTICES AND PROCEDURES

Thank you for your letter of 4 October suggesting an alteration to the proposed terms of reference for this Inquiry.

Having looked at the matter again, I agree that it would be preferable to omit any reference to specific sections of the Local Government Act 1972. This also has the advantage that we would not need to refer to the equivalent provisions in Scottish legislation about which George Younger wrote to me on 17 October.

I shall shortly be talking to both the Opposition Parties and the local authority associations - initially on a wholly informal basis - about my proposals. George Younger may wish to join me in the talks with the Opposition, and to hold his own preliminary discussions with COSLA. I shall, of course, advise you and other colleagues if, as a result of these exchanges, we are pressed to make changes in the terms of reference.

I shall also be consulting colleagues about the structure and membership of the Inquiry shortly; and we will need to reach an early agreement on the identity of the chairman to allow me to make an announcement about the Inquiry to Parliament. We ought to aim to make the statement during November, partly to enable the Inquiry to get ahead in the New Year and partly to avoid too long an interval to develop between my Party Conference speech (which heralded the Inquiry) and Parliament being properly informed of our intentions. I shall, therefore, be putting proposals to colleagues on all these aspects very shortly next week.

I am copying this to the Prime Minister, to all other Cabinet colleagues and to Sir Robert Armstrong.

Yours
Patrick

PATRICK JENKIN

The Rt Hon Sir Keith Joseph Bt MP

CMO CONFIDENTIAL

CONFIDENTIAL

~~SECRET~~



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

WPM

JK

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

7 November 1984

Dear Peter

LOCAL AUTHORITY CAPITAL CONTROLS

I have seen a copy of Nicholas Edwards' letter of 2 November, and was attracted by his proposals for dealing with the overhang of capital receipts in 1985-86.

There is no doubt that the present capital controls system has failed as a means of delivering the national cash limit. The cause has been the accumulation of capital receipts which allows local authorities collectively to spend way above the cash limit without breaching the rules which apply to them individually. Your own proposals for curbing the use of accumulated receipts would be politically difficult and would involve cutting local authorities capital allocations by more than we have agreed in the PES round; but, equally, we cannot simply allow the problem to unwind at its own pace.

The solution, therefore, would seem to be not to change the method of making allocations, but to oblige local authorities to make use of their receipts quickly in order to spend up to their allocations; and I think Nicholas Edwards has struck on an ingenious way of doing that, by reducing

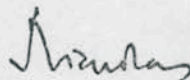
CONFIDENTIAL

CONFIDENTIAL

authorities' borrowing power to reflect their spending power from receipts. This proposal has the advantage that it could be in place in 1985-86, though we would need to establish individual authorities' holdings of receipts before we could set borrowing limits.

For the future we will have time to consider all the options for changing the present system and to consult as necessary. I shall be writing soon with my own thoughts on that.

I am sending copies of this letter to members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.



NICHOLAS RIDLEY

CONFIDENTIAL

Local Acmt. Relats Pt 23

NOV 1961

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

CONFIDENTIAL

file

*REM
ADV*



cc: MISC 95:

Home Sec
DES
LPS
DHSS
DTI

TRANS
MIN/LOC. GOV.

10 DOWNING STREET EMP
CH SEC HMT

From the Private Secretary

5 November 1984

Abolition: Trading Standards and Related Functions
in Metropolitan Counties

The Prime Minister has now seen your Secretary of State's minute of 1 November on this subject. She has also seen minutes from the Minister of Agriculture and the Parliamentary Secretary at the Department of Trade and Industry. Mrs. Thatcher recognises that there are a number of competing considerations but on balance prefers option (c) of those set out by your Secretary of State, ie that the Abolition Bill should include a requirement for joint technical committees.

I am sending a copy of this letter to the Private Secretaries to members of MISC 95, to the Minister of Agriculture, the Chief Whip and Sir Robert Armstrong.

(Timothy Flesher)

Andrew Allberry, Esq.,
Department of the Environment

CONFIDENTIAL

5/4

CC 10

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

CONFIDENTIAL

PRIME MINISTER

ABOLITION: TRADING STANDARDS AND RELATED FUNCTIONS IN METROPOLITAN COUNTIES

I refer to Patrick Jenkin's minute to you of 1 November.

with TF?

I agree that there are basically the three options available to us as set out in Patrick's minute. I fully support the view showed by Norman Tebbit and Alex Fletcher that option C (a statutory requirement on the districts to set up joint technical committees) is the only one tenable if we are to be seen by the CBI and others to be dealing seriously with the issue of the quality and consistency of trading standards enforcement. Anything less than this will only provide greater encouragement for the CBI to press for the establishment of joint board arrangements for the trading standards service. Of course nothing is going to stop our opponents and some enforcement interests from demanding joint boards but provisions for statutory joint technical committees in the Bill will help to defuse some of the pressure that will build up. At least this option is one that can be defended as a reasonable alternative to going the whole hog and agreeing to joint boards.

In short, therefore, I feel strongly that we should not take a line which will inevitably be seen by all interests involved to be only some sort of first offer which we would be prepared to concede under a little pressure.

I am sending copies of this minute to members of MISC 95, John Cope and Sir Robert Armstrong.

Michael Jopling

for MICHAEL JOPLING
2 November 1984

(Approved by the Minister
and signed in his absence)

~~100~~ Relatives: LOCAL GOVT. A23.

MINISTRY OF AGRICULTURE, FISHERIES & FOOD
WHITEHALL PLACE, LONDON, W1



Printed by the Stationery Office



- 2 NOV 1984



A

CONFIDENTIAL

PRIME MINISTER

ABOLITION: TRADING STANDARDS AND RELATED FUNCTIONS
IN METROPOLITAN COUNTIES

I have seen a copy of Patrick Jenkin's minute of 1 November.

At your meeting of 12 July Norman Tebbit agreed to consider with Patrick Jenkin and Michael Jopling whether the establishment of joint technical committees would provide a way of improving the consistency and quality of the trading standards services, although, as you know, he regarded this as an uncomfortable compromise.

Norman and I consider that a statutory provision for joint technical committees is the minimum required in the Bill from the outset. Either of the other options Patrick Jenkin outlines would be treated as derisory by industry, for whom trading standards is an essential service, and by the enforcement authorities, and would increase rather than ease the pressure for this service to have a joint board of the kind agreed for other services in the Metropolitan Counties.

This pressure can therefore only be resisted effectively by including in the Bill provisions for joint technical committees.

I am sending copies of this minute to members of MISC(95), Michael Jopling, John Cope and to Sir Robert Armstrong.

D.P. Fletcher
ff AF

(Approved by Mr Fletcher and
signed in his absence.)

2 November 1984

CONFIDENTIAL

CONFIDENTIAL

4891 NOV 2 -

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

STATE DEPARTMENT

ADDITION: (1) (2) (3) (4) (5) (6) (7) (8) (9) (10) (11) (12)

CONFIDENTIAL

I have read and understand the contents of this document.

At your meeting of 12 July 1984, I was advised to contact the
Attorney General and the FBI Director regarding the possibility of
federal assistance in the investigation of the activities of
the Office of the Director of National Intelligence, and the
Department of Defense, and the Department of State.

CONFIDENTIAL

I have read and understand the contents of this document.

The Office of the Director of National Intelligence, the
Department of Defense, and the Department of State, are
the primary agencies responsible for the collection and
analysis of intelligence information. It is the policy of
the United States to support the efforts of these agencies
to obtain and analyze intelligence information.

I have read and understand the contents of this document.

I have read and understand the contents of this document.

CONFIDENTIAL

MR FLESHER

2 November 1984

ABOLITON: TRADING STANDARDS IN METROPOLITAN COUNTIES

We see little merit in refusing to establish joint technical committees if this is merely designed to permit a subsequent concession on the point. It is true, as Patrick Jenkin says, that if committees are established in the Bill, there will be pressure to go further and establish joint boards. But such pressure can surely be resisted: it seems unlikely that great numbers of backbenchers in either House will become incensed about the issue.

We recomend that the Prime Minister should write to Patrick Jenkin, making these points and choosing in favour of option (c). We cannot see the need for a meeting.

Oliver Letwin

OLIVER LETWIN

D

D
NBPM
M
CFO



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

2 November 1984

I. P. Rees

File with AT

LOCAL AUTHORITY CAPITAL CONTROL SYSTEM

Thank you for copying to me your letter of 19 October to Patrick Jenkin about the control of local authority capital expenditure. I have also seen Patrick's reply of 25 October.

The one thing we all agree on is that the existing control mechanisms have not been operating successfully during the last few years. I share your view that we ought to try and improve them for 1985-86. The local authority associations in Wales are also keen for improvements: they recognise that the present system is not delivering the required results, but are fearful of over-reaction on our part.

Before commenting on the proposals put forward by Patrick and yourself I think it would be worthwhile setting out my perception of the overall problem, together with the way in which I feel a better balance could be struck between the justifiable requirements at both local and national levels.

The present emphasis on annual cash planning does not offer the prospect of managing capital programmes in the most efficient and effective manner. We are constantly reminded of this by the associations, and I have no doubt the Audit Commission will come to precisely the same conclusion when it reports on the control system in a month or so. Nonetheless, I believe we are bound to concern ourselves with the totality of local authority capital expenditure in any one year because of the effect it may have on our wider plans for the relationship of public spending with GDP. The central issue, therefore, is the degree of precision it is realistic to aim for in a set

/of programmes ...

Peter Rees Esq MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG



of programmes so wide-ranging, complex and, in terms of our operational control, so remote. I am firmly of the view that we created a rod for our own backs in attempting cash limit control in this area. A far better approach would be to seek to ensure that net capital spending falls within an acceptable range which does not upset our plans for public expenditure as a whole. Such a range might span 10 per cent either side of a target set for net expenditure.

Under this scheme the basic rules we have now about carrying forward underspends and offsetting overspends would apply, but I would suggest that the maximum carry-forward or offset should be 10 per cent at both local and national levels.

In order to inject an even greater degree of certainty into the system it would also be necessary, as you suggest, to offer individual authorities a far better view of the future level of resources at their disposal. As you know I have already agreed to provide authorities in Wales with forward indications of capital resources right through the PES period. However, the utility of these indications for the future years is considerably diminished by the fact that they are linked to 80 per cent and 70 per cent (in years 2 and 3 respectively) of the levels published in our plans. I would wish to improve upon this, and have in mind offering authorities indications linked to 90 per cent of the sum estimated to be available for allocation in the last two years of the survey period.

I turn now to the vexed question of accumulated receipts. It is, of course, true that a good part of the problem presented by them is due to the fact that, whilst we have built in to the allocations a proportion of estimated receipts, authorities have been able to borrow against the total allocation, hoarding the receipts themselves for future use. I find some difficulty in criticising local authorities for this when the system has been operated in such a way (with 100 per cent borrowing approval) as to encourage them to respond in this manner. It would surely be indefensible to turn round now and deny them the use of the receipts: there is on the other hand a good case for some restraint on that use. In order not to encourage authorities to continue accumulating receipts, further thought needs to be given, however, to the future level of borrowing approval under a scheme devised along the lines I suggest in this letter. A good case would need to be made out, in my view, for offering borrowing approval in excess of aggregate net capital provision.

When it comes to allocation to authorities for a particular year, I am sure that the present system needs to be changed. However, your suggestion that they should only be able to top up allocations using the uncertain spending power associated with new receipts is not acceptable, since it would be inimical to sound planning and the achievement of value for money. All the evidence suggests that authorities plan on the basis of their best estimate of future capital allocations and the level of accumulated receipts: new receipts hardly ever figure. We ought to recognise this. I would, therefore, make allocations as follows.

There would be a gross expenditure figure underlying our central target figure for net expenditure, as now. Starting with that gross figure, the

/total available ...



total available for allocation would be arrived at by deducting a proportion (the prescribed proportion) of all receipts (accumulated and forecast new receipts), together with a realistic allowance for non-prescribed expenditure. This total quantum of allocations would be distributed as now, and authorities positively encouraged to enhance their allocations by applying the full prescribed proportion of all receipts. If the sums are done correctly both gross and net expenditure would be within an acceptable distance of our plans, and over a period the present accumulation of receipts would be unwound provided, of course, borrowing approval (certainly in the case of housing) was less than the total of capital allocations. This could all be done under the existing law, and I see no reason why it should not be done for 1985-86.

In contrast to this scheme, Patrick's proposals transfer the emphasis to borrowing limits, and (implicitly) depend on revenue side pressures. Were we not so concerned with the aggregate level of expenditure I believe his scheme would have a great deal to commend it. However, it would only be a runner, in my view, if investment met out of accumulated receipts could, somehow, be classed as 'below the line' for planning purposes, so removing the threat to our over-riding objective of reducing public expenditure as a percentage of GDP over the life of this Parliament.

I have a further concern about Patrick's proposals. Both he and I would like to rid ourselves as quickly as possible of revenue targets. Quite clearly, given our experiences over the last two years, it would be necessary to adopt an even tougher stance on revenue account if it is required not only to resist the continuing pressure for additional current expenditure, but also the increased demand for capital expenditure that an unfettered use of accumulated receipts would undoubtedly generate in the short term. I could not possibly accept any greater restriction on current spending than presently envisaged in our plans, and I would not consider it sensible or realistic to trade looser capital control for major cuts in aggregate grant or the retention of targets.

As regards the schemes you suggest, the rigid annuality inherent in them, and the emphasis on within year receipts, would, as I have already indicated, seriously undermine our drive for better capital planning and value for money. They would deprive authorities of direct access to their own accumulated receipts, which I believe would be indefensible. While the general distributional effect of your proposals would not differ sharply from that underlying my scheme, the political advantage of being able to offer authorities continuing access to their accumulated receipts would be considerable. As Patrick rightly says there would be an uproar amongst local authorities across the entire political spectrum if accumulated receipts, despite all our past assurances, were effectively removed from the system using a device in the 1980 Act which none of us at the time ever thought we would use for that purpose.

I am committed to consulting my local authority associations on possible changes to the control system, and options for 1985-86. I have arranged a meeting of the Welsh Consultative Council for 12 November for this purpose. I would not expect any of the possible options to command support on the local authority side, but my understanding is that the Welsh associations

/would be prepared ...



would be prepared to comment constructively on the problem. I believe that a genuine willingness to take their views into account in framing the final proposals will pay dividends in the longer term. I shall, therefore, write again when I have heard their views. In the meantime my officials will clear with yours the paper to be tabled for that meeting, which will be a rehearsal of the objectives of each side and broad options for the way forward.

/ I am copying this letter to Members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

John

Nick

CONFIDENTIAL

Prime Minister: *unb*

1 prefer option (c)



Do you prefer option a) (no statutory requirement for joint committees) as DOB ~~is preferred~~ prefers or option c) as DTI (minute attached) and the PM's unit suggest option b is favoured by none. Surely no need for a meeting -

*MAFF also prefer option c)

Prime Minister

ABOLITION: TRADING STANDARDS AND RELATED FUNCTIONS IN METROPOLITAN COUNTIES

See Pt 21

2/4

It was agreed, at a meeting chaired by you on 12 July, that trading standards and related functions in the MCs should be devolved to districts on abolition. (Trading standards in London already lie with the boroughs). It was also agreed that I should discuss with the Secretary of State for Trade and Industry and the Minister for Agriculture whether the establishment of joint technical committees in each MC could provide a way of improving the consistency and quality of the trading standards service.

There have been a number of exchanges with those colleagues, culminating in a discussion at MSC 95 on 30 October. I have accepted that, if pressed by the industry and trading standards lobbies, I should be prepared to concede a requirement in the Bill for the districts in each MC to establish joint technical committees. We have been unable, however, to reach a compromise about how this issue should be handled in the Bill.

There are three options:

- (a) to introduce the Bill without any statutory requirement for consultation between districts, whilst making it clear in Committee that we would encourage voluntary cooperation. This is my preferred option. It would leave us maximum flexibility to make concessions as the Bill goes through;
- (b) to include in the Bill as introduced a simple requirement for the districts in each MC to consult each other with a view to securing common standards of trading standards enforcement. This would represent a gesture towards the industry and trading standards lobbies whilst still leaving scope for conceding joint technical committees as the Bill goes through. The Secretary of State for Trade and Industry and the Minister of Agriculture judge this simple consultation provision to be an insignificant gesture;
- (c) to include in the Bill as introduced a requirement for joint technical committees. This is the only option acceptable to the Secretary of State for Trade and Industry and the Minister of Agriculture. It is unacceptable to me because it would leave us no scope for a concession in Parliament, other than to give in to the inevitable pressure for joint boards which we have decided are totally unacceptable.

Time is now very short for drafting option (c) although we do have a contingent draft for option (b) which could be easily inserted in the Bill.

CONFIDENTIAL

CONFIDENTIAL



I am sorry to have to bring this problem back to you, but I would be grateful if you would convene a short meeting with colleagues most closely involved to resolve this issue. It would also be helpful if that meeting could discuss handling of an announcement of our decision.

I am sending copies of this minute to members of MISC 95, Michael Jopling, John Cope and Sir Robert Armstrong.

A.H. Davis
for
PJ

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

1 November 1984

CONFIDENTIAL

Location: Relatruis Pt 23

with AT

13-11

8
7
6
5
4
3
2
1

31 NOV 1984

NOV 1984

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
 Secretary of State
 Department of Education and Science
 Elizabeth House
 York Road
 London
 SE1 7PH

1 November 1984

Dear Secretary of State,

LOCAL AUTHORITY CAPITAL EXPENDITURE - THE FUTURE OF THE CONTROL SYSTEM

Thank you for your letter of 30 October.

I hope on reflection you would not see any conflict between my proposal to tell the authorities that we are reviewing urgently our remaining project controls and our agreement to a review of the functions of your Architects and Building Group. Indeed the thought in my mind was that, since the A and B review will inescapably (whatever the final terms of reference, on which we await your proposals) be looking at project control we could usefully take credit for the fact in our discussions with the Associations about the capital control system. It was certainly not my intention to prejudge the outcome. A commitment to a review with a view to removing or simplifying remaining controls wherever possible - the words were chosen with some care - is no more than that. It would not inhibit us in any way from concluding, were the results of the review to justify such a conclusion, that it would be impracticable to simplify your project controls any further.

Meanwhile, the continued existence of project controls is a perennial source of (possibly ritual) complaint by the authorities, and commitment to an independent study of them would remove an obvious pretext for resistance to the tightening up of the capital control arrangements which we both believe

CONFIDENTIAL

CONFIDENTIAL

to be essential. I am clear however that an offer of a review which excluded education building - the major area in which such controls still apply - would cut no ice at all with the Associations.

I am copying this letter to members of E(A).

Yours Sincerely
p Paul Legler

PETER REES

(approved by the Chief Secretary
and signed in his absence)

CONFIDENTIAL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
London
SE1 7PH

1 November 1984

Dear Secretary of State,

LOCAL AUTHORITY CAPITAL EXPENDITURE - THE FUTURE OF THE CONTROL SYSTEM

Thank you for your letter of 30 October.

I hope on reflection you would not see any conflict between my proposal to tell the authorities that we are reviewing urgently our remaining project controls and our agreement to a review of the functions of your Architects and Building Group. Indeed the thought in my mind was that, since the A and B review will inescapably (whatever the final terms of reference, on which we await your proposals) be looking at project control we could usefully take credit for the fact in our discussions with the Associations about the capital control system. It was certainly not my intention to prejudge the outcome. A commitment to a review with a view to removing or simplifying remaining controls wherever possible - the words were chosen with some care - is no more than that. It would not inhibit us in any way from concluding, were the results of the review to justify such a conclusion, that it would be impracticable to simplify your project controls any further.

Meanwhile, the continued existence of project controls is a perennial source of (possibly ritual) complaint by the authorities, and commitment to an independent study of them would remove an obvious pretext for resistance to the tightening up of the capital control arrangements which we both believe

CONFIDENTIAL

CONFIDENTIAL

to be essential. I am clear however that an offer of a review which excluded education building - the major area in which such controls still apply - would cut no ice at all with the Associations.

I am copying this letter to members of E(A).

Yours Sincerely
P. Paul Legler
PETER REES
(approved by the Chief Secretary
and signed in his absence)

CONFIDENTIAL

CONFIDENTIAL

NSP m
1/11
a p s



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1 3AG

1st November 1984

Dear Chief Secretary,

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have seen the correspondence between you and Patrick Jenkin about the control of local authority capital expenditure.

I share your concern about the ineffectiveness of the present control system. But we cannot ignore the political and practical difficulties of tightening it up. After encouraging authorities to increase their spending in 1982-83, we have now asked them to exercise restraint this year and in the current PESround we are reducing provision for local authority programmes to offset the previous overspend. We are in danger of creating a most unstable stop-go situation and I agree with Patrick Jenkin that if we make an across-the-board cut in allocations, as you suggest, it will lead to chronic underspending in later years.

The heart of the problem is, of course, the amount of accumulated receipts which authorities can draw on. I fully recognise the difficulties that Patrick Jenkin mentions in restricting the use of these receipts, and that the problem

CONFIDENTIAL

CONFIDENTIAL

will work itself out over the next few years. In the meantime, however they are a destabilising factor and we must take some corrective action.

Both of your options would involve an across-the-board reduction in the allocations which are derived from the net provision in our public expenditure plans. But the problem arises mainly from the capital receipts generated by the right to buy. The relation between allocations and spending power is therefore different for different services and classes of authority. So far as my own programme is concerned capital receipts are very small and there is no problem of overspending. So to tighten the controls as you suggest would in practice amount to a further cut on top of the reductions we have agreed in the bilaterals. I cannot accept this.

Similarly there is no overall problem of controlling expenditure by the shire counties, which do not have a large bank of accumulated receipts to draw on - we do not have a precise breakdown, but I understand that in 1983-84 they generated only about £150m of the national total of over £2bn. To reduce their allocations to offset end-year flexibility would be seen as a 10% cut on top of the service cuts we are making. It would therefore cause great resentment amongst our supporters at being penalised for a problem which is not of their making.

I therefore agree with Patrick Jenkin that for next year we should consider some reduction in the prescribed proportion of receipts which authorities may use in the year, but I could not agree to any reduction in allocations to offset end-year flexibility.

CONFIDENTIAL

CONFIDENTIAL

I hope that we shall have an early opportunity to discuss this collectively.

I am copying this letter to the Prime Minister, the other members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

Yours sincerely,

Dinah Nichols

pp NICHOLAS RIDLEY

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

CONFIDENTIAL

Local Govt: Relations Pt 23.

1984 NOV 21

21 NOV 1984



445
2 RPS
NBN
AT
1/4

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213...6400.....

Switchboard 01-213 3000

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

31st October 1984

De Peter,

LOCAL AUTHORITY CAPITAL EXPENDITURE

I have seen a copy ^{with AC} of Patrick Jenkin's letter to you of October 25th about the proposal for preventing the use of accumulated capital receipts.

I note that your actual proposal is not a total disqualification of accumulated receipts, but to allow only ten per cent in any one year. I must warn you that this certainly would be seen as a major breach of faith by our own supporters and would put myself and one or two other colleagues in a particularly difficult position. We devoted a considerable amount of time to encouraging local authorities not only to accelerate their sales of council houses but also to dispose of surplus land and other assets. A key point in our argument was the opportunity that it gave them to recycle these funds. It would be most embarrassing if the effect of the new arrangements would be to hit hardest those who had not rushed out to spend immediately but had taken some trouble over the preparation of proper and worthwhile schemes.

I recognise the difficulties involved in local authority capital expenditure control. They flow directly from the success of the Right to Buy and the consequent growth of capital receipts. That is why, in any proposals to further limit local authority capital expenditure, it is vital that we recognise the particular sensitivity of changing the rules on these receipts.

I am copying this to Patrick Jenkin, the other members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

2
—
1

Lowell State 1984

8
7
6
5
4
3
2
1
D
C
B
A

41 NOV 1984



Minister of State

Department of Employment
Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 5949
Switchboard 01-213 3000

The Rt Hon Margaret Thatcher MP
House of Commons
LONDON
SW1A 0AA

11/3/84
R1
31st October 1984

Dear Prime Minister,

In the last few days, you may have seen an advertisement placed in national and local newspapers by the GLC about training. Nearly all of that advertisement was misleading, and much of it simply false. I thought it would be helpful if I set the record straight.

The advertisement implies that the Greater London Training Board is filling a gap left by Whitehall. The facts are far otherwise. In 1984-85 the Manpower Services Commission alone will spend some £75 million directly on training and retraining in London, against about £7 million spent by the GLTB, of which a large proportion simply goes to "top-up" existing MSC schemes. This scarcely supports the contention that County Hall has a more imaginative approach to training than Whitehall. The fact is that there is provision for more than 30,000 young people to enter the Youth Training Scheme in London this year, and 12,000 adults will be trained or retrained under MSC programmes. These are solid and quantifiable results. The GLTB can claim no such success.

The advertisement goes on to suggest that MSC schemes take little account of the new technologies. Once again, this is a wilful mis-statement of fact. In London this year, well over 1,000 adults will be training in computer skills, while 600 people will be trained in such disciplines as computer controlled machining, computer aided design and robotics. All office skills training includes instruction in information technology as it affects office work, and 13 Information Technology Centres (ITeCs) have been set up in London to provide high quality and advanced training. However, all YTS trainees are introduced to information technology. In addition, of course, the taxpayer, through the Government, pays for the technological education provided in London University.



It is further asserted that Whitehall pays insufficient attention to the needs of women, ethnic minorities and the disabled. Again, the facts refute this. In London, 49 per cent of the entrants to YTS are women, while 56 per cent of the entrants to adult training and retraining schemes are women. In addition, special efforts are made to train women to compete in traditionally male dominated occupations, such as the construction trades. 30 per cent of entrants to YTS and 47 per cent of adults trained or retrained are from ethnic minorities, and special provision is made to train in the use of English where necessary. A number of specially designed courses provided in conjunction with voluntary organisations for the disabled, and 1,500 people attend Employment Rehabilitation Centres, which may lead on to training. Significant numbers of disabled adults and young people have entered MSC training schemes, and special provision is made for slow learners.

The fact is that through the managing agents, which include private employers, voluntary bodies, local authorities and educational establishments, the MSC training schemes in London are ideally placed to respond flexibly to the needs of the community. This flexibility has enabled more than 75 per cent of adults completing training courses in London to find work in their new occupations, and the figures for trainees leaving YTS are most encouraging as well. Nothing the GLTB has done can match these achievements. By publishing the misleading propaganda which this advertisement contains, some potential trainees may have been deterred from taking up a training opportunity which could transform his or her job prospects.

I am sure you will have visited MSC schemes operating within your constituency, and will have been able to judge their effectiveness for yourself. I believe that first-hand experience exposes the GLC's mischievous propaganda for what it is.

PETER MORRISON

cc MURPHY

CONFIDENTIAL

file

SH



bc Oliver Letwin

shafi

10 DOWNING STREET

From the Private Secretary

31 October 1984

Local Authority Finance

I attach a brief note on the discussion at Chequers on Sunday evening.

I am sending a copy to Terry Heiser.

Andrew Turnbull

Mrs Joan Dunn
PS/The Hon William Waldegrave
Department of the Environment

CONFIDENTIAL

NOTE FOR THE RECORD

LOCAL GOVERNMENT FINANCE

The Prime Minister held a meeting at Chequers on Sunday 28 October at 6 pm to discuss local authority finance. Present were Mr Waldegrave, Mr Heiser, Mr Letwin and Mr Turnbull. The purpose of the meeting was to provide the Prime Minister with a "teach in" on the way the local government finance system operated and on the issues which were likely to arise in the course of the studies which Mr Jenkin announced at the Party Conference.

Mr Waldegrave and Mr Heiser took the Prime Minister through the charts and tables in the booklet prepared for the meeting. In the course of this, the following points arose:

(i) Urgent consideration should be given to collecting non-domestic rates centrally, with the funds being redistributed back to local authorities.

(ii) The main purpose of the RSG system was to equalise the rate poundage required to provide a given level of service in different authorities, regardless of the differences in resources or needs.

(iii) This process of equalisation gave rise to huge, and largely hidden transfers of resources from one part of the country to another. It gave local authorities the impression that the grant was "their money", giving the Government no credit or leverage for the resources transferred.

(iv) Local authorities had no incentive to seek additions to their rate base, eg. by industrial development, since shortfall was made good by the system.

(v) The system was not designed to provide an incentive to economise on expenditure and for most authorities grant rose as expenditure increased. (There were, however, some authorities for whom grant fell because the product of a 0.6p rate exceeded the cost of an extra pound of spending per head).

(vi) The target/holdback system had been imposed on top of an equalisation system in order to provide the missing ingredient of restraint. Targets had undoubtedly restrained expenditure but the system was nearing the end of its life. There would however be a difficult re-entry problem. One possibility was to increase the slope of the block grant schedule. A number of councils, eg. Cambridgeshire, were beginning to manipulate the system.

(vii) The calculation of GREs was based on 63 different variables. These were the subject of endless debate and it might be better to return to the previous system which used a far smaller number.

(viii) The booklet could be refined and given wider circulation, perhaps even being published.

Over supper the discussion turned to the refusal by councils to comply with Government legislation. Liverpool and perhaps two or three other councils might seek confrontation with the Government next year. There were

differing views on how the Government should respond. One was that the Government should resist any calls to intervene until a collapse of local services was actually taking place. At this point the Government intervention might be welcomed by local people and unions. It was likely, however, that disruption to the local authority finance market could precede a collapse of services and the Government might need to intervene rather earlier.

Mr Waldegrave reported on how it was proposed to conduct the studies in each local authority finance. Before moving to the "Fowler style" reviews, with evidence being taken from the public, he and Mr Heiser would want to spend up to six months working on a number of ideas. In this internal phase they might want to draw on the help of outside experts. While some might have close experience of local government it would be helpful to have others who would come to the subject with a fresh mind. In this context the Prime Minister suggested enlisting the help of Lord Rothschild and she agreed to write to him. The Prime Minister also canvassed the idea that Ministers might hold a public conference at Lancaster House.

Mr Waldegrave outlined three families of solution:

(i) A reduction in the size of the local authority sector through the transfer of functions which would allow local authorities to finance most of their expenditure from their own income.

(ii) Limits on the money local authorities have to spend rather than at present on their expenditure.

(iii) Some mixture of the two.

The aim would be provide a White Paper, either in the Autumn of 1985 or Spring of 1986.

The discussion then turned to the enquiry into local authority abuses. The Department hoped the Chairman would be an eminent lawyer eg. Professor Wade. The Chairman would be supported by people with close knowledge of local authority politics and the influence of the militant left. It was hoped to be able to enlist moderate labour support in the study. Once a Chairman had been found the Department would then consult the local authority associations.

The meeting ended at 2215.

Andrew Turnbull

31 October 1984

CONFIDENTIAL

GENO



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON SW1P 3AG

31 October 1984

WBSM

Dear Peter

NEW BURDENS ON LOCAL GOVERNMENT

You sent me a copy of your letter of 10 October to Patrick Jenkin, which suggested that Central Government Departments should, when planning to increase local authority expenditure, have to make corresponding transfers from Central Government programmes into local authority current provision.

This seems a good idea in principle, but I have serious doubts about whether it will work in practice. I think all spending Ministers now appreciate the need to keep any new burdens falling on local government to a minimum. There are two particular factors that point this need up. The first is that despite the "ring fence" you are unlikely to forget any increase in a Department's local programmes when that Department's central spending is under discussion. The second is that local authorities complain very loudly if we ask them to do anything extra.

An inevitable part of that complaint is disagreement about the dimensions of the additional task we are imposing. It is already virtually impossible to reach any common

CONFIDENTIAL

CONFIDENTIAL

perception with local authorities on the extra costs involved in new policies. I think your proposal would make the figures much more important. It would increase the pressure on the spending department, out of understandable self-interest, to minimise the figure, and act in the opposite fashion on local authorities. The scope for argument would be endless, and any hope you had that we would be answering the charge that Central Government was adding to local government's functions but not their provision would be forlorn. All we would do is add to the tensions between central and local government.

Let me take my buses policy as an example. As I explained in my letter of 4 October to Willie Whitelaw, I see considerable cost savings arising from it from which local authorities will benefit. It was with that at least partly in mind that colleagues approved it. But at the moment many local authorities can only see the immediate direct costs - which they often exaggerate. So I do not know how we could agree what the additional costs were. But even if we could, I would not expect any transfer to be necessary (incidentally, I could not find in your letter any reference to an increase in Central Government programmes when policies achieve or are expected to achieve local savings!).

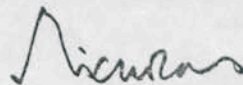
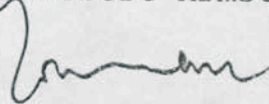
Like you, I am committed to seeing reductions in public expenditure. I think, however, that the way to achieve them in this context is for Ministers when considering a new initiative, and colleagues before giving it policy approval, to examine very carefully the balance of the public expenditure consequences, recognising that the exact total of consequential expenditure in any one year is often unlikely

CONFIDENTIAL

CONFIDENTIAL

to be definable. I think that we are more likely in that way to achieve real savings here than if we try to apply to policy matters procedures inappropriately borrowed from bilateral negotiations.

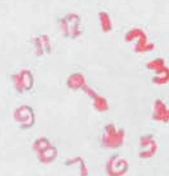
I am sending copies to the Prime Minister, the Lord President, members of E(A) and Sir Robert Armstrong.



NICHOLAS RIDLEY

CONFIDENTIAL

22 NOV 1984





Fuly

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

17013

30 October 1984

Dear Councillor Lovell

LOCAL GOVERNMENT FINANCE STUDIES

As you will be aware, I said at the Conservative Party Conference that I had asked Kenneth Baker and William Waldegrave to take a fresh look at the whole field of local government finance. I thought it only right to give you some idea of what it is we are doing, particularly as some of the press reports of my remarks were a bit off-beam.

I think the first point I should make is that we are not conducting a formal review or inquiry; rather, we are pursuing a number of internal studies within the Department under Kenneth and William's direction. I have not set any specific terms of reference for this exercise, but they will be looking at the main features of the present arrangements, including rate support grant distribution, the balance between exchequer and local financing of local authorities, measures for improving local authority accountability and how local revenues might best be raised.

Consequently, I do not envisage - certainly at this stage - any hearings or formal requests for evidence from bodies outside the Department. As we all know, there is a mass of evidence and analysis available from past enquiries and investigations, much of it produced by the local authority associations. Kenneth and William will obviously need to sound out your current views in due course; that is, once the studies have got properly underway, probably after Christmas.

I am writing in similar terms to the Leaders of the AMA, ADC, LBA, and GLC.

Yours sincerely

[Signature]
for PATRICK JENKIN

*Approved by the Secretary of State
& signed in his absence.*

Councillor J R Lovill

ACC

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031



RF

2

N.M. Rothschild & Sons Ltd.
New Court
St. Swithin's Lane
London EC4P 4DU

30th October 1984

[Handwritten mark]

Dear Prime Minister,

Thank you for your letter. I will certainly have a talk with William Waldegrave and Terry Heiser in the very near future.

*Yours
Victor*

[Handwritten mark]



CONFIDENTIAL

NBPM

AT

30/10

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

30 October 1984

Dear Peter,

*File
w-m FES*

Thank you for sending me a copy of your letter of 10 October to Patrick Jenkin.

What local government chooses to call new burdens arising from Government initiatives need to be considered in the context of our general concern to increase value for money in the way that services provided by local authorities are delivered. My aim in which I have had the support of colleagues is to increase value for money within a total of local authority current expenditure on education of over £10.5 billion. In the result substantial savings have been achieved: for example, through the removal of surplus school places, the tightening of staffing standards within advanced further education and in economies on school cleaning and the school meal service. Our public expenditure plans envisage further progress and I agree that we must maintain the pressure on savings and on redeployment. But at the same time the total provision for services needs to be set in such a way that necessary changes essential to the delivery of effective services can be brought about in the most cost-effective way. Hence my concern that we set realistic totals for future years compatible with our policies for individual services.

There is no flexibility within the science or universities budgets already subject to substantial efficiency savings within the PES period and I cannot therefore agree to your proposal that initiatives that might on the margin add to local authority expenditure on education in the pursuit of greater cost-effectiveness should be covered by suitable transfer from elsewhere in my programme. Nor is your suggestion that such initiatives be matched by dropping functions or duties involving

/equivalent

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
LONDON SW1P 3AG

CONFIDENTIAL

equivalent savings practicable for education. To the extent that a reduction in duties and functions has been possible we have already acted, particularly in the 1980 Education Act which created the climate and the opportunity for the substantial economies of manpower and expenditure already secured on the school meals service. Local authorities' duties and responsibilities for education are drawn very widely: the question is not whether any of them could sensibly be dropped but rather how existing duties might be performed with better regard to value for money.

More generally, in my view, you appear far too ready to accept at face value what the local authority associations tell us about the consequences of central government initiatives. We should not be blind to the fact that as a basic negotiating tactic the local government side has always tried to seize upon every plausible opportunity to plead the case for new money to justify what they call new burdens, whatever the strength of their argument. I see no reason at all why we should swallow their view wholesale. For the education service at least I continue to believe that where we are able to identify small but cost-effective ways in which the performance and value for money of the service can be enhanced, any small additional costs of the kind identified in Patrick Jenkin's list should be absorbed within our overall plans for local authority expenditure.

Copies of this letter go to the Prime Minister, the Lord President, members of E(LA) and Sir Robert Armstrong.

Emmex

Kear



10 DOWNING STREET

THE PRIME MINISTER

30 October 1984

Dear Victor,

You may have seen that I have asked Patrick Jenkin at the Department of the Environment to have another look, starting from first principles, at the whole vexed subject of local government finance and functions. Patrick has established an internal study as the first stage towards producing options for us to follow through in wider public discussion in due course - perhaps in a years time. Ken Baker has the overall supervision of this; William Waldegrave will run the study in its first stages, with a small team in the Department of the Environment.

One of the problems in this area is to get a really fresh look at the whole subject. There are plenty of experts - some of them very good - but they tend to have spent their lives in the local government world. We need sharp advice from outside. Would you be willing to help? I suggested the idea to William who was of course enthusiastic, as was Terry Heiser, the Deputy Secretary responsible. If you were interested I would ask William to come round and discuss with you how you might participate. I would not see this as something to be publicly announced, though I expect it will become known that you were involved.

Kind regards,

Yours ever

Thatcher

Lord Rothschild, G.B.E., G.M., F.R.S.

ate LPO
cc William
Waldegrave

TNS.



10 DOWNING STREET

From the Private Secretary

30 October, 1984.

Local Authority Finance

During the course of the discussion at Chequers on Sunday evening, Mr. Waldegrave reported on how he intended to conduct the initial studies into local government finance and functions. He hoped to draw on a number of outside experts who would include not just local government specialists, but people who had not been closely involved with local government, but who could take a fresh view. The Prime Minister suggested Lord Rothschild, and offered to write to him. This she has done as in the attached letter.

I am sending a copy of this letter and its enclosure to Terry Heiser.

Andrew Turnbull

Mrs. J.M. Dunn,
Department of the Environment.

RM

CONFIDENTIAL

NBPM
AT 30/10

MR TURNBULL

30 October 1984

(for your own information)

RSG SETTLEMENT 1985/6

You will be aware that the Treasury and DoE disagree about Patrick Jenkin's proposal to alter the RSG settlement in favour of shire counties. The principal disagreements are about targets for low spenders and the percentage of AEG.

We suspect that the solution lies in slightly greater steepening of the contributions slope above threshold, to redistribute more block grant to low spenders.

This, unlike higher targets and increased AEG, would leave both aggregate public spending and tax-borne expenditure untouched.

The issue will be discussed in E(LA) on 5 November. We suspect that the outcome will be unsatisfactory. If so, we shall want to alert the Prime Minister.

The Capital Spending question will be discussed at the same meeting. With luck, we shall have persuaded DoE and Treasury officials to agree on a sensible package beforehand. But if not, we shall need to minute the Prime Minister on that, too.

We would be grateful if you could chat with us before putting any reports from the meeting into the box.

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 October, 1984.

The Association of London Authorities

The Prime Minister has seen your Secretary of State's minute of 29 October. She accepts the conclusions that he has reached.

I am sending copies of this letter to the Private Secretaries to the Members of Cabinet, to Henry Steel (for the Solicitor General), and to Richard Hatfield (Cabinet Office).

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.

CONFIDENTIAL

010

OK re type

File

CONFIDENTIAL



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

29 October 1984

Dear Andrew,

When we discussed local government finance matters at Chequers yesterday, the Prime Minister asked for a draft letter to send to Victor Rothschild inviting him to become associated with the study which my Department is about to undertake. A draft / is attached below.

A handwritten signature in blue ink, appearing to read 'W. Waldegrave'.

WILLIAM WALDEGRAVE

A Turnbull Esq

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO LORD ROTHSCHILD

You may have seen that I have asked Patrick Jenkin at the Department of the Environment to have another look, starting from first principles, at the whole vexed subject of local government finance and functions. Patrick has established an internal study as the first stage towards producing options for us to follow through in wider public discussion in due course - perhaps in a year's time. Ken Baker has the overall supervision of this; William Waldegrave will run the study in its first stages, with a small team in the Department of the Environment.

One of the problems in this area is to get a really fresh look at the whole subject. There are plenty of experts - some of them very good - but they tend to have spent their lives in the local government world. We need sharp advice from outside. Would you be willing to help? I suggested the idea to William who was of course enthusiastic, as was Terry Heiser the Deputy Secretary responsible. If you were interested I would ask William to come round and discuss with you how you might participate. I would not see this as something to be publicly announced, though I expect it will become known that you were involved.

CONFIDENTIAL



Prime Minister ①

To note the outcome of
the various legal cases.
Agree Mr Jenkins's conclusions?

Yes

ms

AT
29/10

PRIME MINISTER

THE ASSOCIATION OF LONDON AUTHORITIES

attached

Over the past year, the Government attitude towards the Association of London Authorities (ALA) (the breakaway Labour local authority association formed by eleven councils) has been that agreed in Cabinet on 22 September (CC(83)28th - Conclusions). That is, as an interim practice the government agreed to consult the ALA where there was a legal obligation to consult the local authority associations pending the outcome of legal proceedings and without prejudice to our eventual view. This ensured that particular Government decisions (notably the rate support grant settlement) would not be open to challenge through a failure to consult.

A High Court judgement last year brought by the London Borough of Bromley held that subscriptions to the ALA ^{were not} ~~are now~~ lawful. As a result of this judgement, the ALA revised their constitution. However, this has been overtaken by a subsequent case in which the High Court held that subscriptions to the ALA, under its revised constitution, were lawful. Conservative Boroughs have stated that they will not appeal against this second judgement.

Legal proceedings have now reached a conclusion. The decision must now be taken whether to consult the ALA across a range of issues on the same basis as the other local authority associations. We have no legally safe alternative but to consult them in instances where consultation with the associations is required by statute. The Solicitor-General agrees that I would be liable to successful challenge if I failed to do so.

Informal soundings among Conservative leaders of the other associations suggest that they accept that there is no room for manoeuvre on mandatory consultation. So tomorrow (30 October) at the Consultative Council on Local Government Finance (CCLGF) I shall make it clear that the ALA will in future be consulted as of right.

CONFIDENTIAL



This will leave over for further discussion with the local authority associations the question whether to treat the ALA differently from the other associations on issues where we consult even though there is no legal requirement to do so; and the relative representation of the various associations, including the ALA, on the CCLGF (and the Housing Consultative Council). The Conservative leaders advise that nothing is to be gained from treating the ALA differently, but they have not as yet proffered advice on representation. In the light of further discussions with the association I shall reach my conclusions on these matters and let you know the outcome.

I am copying this minute to Cabinet colleagues, the Solicitor-General and Sir Robert Armstrong.

Atkin

for

P J

27 October 1984

Approved by the Secretary of
State and signed in his absence

Local Govt: Relations



Faint, illegible text in the upper section of the page, possibly bleed-through from the reverse side.

Faint, illegible text in the middle section of the page, possibly bleed-through from the reverse side.

COMMISSIONER

Faint text at the bottom of the page, possibly bleed-through from the reverse side.



NARN
AT 29/10
CC 120
QUEEN ANNE'S GATE LONDON SW1H 9AT

26 October 1984

P. Patrick

NEW BURDENS ON LOCAL GOVERNMENT

This is in response to your letter of 12 September to Willie Whitelaw on which Keith Joseph, Norman Fowler and Peter Rees have already commented.

A22 on Blup
I am sure you are right to remind us of the cumulative effect of policies which affect local authority expenditure, and of the need for us all to have a sound answer to those who say that, whether in relation to this or that policy or in the aggregate, we are generating new requirements which are inconsistent with our intention to reduce local authority expenditure. I also entirely welcome your emphasis on the rigorous costing of policy changes or developments which will affect local authority expenditure. Clearly, we must, before endorsing any such changes or developments, be satisfied that they are consistent with our approach to local authority expenditure as a whole, and to expenditure on individual services.

This requires us to look further: we need to be as rigorous about the financing of any changes and developments as about their costs. Costings tell only part of the story. We also have to weigh up the financial benefits - which may include savings elsewhere or in the longer term, and to assess the capacity of the service to meet any costs within its total provision, by reductions elsewhere or improvements in efficiency. We need to take account of developments - including our own initiatives - that should be reducing costs as well as those that incur them.

Your letter prompts me to wonder whether we are always as explicit or rigorous as we should be in what we say to our services and the local authority associations about how we expect new developments to be financed. Where it is reasonable to expect expenditure on relatively low cost developments to be absorbed, I believe we should make this abundantly clear. That is my intention in relation to the services for which I am responsible.

I am afraid I have strong reservations about your suggestion that all proposals for change that would affect local government should be put first to your Department and the Treasury. I question whether such a requirement would be manageable, given the longstanding and close relationship between Departments and particular services which gives rise to a great deal of consultation at various levels and at different stages in the development of proposals, some of which may come to nothing. Such exchanges are an integral part of policy development and your proposal, however operated, would inevitably create a serious handicap for Departments. I must also question the usefulness of such a requirement. The agreed planned provision for services already reflects our collective view of priorities. Within the agreed total provision, Departmental Ministers must be able to talk to their services and local authorities, and be prepared to lead them in worthwhile directions. We should not, I suggest, think in terms of an embargo on new developments - even those which have costs - which would be inconsistent with the dynamism which must be our aim in the pursuit of increased economy, efficiency and effectiveness. I have similar reservations about any attempt to list all projects having "costs". That would give a very distorted picture, would be expensive in manpower, and time consuming; and I do not see what useful purpose would be served.

We already decide collectively on major policy issues and there are advance consultations with your Department about any circulars to local authorities which involve any significant additions to local authority expenditure or manpower. Instead of creating new machinery I suggest that it would be helpful to codify the broad principles within which Departments should operate when

The Rt Hon Patrick Jenkin, M.P.

/cont

considering developments of any significance. This would avoid unnecessary and expensive bureaucracy. Such principles, I suggest, should include:

- (i) rigorous assessment of costs and benefits;
- (ii) full consultation with the local authority associations, on the basis of our common interest in securing better value for money, as well as with services; and
- (iii) a clear statement to services and local authorities about how any decisions we take that have expenditure implications are expected to be financed (such statements being consistent, of course, with the total provision for the service in question in the Government's expenditure plans).

If in any particular case the local authority associations felt a Department was taking an inconsistent or unreasonable line, they would be free to raise the matter with you.

I have arranged for my officials to send your Department comments on the Home Office items in the Annex to your letter.

Copies of this letter go to the recipients of yours.

L. M.
L. M.

PRIME MINISTER

Seminar on Local Government

The purpose of the seminar is to provide you with a teach-in on how the system of local government finance operates. William Waldegrave and Terry Heiser have provided the attached charts. Although it would be helpful if you had glanced through them beforehand, they intend to talk you through them at the meeting. Oliver Letwin has also provided a note which sets out the sequence of decisions.

We are scheduled to start at around 1800 hours. When the discussion of the RSG system has been completed, we could move to more general questions. William Waldegrave and Terry Heiser will be able to put you in the picture on their ideas for Kenneth Baker's study into the future of local government finance. For this you may find it helpful to look again at the papers produced for the meeting held in September.

It is not intended to go into questions of abolition or obstruction to rate-capping though, no doubt, if time permits over supper it may be possible to discuss these issues briefly.

AT

26 October 1984

LIST OF GUESTS ATTENDING THE WORKING SUPPER TO BE
GIVEN BY THE PRIME MINISTER AT CHEQUERS ON SUNDAY,
28 OCTOBER 1984 AT 1800 HOURS

The Prime Minister

The Hon. William Waldegrave, MP

Mr. T.M. Heiser

Department of the
Environment

Mr. Oliver Letwin

Mr. Andrew Turnbull.

26 October 1984

HOW THE RATE SUPPORT GRANT SYSTEM WORKS

The system has been designed to perform two different tasks simultaneously - (1) redistribution between local authorities and (2) public expenditure control. The interaction of these two demands causes endless difficulties.

The system can be divided into a number of steps:

Step I Setting of planning total. The Government decides how much local authorities ought to spend next year. It adds to this a small "unallocated margin", to allow for overspending. The final sum is called 'the total public expenditure provision for local authorities'. How?

Step II Assessment of relative need. The Government then decides how much each authority needs to spend to maintain a standard level of services consistent with the total provision. The amount fixed for a given authority is called its "grant-related expenditure" (GRE). The main considerations in deciding this sum are the size of the authority's population and the nature of the services it has to provide.

Step III Setting Exchequer Grant. The Government also decides what proportion of total local authority spending it will meet from the Exchequer. This "Aggregate Exchequer Grant" is divided into "Block Grant (commonly known as "Rate Support Grant") and specific grants such as those for the police.

Step IV Distribution of Grant. Each authority reports on its total rateable value, and the total amount of block grant is then divided between authorities, each receiving a proportion that depends:

(1) upon its "grant-related-expenditure" (how much it needs to spend to provide an average level of services);

(2) upon its rateable value (how much it can raise from its own inhabitants);

} (3) upon its actual spending; (the Government bears a smaller proportion of expenditure if an authority spends more than 10% above GRE).

Step V

Restraining expenditure. A 'target' is set for each authority. Each individual target is related to the authority's performance in the previous year. The aim is to allow only modest increases in spending for those authorities who are below GRE, and to produce realistic savings from overspenders. The total of all targets is equal to the total public expenditure provision for local authorities, including the "unallocated margin". An authority that spends above its target suffers 'hold-back': part of the grant to which it would otherwise have been entitled, is withheld. The rate of 'hold-back' increases as the authority's spending goes further over target.

Step VI

Selective limitation. Some authorities that spend either vastly over their 'grant-related-expenditure' or vastly over their targets, or both, will be rate-capped. The Government will set a binding limit on their spending and on the rate they can levy.

Oliver Letwin



2 Marsham Street London SW1P 3EB

01-212 4394

Department of the Environment

From the Deputy Secretary,

Terry Heiser CB

Finance and Local Government

26 October 1984

A. Turnbull Esq
No.10 Downing Street
LONDON SW1

Dear Andrew

1. I attach two copies of a set of diagrams which Mr Waldegrave and I would like to use as background in explaining the Rate Support Grant System to the Prime Minister at Chequers next Sunday evening. I do not think that it is essential for the Prime Minister to look through this booklet beforehand.

2. You told me that Oliver Letwin might also be present. I will see that he gets a copy of this document also.

3. You also thought that it might be useful if the Prime Minister were to have by way of background your copies of the papers on the Local Government Finance Studies and the Inquiry into Abuses in Local Government, together with the paper on "Local Government Three Years from Now".

Yours

Terry

T M HEISER

RATE SUPPORT GRANT

Presentation to the Prime Minister

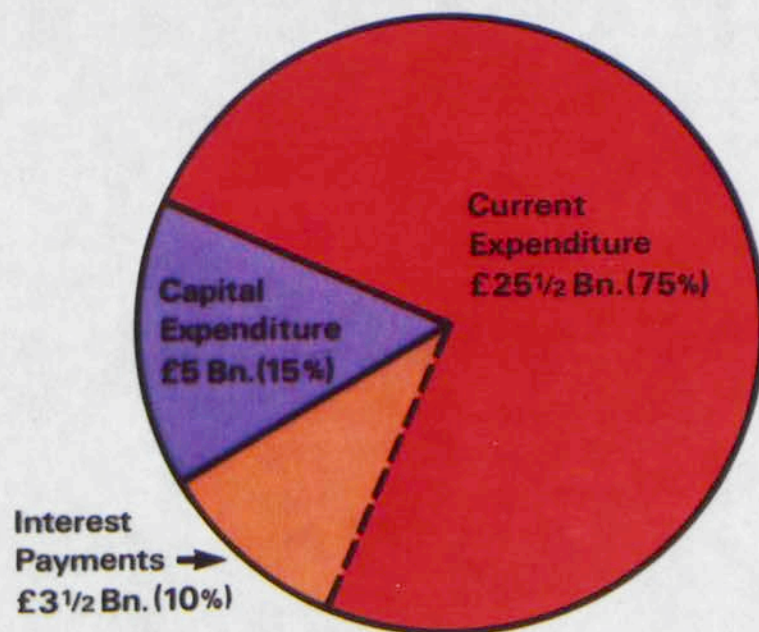
INDEX

	Page
LOCAL AUTHORITY EXPENDITURE (ENGLAND 1982-83)	1
LOCAL AUTHORITY INCOME (ENGLAND 1982-83)	2
RATE FUND EXPENDITURE (ENGLAND 1984-85: PROVISIONAL FIGURES)	3
FINANCING OF RATE FUND EXPENDITURE (ENGLAND 1984-85)	4
BLOCK GRANT FOR AUTHORITIES SPENDING AT THE LEVEL OF THEIR G R E	5
G R E's FOR INDIVIDUAL AUTHORITIES	6
EXAMPLES OF VARIATIONS IN G R E	7
THE BLOCK GRANT SCHEDULE	8
MARGINAL RATES OF RATE SUPPORT GRANT	9
TARGETS	10
EXPENDITURE & IT S FINANCING-SOME EXAMPLES (1983-84)	11
STRENGTHS AND WEAKNESSES OF R S G	12

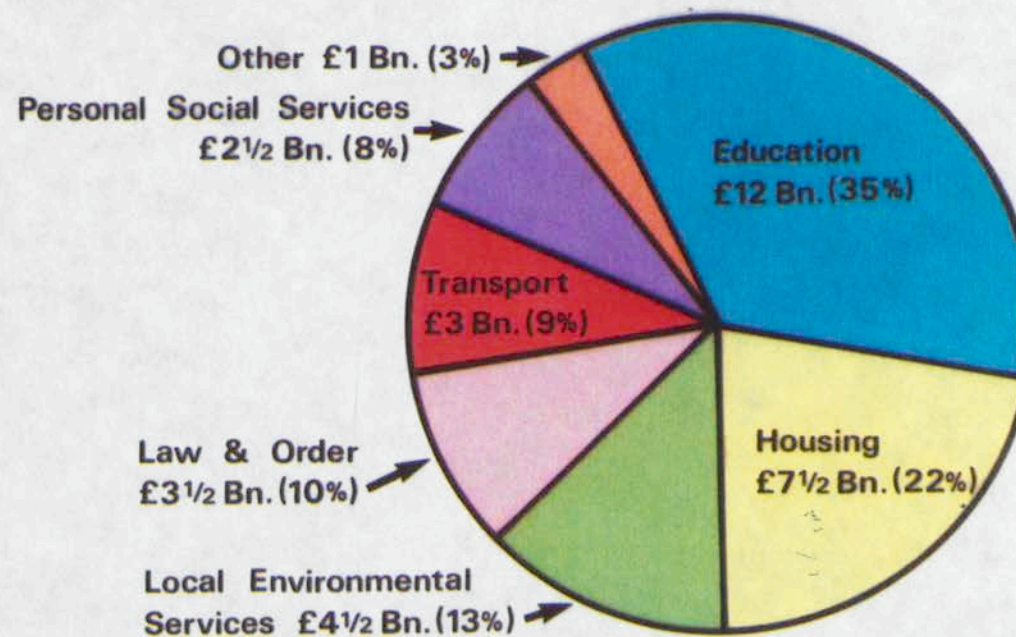
LOCAL AUTHORITY EXPENDITURE (ENGLAND 1982 - 83)

In the latest year for which full information is available, local authority gross expenditure in England was £34 billion. This can be broken down by economic category or by service as follows:-

ECONOMIC CATEGORY

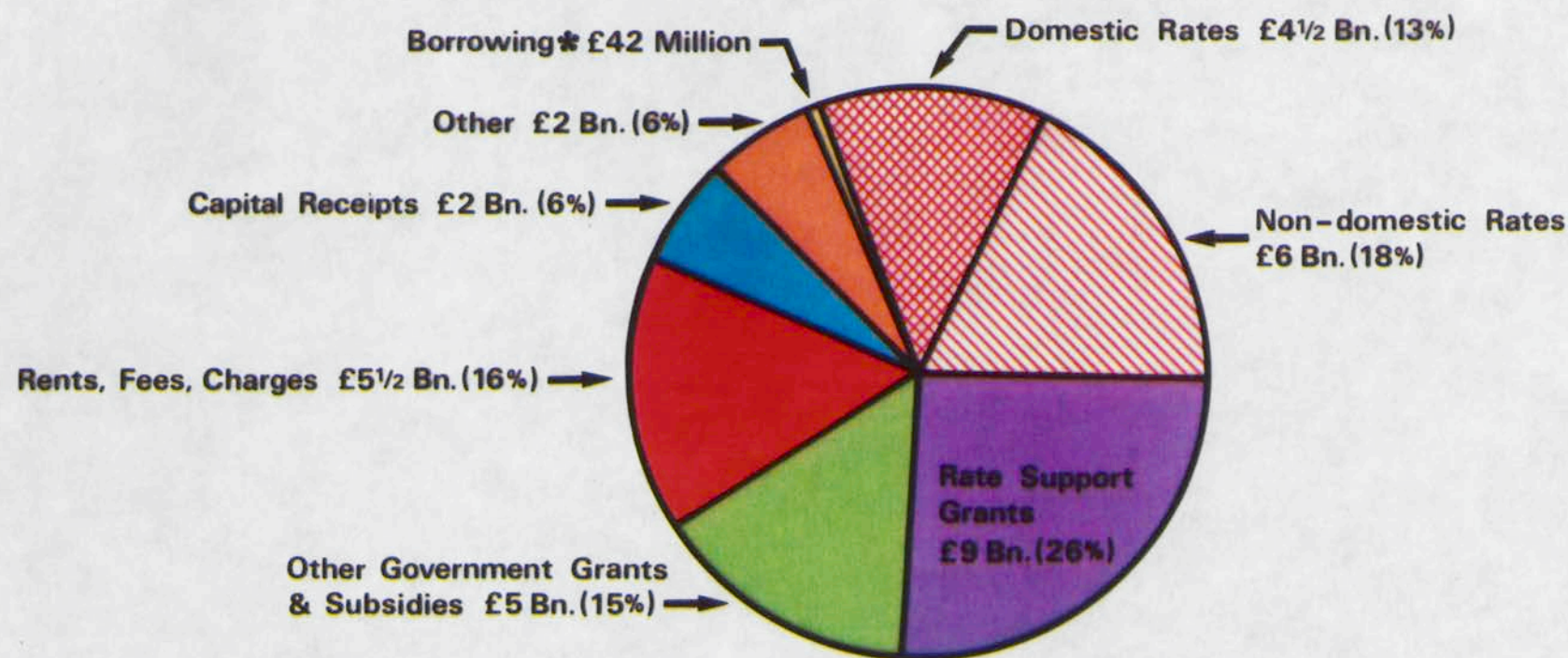


SERVICE



LOCAL AUTHORITY INCOME (ENGLAND 1982 - 83)

The income from which the expenditure is funded comes from the following sources:-

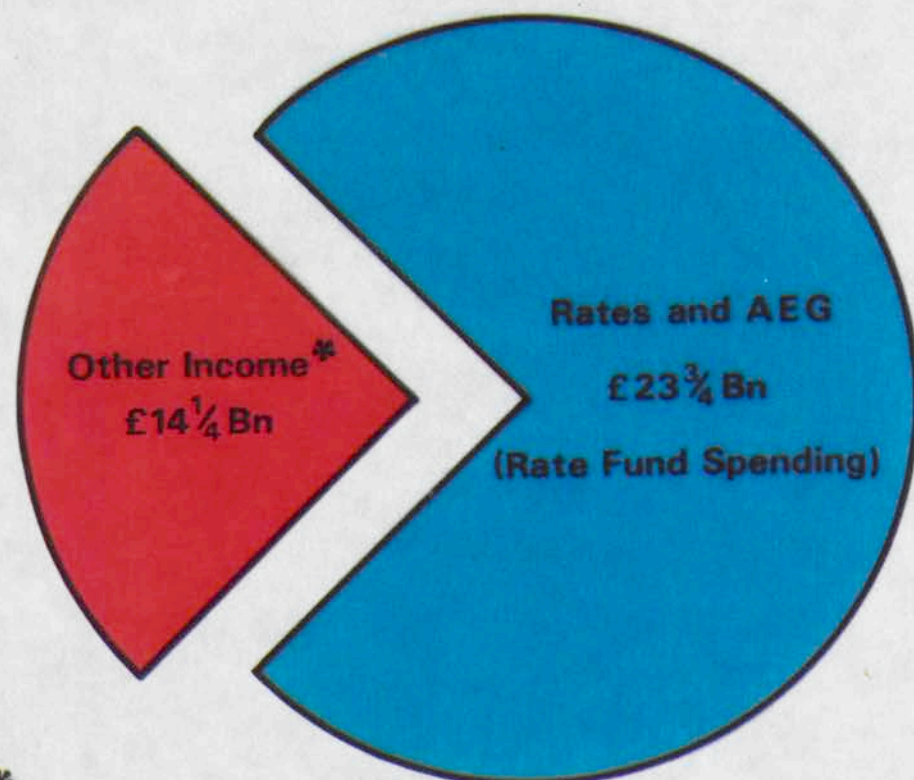


*Net External Borrowing is highly volatile. In 1983-84 it was £1 billion.

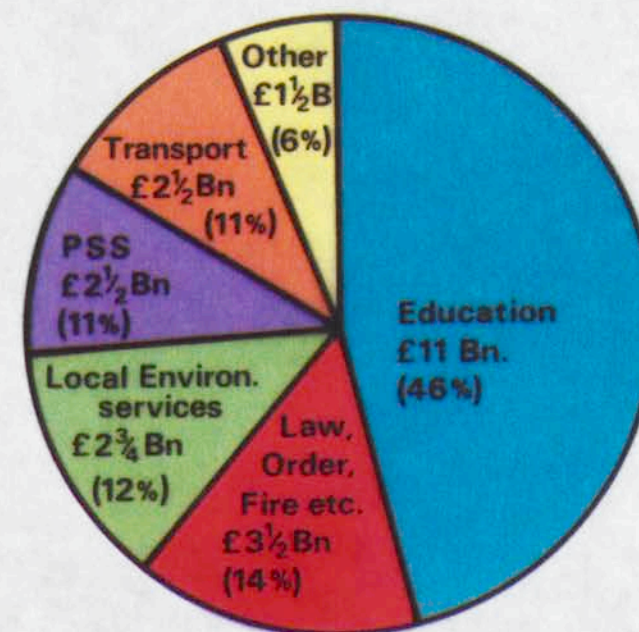
RATE FUND EXPENDITURE (ENGLAND 1984-85: PROVISIONAL FIGURES)

A significant part of Local Government spending is met from fees etc. and makes no demand on the rates. Aggregate Exchequer Grant supports the remaining spending that is met from the 'rate fund'. In 1984-85 this expenditure will be about £24 Bn.

Gross Expenditure by Source of Funds **£38 Bn**



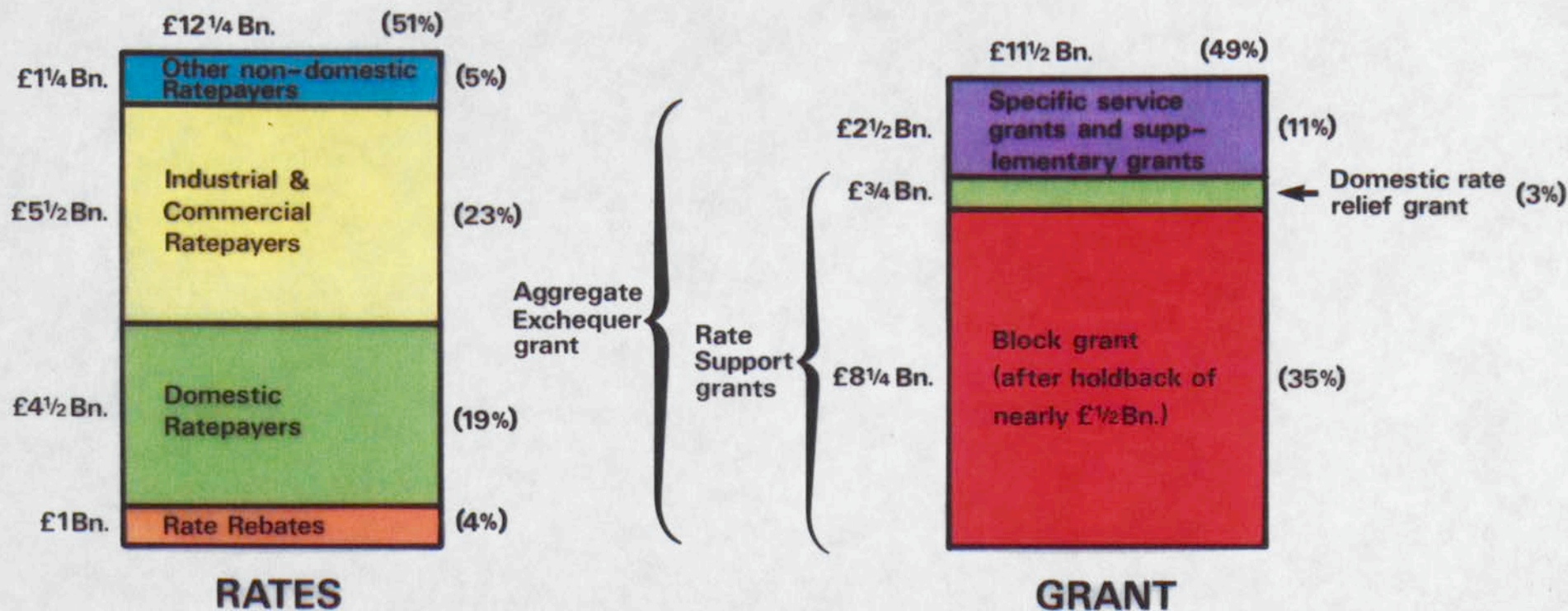
Rate Fund Spending by Service **£23 ³/₄ Bn**



* Borrowing, Capital receipts, Rents, Fees, Charges, Capital grants,

FINANCING OF RATE FUND EXPENDITURE (ENGLAND 1984 - 85)

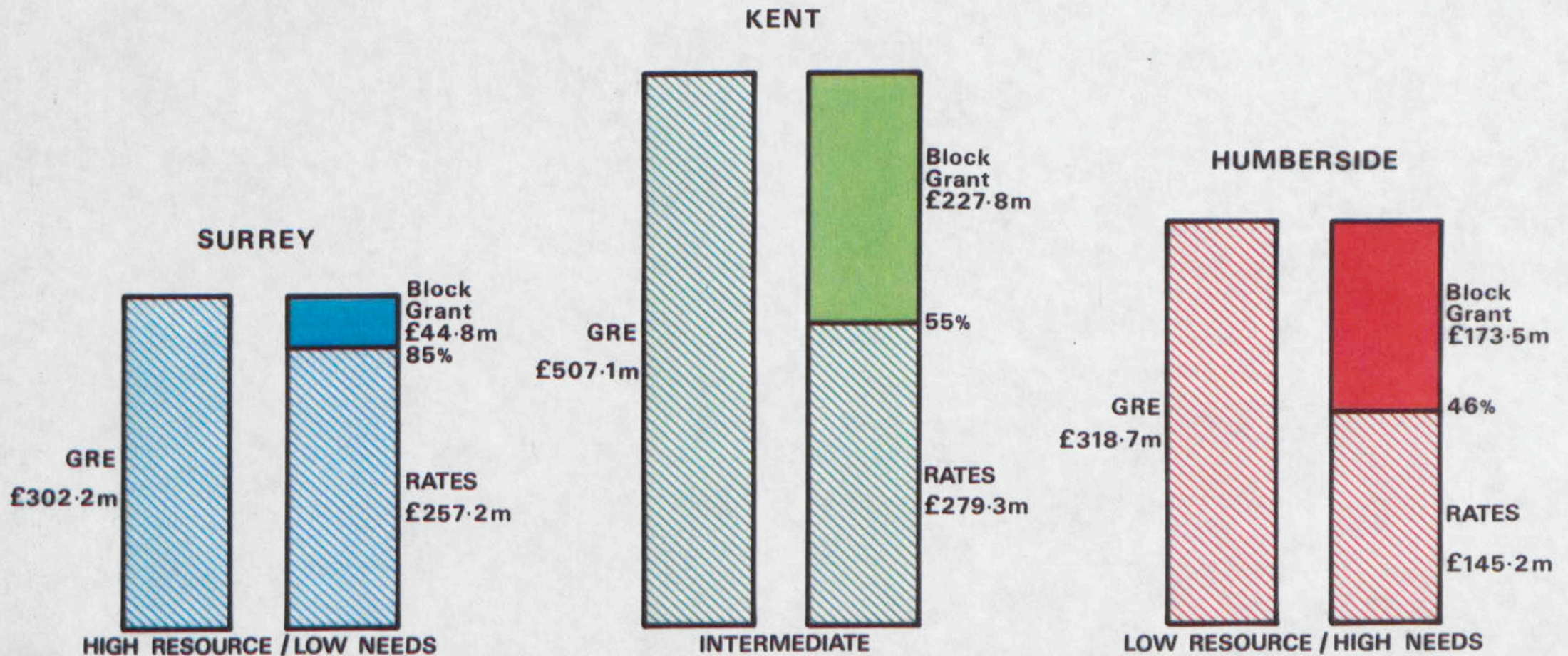
Roughly half of rate fund spending is met from the rates. The remainder is met by Exchequer Grants. The total of nearly £24 billion breaks down as follows:-



BLOCK GRANT FOR AUTHORITIES SPENDING AT THE LEVEL OF THEIR GRE

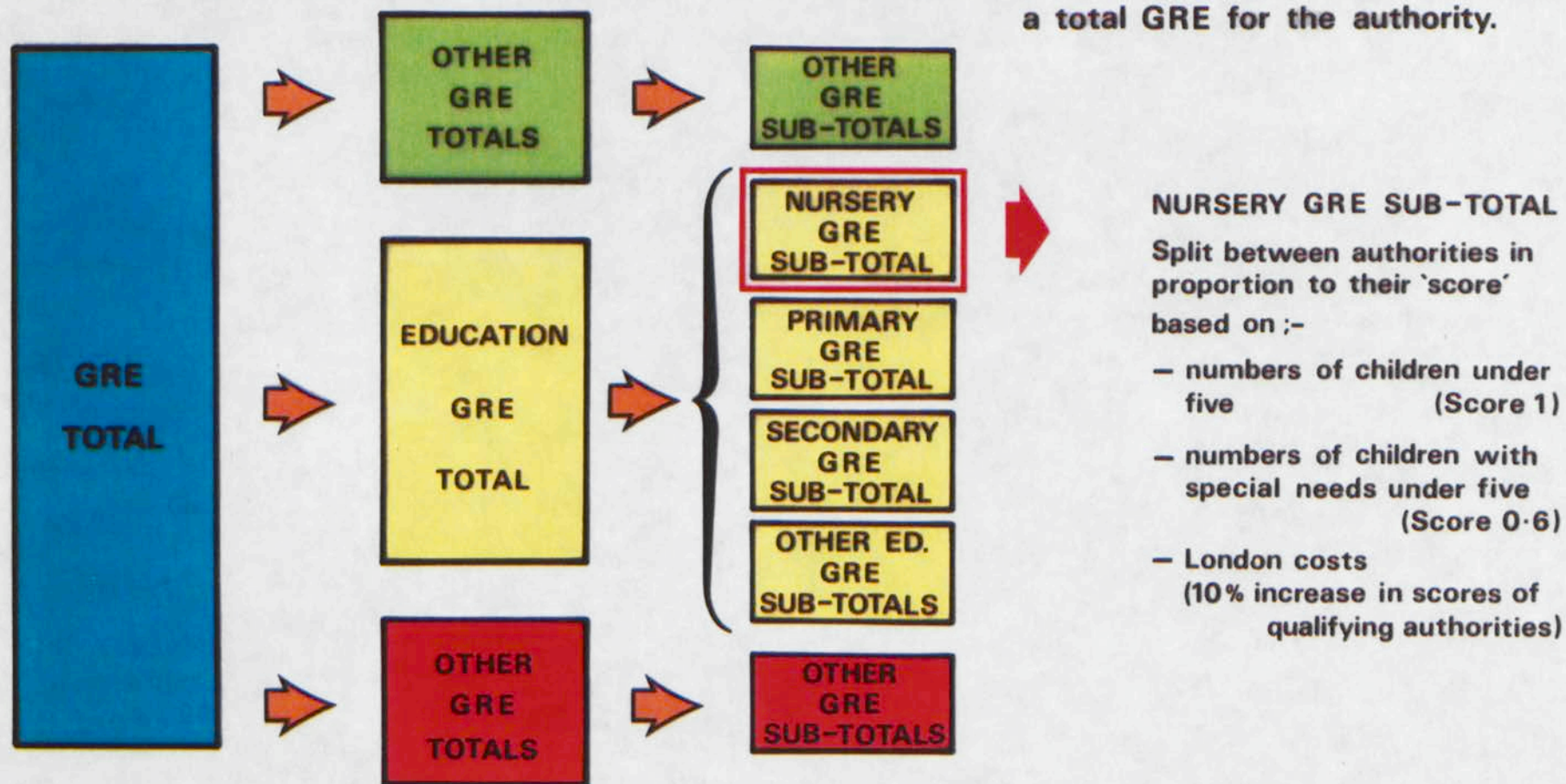
For authorities spending at the level of their GRE, Block Grant meets the whole of the difference between their spending needs, as measured by the GRE system, and the product of a Standard Rate Poundage.

For example, if the three counties shown below had spent at GRE, their Block Grants would have been as shown:-



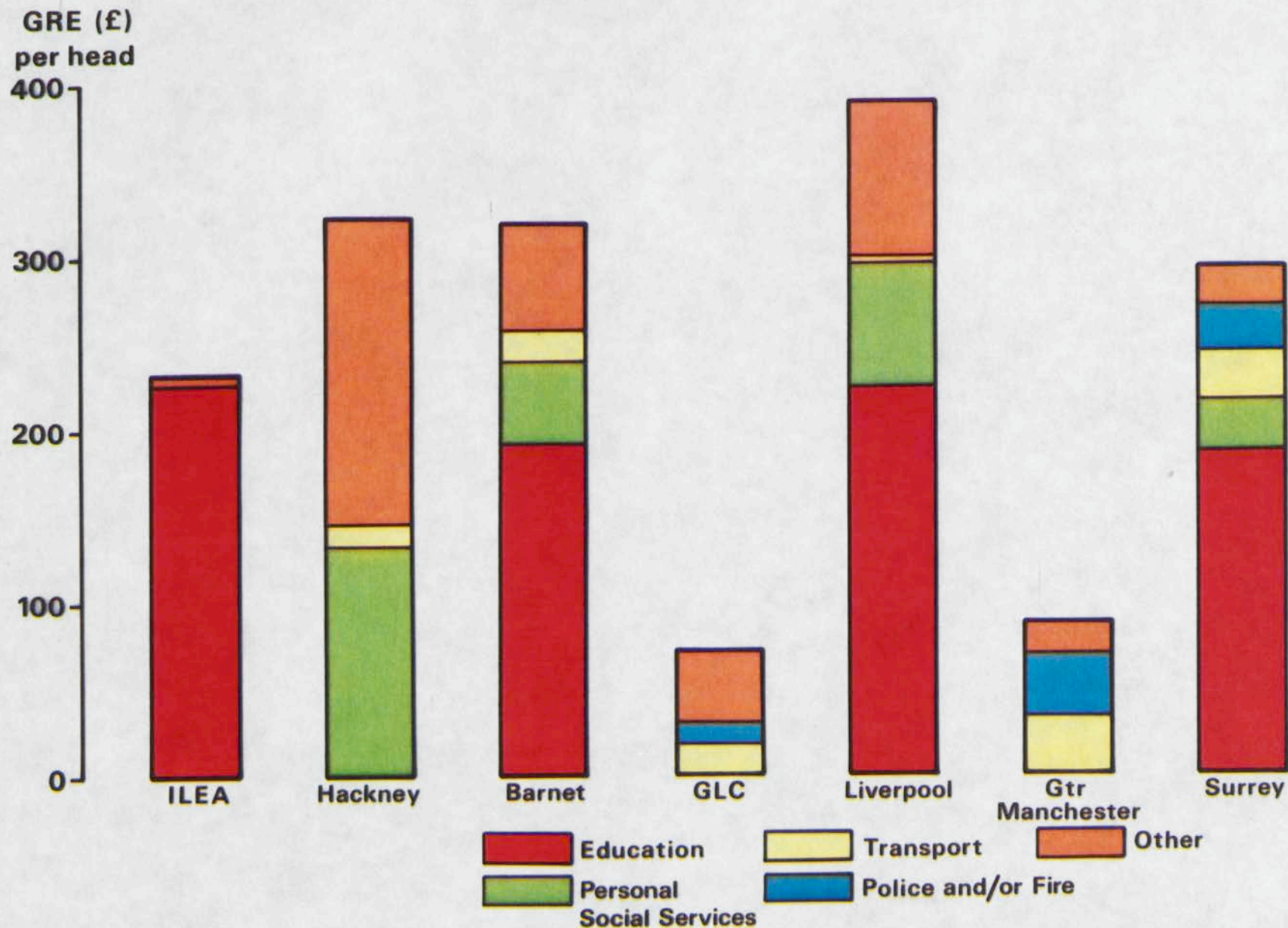
GREs FOR INDIVIDUAL AUTHORITIES

Individual GREs are derived from the PES total. First the 'unallocated margin' (an amount by which it is recognised authorities' spending will exceed the PES figures for their services) is deducted. The total is then broken down into its service sub-components, specific grants (eg police grant) are deducted, and financing payments (eg debt charges) are added. Finally the sub-components are divided between authorities in proportion to their 'score' on various needs indicators (eg number of children under five) and the results are added to give a total GRE for the authority.



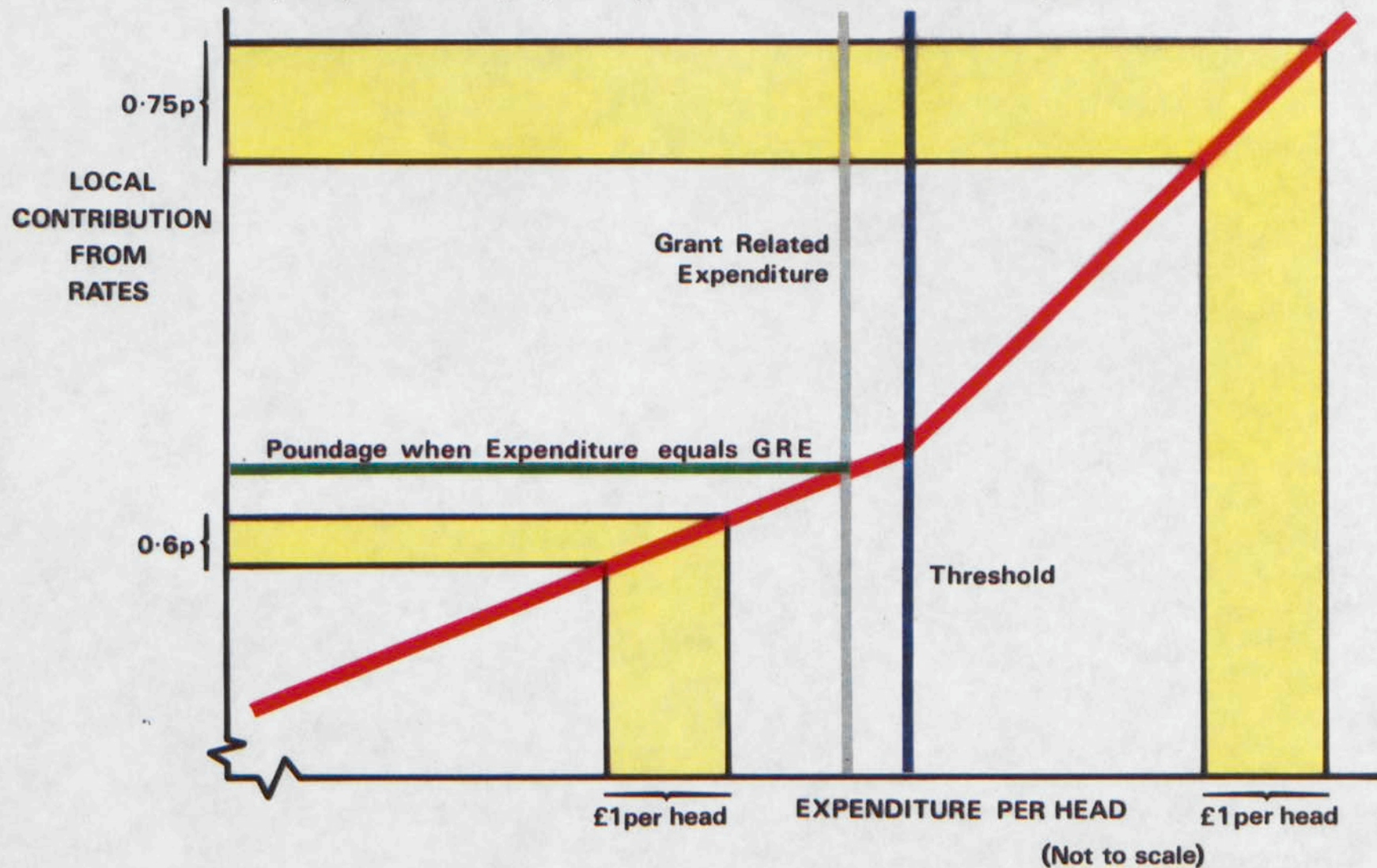
EXAMPLES OF VARIATIONS IN GRE

The make-up of the GREs of individual authorities vary greatly depending on the mix of services for which they are responsible and the scale of the expenditure needs in their area.



THE BLOCK GRANT SCHEDULE

In fact most authorities do not spend exactly at GRE. They have to raise more from the rates for higher spending — 0.6p for each extra £1 per head. Beyond a threshold, they have to pay 0.75p more for each extra £1 per head.



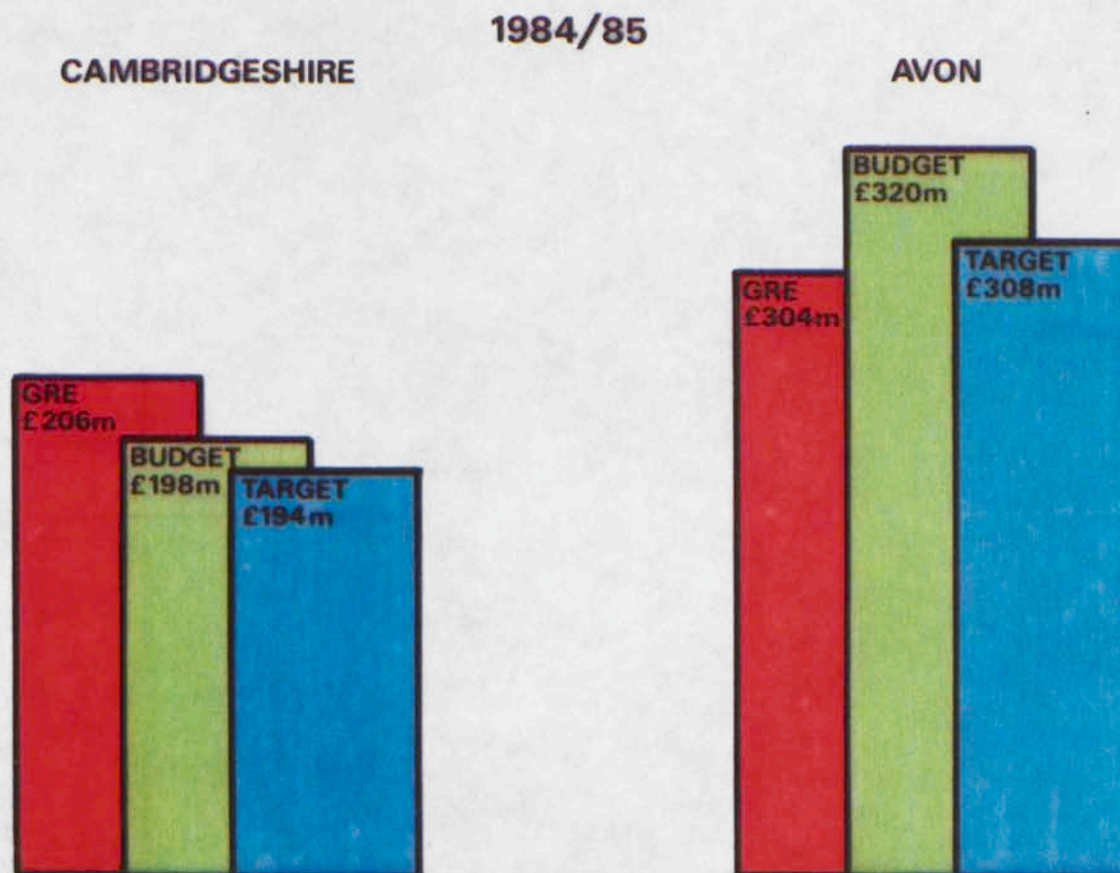
MARGINAL RATES OF RATE SUPPORT GRANT

The "tariff" under the block grant schedule requires authorities to contribute the product of a 0.6p rate towards each £1 per head of expenditure. The rest of rate fund spending is met by grant. For some authorities with high rateable values 0.6p on the rates raises more than £1 per head. So their grant goes down if they increase spending. The table below shows this effect for shire counties near the crossover point. The first four have positive marginal rates of grant, and the others negative marginal rates.

Authority	Product of a 0.6p rate (£000's)	Cost of an extra £1 per head (£000's)	Difference met by grant (£000's)
Kent	1,130	1,486	356
Durham	348	608	260
Cambridgeshire	513	599	86
Bedfordshire	504	512	8
Buckinghamshire	598	581	-17
Surrey	1,043	1,014	-29
Berkshire	754	701	-53
Hertfordshire	1,028	968	-60

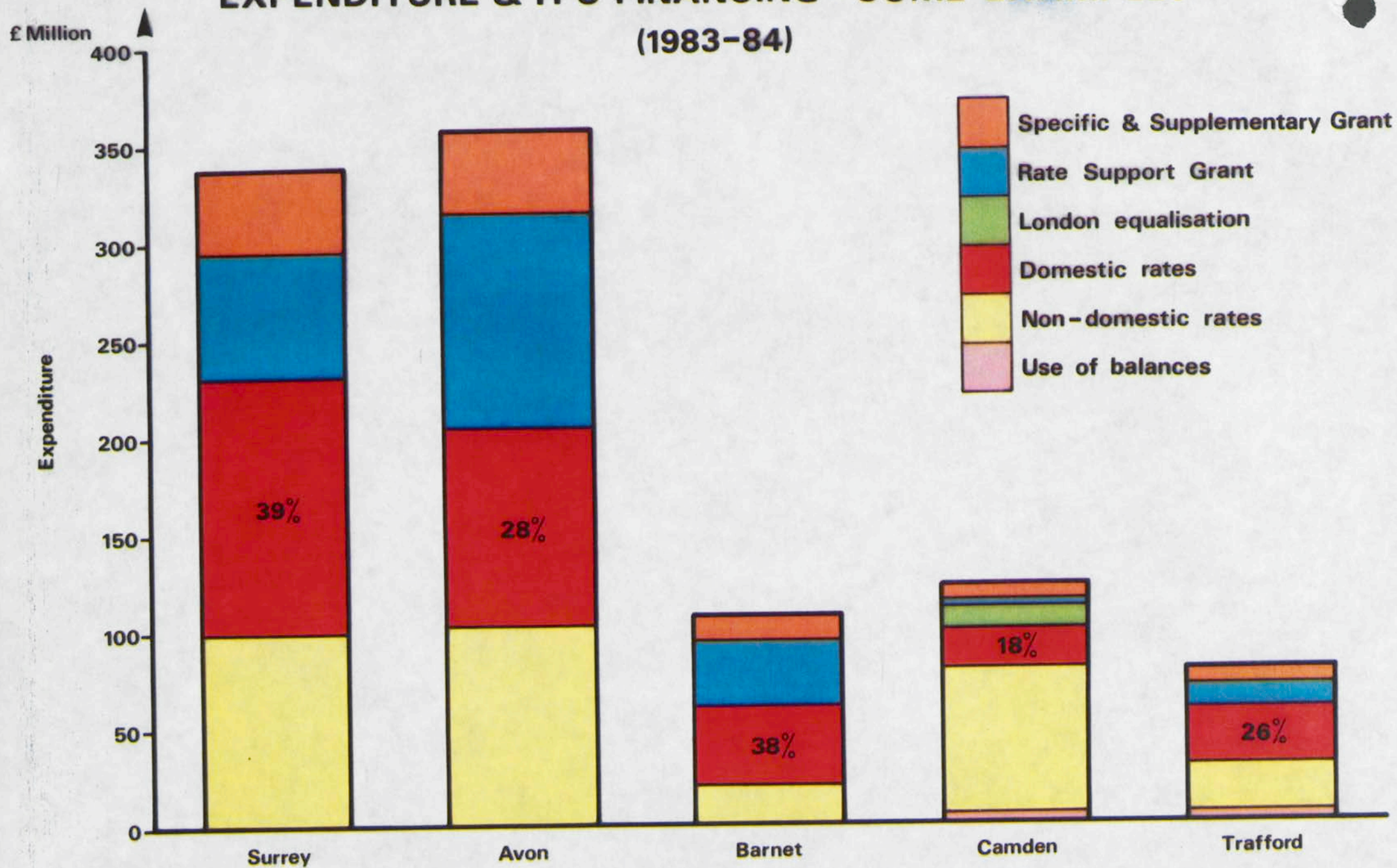
TARGETS

GRE s are about expenditure needs. Targets are related to actual spending levels in the previous year and are designed to reinforce the downward pressure on spending of the block grant system itself.



EXPENDITURE & ITS FINANCING - SOME EXAMPLES

(1983-84)



STRENGTHS AND WEAKNESSES OF RSG

By distributing block grant as we do, we put the poorest authorities on a par with the richest. All can buy the same level of service spending for the same rate poundage. This "hidden hand" of the equalisation process has advantages. It does a lot of things simultaneously. Some it does well. Some it does badly. Some it probably shouldn't be doing at all. Its main strengths and weaknesses might be summarised as follows.

Strengths

- A. Exerts pressure against expenditure growth
- B. All authorities face the same rate poundage cost or saving for higher or lower levels of spending
- C. Supports minimum service standards
- D. Frees authorities of the need to worry about attracting industry, housing etc.
- E. Secures major inter-regional transfers
- F. Cuts the local cost of providing services
- G. A technically "elegant" solution to the problem of distributing grant to over 400 different authorities

Weaknesses

- A. Doesn't do it very well
- B. Not many urban authorities opt for lower rates. Limited accountability: too few full ratepayers
- C. Also supports maximum service standards!
- D. Removes authorities' incentive to attract development
- E. Because of the "hidden hand" these transfers don't arise from policy decisions
- F. So that people don't realise what they are paying for them
- G. It is only understood by the technicians who operate it

The system is designed to complement the rates. It therefore reflects the strengths and weaknesses of rates as a tax.

STRENGTHS AND WEAKNESSES OF TARGETS

Strengths

Combats weaknesses A and B above through realistic pressures related to actual spending levels

Weaknesses

Because targets are related to past spending levels they are not seen as fair by moderate spenders

Copy no.....Of.....
1. 16

CHANGES IN LOCAL GOVERNMENT FINANCE

MEMORANDUM BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. The Party Conference agenda contains the following motion for reply by me:

Review

"This Conference welcomes the rate capping legislation but urges Her Majesty's Government to make positive steps towards the abolition of the domestic rating system, replacing it eventually with a system of local taxation which bears more fairly on a wider spread of the population."

2. I believe that there would be major advantages in responding to this directly and positively with a firm commitment to change.

Limitations of previous studies

3. Colleagues will be aware that our study in 1981-82 demonstrated that there is no painless route to a new local tax structure by "unplugging" the rates and "plugging in" a new tax. We examined, as main alternative taxes: local sales tax (LST), various form of local income tax (LIT), and poll tax; and as possible multiple taxes, vehicle excise duty (VED) and road fund duty (RFD). All suffered from some disadvantages: eg LST could only operate over wider geographical areas than many local authorities, and would not be very perceptible; most forms of LIT could not be introduced until the nineties and would appear to cut across our commitment to reduce direct taxes: poll tax if rebated could be costly and complex; multiple

minor taxes would not be very perceptible. (The Green Paper "Alternative to Domestic Rates (Cmnd 8449) and Chapter 2 of White Paper "Rates" (Cmnd 9008 refer)).

4. The 1981-82 study was however in practice constrained to find a solution without disturbing the structure of local government, both as regards boundaries and service responsibilities, and without major changes to the grant system. We may also have attached too much weight to certain of the objections to individual taxes, and too little to the problems of continuing with the existing arrangements (including the unfairness of non-domestic rates.) There are plenty of examples abroad of satisfactory local government financial systems that do not rely exclusively on a local property tax and centrally provided block grant, and there is no question but that if we were determined to do so we could find a practical alternative to the present system.

5. We must however recognise that any successful alternative may involve mixes of local taxes; measures to reduce the overall level of local taxes by taking some service expenditure out of local government altogether; and perhaps in the longer run further changes in the organisation of local government. Furthermore, radical changes to the present arrangements are virtually bound to throw into question the equalisation principle whereby residents of better off areas pay more for their services so that more of the rate support grant can be directed to less well off areas. To my mind it would be no bad thing to move to a clearer basis of support than this largely hidden cross-subsidy; but such a step would be very controversial. We should not embark on a new review unless we are ready to respond positively to the conclusions that emerge.

The case for change

6. Despite these difficulties I am certain that we stand to gain more than we would lose if we were to enter the next General Election with well-worked out, specific proposals to legislate for new local government financial arrangements in the life of the next Parliament. This could involve very greatly reduced reliance on domestic or non-domestic rates, or perhaps the complete abandonment of one or both of them.

7. The present financial arrangements, despite the modifications we have made and are making during this and the previous Parliament, seem incapable of meeting our policy aims with regard to expenditure and the link between voting for services and paying for them.

8. Spending objectives. The target/holdback system has undoubtedly slowed down the growth in local government expenditure, but it embodies major unfairnesses which are compounded by the need to increase holdback every year. Rate limitation will also help to contain spending, but it imposes heavy strains on the relationship between central and local government staff resources if it had to be applied to more than a small group of authorities. There will be continuing strong political and practical pressures to drop both targets and rate limitation; and these externally-imposed pressures have in any event not proved capable of providing actual reductions in expenditure.

9. The link between voting and paying. We might achieve better results, in a way more consistent with our traditions, if we could find ways of strengthening the link between voting and paying so that pressures for economy in local services were fully reflected in the ballot box. But this cannot be done without radical change. At present half of local authorities' own income comes from the non-domestic sector which has no vote. On average only about a third of local electors pay full rates. The basic design of the central government grant

support encourages them to think of it as "their" money - the equivalent of a local tax which meets in some cases over 60% of expenditure (because of the way it is divided up between richer and poorer areas) - though they have no concern with raising it.

10. To achieve our longer-term objectives for local government therefore, I judge that a far-reaching review of local government finance, which touches where necessary on structural issues, is inevitable. But it must be kept under close control.

Organisation of Review

11. In view of the political sensitivity of the issues, and because we must ensure that full account is taken of our policies to contain public expenditure, we cannot afford to leave substantial areas of work on new policies in the hands of an outside group. They should be developed under the detailed supervision of a Minister in my Department. Selected non-Government experts could and should be involved in the work - including some drawn from local authorities - but the central core of the exercise must be under the control of a close-knit group which can keep a firm grip on the overall direction and conclusions of the work.

Terms of Reference

12. The terms of reference for the review might be as follows:

"To consider the scope for introducing a more satisfactory local government finance structure together with any associated changes which may be necessary; and to make recommendations."

CMO CONFIDENTIAL

Conclusion

13. If we are to announce such a review at the Party Conference next month, I believe we should start the review before the end of the year and seek to bring it to a conclusion by Spring 1986.

14. I seek colleagues' agreement to announcing a review on these lines at the Party Conference.

P J

21 September 1984

MR
Copy no. 116 Of

ABUSES IN LOCAL GOVERNMENT
MEMORANDUM BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. I have concluded that the Government must take an early initiative to review the implications of a number of controversial practices which are becoming prevalent in the way that local government conducts its business. These practices are particularly to be found among urban authorities.

2. Local government legislation is based on the nineteenth century model of local authorities controlled by part-time councillors operating for the benefit of the local community as a whole. The statute contains no reference to the role of political parties within local government, and no provision for regulating party manoeuvrings. However, a covert "Westminster" model has recently begun to emerge in some authorities, with a virtually full-time executive, many of whom are also public sector employees, taking decisions on a party basis but without the constraints which apply to central Government at Westminster. This provides a great opportunity to the Left who perceive local government as a convenient salient in their campaign to foster extra-Parliamentary opposition to our policies - and indeed the policies of any government founded on the principles of Parliamentary democracy.

3. Colleagues will recently have seen papers describing a number of these controversial activities which demonstrate that conventions traditionally observed by all political parties in local government have begun to break down. This trend is undermining important democratic safeguards hitherto enjoyed by ratepayers, by those reliant on local services and by those working for local councils.

4. The most pressing examples of the disintegration of traditional attitudes are -

i. manipulation of standing orders, inter alia, to prevent

proper consideration of Committee papers and deprive minority party members access to information;

ii. increasing willingness to use ratepayers' money for propaganda campaigns and for financing politically-motivated "voluntary" groups;

iii. appointments or accelerated promotions of officers sharing the political views of the majority group, often linked with the growth of clandestine decision-taking systems operating within the Party caucus, with the close involvement and support of politically sympathetic officers; and

iv. an increasingly cavalier attitude towards conflicts of interest, including the so-called "cross employment" situations whereby local government officers in one authority serve as councillors in a neighbouring authority; and the growing identity of interests between members and the public sector trades unions.

5. We shall doubtless be pressed hard at next month's Party Conference to stop these abuses, but I am clear that we cannot proceed directly to what would be highly controversial legislation without a careful, detailed and - as far as possible - bipartisan review of the issues. I propose, therefore, to announce at the Party Conference that I intend immediately to commence consultations with the local authority associations on the terms of reference for a major inquiry into local government procedures and practices in England to be launched as soon as possible.

6. The prospects of such an inquiry producing sound recommendations robust enough, if implemented, to survive any subsequent changes of political control at national level

will be vastly enhanced if we can carry the Labour Party with us on the need for, and scope of, a review. It would be both prudent and realistic to avoid any implication that every change which we are now seeing in the political management of local government is, in every respect, reprehensible. The aim must be to work towards framing a set of rules within which the Party interests can be both openly accommodated yet appropriately constrained.

Terms of reference

7. I propose to open consultations on the basis that the inquiry should consider the extent to which the political parties are exercising an increasing influence within local government; and to recommend in the light of those findings whether and what democratic safeguards - statutory or otherwise - should be introduced in relation to such matters as -

- i. the rights of minorities on local councils;
- ii. the independence and political neutrality of officers;
- iii. the limits that should apply to the use of ratepayers' money on politically motivated activities, including advertising; and
- iv. conflicts of interest on the part of elected members.

Organisation of the Inquiry

8. I envisage a high-powered Committee of up to 7 members chaired ideally by a constitutional lawyer. A minority of the members would be drawn from local government itself; the remainder would be eminent lay representatives.

9. My Department would provide the secretarial and supporting

research studies.

Timing

10. I expect that the Committee would sit for about 12 months so that the results of their work should be available in time to feed into our policy statements before the next General Election.

CONCLUSION

11. I seek colleagues' agreement to announcing at the Party Conference my intention, after consultation with the local authority associations, to set up a Committee of Inquiry into Local Government Practices and Procedure on the basis described in paragraphs 5-8 above.

PATRICK JENKIN

21 September 1984

ELIMINATION OF TARGETS

Introduction

1. Particularly among Conservative authorities, targets attract more criticism than the rest of the RSG arrangements. Fulfilment of the Pym commitment (to give fairer targets for low-spenders below GRE) may have bought off opposition for 1985/86. But getting rid of targets remains the single step which would most please Government supporters in local government.

History

2. Targets were introduced to try to secure delivery of PES plans in 1981/82. Block grant, based on GRES, was not thought to exert enough pressure: many authorities were spending so far above GRE that they could not be expected to reduce to GRE level in 1 year; so unless those spending below GRE were persuaded not to increase to GRE level, the PES plans were bound to be exceeded. Targets have sought to limit year on year cash increases in spending by lowspenders; and to set realistic cash cuts for high-spenders. Our measures (cuts in RSG, block grant and targets) have reined back spending. If the established growth trend (+3½% pa) had continued since 1978/79, real expenditure now could have been £4 billion higher. (It has risen by 4% since 1978/79).

Criticisms

3. The legislation obliges us to set targets on general principles applicable to all authorities: it is impossible to find principles which are fair for all 413 authorities. The need to be realistic means that high spenders' targets are bigger increases over previous targets than low-spenders'. Targets differ from GRES in that they cannot reflect changing relative needs. Targets and holdback are difficult to reconcile with block grant, which is based on GRES and is intended to make up for differences in authorities' needs and resource bases. The inequities are cumulative, since comparison of expenditure against target in year 1 affects the formulation of targets in year 2; and so on. Targets have now existed for 5 years; we have changed methodology each year, and the figures are undeniably open to attack. It is questionable whether targets and holdback can be made both fair and effective.

Conclusion

4. We have always said we were reluctant to impose individual targets, and that we should abolish them as soon as we could. The introduction of rate limitation, and the abolition of the GLC and the metropolitan counties, might offer us the opportunity to do it. But we must also sustain the pressure for reductions in spending: this could mean further reductions in the grant percentage (already down from 61% to 49%), and tougher block grant pressures. These will also be unpopular, and we must see which is the lesser evil. The Department is working up exemplifications, for discussions with other Departments.

AUDIT COMMISSION REPORT ON BLOCK GRANT

Main Points

The report argues that there are too many uncertainties in the present RSG system. These uncertainties have led to local authority reserves, and in turn rates, being over £1200m higher than they need to be, and to a general diminution in managerial effectiveness.

The report concludes the problems that it has isolated can be dealt with by inter alia getting rid of targets, setting grants three years in advance, minimising mid year grant changes, having a rateable value revaluation.

DoE Comments

Some of the conclusions are sensible. We would like to get rid of targets. We are all in favour of minimising mid year grant changes where possible. But the report ignores the effect our policies have had in restraining local government spending so far. (See paragraph 2 of the note for agenda item C). Much of the text is tendentious. For instance, the critique of the GRE system is based on partial, anecdotal evidence.

There are three vital flaws in the report's analysis:

- a. the benchmark year used to calculate that reserves are over £1200m higher than they needed to have been is 1980/81. This is a wholly untypical year when reserves were at a historic low point. It is by no means self-evident that the build up in reserves since 1980/81 is a response to uncertainty rather than a return to their more normal levels (ie those of the late 1970's);
- b. the promotion of managerial effectiveness is at most a peripheral objective of the RSG system and is not a central criterion by which the system should be judged;
- c. in stressing the increases in authorities' reserves, the report fails to bring out that expenditure, and therefore rates, have been held down by government policies, and would have been lower still if all authorities had made the modest economies implied by the Government's targets.

17.9.84

LOCAL GOVERNMENT POLICY THREE YEARS FROM NOW.

INTRODUCTION

1. In June the Secretary of State asked for an internal paper to be prepared which would consider where present policies on local government structure and finance might lead in three years time, 1987. A preliminary discussion on this subject took place at the Sunningdale seminar in August, led by Lord Bellwin and Mr Waldegrave.

2. This paper has been prepared in the light of that discussion. It considers the background and context to the present policies; considers the circumstances which they might lead to by 1987 and the issues that might be raised; and considers the scope for, and desirability of, further examination of those issues.

THE BACKGROUND

i) The Government's Economic Policy

3. This paper confines itself on structure to the abolition of the GLC and the metropolitan county councils; and on finance to the operation of the rate support grant system and rate limitation as a means of discouraging high levels of spending by authorities. It does not deal with the question of 'abuses' in local government.

4. These policies stem from a major strand of the Government's overall economic strategy, namely that public spending and taxation should be reduced, and that the public sector should be reduced in size and made more efficient, economical and cost-conscious. Since 1979 the Government has consistently taken the view that those objectives should apply to local government just as much as to any other part of the public sector. But in trying to secure those objectives in this particular part of the public sector it faces a unique set of problems:

- i) it is dealing with over 400 elected bodies, traditionally jealous of their perceived independence;

(ii) that independence includes a freedom for authorities to determine their own spending levels and priorities in providing services to their communities and to levy their own local tax at whatever level is necessary to finance that spending;

(iii) a significant number of authorities are controlled by elected members opposed to the whole thrust of the present Government's economic policies.

5. These considerations have been particularly relevant to developments in local government finance policy since 1979 to date and will remain so to developments over the next three years; but they also have a bearing on aspects of the abolition policy.

(ii) Timescale

6. In looking forward to where current policies might lead by 1987, it is useful to keep in mind the timescale of the main events which may have a bearing on developments over the next three years - see Annex A.

7. By mid-1987, the post-abolition arrangements will have been in place for a year; we will be entering the second year of controlling joint boards' precepts and manpower and the third year of rate limitation; elections to the non-metropolitan county councils will have taken place (in 1985) and there will have been elections to London Boroughs, two rounds of elections (by thirds) to metropolitan districts, and elections (either by thirds or whole councils) to all non-metropolitan districts; and the next General Election will be approaching.

POSSIBLE OUTCOMES OF PRESENT POLICIES BY 1987

8. Possible outcomes of the current policies can obviously lie anywhere along a spectrum from outright failure to complete success.

9. Abolition might be judged as a failure initially if the policy were not implemented on time for whatever reason - delay or damage to the legislation, obstruction and non-cooperation by the authorities involved, or a practical impossibility in making all the necessary arrangements in time. Success - in 1987 - would be achieved if abolition were achieved on time and according to plan, with a reasonably smooth transfer of functions to successor bodies; it would be too early at that stage to judge whether the policy has been a success in terms of delivering a more effective and economical structure.

10. On the finance side, failure might be represented by the breakdown of the RSG system as a means of discouraging high spending; a significant number of rate-limited authorities in commission; and perhaps the general scheme on the point of introduction. Success might be characterised by a relatively small number of authorities subject to rate limitation and complying with it to reduce spending and rate levels, while the mechanisms of the RSG system would be having the desired effect in encouraging other authorities to hold their spending and rates down.

11. In practice, it is unlikely that we will be in a position by 1987 to conclude that the policies have either failed or succeeded in terms such as these. It seems more likely that in the narrow administrative context of policy implementation, the Government will be "getting by", in the sense that the policies will be in place but their effectiveness will not yet be certain. But in the wider context of the central/local government relationship it is likely that much more fundamental issues will have come to the fore - issues which could dominate the future development of local government policy as a whole. And, notwithstanding the implementation of the policies, there could be "flashpoints" where the relationship has reached some sort of crisis.

(A) Structure

12. With hard work and determination the main abolition bill will receive Royal Assent on time and without any major changes to the present policy. Once Royal Assent has been achieved - if not before - co-operation from most metropolitan districts and London boroughs (although there may still be obstruction from a few boroughs) should be forthcoming. Even with co-operation, some "turbulence" and confusion is to be expected in the initial stages and the transitional costs of abolition are likely to be more evident than the savings. But, making due allowance for such "teething problems" implementation of abolition should be going broadly according to plan, producing more accountable, efficient and cost-conscious local government in the 69 authorities involved.

13. However, the abolition proposals raise issues which are likely to reverberate beyond those authorities. There will be an increase in central government involvement especially in planning and transport matters. Joint boards will, in effect, be single-purpose local authorities and their expenditure (and possibly manpower) will be directly controlled by central Government, probably on the basis of the appropriate service GREs, for the first three years of their existence. Such a role for GREs was never envisaged at the time, and their use in this way may inevitably raise questions about the future role and autonomy of local authorities - are they now to be seen as no more than agencies of central government, delivering statutory services to a prescribed standard at a prescribed cost? Alternatively, there may be counter-pressures for direct elections to joint boards to make them more democratically accountable, a move which would threaten to recreate the abolished authorities by the back door.

14. The abolition exercise may also raise questions about the future structure and functions of local authorities outside the metropolitan areas, and in particular about the principle of unitary local government. There are, for example, long-standing pressures for change among non-metropolitan districts, where the large cities, such as Bristol, Portsmouth, Southampton,

Leicester, Nottingham and Plymouth, hanker for a return to their former multi-function county borough status. The non-metropolitan counties would predictably be strongly opposed.

(B) Finance

15. During the 1960s and 1970s the Government's public expenditure plans for local authority expenditure were formulated after extensive and fairly open consultation with local government service by service which usually resulted in a broad consensus about the level of expenditure provision needed to finance planned levels of service and a reasonable conformity of outturn to plans. This was of course facilitated by the rising levels of real expenditure planned for in these years.

16. Since 1979 the Government have wanted to secure real reductions in expenditure and have accordingly adopted a more interventionist approach. The total levels of expenditure planned for local government have been determined as a single total, which tends to have rather more regard to overall public expenditure constraints than to individual service needs; and individual targets have been set for each council within the total level (see below).

i) The Rate Support Grant System (RSG)

17. From 1981/82 the Government has exerted pressure on authorities to reduce their spending through the rate support grant system. It introduced a new RSG system - block grant - which reduced the rate of grant support for higher levels of spending and grafted on to that a system of spending targets for individual authorities, accompanied by grant penalties (holdback) for exceeding those targets. The pressure applied through both mechanisms is the same in that it gives authorities a choice between cutting their spending or putting up their rates - or striking some balance between the two. The Government's hope was, of course, that authorities would not want to risk courting electoral unpopularity with high rate increases and would therefore cut spending instead.

18. With certain notable exceptions - and despite the tone of the recent Audit Commission report - the system has had some success in slowing down the rate of growth of spending by the generality of authorities, but at a price. The reduction has been due in particular to the target/holdback mechanism, but this very mechanism is fraught with problems. It embodies a number of unfairnesses affecting both high and low spending authorities which are increasing every year; and those unfairnesses are being compounded by the fact that the holdback penalties have to be tightened each year in order to maintain pressure on high spending authorities. In addition, the mechanism undermines the equalisation principle of the RSG system; and since targets are related to previous spending levels the prospect of abolition, which will entail lower tier authorities taking on new functional and spending commitments poses further major problems for the target system. Political and practical pressures to drop targets and holdback are therefore strong; and they will be stronger still by 1987.

19. Ministers have said publicly that they would like to abandon targets as soon as possible. But it seems most unlikely that they would want to see any relaxation of pressures on local government spending. But to the extent that targets and holdback have been effective if they were dropped, some increase in local government expenditure could be expected; they would therefore need to be replaced immediately by other measures to deter high spending. Ministers have received detailed submissions on this.

Substitute measures could include an overall reduction in the level of RSG to local government and a tightening of the "conventional" block grant mechanisms to make the cost of high spending more expensive to local authorities, and hence their ratepayers. Such steps cannot however replicate the operation of targets and there would be distributional changes. Control of ^{"abolition"} joint boards' precepts ^{however} would provide additional pressure to hold down the general level of local government spending albeit in limited functional and geographical areas.

ii) The effect on rates

20. Whether targets are retained or other disincentive measures are adopted, the nature of the pressure which will be applied to the bulk of authorities will be essentially the same: a choice between cutting spending and putting up rates. There are, however, two major problems in such an approach.

21. First, it rests on the assumption that local authorities will take the view that local electors will prefer cuts in rates, rather than cuts in spending. But whatever the view of the local electorate, the fact is that in practice the linkage between local taxation and representation is generally weak, and is particularly weak in some inner city areas. On average only about a third of local electors pay full rates and more than half of local authorities' rate income comes from the non-domestic sector which as such has no vote. Local authorities may well therefore perceive that a much greater proportion of their electorates are concerned about services than about rates. The majority of authorities have nevertheless so far responded more or less as the Government would have wished. But if authorities regard the pressures on their spending as reaching unrealistic or unacceptable levels, they may decide to preserve spending levels and pass grant penalties straight on to the rate payer in the form of higher rates. Indeed, this is typically what has been happening in authorities which are now candidates for rate limitation.

22. Second, to the extent that authorities pass on grant penalties to their ratepayers, the weaknesses in the rating system are accentuated. In particular, because grant reductions and penalties, whether due to the normal operation of the block grant mechanisms or to targets/holdback, are calculated on a basis which equalises the cost in rate poundage terms of a given degree of overspend, there is an implicit assumption that rateable values represent a fair tax base in terms of relative ability to pay. Yet that is far from the case: rateable values are now more than ten years out of date and disparities now arise between authorities in different parts of the county and between similar properties in the same area which no longer seem plausible. In the non-domestic sector

in particular rateable values do not take into account either the effects of the recession in once-prosperous areas like the West Midlands or the recent rapid growth in areas like the Thames Valley. This should be put right by the planned non-domestic revaluation, but not until 1989. But there is no prospect of an early domestic revaluation.

23. Successive Governments have regarded the equalisation objective of the RSG system as a basically fair and legitimate means of redistributing resources between more and less affluent parts of the country. But it is an objective which has never found acceptance with local councillors and ratepayers, particularly in high rateable value areas. And the less rateable values reflect ability to pay - as for industries in the West Midlands - the more unacceptable the basic principles of the grant and rating systems will become. These problems may well become acute by 1987.

iii) Rate Capping

24. In April 1987 rate limitation will be entering its third year of operation. A majority of rate-limited authorities - which might be more than the initial 18 - will probably have complied with the law, with perhaps one or two in commission. But by this stage the Government could be facing conflicting and difficult pressures:

(i) the continuing pressures being exercised through the grant system on non-rate-limited authorities may, on the analysis in paragraphs 20 to 23 above, drive rates up in some areas and increase dissatisfaction with the rating system; this in turn could increase pressure from ratepayers, particularly in the non-domestic sector, for more authorities to be rate limited. And if at the same time the selective scheme were proving slow to deliver savings in public expenditure, the Treasury might by then be pressing for the introduction of the general scheme.

(ii) whether or not the pressures at (i) above materialises, it seems likely that the second and third years of rate limitation could well see some increase in the number of authorities affected - it hardly seems plausible that the number will stick at 18 over that period of time. But even a modest increase - say to 25 or 30 - will strain departmental resources substantially and will put further strains on the relationship between central and local government. There may therefore be strong practical and political pressures to contain, if not reduce, the number of rate-limited authorities.

25. The general approach adopted by the Government since 1979 has had some success in curbing the rate of growth and changing attitudes among many elected members and officials in relation to the need for much greater efficiency. But it has run into a number of difficulties. It has become clear in successive years that the Government's plans for reductions were not going to be met in full, and upwards adjustments have had to be conceded on grounds of realism. These adjustments have partly been made necessary by flagrant overspending by a few authorities. But they also reflect some degree of over-optimism about political institutional and motivational problems of achieving real savings in some individual local authorities services.

26. Thus even if the Government is "coping" with rate limitation, and has not encountered widespread confrontation, it may well face by 1987 conflicting pressures which will make the way ahead very difficult. Looking ahead over the next five years the success or failure of the Government's financial policy in relation to local government may be critically dependent :

(i) on the realism of the Government's plans, and the extent to which they can therefore be converted into credible service policies on the basis of which Departments can reasonably hope to rebuild a consensus with the majority of local authorities;

(ii) on the identification of genuine opportunities for achieving better value for money and efficiency

savings in local authority services (perhaps mainly via the Audit Commission), and development of effective means for encouraging authorities to adopt these.

POSSIBLE IMPLICATIONS FOR CENTRAL/LOCAL GOVERNMENT RELATIONS

27. By 1987 central government will have become more directly involved in the affairs of local authorities, specifically the enhanced role Government Departments will play in London and the metropolitan areas, especially on planning and highways; through the precept and manpower controls of joint boards; and through rate capping. This will no doubt give rise to tensions and difficulties, some non-co-operation and possibly confrontation. The Government will also be continuing to apply normative pressures to local authority spending through the RSG system, whether or not targets and holdback are still in use. This may well lead to a further souring of relations with large sections of local government; pressure for an extension of rate capping to other authorities; and renewed pressure for more fundamental reforms to the local taxation system.

28. Taken individually, such problems, while far from satisfactory, might be manageable for the Government, at least in the short term. But it would be altogether more difficult if they were all to coincide in certain sections of local government to form some sort of "flashpoint" in central/local relations. This might happen in inner city authorities.

29. Many inner city authorities are high spenders in the Government's terms and have proved largely unresponsive to RSG pressure. A majority of the local electorate do not pay full rates; many are dependent upon the local council for essential services, such as housing; and a sizeable proportion of them may also be council employees. The councillors serving such authorities often have close links with other parts of the public sector and/or public sector trade unions and have a high degree of political commitment. They therefore tend to place a high priority on maintaining services and jobs and will tend to pass on grant penalties to those who pay rates, rather than cutting spending. In this way they will present themselves increasingly as candidates for rate limitation.

30. It remains to be seen how councils of this type who have been selected for rate limitation respond; but at present those selected for 1985/86 are threatening to stand together and defy the policy in some way yet to be defined. If they take this position to an extreme - for example by failing to set an adequate rate to cover their expenditure - the Government could ultimately be obliged to put in commissioners to take over responsibility for running the councils' services.

31. Most inner city authorities will also be involved in the abolition exercise. If a full-scale confrontation were to develop over rate limitation these authorities may decide to withhold the co-operation which is necessary for the smooth implementation of abolition, particularly in inner London where there is not the desire among the boroughs (as there is among Metropolitan districts) to take over functions currently exercised by the upper tier. They may also refuse to participate as members of joint boards or may do so in an obstructive way.

32. It is therefore possible to envisage a situation in 1987 - one year after abolition and two years after the introduction of rate capping - where current policies combine to produce a crisis of confrontation in a handful of inner city authorities, particularly in inner London with commissioners attempting to run a number of inner city authorities. Such authorities would include Liverpool even though it is not on the rate limitation list as there is nothing to prevent any authority setting out to bankrupt itself. The problem would be compounded by the fact that such authorities could include some of the most run-down and deprived areas in the country - areas which the Government is committed to assisting through an urban programme currently running at its highest level since its inception. The Government would be portrayed as attacking communities most in need and the politics of the situation would quickly become polarised.

SCOPE FOR ACTION

33. If it is accepted that potentially serious problems may lie ahead on the basis of current policies, even if only

in certain limited sections of local government, the Government faces a choice: either it takes steps now to develop and articulate ways of avoiding problems which lie ahead; or it presses ahead with current policies mindful that problems may arise and prepared to trim and modify the policies as and when the problems materialise.

CONCLUSION

34. By 1987, the Government should have succeeded in implementing abolition and rate limitation and will be keeping up the pressure on local authority spending through the Rate Support Grant system. But these policies will by then have raised issues about the degree of central government involvement in local government affairs and the future role and concept of local government which will have repercussions for the central/local relationship and for the future development of local government policy. On optimistic assumptions, the policies may result in a set of manageable problems. On pessimistic assumptions, the policies may combine to produce some sort of crisis in central/local relationship in certain sections of local government, particularly the inner cities.

ANNEX A

December 1984:	Final 1985/86 RSG settlement details announced
April 1985:	First year of rate limitation begins
May 1985:	Non-metropolitan county council elections (metropolitan county and GLC elections suspended)
June/July 1985:	Main abolition bill receives Royal Assent
July/December 1985:	1986/87 RSG settlement announced
April 1986:	Abolition takes effect; joint boards' precepts and manpower controlled for three years from this date; some additional functions and reserve powers from Government Departments. Second year of rate limitation begins
May 1986:	Elections to London Boroughs (whole councils) to metropolitan districts (by thirds) and to some non-metropolitan districts by thirds)
July/December 1986:	1987/88 RSG settlement announced
April 1987:	Third year of rate limitation begins second year of joint board precept/manpower control begins
May 1987:	Elections to Metropolitan districts (by thirds) and to all non-metropolitan districts (some whole Councils, some by thirds)

July/December 1987:

1988/89 RSG settlement announced

April 1988:

Fourth year of rate limitation begins
third (and final) year of joint board
precept/manpower control begins

May 1988:

Elections to metropolitan districts
(by thirds) and to some non-metropolitan
districts (by thirds)

No later than June 1988:

General Election

NBPM
 AT 25/116
 CJP

2 MARSHAM STREET
 LONDON SW1P 3EB

My ref:

Your ref:

25 OCT 84

Dear Peter,

Thank you for your letter of 19 October about the control of local authority capital expenditure 1985/86.

I agree with you that the present arrangements are not working satisfactorily. But your proposals for a very severe tightening of the controls and cutting off use of accumulated capital receipts would be immensely controversial, and would cause uproar among our own local authority supporters. The shire district councils are particularly dependent on such receipts to maintain their capital programmes. They would be very difficult to operate in practice. For 1985/86, they would cause havoc to the plans authorities have been making to use their receipts.

This sort of disruption of prudent, local planning of expenditure and its finance is very destructive of value for money. It would be obvious that we would get less, rather than the more we need, from the money that actually got spent. For later years it would lead to chronic underspending on what is in any case a reducing provision, at a time when the pressures adequately to maintain and replace our capital stock will be intensifying. Coming on top of all our other battles in the local government area, it would be utter folly for us to embark on yet another major confrontation over this issue.

It would also be highly provocative to rush into a very major change to the present system at short notice and at a time when we have just started on a consultative process with local government about the defects of the present arrangements, and possible changes for the future. The Audit Commission will also shortly be reporting on this.

Your concern about the total of capital receipts which local authorities have accumulated over the past years from the sale of assets arises from the emphasis which you place on the first of the objectives described in the note attached to your letter. But the other three objectives described there are equally valid. There is a problem of reconciling them, but to promote one to the virtual exclusion of the other three is no solution.

I should remind you that we have held it out as a major incentive to authorities that they would be able to spend their receipts over time to supplement their capital allocations. It is a major part of our strategy to get assets out of the public sector, and with local authorities we have been very successful indeed. Prudent authorities (particularly our own supporters) did not rush into spending these receipts as soon as they arose, but have been building up their reserves, and working up their plans for making use of them gradually. It would be seen as a major breach of faith if we now try to prevent authorities using those capital receipts (or what comes to the same thing, reduce total allocations by the amount of accumulated receipts which they are permitted to use). It would also be seen as a clear and evident U-turn away from effective encouragement of the sale of local authority assets.

I do not believe that drastic action on these lines is in any case necessary or appropriate. The problem of accumulated receipts must after all be a temporary one. In 1981/82 and 1982/83 receipts came in much faster than authorities could spend them, leading to accumulation of receipts and "underspends" in those years.

Looking forward, we can foresee a sharp downturn in the level of receipts over the next few years as council house sales pass their peak. Local authorities will need to make use of the good harvest of receipts they have accumulated in the past few years in those lean years ahead, and the "problem" of accumulated receipts will therefore automatically unwind over this period. Your proposal would amount to commandeering the benefit of that harvest, which the authorities had prudently laid by for their own use. It would undermine their forward planning, and would seriously damage our good faith.

My own view is that the difficulties we have in controlling expenditure to the present form of cash limit are largely of our own making. Prior to 1980 Government did not seek to control capital spending as such. Instead we exercised control over borrowing by local authorities for new capital, and used the total of borrowing allocations or loan sanctions as the control total. I believe that a variation on that system could be made at least as effective as our present arrangements in influencing the total level of local authority borrowing and hence the PSBR, if we made borrowing approvals available on an annual basis as the local authority associations have recently suggested to us. That is the approach towards which we should steer for 1986/87 and beyond.

I recognise that this would require a significant change in the present PESC conventions.

Clearly it would be difficult at this late stage in the PES round - and before we have talked to the associations - to change the system altogether for 1985/86. But neither should we rush into the savage and deeply controversial tightening which you propose of the present arrangements, which are aimed at the wrong target.

CONFIDENTIAL

My own proposal for 1985/86 is that we should retain basically the present system for capital allocations pending a deeper review for the following year. When we have settled the capital provision in the Star Chamber or elsewhere we shall of course need to consider the variable parameters of the system, including in particular with withholding of a part of their allocations from those authorities which have not complied with our request to cut their expenditure in this year. We should also consider whether to tighten up the prescribed proportion of receipts that authorities may use in the year to supplement their allocations. But even a small reduction in the prescribed reduction would produce a strong reaction from local authorities, and we must retain much more flexibility than your proposals would allow.

The problem of accumulated receipts can be expected to unwind itself over a period of years, and we should not allow ourselves to over-react especially by damaging mid-year charges of course if in any one year local authorities make use of more of their accumulated receipts than we had anticipated, thus scoring technically as an overspend.

I am copying this to the Prime Minister, the other members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

Your ever
Patrick

PATRICK JENKIN

LOCAL GOVT: Relations Pt 23



25 OCT 1984

010

CONFIDENTIAL

NBPM

AT

22/10

CCNO



Treasury Chambers, Parliament Street, SW1P 3AG

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

19 October 1984

Dear Secretary of State

LOCAL AUTHORITY CAPITAL EXPENDITURE -

THE FUTURE OF THE CONTROL SYSTEM

1. Our officials have been considering since E(A) in July how the system of controlling and monitoring local authority capital expenditure could be improved. We need to decide quickly what control system to adopt before we make allocations for 1985-86 at the end of 1984. The present state of uncertainty causes great problems both for us (with a call on the Reserve of unknown, but potentially very large, size this year) and for local authorities (who have had to change their plans mid-year to meet your calls for voluntary restraint).

The problem

2. After earlier underspends, we had an overspend of nearly £400m in 1983-84, and face an overspend probably at least as large as that in the present year. As we have seen we can do little to modify local authorities' spending in-year to deal with overspending problems when they emerge. Our information base is both late and inadequate so that it is impossible to take firm action, or to know the scale of any call on the Reserve. This situation cannot continue.

Our expenditure control objective

3. First, we need to settle in our minds that we intend to make changes to the system with a view to retaining and delivering the national cash limits on local authority capital spending. When we moved in the 1980 Act to control of spending as opposed to just borrowing, we set up cash limits to seek to ensure that the national aggregates of spending accord with the total provision decided upon in the Survey. Local authority capital

CONFIDENTIAL

CONFIDENTIAL

spending is part of public expenditure; its control is essential to our control of public expenditure and to a reduction in the size of the public sector in the economy. A note by officials on the objectives of the capital control system, at Annex A, provides a useful basis for moving on to consider how these objectives can be realised.

4. I should emphasize that I do not see any justification for having an unsatisfactory control system as a way of moderating the effect of our PES decisions. We decide collectively on the provision that can be afforded and should then take the measures necessary to ensure that it is delivered.

Defects of the present system

5. We need then to consider how the present system should be modified, so that our plans are delivered in aggregate. The problems with the present system are a result of the poor match between the sum of local authorities' spending powers and the national cash limits.

6. At present local authorities are given allocations (ie permission to spend) virtually to the level of the aggregate cash limits. They are also given allocations to the value of about half the expected national total of in-year receipts. This part of receipts is thus redistributed among authorities according to need. On top of its allocations, each authority can spend for capital purposes the other half of its own in-year receipts and about half of its own receipts held over from previous years. (By a flaw in the legislation, it can also spend the redistributed half of accumulated receipts again over a period of years.) It can also anticipate or carry forward up to 10% of allocations. And there is also flexibility on so-called "non-prescribed expenditure", which is outside the control system but nevertheless scores against the cash limit. The chart attached shows the very large scope for aggregate overspend implied in this mis-match. Expenditure covered by in-year receipts does not score against the cash limit, but all other flexibilities above the cash limit line imply a potential overspend. We should improve the match if we are to be certain of achieving our public expenditure plans.

Proposals

7. I would prefer to avoid primary legislation, and simply adjust the way we work the present system, to minimise disruption to local authorities, and minimise the inevitable controversy and opposition to our proposals. There are also some areas where I believe we can offer local authorities more flexibility than we do at present, without endangering the cash limit.

8. I propose that we should ensure that the spending power of local authorities does not exceed the cash limit and their expected in-year receipts. This could be achieved as follows.

CONFIDENTIAL

9. We should retain the general principles of the present capital control system, with the same coverage of the cash limits (DOE/LAL, WO/LAL), with block allocations (which allow 100% virement between services), and with the important principle of the individual local authority's right to use capital receipts to enhance spending power both in-year and in later years. For in-year receipts I propose we retain the present prescribed proportions (50% and 40% (Housing) for most receipts in England, slightly lower in Wales for Housing). These encourage local authorities to dispose of assets, and boost gross spending without creating public expenditure problems. I am also prepared to retain the flexibility for individual authorities of allowing them to carry forward or anticipate 10% of allocations, in recognition of the difficulty of exact programming of capital spending on an annual basis. I would propose no change in our controls on borrowing or contributions to capital from the revenue side, as I believe our first priority should be better control of spending, rather than the financing of that spending.

10. We should change the way we run the system in one of two ways to reduce the present dangers to the cash limit:-

Option A

- (i) we should arrange that only 10% of the estimated £4bn of accumulated capital receipts can be used in any one year, instead of the present much higher proportions - 50% and 40% for most receipts.
- (ii) in distributing cash limit provision, we should take account of the spending power implied by the various flexibilities (10% accumulated receipts, the 10% end year tolerance on allocations, the expected level of non-prescribed expenditure) to match the total of local spending power with the national provision and the cash limit. The one exception would be in-year receipts.

Option B

- (i) we should end the practice of redistributing part of in-year receipts among authorities so that
- (ii) use of a larger proportion of accumulated receipts can be accommodated. The proportion might be 25%, to provide a greater incentive to continue disposals, and a greater relative reward to authorities which have made disposals compared with those which have not, provided that
- (iii) the total of allocations (including use of accumulated receipts), the prescribed proportion of in-year receipts and the other flexibilities (end-year tolerance and non-prescribed expenditure) does not exceed the cash limit plus expected in-year receipts.

... These options are illustrated in the attached chart.

11. The limitation on accumulated receipts can be achieved under present legislation by removing local authorities' right to use receipts from previous years, but including in their allocation an element equal to 10% (or 25%) of the level held. We do not at present have information about individual authorities' accumulated receipts holdings, but they would have every incentive to let us know so that they could receive the relevant allocations. This process could be repeated each year, so that any receipts not spent in-year are not lost, but added to the individual authority's total, on which the 10% (or 25%) could be calculated each year.

12. We could on the other hand help local authorities to work within a more effective control system, as follows:-

- (a) we could help authorities' forward planning by extending to all service blocks the forward indications now given of housing and 'Other Service' allocations;
- (b) we should undertake to review urgently the remaining project controls still operated by central government departments with a view to removing them or further simplifying them wherever possible. They are expensive in manpower as well as a source of irritation to local authorities; and
- (c) if either option A or option B is agreed in full, I would be prepared to consider a change from the present 2% end-year flexibility on the national cash limit to 5%. This would ensure that resources would not be lost to local authorities while they adjusted to the new arrangements.

13. I propose that we make an immediate announcement and introduce these changes in making allocations for 1985-86. The new 10% or 25% proportion should in principle apply to the unused balance of accumulated receipts at 31 March 1985, and at the end of subsequent financial years. In practice, since allocations should preferably be made before the start of the financial year, it might be necessary to use the figure at the end of 1983-84, or to use local authorities' estimates for the position at end 1984-85. We should seek urgently the necessary information about accumulated capital receipts from authorities. If they do not provide this promptly we could either make our own estimate to use in allocations (based on our knowledge of the level and use of receipts since 1981) or issue this element of allocations slightly later than the basic allocations.

14. I recognise that such an announcement will not help us minimize this year's cash limit breach. It will reduce the incentive for authorities to increase receipts in 1984-85, as they may be tempted to delay receipts into the new financial year so that they can use half in that year, rather than 10% or 25%. But we can counter this by emphasizing to authorities that any cash limit breach will have to lead to reductions in later years, so that it is in their own interest to minimize the overspend.

15. We cannot expect any proposals for improving control to be popular with local government. Judging from comments made by the Associations they will attack any reduction in their access to "their savings" in the form of accumulated receipts. Against this we can argue that they have of course already used the cash eg to reduce debt, and that with redistribution - and due to an error in drafting in the Act - half the receipts can be spent twice by authorities under the so-called "cascade" effect. They will also criticize the annuality of the control system. But we can point out that we are mitigating this both at local level by 10%, and at national level by 5%. More would be impracticable within the overall framework of annual public expenditure accounting. We would also be able to point to our commitment to review project controls and to give better forward indications.

16. I am sending copies of this letter to members of E(A), Leon Brittan, Norman Fowler, Keith Joseph, Grey Gowrie and Sir Robert Armstrong.

Yours sincerely

Richard Goad

for PETER REES

[Approved by the Chief Secretary]

CPWP(84)12

CAPITAL PROGRAMMES WORKING PARTY

OBJECTIVES OF THE CAPITAL CONTROL SYSTEM

In their letter of 11 September 1984 to the Secretary of State, the Chairmen of the AMA, ACC and ADC asked for a statement on the objectives of the capital control system.

2. When the Government legislated for the control of local authority capital expenditure in the Local Government, Planning and Land Act 1980, it had a number of objectives.

3. The first was to control aggregate local authority capital expenditure in line with the Government's public expenditure plans. Local authority expenditure is part of total public expenditure. Control of public expenditure is essential (a) for implementation of the Government's medium term financial strategy to reduce the public sector borrowing requirement, lower inflation and interest rates and (b) for the Government's policy of reducing the role of the public sector. It is also helpful for a control system to cover related borrowing, because borrowing for capital purposes is an element of the LABR, itself a part of the PSBR.

4. The second was to help in the objective of reducing the role of the public sector by encouraging the disposal of assets. The present control system was designed to this end, in conjunction with the Right to Buy legislation.

5. The third was within overall Government expenditure plans for local authority capital expenditure, to promote a good match between the availability of resources and the incidence of need, taking into account the Government's service priorities. This required a measure of control over the distribution of expenditure and/or borrowing. There were two elements: the distribution of resources between authorities and the direction of resources towards the Government's own policy priorities.

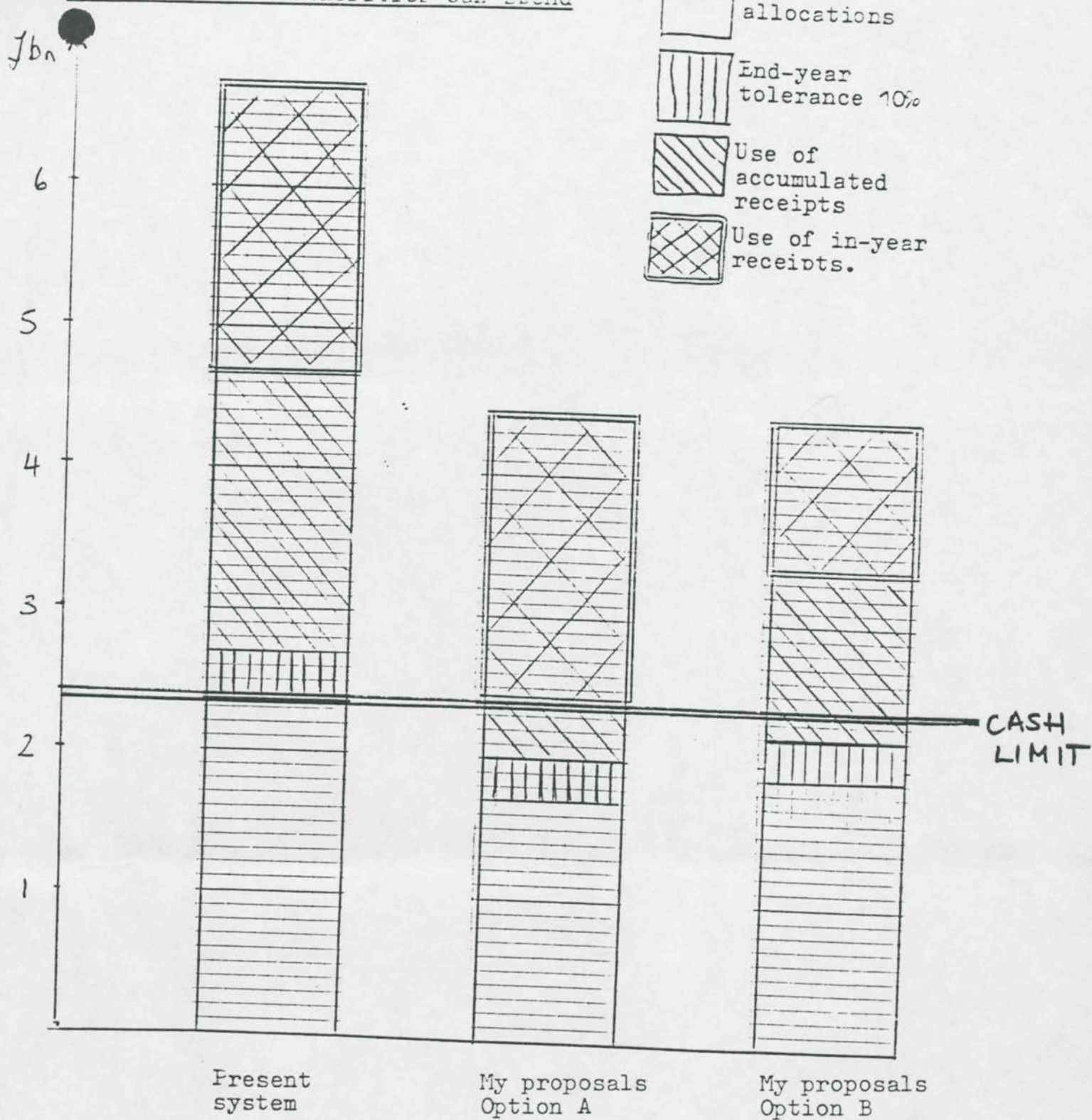
6. The fourth was to provide local government with a workable system which promoted cost effective capital programmes and which maximised freedom within the limitation necessarily imposed in pursuit of the other objectives. Capital projects may have long lead times and the workload has to be planned to match the available staff and other resources.

7. These are the objectives which the Government has had in view in operating the capital control system since 1981/82. The views of the local authority associations on the balance between these objectives would be welcomed.

FLAR Division
Department of the Environment

October 1984

How much local authorities can spend



Figures are illustrative only. Based on 1984-85 cash limit in England

CONFIDENTIAL

NBPM
AT 17/10
C. J. 100



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

17 October 1984

Dear Patrick,

INQUIRY INTO THE WORKING OF LOCAL GOVERNMENT

In paragraph 7 of your minute of 2 October to the Prime Minister you say that you assume that I (and the Secretary of State for Wales) would wish to be formally associated with the inquiry into the working of local government.

I now confirm that for my own part I think the inquiry should certainly cover Scotland and I would therefore wish to be formally associated with it. No doubt you will be consulting Cabinet colleagues in due course about membership, on which there should be adequate Scottish representation. The consultations you propose with Local Authority Associations should, of course, include the Convention of Scottish Local Authorities.

On the terms of reference, it would surely be best to mention Scottish legislation explicitly. The corresponding Scottish provisions to sections 137 and 142 of the Local Government Act 1972 are sections 83 and 88 respectively of the Local Government (Scotland) Act 1973.

Copies of this letter go to those who received copies of your minute.

Yours sincerely,

George

Local Govern: Relations Pt 23

11/7/01

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



NPPM AT

✓ NO

16/10

CABINET OFFICE
70 Whitehall,
London SW1A 2AS
Telephone 01-233 3340

October 1984

Dear Michael,

ABOLITION: BY-ELECTIONS

The Paymaster General has seen Mr Baker's letter of 4 October. He has asked me to say that he agrees with the proposal not to include provisions on by-elections in the abolition Bill.

I am sending a copy of this letter to the Private Secretaries to the Home Secretary, the members of MISC 95 and to Richard Hatfield.

Yours sincerely,

Alex Galloway

A K GALLOWAY
Private Secretary

Michael Bailey Esq
Private Secretary to the
Minister for Local Government
Department of Environment
2 Marsham Street
LONDON SW1P 3EB



N/SPT

AT

12/10

CCAO

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Patrick Jenkin MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London SW1

October 16 1976

NEW BURDENS ON LOCAL GOVERNMENT

PT 22

Thank you for sending me a copy of your letter of 12 September to Willie Whitelaw about central government initiatives which make it more difficult for local authorities to economise.

I entirely agree that it is important to keep new initiatives to a minimum. We have tried to do this in the DHSS field, and to keep your Department and the Treasury informed of all prospective developments. While I accept the aim of the proposals at b. and c. of your letter I wonder how practical they will prove to be. For example, it may be that only by preliminary consultation with the local authority associations can we achieve the degree of precision in estimating costs that DOE and the Treasury are likely to want.

I have no additions to propose to the list annexed to your letter, but the DHSS items could be more accurately described. I am enclosing a revision of that part of the list. Three of the items need further comment.

- Item 3 relates to a side effect of recent legislation to increase the private market for spectacles (with savings for the NHS); this involves improved consumer protection. There has been the fullest consultation between Departments, and a PES transfer of up to £0.5 million is proposed from the health and personal social services programme to consumer protection spending by local authorities.
- I really think item 4 should be omitted, and hence the brackets in my list. If local authorities have to spend more on drug misusers this is a consequence of increased drug misuse; it is to this, not to any proposals we have made, that local authorities must react.
- On item 5, I do not accept that the setting up of the Social Services Inspectorate I propose would result "in due course" in "pressure for additional resources." I have corresponded exhaustively with you and with Peter Rees on the subject, and you have accepted that the basis on which consultations are now being pursued with the local authority associations does not involve unacceptable implications for the future.

Proposal	Originating Dept	Financial and Manpower implications	Current status where known
1. Consultation paper on child abuse.	DHSS	Aim - to make better use of existing resources.	Consultation at official level.
2. Children in care			
a. - Guardians ad litem - Separate representation for care proceedings - Various adoption provisions.	DHSS	a. £1.0m.	a. Already implemented
b. - Custodianship, review of children in care.	DHSS	b. No additional net cost expected.	b. Consultation at official level.
3. Consumer protection for purchasers of spectacles.	DHSS	+ £0.2 - 0.4m.	Consequential on measures in the Health and Social Security Act 1984 to break the opticians monopoly, reduce NHS provision and increase the private market.
[4. Treatment and rehabilitation of drug misusers.	DHSS	not quantified.	Consequence of public alarm at increased drug misuse. Regional health authorities have been asked to consult local authorities in assessing scale of problem and action to deal with it.]
5. Social Services Inspectorate.	DHSS	More effective use of existing resources.	Consultations with local authority associations on announcement not yet concluded.
6. Ethnic minorities under Fives report	DHSS/Inter Departmental	Intended to help more effective use of existing resources but also implied pressure for additional spending by LAs.	To be promulgated by DHSS.

CONFIDENTIAL



NBPM
AT 10/10
CCNO

Treasury Chambers, Parliament Street, SW1P 3AG

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

10 October 1984

Dear Secretary of State

NEW BURDENS ON LOCAL GOVERNMENT

I have seen your letter of 12 September to Willie Whitelaw. I am sure you are right to draw attention to this. While individually the sums look de minimis, they do, as you say, mount up. Rate capping and precept control of joint boards will highlight this problem.

2 I welcome your intention to tackle it but, notwithstanding the points made by Keith Joseph in his letter, believe we should go further than you propose.

3 When central government departments want to increase their own Vote-borne expenditure, they have to find offsetting savings in order to ensure that aggregate public expenditure does not increase. We do not apply the same rules to local authority expenditure but in principle we should.

4 In particular, I propose that where a department's plans add to local authority expenditure, the department should make suitable transfers from its central government programmes into the baselines for local authority current provision for future years. This would avoid any net increase in public expenditure in future years, and also answer the local authorities' charge that central government was prepared to transfer functions but not provision.

5 This would bring treatment of additions to local authority functions into line with what we already do for central government. But I would be prepared to make an exception to this rule where a Department could specifically identify a function or duty that would be dropped in order to generate an equal saving, and took appropriate steps to ensure that local authorities were under no obligation to perform it. I also would not seek to apply the rule where local authorities are affected as, for example, any other employer.

6 I do not believe that this is a breach of the normal "ringfence" rules. We all realise that adding to local authorities' tasks will add to spending; the principle of the ringfence is that we cannot ensure that any local authority savings we identify will be delivered. I realise that my exception is open to the same criticism, but I would nonetheless be prepared to accept it where it is clear that some linked action is being taken which will have the effect of reducing pressures on expenditure. In this context, I recognise that our bias should be towards dropping the number of functions performed by the public sector. I am not trying to change the other aspect of the ringfence; I accept that corresponding central government programmes should not automatically be reduced in the face of a prospective local authority overspend which departments have not, over the relevant period, directly generated.

7 Of course focussing on "new burdens" should not in any way distract us from the more important problem on existing functions - of conflicting signals given by individual service departments on their services and by the pressure for restraint in aggregate.

8 Copies go to the Prime Minister, the Lord President, members of E(LA) and Sir Robert Armstrong.

Yours sincerely

Richard Brooker

for PETER REES

[Approved by the Chief Secretary]

576

CONFIDENTIAL



NAPM
BT 10/10 CCM/0

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

9 October 1984

Dear Lord President

ABOLITION BY-ELECTIONS

I have seen Ken Baker's letter of 4 October to you and I agree generally with its conclusion.

Although the position in the Metropolitan County Councils is not precisely the same as that of London and I am not therefore entirely persuaded that mass by-elections there would not damage our case, I do think that the most likely period in which this tactic might be used is the time when the Abolition Bill is going through Parliament. This danger could not be countered by the Abolition Bill and, since the powers which we took in the Paving Bill have been limited in operation to the period after 1 October 1985, to attempt to strengthen them now when there is no evidence of a greater danger in that period would seem to me to be over emphasising the problem. The more we can keep the question of elections out of the Abolition Bill, the better I shall be pleased.

I am copying this letter to Leon Brittan, Ken Baker, the other members of Misc 95, John Selwyn Gummer and Sir Robert Armstrong.

Yours sincerely

Charles Marshall

for JOHN BIFFEN

(approved by the Lord Privy Seal
and signed in his absence)

Viscount Whitelaw CH MC
Lord President of the Council

CONFIDENTIAL



- 9 OCT 1984





Prime Minister (2)
 To note response on
 the Gevison case. AT
 8/10

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

5 October 1984

Dear Andrew

Thank you for your letter of 25 September about a case which has been drawn to the Prime Minister's attention where the GLC had proposed to lease equipment for a three year term, on payment of a once-for-all lump sum at the outset. You asked in particular whether such practice represents a major avoidance of the controls over the activities of the abolition authorities that are contained in the Local Government (Interim Provisions) Act 1984, and whether it appears to be widespread.

I attach a background note on the controls which explains how they relate to contracts entered into by the GLC and the metropolitan county councils. In the absence of any details about the proposal by the GLC it is difficult to offer advice about whether the controls would bite in such a case. In particular the value of the contract might be below the £100,000 threshold above which consent is required, or the proposal might not have reached the stage at which the GLC wished to apply for consent.

If, nonetheless, the proposal is above the value threshold in the Act, it is clear that the method of payment under the contract would not be material in determining whether consent is required. Arranging payment in the manner described cannot, therefore, be regarded as a device designed to circumvent the controls: indeed, it could be argued that this would be to the benefit of successor authorities since it would relieve them of any financial commitment. If consent were sought we would nevertheless wish to be satisfied that the contract would neither bind successor authorities unnecessarily to a particular mode of service provision nor involve needless overprovision.

* Such evidence as we have appears to show that all the authorities concerned are taking the controls seriously: we have received no reports of major or widespread evasion, as we might expect to do if it were occurring. We have not received a sufficiently large number of applications concerning contracts to be able to say whether the method of payment proposed in this case is exceptional.

* But how can DoE know when it is the responsibility of the authority to initiate consent

Finally, it is not clear if the leasing company withdrew because of their concern about the effect of the controls. But as the background note explains, they would have no reason to be concerned that the contract might, for example, be terminated prematurely solely on the grounds of the Act being contravened. Indeed, one minor difficulty that we have had in operating the controls has been to counter propaganda, particularly from the GLC, that third party interests are being adversely affected by the new controls.

Yours sincerely

John Ballard

J F BALLARD
Private Secretary



Background note

LOCAL GOVERNMENT (INTERIM PROVISIONS) ACT 1984
COUNTER-OBSTRUCTION PROVISIONS

1. The controls in sections 7, 8 and 9 of the LG (Interim Provisions) Act require the GLC and metropolitan county councils to obtain the Secretary of State's consent to, respectively,

- expenditure after 1 April 1985 under s.137, LG Act 1972 (the '2p rate' provision);
- disposals of land; and
- contracts

Section 9, which concerns the authorities' entering into contracts, specifies the financial limits above which consent is required: these range from £100,000 to £250,000 depending on the nature of the works or services provided. In considering whether the financial limits have been exceeded, an authority must take into account the consideration under any contract of the same or similar description entered into during the previous 12 months.

2. On application by a constituent council or by a local government elector in the relevant area to the High Court, a failure to obtain consent may result in the council members responsible for entering into a contract being disqualified from membership of the abolition authority and any other authority for such periods as the court may specify. It is, however, for the authority to decide if a particular contract requires the Secretary of State's consent, and the stage, before a contract is let, at which they seek such consent. The Secretary of State has no power to 'call in' a particular proposal for decision; and the Act specifically provides that a person entering into a contract with the authority shall not be concerned to inquire whether any consent has been given. It also provides that a contract shall not be void by reason only that consent has not been obtained.

3. Applications for consent are considered in the light of whether they might be "obstructive" in the sense of being prejudicial to the Government's abolition proposals or to the interests of successor authorities or their ratepayers. Contracts for periods extending beyond 1 April 1986 are accordingly subject to careful scrutiny; but the making of a single payment at the outset of a leasing agreement might not in itself be considered obstructive, since it would not result in any financial commitment to be met by successors. Such an arrangement would not be a means of avoiding the controls because these are concerned with the total consideration under the contract, and not the method of payment; and it could conceivably offer the lessee some financial advantage.

DOE/LG5

October 1984

8

NBSM AT 5/10

APS/Mr Baker

DISTRICT AUDITOR'S REPORT ON THE GLC

with AT

The Secretary of State has seen your minute of 4 October. He has asked "how far can we comment? Is it "sub judice"?"

The Secretary of State would be grateful for further advice on the line to be taken. If appropriate it should include the answer to the charge of why Government did not stop it sooner.

JFB

J F BALLARD
PS/Secretary of State

5 October 1984

- cc PS/Mr Waldegrave
- Mr Heiser
- Mr Roscoe
- Mr McCreadie
- Mr McDonald
- Mr Turnbull, No 10



4 October 1984

TR.

ABOLITION: BY-ELECTIONS

I have been considering whether we should legislate in the abolition Bill to restrict further the scope for the GLC or the MCCs to call "stunt" by-elections.

Section 2(3) of the Paving Act cancels all by-elections after 1 October 1985 other than:

- (a) vacancies pending on 1 October; or
- (b) where the number of vacancies exceeds one-third.

(a) means that individual by-elections could be held up to the first week of November, because a vacancy declared on 30 September might not be filled until 8 November. (b) means that there could be mass by-elections up to abolition day. Incidentally, Labour members could stage mass by-elections in all the MCCs, except Merseyside, without losing political control in the election period.

The London Government Act 1963 cancelled all by-elections from Royal Assent. The 1972 Act cancelled all by-elections from the end of that year - Royal Assent being received in October. We could legislate in the abolition Bill to prohibit by-elections (other than those pending) from Royal Assent, which we hope will be July 1985. This would follow the 1963 Act precedent.

The GLC by-elections had only a limited impact. Although some MCC leaders are making threatening noises, it is now rather less likely than seemed the case early in the summer that other Labour councillors will resign and force by-elections. If they did they would presumably choose a time most likely to embarrass the Government, ie May 1985, when the GLC/MCC elections would have been held, or critical dates as the Bill goes through Parliament. We could not prevent these by-elections. All we can do is ensure that no by-elections are held after August 1985.

Although such legislation would reduce the scope for potentially embarrassing by-elections and for wasting ratepayers' money on election gimmicks, it would introduce a controversial element into the Bill to counter a situation which may well not arise. Moreover, the GLC experience suggests that stunt by-elections harm opponents of abolition rather than the Government.

I therefore propose, subject to your views and those of Leon Brittan, not to include provision on by-elections in the abolition Bill.

I am copying this to Leon Brittan, the members of MISC 95, John Selwyn Gummer and Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

KENNETH BAKER

The Rt Hon The Viscount Whitelaw CH MC DL *Lord President*

CMO CONFIDENTIAL

NBM
AT
8/10
CCM



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

4 October 1984

Dear Patrick

INQUIRY INTO THE WORKING OF LOCAL GOVERNMENT

Thank you for sending me a copy of your minute of 2 October to the Prime Minister.

I am broadly content with what you are suggesting, subject to one point on your proposed form of words for the Party Conference. This is that I think your reference (in lines 5 and 6) to doubting whether the constitutional framework can continue may cause unnecessary alarm. The issues raised by "constitutional" (eg electoral mechanisms, the central/local relationship) go much wider than dealing with the abuses with which we are concerned. I would much prefer you to use some such phrase as "a procedural framework and system of conventions which derives ..." which seems to me much nearer what is in mind.

Copies of this letter go to the Prime Minister, Cabinet colleagues, the Chief Whip, and Sir Robert Armstrong.

*John
Llew*

The Rt Hon Patrick Jenkin MP

CMO CONFIDENTIAL

SUBJECT
C. Master Set.

File
Not circulated

SECRET

RECORD OF A MEETING HELD AT 10 DOWNING STREET AT 1730 HOURS
ON 4 OCTOBER 1984, TO DISCUSS LONDON DIMENSION OF ABOLITION.

PRESENT

Prime Minister
Secretary of State for the Environment
Minister for Local Government
Lord Avon
Mr. Letwin
Mr. Turnbull

Mr. Baker outlined the legislative timetable for the Abolition Bill. The third print would be available next week, when it would go to the House authorities to be checked that the Bill was not hybrid. The Bill would go to Legislation Committee on 21 November and be introduced in the House before Christmas. It was hoped to complete the legislative stages and receive Royal Assent by July.

Mr. Baker said the trickiest issue was the demand for a "London Voice" for which there was substantial pressure. Mr. Baker said that under no circumstances could there be a new elected authority or a new executive authority to succeed the GLC. Nor should there be any building on ILEA. The idea of a statutory London Boroughs Association should be resisted (the Conservatives could lose control of this).

Nevertheless, it might be necessary to concede an advisory body. He had in mind an advisory committee similar to the South East Region Planning Commission. This would have no money-raising powers and would be concerned solely with land use planning.

/It was essential

SECRET

- 2 -

It was essential that the arguments for a London body should be resisted fiercely at the outset. If a new body were conceded at Second Reading or in Committee it would quickly attract new functions and grow into a mini GLC. Mr. Baker suggested, therefore, that if such a concession were necessary it should be made at Report Stage in the Commons just before Easter. Mr. Jenkin suggested an alternative was a London Grand Committee which could be set up without legislation. The Prime Minister said this would be no more than a talking shop and the Government should not consider it unless it was driven to it.

The Prime Minister asked about the possible uses for County Hall. Mr. Baker said it would be preferable to sell it to the private sector; under no circumstances should a Government Department be put in there. The Prime Minister suggested either a prestigious hotel or the location of the British Library which would obviate the need for the expensive new building which was just being started.

Mr. Baker hoped the building would be sold for an advantageous price which would allow a dividend to be paid through the rates. Alternatively, the proceeds could be devoted to a useful capital project such as a road scheme.

Mr. Baker promised to send the Prime Minister a note on the possible uses for the building.

The meeting ended at 1800 hours.

jt

4 October 1984

ANDREW TURNBULL

CONFIDENTIAL



Prime Minister

DS

PS/MR BAKER

AUDITOR'S REPORT ON GLC SPENDING UNDER SECTION 142

4/2.

1. Last night's misleading account in the Standard has been convincingly corrected by this morning's press reports. Mr Baker's memorandum of 2 October 1984 to the Prime Minister requires no amendment.
2. We still lack access to the Auditor's report itself, but I understand that not only does it challenge much of the GLC's recent spending under Section 142, but it also categorically rules out the use of Section 111 for anti-abolition purposes.
3. The report, I understand, spells out that none of the expenditure under Section 142 prior to yesterday will give rise to the threat of surcharge or disqualification of councillors because they had been acting on the basis of professional advice; but the auditor also implies that such protection is not available in respect of any subsequent spending on campaign material which relies on the use of Section 142. Consequently, I gather that GLC officers have taken immediate steps to embargo any new expenditure under Section 137 until the legal position is clarified; they clearly want to preserve as much headroom as possible (within the product of the 2p rate) to enable them to meet their publicity costs under that section should the Auditor's ruling on Sections 111 and 142 be upheld.

De

D C PICKUP

4 October 1984

cc PS/Secretary of State
PS/Mr Waldegrave
Mr Heiser
Mr Roscoe
Mr McCreadie
Mr McDonald
Mr Turnbull, No 10 ✓

CONFIDENTIAL

CMO



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

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

4 October 1984

to Patrick

INQUIRY INTO THE WORKING OF LOCAL GOVERNMENT

to segment

I know that the Prime Minister has given her approval to the terms of reference for the above inquiry proposed in your minute of 2 October, but I think it worth registering my doubt about the precision of (d) in those terms of reference. Would it not look better if (d) ended with the word "spending"? The particular relevance of Sections 137 and 142 of the Local Government Act 1972 could easily be explained separately.

I do not think that there would then be any more chance of the inquiry not devoting sufficient attention to those Sections than there would be of the inquiry failing to concern itself with the other abuses that worry us - even though those are not mentioned in the proposed terms of reference.

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

Erin Lewis



Ref. A084/2640

PRIME MINISTER

Local Government Finance

(C(84) 28 and 25)

These memoranda follow up the discussion at your meeting of Ministers last Thursday. The Secretary of State for the Environment proposed then that the motion on the Party Conference agenda on the abolition of domestic rates and its eventual replacement with an alternative system of local taxation, should be dealt with by announcing the establishment of a wide-ranging review of local government finance. Your meeting concluded that the Party Conference motion was not acceptable and that it should be dealt with by proposing a suitable amendment, and that a formal review should not be established though further studies within Government might be put in hand with suitable arrangements for Ministerial supervision. C(84) 28 is a memorandum by the Secretary of State for the Environment proposing an amendment to the Party Conference motion and the line he proposes to take in the debate; C(84) 25 is a note by me setting out proposed arrangements for Ministerial supervision of the further work.

MAIN ISSUES

2. The main issues before the Cabinet are as follows:
- i. What line should be taken at the Party Conference and what should be the terms of an amendment to the motion?
 - ii. What should be the broad scope of the work to be done?
 - iii. What should be the arrangements for Ministerial supervision?

The Party Conference Motion

3. With the proposed amendment, the Party Conference motion would read:

"This Conference welcomes the rate capping legislation as a necessary measure to protect ratepayers in high spending areas, and urges the Government to make

improvements in the local government financial system which will strengthen local accountability and encourage responsible local spending policies."

The Secretary of State for the Environment, in responding to the debate, proposes to refer in general terms to the Government's intention to look closely at the most serious deficiencies of the present system of local government finance, in particular the imbalance between those who pay for local services and those who enjoy them, while avoiding any impression that the work would have the status of a formal review.

4. The danger is of raising expectations that it will not, at the end of the day, be possible to satisfy. The working of the motion is probably as non-committal as the Government could hope to carry: the Secretary of State's line is to avoid speculating about the outcome of any further thinking. It might be best even to be slightly pessimistic.

The Further Work

5. There is not as yet any considered programme of work. The Secretary of State says, however, that it will need to range beyond the previous examination of alternatives to domestic rates since that exercise showed that one could not "unplug" rates and "plug in" an alternative without looking more widely at the scope for changes in grant arrangements and service responsibilities. Implicitly, therefore, the work will cover at least alternative sources of finance, and alternative grant arrangements and service responsibilities. The last may have implications for organisation.

Supervision

6. My note C(84) 25 sets out the arrangements for supervision which you agreed earlier in the week, ie the work to be steered by a reconstituted E(LF) under your chairmanship with membership extended to include all the principal local authority Ministers plus the Chief Secretary, Treasury, the Lord President and the Chancellor of the Duchy. The work itself will be undertaken by the Department of the Environment,

consulting as necessary with other Departments, under the close supervision of the Minister for Local Government (Mr Baker). Mr Baker will submit a programme of work for the Committee's approval as soon as possible with a view to material coming forward for consideration by the Committee by next spring.

HANDLING

7. You will wish to invite the Secretary of State for the Environment to open the discussion. The Chancellor of the Exchequer, the Chief Secretary, Treasury, and the Secretary of State for Education and Science (because of the significance of his programme) may, in particular, wish to comment. The Paymaster General may have views on the handling of the Party Conference.

8. It will probably be better to avoid detailed discussion of the drafting of the Conference amendment. If there is a need to rework it, the Secretary of State for the Environment might be asked to consult with you, the Lord President, the Chancellor of the Exchequer and the Paymaster General.

CONCLUSIONS

9. You will wish the Cabinet to reach conclusions on the following:

- i. that, without any formal review being established, further work should be done on local government finance on the broad lines described in C(84) 28;
- ii. that close Ministerial oversight will be necessary, as set out in C(84) 25;
- iii. whether the amendment to the Party Conference motion and the line to take proposed by the Secretary of State for the Environment are acceptable.

3 October 1984

approved by ROBERT ARMSTRONG
and signed in his absence.

3

Lindsay Wilson.

Cabinet filing

FROM: CHIEF SECRETARY
DATE: 3 October 1984

PRIME MINISTER

**PARTY CONFERENCE:
MOTION ON LOCAL GOVERNMENT FINANCIAL ARRANGEMENTS**

I have seen the Secretary of State for the Environment's paper C(84)28.

2 I am rather concerned that his proposed amendment and what he proposes to say in responding to the debate will raise expectations of major change in the system of financing local government. I think this would be a mistake for very much the reasons which persuaded us against announcing a formal review. It is not clear that we will be able to devise and deliver a solution to the intractable problems of the rating system and it is important not to create a sense of uncertainty about our aims at the time that we are introducing rate capping and abolishing the metropolitan counties.

3 I hope, therefore, that the Secretary of State will agree to modify the amendment, in particular to avoid the words "urges the Government to make improvements", and will be careful not to raise expectations of further reforms of the rating system when he responds to the debate.

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

PETER REES

file

SM



10 DOWNING STREET

From the Private Secretary

3 October 1984

INQUIRY INTO THE WORKING OF LOCAL GOVERNMENT

The Prime Minister has seen your Secretary of State's minute of 2 October. She is content with the proposed terms of reference and his suggestions for handling the announcement.

She has commented on the draft that the reference to "a constitutional framework" makes it sound like a very fundamental inquiry. She wonders whether a more appropriate description would be "a conventional framework".

I am copying this letter to the Private Secretaries to members of Cabinet, Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

John Ballard, Esq.,
Department of the Environment



10 DOWNING STREET

From the Private Secretary

Prime Minister

Mr Jenkin and Mr Baker wish to have an informal discussion about the "London Dimension". It is not a subject about which they talk freely in the Department. Not have they written anything down.

I do not know whether they want to discuss how to defeat the arguments for a London dimension, or what tactical retreat could be made if the pressure is too great. I hope the former.

AT
3/10

CONFIDENTIAL

3 October 1984

PRIME MINISTER

A VOICE FOR LONDON

There will be a concerted effort to create a Voice for London as part of the campaign against the Met abolition proposals.

The dangers for us lie not only in the traditional Opposition, but in the success they are likely to have at Conference and beyond in attaching Conservatives to their cause. Some of the current Conservative GLC councillors, looking forward to the oblivion that comes from loss of office, will be very sympathetic. Some London MPs will join the bandwagon (eg Philip Goodhart). Patrick and Ken will probably argue we need a fallback position.

None of the local government options being canvassed - a small elected Authority, a chain-gang of Borough Mayors, an expanded Joint Board which takes care of general issues - is desirable. All of these call into question the very point of abolition, provide a launch-pad for further expenditure and lobbying, and give the Opposition a signal victory.

The only conceivable solution which meets the requirements to incur no extra expenditure, to have some elected Authority, and to be to a greater extent under Government

CONFIDENTIAL

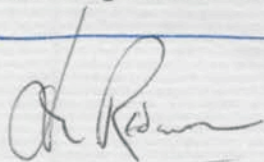
CONFIDENTIAL

control, would be the Grand Committee of the House. Even this admits weaknesses in the Met abolition strategy, and invites the question "why not Grand Committees for other parts of the country as well?"

The right approach for Patrick and Ken to follow is to go out and win the argument. If we really believe that local government is best made accountable at the local level, and that the borough is the sensible unit of local government, we should say so loud and clear. There are no large trans-borough issues which need a separate voice: strategic planning has always been a Socialist nightmare.

The meeting could be used as an opportunity to explore with Patrick and Ken the timetable for finalising the structure of London government; for explaining it to the people; and for exploring again the lack of progress in coming up with savings. By concentrating attention on Voice for London, the Government runs the danger of fighting on ground chosen by its opponents. The vital thing is to stake out some ground of its own and go and occupy it immediately.

If, after trying to win, Ken finds it is now too late to hold the desired line over Voice for London, the least unacceptable fallback position is the Grand Committee.



JOHN REDWOOD

CONFIDENTIAL

CONFIDENTIAL



Fleko

10 DOWNING STREET

From the Private Secretary

3 October 1984

This is to record that the Prime Minister has seen your Minister's minute of 2 October about the report by the GLC Auditor on the Council's publicity campaign. She was grateful for this report.

TIMOTHY FLESHER

Mike Bailey, Esq.,
Department of the Environment.

CONFIDENTIAL

Fleko



Minister for Local Government

Prime Minister

GLC PUBLICITY CAMPAIGN

You may have seen today's account in the Standard of a statement made by Ken Livingstone at Blackpool yesterday that the GLC's Auditor is about to produce a report in which he will declare much of the GLC's recent expenditure on publicity to be unlawful. I think that colleagues might find it useful to have our initial reaction to this.

I should first explain that the Auditor's report is neither made nor even copied to this Department. The report, when produced, will belong to the GLC who will be at liberty to decide when to make its contents public. Both the Auditor and the Audit Commission are independent of the Department, and we cannot demand access to the relevant papers. It is an auditor-client relationship.

We understand, however, that the Auditor - having taken Counsel's opinion - is proposing to declare as unlawful such expenditure under Section 142 of the Local Government Act 1972 as he judges to be of a persuasive, as distinct from a neutrally informative, character. Not all the material published by the GLC as part of their "Awareness Campaign" will be deemed ultra vires, but a great deal of it is likely to fall foul of this new interpretation of the statute. The Auditor will probably be offering the GLC an opportunity to make representations before any specific item of expenditure is declared unlawful.

Rather than making such representations, however, it is much more probable that the GLC will challenge the Auditor's ruling in the Courts. It is, therefore, unlikely that the matter will be finally resolved for several months.

There are two other important points -

i. as we understand that the GLC had obtained legal advice before incurring the relevant expenditure under Section 142, there would be no question of the councillors involved being subjected to surcharge or disqualification even if the auditor's interpretation of that Section is eventually upheld;

ii. we understand that the Auditor is likely to advise the GLC that much of the expenditure he proposes to disallow would not have been challenged had the local authority used Section 137 of the Local Government Act 1972 ("the tuppenny rate") instead. We would find such a ruling a little curious but would need to examine the Auditor's interpretation - once it became available to us - with great care. However, this alternative provision will provide little comfort to the GLC since they have already fully budgeted their Section 137 resources for 1984/85 on other activities, and we have taken powers in the Paving Act to control their use of Section 137 from 1985/86.

Although, as I have indicated above, an early final outcome to this dispute cannot be expected, there is no doubt that the Auditor's report might cause other local authorities to hesitate before financing more publicity from the rates. And, of course, the questions that are being raised will be highly relevant to the work of the proposed Inquiry into Local Government Practices and Procedures.

I am copying this to Willie Whitelaw, Nigel Lawson, Leon Brittan, Keith Joseph, Norman Fowler, John Biffen, Peter Rees, Nicholas Ridley, Grey Gowrie, John Wakeham, Nicholas Edwards, George Younger, John Gummer, and to Sir Robert Armstrong.

K.A.

KENNETH BAKER

2 October 1984



Prime Minister

Prime Minister

This is the proposal envisaged at your meeting last week. Agree

INQUIRY INTO THE WORKING OF LOCAL GOVERNMENT Mr Jerkin's proposals
subject to colleagues? Or

1. At your meeting on local government policies on 27 September, we agreed on the need for an inquiry into some aspects of the working of local government - and particularly the abuses which are arising from the breakdown of long-established conventions.
2. The last ten years have seen major changes in the nature of local politics, especially in urban areas. In more and more local authorities the democratic process is being undermined by limitation of the rights of minorities, by the erosion of the independence and political neutrality of officers, by 'cross-employment' whereby local government officers employed by one authority serve as councillors in another, and by use of rates to finance party political propaganda. These practices are at variance with the traditional constitutional framework of local government.
3. Not all the developments in local government are undesirable - a strong administration can bring benefits. But the tension between theory and practice in local government is undesirable; and some of the abuses that arise from the lack of safeguards are very worrying. However, there is no comprehensive set of ready-made answers; and even more important, we cannot develop remedies which will commend public support without the public airing of the issues that an inquiry can provide.
4. We must carry out the inquiry in a way which will command public confidence. It is important that the inquiry should, if at all possible, enjoy bi-partisan support; and that its examination of increasing politicisation should not be represented as simply an attack on the views of our political opponents.
5. To head the inquiry, we need a constitutional lawyer of some stature, supported by a small committee. The local government members



should include representatives of both major parties.

6. We must consider carefully the terms of reference. We should steer the inquiry towards looking primarily at the implications of politicisation for decision-making, including the role of officers in that process. We should emphasise that our concern is with the health of local government. I suggest that the terms of reference might be as follows:

"To inquire into procedures and practices in local government in Great Britain with particular reference to

- (a) the conduct of council business;
- (b) the rights and responsibilities of elected members;
- (c) the respective roles of elected members and officers; and
- (d) the limits and conditions governing discretionary spending under Sections 137 and 142 of the Local Government Act 1972 and analogous provisions

and to make any necessary recommendations for safeguarding the democratic process."

7. I have assumed that the Secretaries of State for Scotland and Wales will wish to be formally associated with the inquiry.

8. I would propose making a Parliamentary statement about the inquiry. I would consult the Local Authority Associations and the Opposition parties on the composition of the committee and the 'modus operandi' of the inquiry - but not formally on the terms of reference.

9. You will understand that I must say something on this subject at the Party Conference, in view of the widespread concern expressed by our supporters last year, and no doubt due to surface again at Brighton - especially following the publication of the report which Charles Goodson-Wickes has prepared, and which is to be published on



Saturday 6 October. I would therefore propose to include in my speech
/ a passage on the lines of the attached draft.

10. I seek agreement to the proposals for handling set out above, and in particular to the terms of reference and the form of words to be used in my Conference speech.

11. I am copying this to Cabinet colleagues, to John Wakeham, and to Sir Robert Armstrong.

PJ

P J

2 October 1984



ANNEX 1

REFERENCE TO ABUSES AND GOODSON-WICKES REPORT

The Government have therefore decided that these significant changes taking place in local government cannot be ignored. This is not just a matter of "abuses" - though these certainly exist. Rather is it a question of whether, as we near the end of the 20th century, local government can continue to operate within a constitutional framework which derives from the 19th century. *Constitutional?*

We have heard calls for swift government action on this matter. I understand the reasons for that. But the issues are complex - too complex for snap decisions. We need a dispassionate study, not only of the "abuses" but also of their underlying causes.

When Parliament reassembles, I shall put to the House proposals for an inquiry into these issues. We will consult with the major political parties and with local government. This conference should be in no doubt; we are fully resolved to protect the health of local democracy in the years ahead.

'Constitutional' makes

it sound like a very

fundamental inquiry indeed

ms

PART 22 ends:-

CDL to Home Sec 27.9.84

PART 23 begins:-

c (84) 28 of 186 - Oct. 84

~~SS/Environment to PM 2.10.84~~

KODAK Q-60 Color Input Target

C M Y



IT8.7/2-1993
2007:03

<FTP://FTP.KODAK.COM/GASTDS/Q60DATA>

Q-60R2 Target for
KODAK
Professional Papers

