

~~SECRET~~

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Relations between Central and  
Local Government.  
Local Authority Expenditure.  
Local Authority Elections.  
Abolition of GLC & MCC's.

LOCAL

GOVERNMENT

Pt 1: May 1979

Pt 27: June 1985

② (Audit Commission Report on Barnet Council 1984/85)  
① (Audit Commission Report (4/7/85: in folder attached)

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>3.6.85</del>		<del>25/7/85</del>					
<del>7/6/85</del>		<del>29.7.85</del>					
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PART ~~26~~ 27 ends:-

AT to DOE (Mtg Record) 31.7.85

PART 28 begins:-

0 return to Pm 1.8.85



## 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.

Audit Commission for Local Authorities in England and Wales:  
Obtaining Better Value for Money in Local Government – Progress  
Review for HM Government – July 4, 1985

Audit Commission for Local Authorities in England and Wales:  
Profile of Barnet, London borough Council 1984/85 – November  
1984

Audit Commission for Local Authorities in England and Wales:  
Report and Accounts year ended 31 March 1985  
IBSN 0 11 701283 1

Signed J. Gray Date 20/2/2014

**PREM Records Team**

*subject as master**File**(H21AAU) B85**cc: Oliver Letwin*

10 DOWNING STREET

*From the Private Secretary*

31 July 1985

*Dear John,*LOCAL AUTHORITY CAPITAL EXPENDITURE

The Prime Minister held a meeting today to discuss the system for controlling local authority capital expenditure. Present were: the Lord President, Chancellor of the Exchequer, Secretary of State for the Environment, Secretary of State for Wales, Chief Secretary, Chief Whip and Mr. Baker. Also present were Mr. Brearley and Mr. Letwin.

In discussion it was quickly agreed that legislation in the next Session to amend the system along the lines suggested by the Chief Secretary or the Secretary of State for the Environment was unattractive. The Prime Minister said the Policy Unit had put forward an alternative proposal which Ministers might wish to consider. Its main characteristics were:

- (i) 100 per cent spending of in-year receipts, but no carrying over of permits into future years;
- (ii) Freedom to spend from rate fund on capital, subject only to normal block grant pressures and rate caps;
- (iii) borrowing controls instead of capital allocations;
- (iv) freedom to use, say, 10 per cent of accumulated receipts each year, unless the backlog had disappeared.

The Secretary of State for the Environment said there were attractions in such a scheme which would avoid the need for primary legislation. It could be implemented by orders. Councils would be pleased to be able to spend 100 per cent of in-year receipts. The Chancellor of the Exchequer also thought the scheme was worth examining further. He was worried, however, that unless the permitted amount of borrowing was kept very low, it would result in higher expenditure. One result might be a switch from current to capital expenditure which might be desirable. The Secretary of State for Wales pointed out that in Wales there was a large backlog of Housing Improvement Grants and the

*B85*

prescribed proportion of housing receipts was lower than in England. It was argued that some Councils might have difficulties in spending where receipts came in late in the year, though it was noted that a similar scheme operated successfully in Scotland, and end-year tolerances could be built in.

Summing up the discussion, the Prime Minister said that a scheme along the lines she had suggested should be further developed, for operation in 1986-87. The implications for different kinds of Council and for different services would need to be examined. Such a scheme would represent an interim arrangement pending the outcome of the local government finance review.

I am copying this letter to Joan McNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Colin Jones (Welsh Office), David Morris (Lord Privy Seal's Office), Hugh Taylor (Home Office), Rob Smith (Department of Education and Science), Tony Laurance (Department of Health and Social Security), Richard Allan (Department of Transport), Murdo Maclean (Chief Whip's Office), Mike Bailey (Minister for Local Government's Office), Richard Broadbent (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

*Yours sincerely  
Andrew Turnbull*

Andrew Turnbull

John Ballard, Esq.,  
Department of the Environment.



Prime Minister ①  
 To note Mr Younger's report.  
 Agree that if Edinburgh do  
 decide to come into line  
 he should proceed  
 as suggested i paras 7 and 8?

CG/NO

SCOTTISH OFFICE  
 WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL - CMO

AT

31/7

Prime Minister

*Yes Mr*

31 July 1985

MISC109: EDINBURGH

1. I am minuting to report on the present position on my action against Edinburgh District Council. I last minuted to you on this subject on 26 June.
  
2. Since that date Edinburgh District Council have decided to comply with the default action which I took to require them to reduce their rate fund contribution to the housing revenue account by £5.6 million and correspondingly reduce the District rate by 1.8p. I believe that within the Labour Group there was a substantial majority in favour of compliance. Failure to comply with the court order would have put the council in contempt of court and liable to fines. I await details of all that Edinburgh propose on this: they are trying to avoid rent increases and decisive reductions in expenditure but they seem anxious also to avoid further confrontation with the courts on this issue and they now have a legal rate.
  
3. I also took selective action to reduce the Council's rate on the grounds that on its non-housing budget it was planning excessive and unreasonable expenditure. On 17 July the Commons approved a report which has the effect of requiring the Council to reduce its rate by 5.2p. If the Council fail to do this by 14 August, their rate will be deemed to have been reduced by 5.2p and the reduction will automatically take place. (Until that date I have power to agree - as I see fit - to a reduction). The problem arises over how the authority decide to respond to the resulting reduction of £16 million in their income. If they revise their budget and cut their spending (as other councils have done previously in this situation), there will be no problem. However, if they decide to spend at the level of their original budget, taking no account of their rate reduction and borrowing ahead, I estimate that they will run out of money about November. They will then be unable to provide services and pay staff.

E. P.

4. The Labour group are at present considering what action to take. Judging from press reports, they may be tempted to some form of creative accounting to avoid having to make the full cuts implied by the rate reduction. This will almost certainly be insufficient. The Council will have to make cuts in its budgeted expenditure if it is to balance its books. Any attempt to use borrowed money to keep up their budgeted level of spending would be illegal.

5. If they decide deliberately to run out of money in order to embarrass the Government, there are 2 courses available:

a. for me to give special consent for the Council to borrow (subject to any conditions I may impose) in order to keep going for the remainder of the year. This would cause the minimum of administrative disruption but the Council would have circumvented selective action and I could be involved in time consuming arguments about periodic borrowing applications.

b. to replace the Council with commissioners.

6. This second course would require me to take the necessary new powers. My Department is already examining the draft legislation being prepared on a contingency basis by the Secretary of State for the Environment. Unless I hear to the contrary from the Lord President I should like to assume that I have H Committee approval to draft on a contingency basis Scottish provisions for inclusion in the commissioner legislation if such legislation is to be introduced for application to England. I think it is essential that the legislation should apply to Scotland unless by the time a decision on introduction has to be made, there has been a clear solution of the problems in Edinburgh. If Scotland were not covered and Edinburgh is still confronting the Government, it would give entirely the wrong signal to Edinburgh. It goes without saying that I consider that any commissioner legislation should be in general terms covering the United Kingdom (with appropriate Scottish provisions) and on the scenario I have in mind could not be based on an English text that was intended to be specific to Liverpool.

7. Edinburgh District Council next meets on 1 August when they should decide whether to adjust their expenditure or whether to take no account of the rate reduction, and spend regardless. They may well decide to take a middle course in which they argue inter alia for a reduction in the 5.2p rate reduction. Either



E.R.

Michael Ancram or I may have to have discussions with representatives of the Council at that stage (ie before 14 August). I am clear that I am not in the business of horse trading; the only basis on which such discussions can take place is if the Council accepts that by their own actions they have created an impossible situation and come to seek a marginal change in their rate reduction as part of a considered and comprehensive package of measures designed to solve the problems they have created. I will have to be sure that in the event of us acceding to such a request there can be no claim by the local administration that the District has benefited by their actions, and that any such adjustment would be granted only to soften the damage which will otherwise arise.

8. On the basis that any such change would be marginal, and as I have at my own hand made such adjustments in every case of selective action in the past, can I take it that in the event of my deciding to do so, this would not require further reference to colleagues? I should emphasise again that I would only do so subject to the above criteria, and that there has been no hint given to the authority that this is within my contemplation.

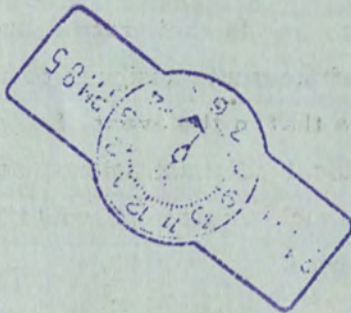
9. Copies of this minute go to members of MISC109, Sir Robert Armstrong and to Kenny Cameron.

C.Y.

G.Y.

Local Govt : Relations #27

P.R.





File

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

30 July 1985

Dear Peter,

AUDIT COMMISSION ANNUAL REPORT

Following the presentation to the Cabinet on 4 July by John Banham and my letter of 19 July about following up the work of the Audit Commission, I thought that you would be interested to see the Commission's annual report for the year ended 31 March 1985. It was published this week and a copy is enclosed.

As might be expected, the report draws attention to the considerable opportunities for improved value for money in local government and explains the Commission's approach. It also contains some forceful (and I think helpful) words about the waste and inefficiency to be found amongst authorities which have sought to defy the law and obstruct the Government's local government policies.

Kenneth Baker is writing this week to all English MPs commending the work of the Commission and enclosing a copy of the excellent summary of its annual report which the Commission has prepared. For any MPs who wish to know more about what the Commission has been up to during the past year copies of the full report are available in the vote office and can also be seen in the House library.

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

Yours ever  
Patrick

PATRICK JENKIN

FOR



F.L.

MR. TURNBULL

LOCAL GOVERNMENT FINANCE

Lord Rothschild telephoned to ask if he could see the Prime Minister before her holiday to report on where the team were getting to on the reform of local government finance.

I spoke to William Waldegrave who thought that it would be a good idea.

I have fitted Lord Rothschild in at 1700 hours on Tuesday 6 August.

I agreed with Mr. Waldegrave that no-one from DOE should be present but that Mr. Letwin should be asked to produce a note, in consultation with Mr. Mayer, on the latest position so that the Prime Minister would have it before she saw Lord Rothschild.

F.R.B.

30 July 1985

LOCAL AUTHORITY CAPITAL SPENDING

The options are:

1. Accept the Chief Secretary's proposal; but that means an element of retrospection.
2. Accept Patrick Jenkin's proposal; but that means big spending.
3. Revise the Chief Secretary's proposal so that it affects only receipts acquired from 1986/7 onwards; but that will be described as 'appallingly tough'.
4. Do nothing since there won't be much double counting this year anyway; but that will let the pile of accumulated receipts go on growing.
5. Ask ministers to consider (1) ending redistribution and (2) separating the prescribed proportions for in-year and accumulated receipts; that gives more flexibility, but it still won't be popular. - as per para 11' of Cabinet Office brief.
6. Tell everyone to get a move on with this part of the local finance review, so that a proper new system of capital controls can be put into place in the 1985/6 Parliamentary Session. This could mean:
  - 100% spending of in-year receipts, but no carrying over of permissions into future years;
  - freedom to spend from rate-fund on capital, subject only to normal block-grant pressures and rate-caps;
  - borrowing controls instead of capital allocations;
  - freedom to use up 10% of accumulated receipts each year, until the pile has disappeared.

On reflection, we strongly recommend option 6. There is really no need to have another year of misery.

*Oliver Letwin*  
OLIVER LETWIN

cc: OL  
BHP



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*Oddi wrth Ysgrifennydd Gwladol Cymru*

WELSH OFFICE  
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WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
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*From The Secretary of State for Wales*

The Rt Hon Nicholas Edwards MP

30<sup>th</sup> July 1985

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*De Pab*

**LOCAL AUTHORITY CAPITAL EXPENDITURE: USE OF RECEIPTS**

Thank you for copying me your response of 17 July to the ideas proposed in Patrick Jenkin's letter to you of 16 July for dealing with past and future local authority capital receipts. I have also read with interest Keith Joseph's contribution of 24 July.

I thought it would be useful before our meeting at No 10 on Wednesday if I briefly set out my views on the key issues involved. I do so on the basis of common agreement that the present anomaly as regards the double counting of capital receipts should not apply to those receipts generated in future years, though I am not sure it is really necessary to legislate to achieve this.

First, the issue of whether present year receipts should count (in whole or in part) as past or future receipts. I am surprised that there appears to be any doubt about this. Authorities have budgetted on the basis of a certain flow of receipts in the present year. We know what those receipts are and will shortly be scoring them as known receipts in our estimated outturns for the present year. It would come as a bombshell to councils if we were to announce, at this stage, our intention to view 1985/86 receipts as 'new' or 'future' receipts, and to treat them differently from those which accrued in earlier years. An attempt at retrospection on this scale would severely damage our existing fragile reputation with local authorities and undermine the positive aspects of our decisions for 1986/87 on the RSG side. I therefore strongly support Patrick's position that the starting point should be the assumption that the dividing line between past and future receipts should be 31 March 1986.

Secondly, the differential there should be between the degree of access to past and future receipts.

In order to provide sufficient incentive for authorities to generate new receipts Patrick's proposal to have (with a few minor exceptions) a standard, and fixed, prescribed proportion of 50% would appear to be the absolute minimum we should accept. A lower figure could very well be counter-productive as there is a risk that the receipts flow could reduce by more than the desired adjustment to authorities' gross spending capacity.

/As for ...

The Rt Hon Peter Rees QC MP  
Chief Secretary



As for the level of access to present accumulated receipts, we are in a particular quandary in Wales, where the prescribed proportion of housing receipts is 15 per cent, compared to the 20 per cent applying in England. I am still faced with a backlog of housing improvement grants dating back to the 90 per cent grant initiative, representing perhaps £150m to £200m in total. I am under extreme pressure to find some way to allow this backlog to be cleared, and in particular to permit housing authorities access to their accumulated receipts for that purpose.

Thirdly, there is the closely related and crucial issue of resources. While I fully acknowledge your very real concerns we must recognise the equally difficult problems which would be faced by those of us with service responsibilities if we were to attempt, in the crudest fashion, to depress the existing level of spending as you propose. I agree with Patrick that this could be extremely damaging politically. We would therefore appear to have only two realistic options. To maintain our existing planning total, introducing a control mechanism based broadly on Patrick's model, and tolerating a measure of overspending which we allow for in the reserve; or, alternatively, to introduce the same rule changes whilst adjusting service provisions to a level which we genuinely believe the new control mechanisms can deliver. I strongly favour the second course. We would gain credit for both the additional allowance for capital investment and our ability to meet our spending targets.

We will of course need to explore these arguments further on Wednesday.

I am copying this letter to the Prime Minister, Patrick Jenkin, Keith Joseph, Nicholas Ridley, Norman Fowler and Sir Robert Armstrong, and also to Willie Whitelaw, Nigel Lawson, John Biffen, John Wakeham and Kenneth Baker.

Jenkin

Nicholas





Local Govt Relations





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PRIME MINISTER

Local Authority Capital Expenditure

FLAG A — (Letter of 29 July from PS/Chief Secretary  
to PS/Prime Minister)

BACKGROUND

1. The Local Government Finance Studies will be putting forward proposals for a new system for controlling local authority capital expenditure in the longer term. However, E(A)(85)12th meeting on 1 July considered two proposals for legislation next session to deal with problems in the interim. One proposal, to plug a loophole concerned with mortgage finance was agreed. The other, to deal with the growing overhang of accumulated capital receipts, the so-called "cascade", was not finally settled. Summing up the discussion you said:-

"more effective long-term arrangements for controlling local authorities' capital expenditure would have to be settled as part of the Government's wider study of local government finance. Local authorities could not, however, be deprived of the benefit of their accumulated unspent capital receipts, given the Government's repeated commitments on this point. Nevertheless, tight constraints would need to remain on the rate at which the overhang of past receipts could be spent, while maintaining the incentive to authorities to continue to realise assets; this seemed to point to different treatment for past and future receipts. The Secretary of State for the Environment should consider further with the Chief Secretary, Treasury and the other Departmental Ministers concerned, how best to achieve these objectives. Decisions on the public expenditure provision for local authority capital expenditure would need to be taken in the context of the Public Expenditure Round, in the light of this further work."



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Discussion between Mr Rees and Mr Jenkin has failed to resolve the issue and you are holding a meeting tomorrow to consider their latest proposals.

2. The problem arises because the present system permits authorities to spend, in any year, a prescribed proportion (at present 30% in general) of their in-year receipts plus the same prescribed proportion of the accumulated receipts unspent in earlier years. The system necessarily means that the total of accumulated receipts grows year by year (it is £5.7bn this year) so that spending can only be kept within its limits either by cutting allocations (unpopular and politically difficult) or by reducing the prescribed proportion year on year (which also reduces the incentive to authorities to generate receipts).

3. The proposals in front of the meeting are:-

Mr Jenkin's proposals

- (a) No change in the present rules for accumulated receipts from past years up to and including 1985/86. No change in prescribed proportions.
- (b) For future receipts, authorities will not be able to spend the non-prescribed proportion at any time. The prescribed proportion would be fixed statutorily at 50% for most receipts.
- (c) A major uplift in local authority capital provision for 1986/87 onwards. (NB. This issue is for the public expenditure round).

Mr Rees' proposals

- (a) The present rules for accumulated receipts remain for past years up to and including 1984/85 ie not 1985/86.
- (b) No change in prescribed proportions this year.



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(c) The "cascade" is ended for receipts carried forward from 1985/86 as well as from future years.

(d) The prescribed proportion for housing receipts to be increased from 20% to 30% in 1986/87 onwards.

The effects of these proposals on provision etc. are set out in the Annex.

#### MAIN ISSUES

4. Public expenditure issues should be settled in the Survey discussions (as agreed at E(A)). Permanent longer-term arrangements for controlling local authority capital expenditure will come to E(LF) in due course. This meeting should focus on the interim issues, viz:-

(i) should the cascade be ended?

If so - should it be ended?

(ii) should it be ended with effect from 1985/86 or 1986/87? and

(iii) what adjustments should be made to the prescribed proportion for in-year receipts?

If not -

(iv) What alternative action should be taken?

#### Ending the cascade

5. The justification for ending the cascade is that present arrangements "double-count" the non-prescribed proportion of receipts for, at least in principle, they are (a) redistributed to other authorities and available to be spent by them in the year in which they arise and (b) available to be spent by the authority whose receipts they are in subsequent years. In fact while the non-prescribed proportion of receipts was fully redistributed up to 1984/85, only £1bn of the approx. £1½bn available was redistributed ~~up to~~<sup>in</sup> 1985/86, and in future years the quantum which can be redistributed will be very small unless there is a major



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uplift in local authority capital provision. Furthermore, because of the overhang of accumulated receipts from the past, elimination of the cascade will not enable extensive redistribution to be restored.

6. Additionally, it is very likely that a proposal to end the cascade will be vigorously opposed. Authorities will argue that it is wrong in principle to remove from them (for ever) the right to spend their own receipts. Whether or not their receipts have notionally been redistributed to other authorities does not affect this point.

1985/86 or 1986/87?

7. If the cascade is to be ended, should it be with effect from the present year 1985/86 (as Mr Rees argues) or from 1986/87 (as Mr Jenkin argues). Mr Jenkin asserts that he gave assurances in the House earlier in the year about authorities' freedom to spend their receipts over time which were taken to include the present year. He therefore regards action on 1985/86 receipts as ruled out by these assurances and asserts that in any case legislation to cover this year could not be secured. The Chief Secretary argues that, because 1985/86 is not yet far advanced, an early announcement would enable authorities to take whatever action they thought best, and would not be open to charges of sharp practice.

The Prescribed Proportion

8. Mr Jenkin suggests that the prescribed proportion should be set at 50% (for most cases) in the legislation. He obviously believes that this will make it easier to secure legislation ending the cascade. Mr Rees concedes only that the proportion for housing receipts should be brought from its present low level of 20% to the general level of 30%.

9. Setting a statutory prescribed proportion at a relatively high level like 50% might help secure legislation. It would,



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however, give Ministers no room for manoeuvre in the future to adjust the proportion for the varying circumstances of each year.

10. If the proportion is not to be set statutorily, I suggest that it should not be set at this meeting either. It is one of the variables available for adjustment each year along with allocations and gross provision to produce an acceptable package. It should therefore be settled in the public expenditure discussions.

#### Alternative Approaches

11. If complete elimination of the cascade for future years is not acceptable are there other avenues that can be explored? Presumably the objective is to enable service ministers to point to defensible capital allocations for their particular services, and to maintain the incentive on authorities to generate receipts within a reasonable gross provision. As long as the same prescribed proportion has to be applied to both in-year and accumulated receipts (which is what the present legislation requires), the overhang of accumulated receipts must have the effect of forcing a reduction in the prescribed proportion or in allocations or both each year unless there is an offsetting increase in the gross provision. Reducing the prescribed proportion will reduce the incentive to generate receipts. One way out may lie, however, in legislating to enable different prescribed proportions to be set for in-year receipts and for accumulated receipts. In this way a relatively high proportion may be set for in-year receipts to maintain incentives, and a relatively low proportion for accumulated receipts to provide head-room for allocations to be maintained or increased. Such an approach would very likely generate its own problems in the longer-term but it might suffice for a few years while new permanent arrangements are devised and put into place. It could be combined with a decision to end redistribution.

#### HANDLING

12. You may like to make it clear at the outset that this is not the occasion to discuss either public expenditure or long-term



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arrangements. The issue is whether there are acceptable short-term measures which will assist over the next two or three years.

13. You should then ask the Secretary of State for the Environment and the Chief Secretary to introduce their respective proposals. I suggest that you then guide the discussion to consider, first, whether the cascade can be abolished. If so, from which year? If not, are there alternatives? In particular, would a power to set different prescribed proportions for in-year and accumulated receipts be helpful.

#### CONCLUSIONS

14. You will wish to register conclusions on:-

- (a) whether the cascade, ie authorities' entitlement to spend their accumulated receipts, should be ended;
- (b) If so whether this should be with effect from 1985/86 or 1986/87, and whether the prescribed proportion should be set at a statutory level (50% or 30%) at the same time;
- (c) If not, whether the setting of different prescribed proportions for in-year and accumulated receipts should be legislated for, and whether with or without an end to redistribution.
- (d) Whether any other alternatives should be pursued as interim solutions for legislation early next session.

C J S BREARLEY

30 July 1985

## ANNEX

£bn	1985-86		1986-87	
	1	2 Status Quo	3 DOE PROPOSAL End cascade from 1986/7. Increase average pp from 25% to 50% for receipts in 1986/87 and beyond.	4 TREASURY PROPOSAL No cascade from 1985/86. Increase average pp from 25% to 30% for receipts in 1986/87 and beyond (and any unspent receipts from 1985/86).
Total accumulated receipts	5.7	6.3	6.3	4.7
Total spending power from receipts	1.7	2.1	2.6	1.8
Allocations (assuming 85% use of spending power and baseline provision)	3.0	2.3	1.8 <sup>†</sup>	2.6
Gross provision	4.03*	4.1	4.1	4.1

\* Forecast outturn in range 4.0-4.9

<sup>†</sup> It is accepted that this figure for allocations is unrealistically low. Any higher figure, combined with the other elements in column 3, would imply spending above baseline provision.



**The Audit Commission  
for Local Authorities in England and Wales**

1 VINCENT SQUARE, LONDON SW1P 2PN  
TELEPHONE: 01-828 1212 TELEX: 299192 AUDCOM

FROM THE CHAIRMAN

Prime Minister ②

I have thanked Mr Read for sending  
the report. You might like to look  
at his Foreword. Much of the  
material in the Report was included  
in the Presentation to Cabinet.

JLR/EMC/AC

29 July 1985

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

R30 AT 30/7

*mt*

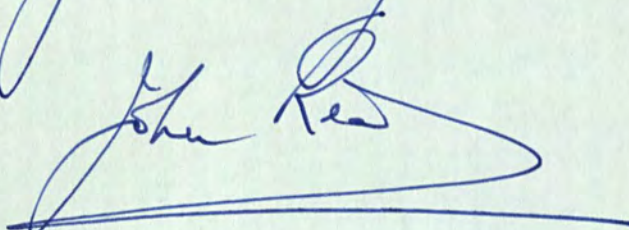
NB Audit Commission ltr  
in folder at back  
of file.

See HMSO ISBN 0 11 702831

JS  
29/7/85

Dear Prime Minister,

As you know we have today published The Audit Commission Annual  
Report & Accounts in respect of the year ended 31 March 1985. I  
have pleasure in enclosing herewith a copy of the said Report &  
Accounts. If you have any questions I shall be only too pleased  
to answer them.

Yours sincerely  


Enc

clb/1



Prime Minister (2)

To note AT 29/7

MB

PRIME MINISTER

MISC 109: LIVERPOOL CITY COUNCIL SITUATION REPORT

I attach an updated situation report on the present position in Liverpool. There are no special points to which I need to draw attention. We will continue to keep you and colleagues in touch during the Recess if and when anything of significance occurs.

I am copying this minute to members of MISC 109, the Secretary of State for Scotland and Sir Robert Armstrong.

*W. J. G. G. G.*

P J

29 July 1985

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



## MISC 109: LIVERPOOL SITUATION REPORT

## I AUDIT - DELAY IN RATE FIXING

1. Last month, 49 Labour Councillors in Liverpool received formal notices of surcharge for £106,103. The date of 19 July was the deadline set by the Auditor for Councillors to respond to the notice, giving reasons why they should not be surcharged. However the Auditor may extend the deadline for a week or two because some Councillors refused initially to accept receipt of the notices. If the Auditor is not swayed by any representations, certificates of surcharge are now likely to be issued in the second half of August. Councillors are expected, as they may do so under the legislation, to appeal against the surcharge.

2. When I last made a situation report, the Auditors in Lambeth and Liverpool were having difficulty in gaining proper access to Council papers. In these circumstances my Department consulted the Attorney General on whether or not the relevant Accounting Officers should stop payments of mandatory or discretionary grants, or both, because there was no guarantee that the money would be properly used. Treasury Counsel's Opinion, endorsed by the Attorney General, made it clear that the Accounting Officer would not have grounds for stopping payment of mandatory grants (such as block grant, or rate-related grants) until the Audit Commission had exhausted all possible measures open to it to gain access, including Court action. On discretionary grants, the Accounting Officer should decide his position according to the circumstances of the particular case, but would have to have good grounds for withholding payment. The problem has receded for the moment, as the Auditors have once again gained access to Council property and papers. My Department will keep this situation under review.



## II FINANCIAL POSITION

## BUDGET

3. The City Treasurer presented a report to the Council's Finance and Strategy Committee on 10 July. He made it clear that with the present rate (a 9% increase) and budget (£265m) the Council would in due course be unable to meet its financial obligations. The position could be retrieved only if the Council is prepared to reduce the budget (the Treasurer has shown how £10m can be saved (which would attract a further £22m of RSG) and is looking at further options), or if the rate is quashed and a new one made. The likelihood of budget reductions being made is impossible to assess at present; the possibility of quashing the rate is slowly gaining currency in Liverpool but it remains pure speculation as to whether anyone will take it up.

4. The District Auditor made a formal report to the Council on the budget deficit on 19 July, setting out the options - financial collapse, major spending cuts, and/or the quashing of the original rate. As of 26 July, the Council had reached no decision on these issues.

## REFINANCING OF DEBT

5. Knowlsey Metropolitan Borough Council have decided to repay Liverpool £21m worth of debt owed on Council houses transferred to Knowlsey in 1974. Borrowing approval has been given to Knowlsey to pay off the debt by reborrowing at a more advantageous rate, on the condition that Liverpool gives an undertaking to use the money to redeem market debt. Knowlsey repaid Liverpool £15m of the debt last



year on the same conditions. The arrangement will give Liverpool an immediate cashflow benefit, and should enable it to cope with a major debt refinancing requirement which arises at the end of August.

#### CREDIT

6. Liverpool wrote to the PWLB to ask if there were any circumstances in which the PWLB would lend to them, short of the Chief Solicitor providing a certificate of legality. The Board have concluded that Liverpool's present assurances are unsatisfactory, and have decided not to lend. We have no information on whether Liverpool is trying, or able, to borrow in the market.

#### III MEETINGS

7. I met Labour MPs from Liverpool at their request on 15 July. I made it quite clear - and this has subsequently been confirmed in writing to the Council - that there can be no meetings with the Council to discuss its rate and budget, or to reopen decisions on Rate Support Grant and targets. I also made clear that one way forward would be for an interested party locally to challenge the Council's rate in the Courts. The MPs asked if I would be prepared to see Labour Front Bench Spokesmen on the issue; I indicated that I was prepared to do so without the Council present, and I have subsequently received a request from Dr Cunningham but he asked to be accompanied by Liverpool City Council leaders. I have replied that I would be happy to meet him, but not with Councillors. He is considering the position, but is likely to accept the offer of a personal talk.



## IV RATE LIMITATION

8. The list of authorities selected for rate limitation was announced on Thursday 25 July. The criteria for selection for authorities not previously designated are that budgeted expenditure in 1985/86 should be more than 20% over GRE and 4% over target. On their present budget of £265m, Liverpool are 22% over GRE and 19% over target. They will thus be subject to rate limitation from 1 April 1986.

## V CONTINGENCY PLANNING

9. My Department is looking at the latest prints of the general and Liverpool-only Commissioner Bills. Notes on Clauses are being prepared.

## VI EDINBURGH

10. I understand that George Younger will be circulating a separate note to MISC 109 on Edinburgh, and on the handling issues that arise from Edinburgh's attitude to the proposed rate reduction. We need to ensure that the strategies in England and Scotland are being kept broadly in line. We may need to consider in due course whether Scotland should be covered by the draft general Commissioner Bill, against the possibility that Edinburgh might collapse. The drafting implications are being considered; it will be important that they should not significantly increase the complexity of the Bill.



Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
London  
SW1

29 July 1985

Dear Andrew

**LOCAL AUTHORITY CAPITAL EXPENDITURE**

.....  
In preparation for the Prime Minister's meeting on 31 July,  
I attach a note by DOE and Treasury officials which sets  
out the proposals made by the Secretary of State for the  
Environment and the Chief Secretary together with copies  
of the relevant correspondence between the two Ministers  
and a note of the discussions they have had on this subject.  
.....

I am copying this to Joan MacNaughton (Lord President's  
Office), David Heyhoe (Lord Privy Seal's Office),  
John Ballard (Environment), Murdo Maclean (Chief Whip's  
office) and Richard Hatfield (Cabinet Office).

Yours sincerely  
Richard Broadbent

**RICHARD BROADBENT**

LOCAL AUTHORITY CAPITAL CONTROLS: PROPOSALS FOR LEGISLATION IN  
1985-86 ON THE USE OF RECEIPTS

Note by DOE and Treasury officials

E(A)(85)12th meeting on 1 July invited the Secretary of State for the Environment, in consultation with the Chief Secretary and other Ministers directly concerned,

"to give further consideration to the treatment of past and future local authority capital receipts, having regard to the need both to contain the rate at which outstanding balances are spent and to maintain the incentive to authorities to generate future receipts."

2. The Secretary of State for the Environment has proposed, in his letter of 16 July:-

- a. No change in the present rules for accumulated receipts, or for receipts arising in the 1985-86 financial year. The cascade rule would continue to apply to these receipts, so that the prescribed proportion of the remaining unused part of receipts would be available in each year in the future for capital expenditure. Prescribed proportions would be unchanged at:-

20% for most housing receipts

30% for housing land and most non-housing receipts

100% for low-cost home ownership receipts

1% for repayment of Housing Association Grant.

- b. New rules to apply to receipts arising in 1986-87 and beyond. The cascade rule would be ended for these receipts, so that authorities could spend the prescribed proportion for the year in which the receipt arises once (in that year or later as they wished), but no more at any time. The prescribed proportion would be fixed in the legislation at 50% for most receipts, except that the present 100% and 1% proportions would remain unchanged and the proportion for housing land would be restored to 100%.



- c. A major uplift in local authority capital provision for 1986-87 onwards (Departments' bids for 1986-87 total £750 million).

3. The Chief Secretary has proposed, in his letter of 17 July,

- a. No change in present rules for accumulated receipts from years up to and including 1984-85. For those receipts, the cascade rule and prescribed proportions would apply as described in paragraph 2(a) above;
- b. No change in prescribed proportions for in-year use of receipts arising in 1985-86;
- c. Ending the cascade with effect from the carry forward of unused 1985-86 receipts. For receipts arising in 1985-86 and later years, the prescribed proportion would be available once only, and the prescribed proportion would be applied again to any unused part to determine how much of it could be used in a subsequent year;
- d. The prescribed proportion would be increased from 20 per cent to 30 per cent for housing receipts realised in 1986-87 onwards (and for any unspent portion of the prescribed proportion of such receipts arising in 1985-86.)

On the question of public expenditure provision, the Chief Secretary points out that E(A) noted that provision would be settled in the context of the Public Expenditure Survey.

4. The attached table compares the effects of these proposals in 1986-87 with the effect of continuing present rules, assuming public expenditure provision at the present baseline. On that premise, which the Secretary of State does not accept, his proposal would increase spending power from receipts, and reduce the amounts available for allocations to £1.8 billion. The Chief Secretary does not accept that £1.8 billion is a realistic level of allocations. He thinks that if £2.3 billion - the "status quo" - is taken as the minimum realistic figure for allocations, the proposal would imply a significant overspend, of perhaps £400 million over the existing baseline.

5. Either proposal would require primary legislation as agreed by E(A). This note does not discuss what options there might be under existing arrangements without legislation.

## ANNEX

fbn	1985-86		1986-87	
	1	2 Status Quo	3 DOE PROPOSAL End cascade from 1986/7. Increase average pp from 25% to 50% for receipts in 1986/87 and beyond.	4 TREASURY PROPOSAL No cascade from 1985/86. Increase average pp from 25% to 30% for receipts in 1986/87 and beyond (and any unspent receipts from 1985/86).
Total accumulated receipts	5.7	6.3	6.3	4.7
Total spending power from receipts	1.7	2.1	2.6	1.8
Allocations (assuming 85% use of spending power and baseline provision)	3.0	2.3	1.8 <sup>†</sup>	2.6
Gross provision	4.03*	4.1	4.1	4.1

\* Forecast outturn in range 4.0-4.9

<sup>†</sup> It is accepted that this figure for allocations is unrealistically low. Any higher figure, combined with the other elements in column 3, would imply spending above baseline provision.



NOTE OF A MEETING HELD IN THE CHIEF SECRETARY'S ROOM

ON THURSDAY, 18 JULY 1985

Present:

Chief Secretary  
Mr Pirie  
Ms Spencer  
Mr Ellis

Secretary of State for the Environment  
Mr D Osborne  
Mr P Fletcher

LOCAL AUTHORITY CAPITAL:  
LEGISLATION IN 1985-86 SESSION

Mortgage Refinancing

The Secretary of State said that it was a relatively straight forward matter to legislate to prevent mortgage refinancing without the consent of the individual mortgagor. There would not therefore be difficulties in making the legislation effective from the date of announcement with the exception of non-housing mortgages on which further consultation would be required. However, it would be very difficult to devise a water-tight definition which ensured that risk passed with the sale of a mortgage. Wide-ranging consultations would be necessary if the legislation was not to be easily evaded. Since the Government were not in a position to define the scope of any legislation on this point, it would not be possible to make it retrospective to the date of announcement. In his view, it was anyway sufficient to rest on legislation requiring the consent of the individual mortgagor.

2 The Chief Secretary said that he agreed with the general view expressed in E(A) that legislation on both individual

consent and transfer of risk was desirable to make it as difficult as possible for undesirable mortgage refinancing transactions to be completed. After further discussion, it was agreed that the Secretary of State would say in his announcement that as well as legislating with effect from the date of announcement to require individual consent, the Government also intended to legislate to ensure the proper transfer of risk but that further consultations would be necessary. No undertaking could be given about the outcome of the consultations.

### Capital Receipts

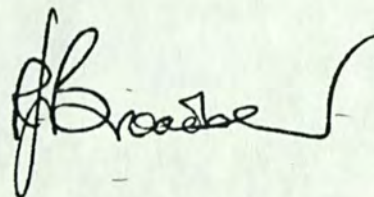
3 The Secretary of State said that, as he had emphasised in the E(A) discussion, the commitments he had had to give to secure a Government majority on the Orders passed earlier in the year to reduce the prescribed proportions meant that he could not contemplate action which affected receipts accumulated during 1985-86. The Orders concerned had effected changes to the prescribed proportions in 1985-86 and the assurances he had given were taken as covering receipts accumulated in that year. He anyway saw no prospect of securing the necessary legislation, particularly since any measures would be seen as a stop gap pending fundamental reform of the capital control system. He concluded that there was no practical means of influencing accumulated spending power in 1986-87. He emphasised that, in political terms, he thought it would be wrong for the Government to take action which would lead to a real cut in local authority capital expenditure. This was a point he would be pursuing in the forthcoming Survey discussions.

4 The Chief Secretary said E(A) had distinguished between past and future capital receipts but he could not accept that 1985-86 was a past year when in fact it had only

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recently started. There was still ample time left in the course of the year for authorities to respond to whatever decisions the government reached without any accusation of bad faith. To take no action would increase local authorities spending power by about £400 million in 1986-87 which, given the difficult overall public expenditure position, would mean that he would have to argue for equivalent reductions in allocations in the Autumn. This could be more difficult to present than the legislation he was proposing.

5 After further discussion, the Chief Secretary and the Secretary of State agreed to resume their discussion at a later date. The Chief Secretary asked officials in the meantime to investigate the possibility of splitting in-year receipts so as to draw a line between receipts realised in 1985-86 so far and receipts later in the year.



R J BROADBENT  
Private Secretary

Circulation

Those Present:  
Chancellor  
Sir P Middleton  
Mr Bailey  
Mr Anson  
Mr Cassell  
Mr Jameson  
Mr Peretz -  
Mr Scholar  
Mr Wicks  
Mr Culpin  
Mr Ellis  
Mr Cropper  
Mr Lord  
Miss Wheldon - Treasury Sols.



CHIEF SECRETARY	
REC.	18 JUL 1985
ACTION	MR PIRIE,
COPIES TO	PPS SIR PETER MIDDLETON, MR BAILEY, MR ANSON, MR CASSELL, MR JAMESON, MR PERETZ, MR SCHOLAR, MR WICKS, MR CULPIN, MS SPENCER, MR CRAPPER, MR HORD, MISS WHELDON - /SOL

21 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

Mby ref:

Your ref:

18 July 1985

Dear Chief Secretary

#### LOCAL AUTHORITY CAPITAL EXPENDITURE

We discussed today issues arising from E(A)'s discussion on 1 July.

On mortgage refinancing, I attach slightly revised versions of the draft Answer and Circular letter to local authorities, which I would propose to issue on Monday. The amendments to the draft I circulated on 17 July are designed to make it clear that we are consulting about measures to ensure that risk is transferred to the new mortgagee, with a presumption in favour of legislation, but that any such provisions would not have immediate retrospective effect.

On capital receipts, we were unable to agree and you are considering the next steps.

May I meanwhile offer these comments on your letter of 17 July.

I find your proposal unacceptable for a number of reasons, but especially because it would apply to unused receipts gained in 1985/86. Our discussion in E(A) was about a changed position from 1 April 1986. The Prime Minister in her summing up of the discussion said that "Local authorities could not, however, be deprived of the benefit of their accumulated unspent capital receipts, given the Government's repeated commitments on this point." The commitments were given in order to secure support for a change in the law that applied to 1985/86 and after. We meant - and intended to mean - that authorities could spend 20% of 1985/86 receipts in that year, but the balance could be spread forward and spent in later years. To resile from that assurance would place me in an untenable position.

I am happy to discuss the issues again with colleagues before the recess, if a meeting can be arranged. But your proposal, which would have the effect of sharply reducing authorities' to spend from their own resources below the level on which they are now counting, could not in my view be carried through the two Houses.

I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Keith Joseph, Nick Edwards, Nicholas Ridley, Norman Fowler, John Wakeham and Michael Havers and to Sir Robert Armstrong.

*fr* *Atkinson*

PATRICK JENKIN

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



SAE OF LOCAL AUTHORITY MORTGAGESDRAFT QUESTION

To ask the Secretary of State for the Environment, whether he is aware of moves by local authorities to dispose of their mortgages en bloc to institutions.

DRAFT ANSWER

Like private sector lenders, such as the building societies and the banks, local authorities have normally retained mortgages until they have been redeemed by the individual borrower. I welcome the initiative which a number of local authorities and new town development corporations have been taking to speed up this process by arranging for building societies to offer replacement loans to the authority's borrowers individually, enabling them to pay off their council mortgages. The borrower is free to decide whether or not to enter into a new mortgage contract with the building society.

Recently, some authorities have packaged their mortgage loans and sold them direct to financial institutions. The borrower may have no say in the matter and <sup>may</sup> be unaware of the transaction until after the event. We believe that local authorities should not sell a mortgage without the prior consent of the mortgagor.

Accordingly, the Government proposes to legislate at the earliest opportunity to give homeowners with a local authority mortgage the right to decide whether or not the local authority may dispose of its interest to a specified purchaser. In order to give interim protection to such mortgagors, our intention is that the legislation conferring this right should have retrospective effect as from midnight tonight.

Some sales of mortgages have taken place on terms which may leave the local authority with a continuing financial risk in relation to the mortgage. Such transactions are, in substance, the equivalent of expensive borrowing rather than a genuine disposal of an asset. We shall consider whether the legislation should require any sale of a mortgage to provide for the transfer of risk to the purchaser; but any requirement of this kind would not have immediate effect from today.

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My Department is writing today to local authorities to draw the announcement to their attention, and to consult on the details of the proposal.

DRAFT CIRCULAR LETTER TO LOCAL AUTHORITIES

THE SALE OF LOCAL AUTHORITY MORTGAGES

1 Local authorities will be able to sell mortgages only with the prior consent of the borrower, under legislative proposals announced today by the Secretary of State for the Environment. Parliament will be asked to make this requirement effective from midnight tonight for most house mortgages. I enclose a copy of the Secretary of State's announcement to the House of Commons.

2 This letter describes in more detail the Secretary of State's intentions.

- 'Changes with immediate effect' describes the legislative provisions which it is proposed should have effect from midnight tonight.

- 'Further possible changes' describes other provisions which may be included in the legislation, subject to consultation.

(Any of these latter changes would not be given immediate effect from today).

Changes with immediate effect

3 Local authorities may sell their interest as mortgagees only with the consent of the borrower.

Sale of a mortgage

4 The sale of a mortgage is to include the disposal of any interest in:

- a mortgage; or
- a mortgage debt.

The Borrower's consent

5 The borrower's consent means consent given:

- before any sale of his mortgage;

- in writing; and
- in relation to a named buyer.

6 Any consent given by a borrower is to lapse automatically after six months, if the sale has not by then taken place. But the authority may seek the borrower's consent afresh.

#### Mortgages affected

7 The proposed legislation will apply from midnight tonight to sales of 'Housing Act mortgages'. These are mortgages relating mainly to residential properties, arranged under the following powers:

- Small Dwellings Acquisition Acts 1899 to 1923;
- Housing Act 1957, sections 104 & 119;
- Housing (Financial Provisions) Act 1958, section 43;
- Housing Act 1974, section 100;
- Housing Act 1980, Part I; and
- Housing & Building Control Act 1984, section 24.

#### Further possible changes

8 The Government intends to apply the proposed provisions to all residential mortgages. The few which are not among the 'Housing Act mortgages' - such as residential mortgages created in connection with sales under the Local Authority (Land) Act 1963, section 3 - will be included, subject to consultation on detailed definitions.

9 The Government is also considering the application of the same requirements to mortgages of non-residential property, and the possibility of imposing requirements which will ensure that, for all sales of mortgages, the sale transfers all the risk to the purchaser.

#### Coverage

10 Legislation is proposed to apply to local authorities in England [and Wales]. The New Town Development Corporations and the Housing Corporation will be required to apply similar principles.

Consultation

11 The principle that the borrower's consent should be required before any sale of a 'Housing Act mortgage' is not the subject of consultation.

12 The Secretary of State does invite comments on:

- which mortgages should be regarded as 'residential mortgages' in applying his proposals on 'Housing Act mortgages' to mortgages of other residential property; and
- the considerations relevant to:
  - any extension of similar provisions to mortgages of non-residential property; and
  - any requirement that the sale of all mortgages should provide for the transfer of risk to the purchaser.

13 The Department should receive any comments by midday on Monday 16 September 1985.

Contact Point in the Department

14 If you wish to:

- respond to the Secretary of State's invitation to comment;
- or
- make any enquiry about the 'Changes with immediate effect',

please write to

Mortgages Consultation  
HA4 Division  
Room N11/14  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

or telephone Mr H R Cunniah on .01-212 3055.

SALE OF LOCAL AUTHORITY MORTGAGES

Organisations to be consulted

Association of County Councils  
Association of District Councils  
Association of London Authorities  
Association of Metropolitan Authorities  
British Bankers Association  
Building Societies Association  
Committee of London Clearing Bankers  
Committee of Scottish Clearing Bankers  
Greater London Council  
Housing Corporation  
Life Offices' Association  
London Boroughs Association  
New Towns Association  
Institute of Housing  
National Consumer Council  
SHAC and Shelter



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

17 July 1985

*Dear Secretary of State*

**LOCAL AUTHORITY CAPITAL EXPENDITURE: USE OF RECEIPTS**

Thank you for your letter of 16 July, in which you set out a proposal for implementing E(A)'s remit on the treatment of past and future local authority capital receipts.

It will not surprise you that I have difficulty with it, because it would initially add to local authorities' spending power from receipts. It seems likely to produce additional spending power from receipts of about £½ billion in each of the years 1986-87 and 1987-88 - the very years in which we need to constrain it.

I would accept that your proposal would probably begin to reduce spending power from receipts by 1989-90. But by then we hope to be in the second year of operation of a properly reformed capital control system. The whole point of legislation in the 1985-86 session is to improve the position in the short-term, for 1986-87 and 1987-88. I see no point in proceeding with legislation that makes the position worse in those years.

I propose a different approach. First, it is essential that we bring the cascade to an end with effect from the carry-forward of unused 1985-86 receipts into 1986-87, if we are to make any impact on the position in that year. There will be no effect on accumulated receipts from past years, which will still be available as now. This is in line with E(A)'s conclusions that authorities should not be deprived of the benefit of their accumulated receipts from past years. 1985-86 receipts are in-year receipts, not accumulated receipts.

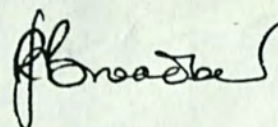
I am aware of the political sensitivities surrounding these issues; indeed, E(A) asked us also to take into account the need to maintain incentives to dispose of assets. For

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that reason, I propose also that we should increase from 20 per cent to 30 per cent the prescribed proportion for housing receipts realised from 1986-87 onwards (and for any unspent portion of the prescribed proportion of such receipts arising in 1985-86.) This will help to ease the passage of the legislation through the House, and still produce a worthwhile result by containing the use of in-year and future receipts, and giving room for 1986-87 allocations nearer those for the current year at the present level of provision.

I am copying this letter to the Prime Minister, Keith Joseph, Nick Edwards, Nicholas Ridley and Norman Fowler, and to Sir Robert Armstrong.

*Yours sincerely*



for PETER REES

*[Approved by the Chief Secretary]*

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NDRM

HT 1/8

CC NO



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

*From the Minister for the Arts*

The Rt Hon Patrick Jenkin MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
London SW1

26 July 1985

*See Patrick, will attach if required*

EC ACQUIRED RIGHTS DIRECTIVE AND THE SOUTH BANK

I wrote to you on 1 May about the EC Acquired Rights Directive and the South Bank.

Michael Havers replied on 9 May and Kenny Cameron commented on 23 May. I have been considering the position further in the light of what they have said. I remain of the opinion, however, that there are strong grounds for treating the South Bank employees like any other staff of the GLC.

I appreciate that there is some risk of a legal challenge on behalf of non-re-employed staff but I consider that it is a risk which is worth taking. As I said before, the Arts Council are much concerned that the South Bank Concert Halls are over staffed at present by some 30% and staff paid at least 20% more than others in comparable positions. They wish to be able to correct that situation by not re-employing all GLC staff currently on the site and may decide in addition that some work currently done by GLC employees should be contracted out. Furthermore, the South Bank is one of the most visible operations affected by abolition and we must help to make the Arts Council's management of it a demonstrable success.

I appreciate also that if successfully challenged for unfair dismissal, either before an Employment Tribunal or before the High Court or the European Court for a declaration of the state of the law affecting the employee, compensation may be payable by the Arts Council to those South Bank employees who had not been taken on. My best estimate is that the outside

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estimate for such compensation would amount to slightly less than £1,000,000. Should this happen, the Arts Council would inevitably expect supplementary Government help since it would be beyond their resources to meet an extra claim of this kind. The dismissals would be a direct consequence of our abolition policy, and would be offset in the longer term by the considerable savings which would flow from a more streamlined operation. I must therefore put up a marker that if these circumstances arise, I would expect to ask for a corresponding financial supplement for the Council.

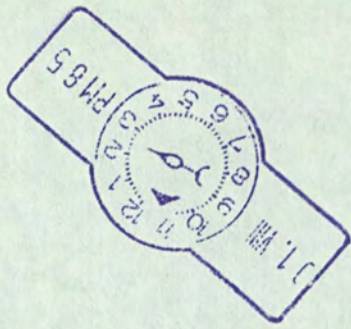
I am sending copies of this to all Members of MISC 95 and to Sir Robert Armstrong.

*Y  
Linn,  
2/4/52*

GOWRIE

CONFIDENTIAL

Local Govt : Relations A27



LOCAL AUTHORITY CAPITAL SPENDING

In theory, double-counting occurs because for each £1 raised by a council from asset sales, the council itself is allowed to spend £1 gradually over the years, and other councils are allowed to spend another X pence.

Treasury and DoE want to solve the problem by keeping the redistribution and reducing the council's own spending permanently, so that the permissions to spend add up to £1 for each £1 raised through sales. They are arguing about:

- the starting-point for the new system (whether it should cover 1985/6 receipts); and
- the speed with which a council is allowed to use up its permissions.

You commented that it would be better to end the redistribution and to let each council spend, gradually, a whole £1 for each £1 it raises.

In the past, this idea had been rejected because it was believed that it would cause terrible problems for the Shire Counties, which are not housing authorities with council houses to sell and therefore have few receipts of their own.

But officials reveal that the amount of redistribution is now likely to be very small in any case (only some £150 million) because the Treasury insist that this is the only way of keeping within the cash limits. Moreover, the new figures produced show that the Shire counties would actually gain from the ending of redistribution, because it is the other authorities' housing budgets that would be worst hit.

The upshot is that you could get rid of redistribution without causing any disasters in 1986/7.

In later years, the build-up of accumulated receipts may start to cause severe problems, because councils will have been keeping more of their 'own money' than either Treasury or DoE are proposing. With luck, this problem should disappear with a new, far more sensible system of local finance that sets net borrowing controls and leaves the rest to the councils. But, in the meantime, it is important to change the law so that Patrick Jenkin is allowed to set different 'prescribed proportions' for in-year receipts and accumulated receipts: this will enable him, if necessary, to trim down the speed of use of the accumulated receipts without giving councils a massive disincentive to sell new assets.

If you can keep the discussion on Wednesday strictly on these structural questions and off any discussion of the total amounts of spending, there is a reasonable chance of reaching agreement.

OL Letw.

OLIVER LETWIN

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**Mr. Heffer:** On a point of order, Mr. Speaker. Because of the statement that we have heard this afternoon, and because of the situation in Liverpool, I should like to move the Adjournment of the House—

**Mr. Speaker:** Order. Is the hon. Gentleman seeking to make an application under Standing Order No. 10?

**Mr. Heffer:** Yes.

**Mr. Speaker:** The hon. Gentleman will have to do that after the next statement, please.

## Rate Support Grant (Wales)

5.24 pm

**The Secretary of State for Wales (Mr. Nicholas Edwards):** With permission, Mr. Speaker, I wish to make a statement about my proposals for the 1986-87 rate support grant settlement for Wales.

Local councils have begun to plan their budgets for next year. To help them I am today circulating my proposals for the key elements of the 1986-87 settlement. Copies of the explanatory material sent to Welsh councils have been placed in the Library and in the Vote Office.

Before outlining my proposals it is important briefly to summarise the record of Welsh authorities in recent years, as this has had a major bearing on my strategy for 1986-87.

Local government spending on services in the 1960s and 1970s grew by 3 per cent. or more a year in real terms, absorbing an ever-increasing share of the national product. I am pleased to say that in Wales this damaging trend has been halted. Spending in the present year is only fractionally higher, in cost terms, than in 1979. Since 1979 the average annual increase in rates has been 30 per cent. lower than when Labour was last in office. The total rise since 1979 has been seven percentage points below the change in the RPI.

Success in reining back current spending has also enabled me to release a significant amount of resources for capital investment. Gross capital spending in Wales has grown twice as fast as inflation since 1981-82. In the RSG debate last January I told the House that I would consider whether to abandon targets for 1986-87. I have now decided to do so, but at the same time to toughen the alternative means of containing spending by raising the rate at which local authorities will lose grant as their spending rises relative to GRE. I believe that this will restrain spending in a way which is as effective, but fairer, than targets. The local authority associations, with whom I have discussed the issue in detail, are prepared to accept this as a reasonable price to pay for moving away from selective controls and for restoring a greater measure of local accountability. The precise system of controls proposed for 1986-87 has, in fact, been strongly influenced by the views of the associations, and the Welsh Counties Committee in particular.

Under the new arrangements, the great majority of councils will now face a cash reduction in grant if they opt for an above average increase in spending. An important feature of the new scheme is that it also dramatically increases the rating benefits for below average growth in spending, and I am sure that many councils will come to recognise this in the coming months.

In order to moderate some of the large poundage increases which would otherwise have come about, I have taken up the Welsh counties idea of limiting the aggregate of GREs to a total 10 per cent. below the actual level of provision for the year.

I deal now with the level of resources. Following discussions with the associations, I propose to add £15 million to the provision for current expenditure shown in last year's public expenditure White Paper. The adjusted total proposed is £1,368 million. If councils succeed in holding their spending to that figure, by the end of this Parliament they will have met my objective of returning—in cost terms—spending to the level recorded in 1979-80.

[Mr. Nicholas Edwards]

Taking into account the other elements of spending, total relevant expenditure for RSG purposes is provisionally estimated to be £1,598 million. This is £76 million, or 5 per cent. more than the amount that authorities have budgeted to spend in the present year.

In arriving at the relevant expenditure total I have taken account of the pressure on the resources for advanced further education. The committee of the Wales Advisory Body has told me that an early decision on the size of the AFE pool would greatly assist its annual planning exercise for this sector. I have therefore proposed to the Welsh Counties Committee that the pool should total £31 million in 1986-87, an increase of £2.5 million, or 8.8 per cent., over the figure for 1985-86.

Aggregate grant in support of relevant expenditure will be £1,067 million, giving a grant percentage of 66.8 per cent., which is virtually the same figure as for the present year. In cash terms, grant is £54 million, or 5.3 per cent., higher than the level in the supplementary report for 1985-86.

The final ingredient of my proposed package is an £11 million addition to the existing provision for local authority capital investment. This enhancement to 1986-87 resources is linked directly to Welsh authorities' efforts to contain their current expenditure in 1985-86.

When all the elements of the package are taken together, the arithmetic shows that if councils spend in line with the provision which I have set, rate rises next year should not, on average, exceed the going rate of inflation. Indeed, a good number of councils will be able to cut the rate burden while still budgeting for a moderate cash increase in spending.

The tough but more straightforward and less interventionist arrangements which I intend to introduce next year should provide authorities with sufficient incentive to budget moderately, and a firmer basis on which to plan their spending effectively. Targets and holdback have been extremely successful in Wales, and I believe that the new arrangements will be equally effective.

I commend my proposals for the 1986-87 settlement to the House.

**Mr. Barry Jones** (Alyn and Deeside): The right hon. Gentleman beats a partial retreat. The House of Commons research staff have calculated that between 1978-79 and 1985-86 the overall cut in grant, in real terms, is over 13 per cent.

The new regime poses new problems for the district councils. Does the right hon. Gentleman agree that the Welsh districts have performed admirably and have been co-operative? Is he aware that in spite of that they now find themselves faced with an equally penal grants system to replace the system of targets and penalties? The new system will penalise up to 31 of the 37 district authorities, as opposed to a mere five in 1985-86.

Can the right hon. Gentleman confirm that the vital element of 90 per cent. GRE, the safety net and gain cap limiters will be retained in future years, as requested by the Welsh district councils when they accepted the change?

The Secretary of State knows that there is a 5 per cent. increase in the counties' relevant expenditure overall. This includes only 4.5 per cent. current expenditure over and

above the revised figures for the current year. Bearing in mind the teachers, police and fire service pay awards, is that adequate? The county authorities are justifiably apprehensive. Is the right hon. Gentleman selling them short?

On the question of the block grant, will the Secretary of State recycle any grant losses below the £850 million block grant underlying the provisional statement?

The Secretary of State has attempted to paint a rosy picture on capital spending. Why are Welsh housing authorities restricted to using only 15 per cent. of the cash raised from council house sales, when the equivalent authorities in England can spend 20 per cent. of their receipts? The right hon. Gentleman has never explained why he settled for that injustice. Rhondda borough council, which faces a Herculean housing task, has had to sell £10 million-worth of its best mortgages to meet legal requirements on house renovation programmes. Would not an enlarged house building programme make major inroads into the dole queues in Wales?

Will the financial allocations not be insufficient to cope with the worst housing problems in Britain, especially those in the south Wales valleys? The allocations will not help local councils in grappling with the major unemployment crisis that has hit Wales—with more than one in five Welshmen out of work. Is it not true that the allocations are insufficient for the councils of the south Wales coalfields which face pit closures and for those coping with the closures of steel works in north Wales? Bearing in mind the previous niggardly annual settlements, this cash settlement is not at all satisfactory.

**Mr. Edwards:** The hon. Gentleman has done his best to attack what the Welsh local authorities know to be an extremely good settlement. He talked about a partial retreat. The reason why we have been able to end the target system is that the Welsh local authorities have come so close to achieving the objective that I set them of getting their spending in real terms back to where it was when the Labour Government left office. We have not reduced it below that level. We have simply stopped the upward surge in local authority expenditure.

The hon. Gentleman talked about the penal results for the Welsh districts. I do not understand how he can suggest that the system is penal when it will mean the possibility of a substantial reduction in rates in all but a tiny handful of the Welsh districts if they spend at approximately the expected level of inflation.

The hon. Gentleman asked about the district authorities' request on 90 per cent. GRE, limiters and so on. When the authorities asked me about that at the consultative council meeting this afternoon, I referred them to our previous discussions in that council. I reminded them that over the period during which we have had a separate Welsh rate support grant system I had met the undertakings that I had given. No one can give absolute guarantees about the exact mechanisms in the period ahead, but just as they, on the whole, have co-operated with the Government under the separate Welsh rate support grant system, so, of course, shall I endeavour to meet the commitments that I have made.

The hon. Gentleman talked about the problems of current expenditure. The provision that we have made is certainly attainable by Welsh local authorities. The Audit Commission has shown the substantial scope that exists for



Am I to understand that with the arrival of new Members, especially over the past few years, that civilised behaviour has come to an end? I know that the matter does not fall within your prerogative, Mr. Speaker, but perhaps you could ask Members to behave in a civilised way and to adopt the procedure that was used when I first came to the House.

**Mr. Speaker:** I am glad of the opportunity to confirm that that has been our civilised convention over the years, and I hope that it will continue.

**Mr. Dobson:** I understand—

**Mr. Heddle** *rose*—

**Mr. Skinner** (Bolsover): He wants to apologise.

**Mr. Dobson:** They never apologise.

**Mr. Heddle:** I fully intended to notify the right hon. Member for Chesterfield (Mr. Benn) but on this occasion I did not. I apologise wholeheartedly to the House for not doing so. I want to make two points—

**Mr. Speaker:** Order. That might spoil it.

**Mr. Dobson:** I seek your guidance, Mr. Speaker. Is it possible under the rules of the House for a Minister to make a statement tomorrow in the midst of the Adjournment debates? I understand that the Secretary of State for the Environment intends to make a statement now about the level of the rate support grant and rate capping of local authorities but that no statement is to be made about the rate capping and expenditure of the Inner London education authority. As it affects tens of thousands of children, and as it is the largest and biggest spending authority, it seems appropriate that a Minister should come to the House to justify the levels being set.

**Mr. Nellist:** Further to that point of order, Mr. Speaker. You will be aware that the Royal Assent has been given to the Local Government Bill which sets up new means of controlling services in the GLC and the metropolitan areas. Will a further statement be made today or tomorrow on the setting of budgets and expenditure levels for services such as transport and waste disposal, or will that be done during the recess when Labour Members cannot question it?

**Mr. Speaker:** The hon. Member knows perfectly well that I have no foreknowledge of such matters, any more than any other hon. Member. Statements are announced at noon. That was when I first heard about it.

**Mr. Dobson** *rose*—

**Mr. Speaker:** Order. It is not a matter for me; it is a matter for the Government. If it is a matter for me, I will hear it, but only if it is a matter for me.

**Mr. Dobson:** I think that it is a matter for you, Mr. Speaker.

I was asking whether it was possible under the rules of order for a statement to be made tomorrow in the midst of the Adjournment debates. I do not know the answer to that question, but I do not think that it is a matter for Ministers.

**Mr. Speaker:** It might have been more appropriate if the hon. Gentleman had put that question to the Leader of the House during business questions.

## Rate Support Grant (England)

4.8 pm

**The Secretary of State for the Environment (Mr. Patrick Jenkin):** With permission, Mr. Speaker, I shall make a statement about local government finance for 1986-87. It contains my proposals for the rate support grant settlement for England, and my decisions on selective rate limitation.

First, I deal with rate limitation. This year's round has gone well. It has saved ratepayers over £300 million. We have begun to curb the worst overspending of the most profligate authorities. Despite the disgraceful scenes of violence and intimidation in several town halls, there were majorities in every rate-capped council for complying with the law and the will of this House.

I am today laying before the House a report setting out how authorities will be selected for rate limitation next year. For authorities not previously selected, I am proposing the same criteria as I used this year: I am selecting authorities whose budgets this year are more than 20 per cent. above grant-related expenditure and more than 4 per cent. above target. For authorities which were selected this year, I am reselecting them if their budgeted expenditure is more than 20 per cent. above GRE and either more than 1 per cent. above target or more than 30 per cent. over their expenditure in 1981-82.

On these criteria, two authorities, Liverpool and Newcastle, are selected for the first time, and 10 authorities are reselected. They are Basildon, Camden, Greenwich, Hackney, Haringey, Islington, Lambeth, Lewisham, Southwark and Thamesdown. Next year new authorities will come into existence under the Local Government Act 1985 and will be affected by the automatic precept control provided by that Act. Under that provision the Government will set expenditure levels and precept limits for three years. In all, the Government will next year be limiting the rates or precepts of 32 authorities with expenditure totalling some £3½ billion. That demonstrates the Government's continued determination to rein back the profligacy of the largest overspenders and to prevent extravagance in the initial years of the new authorities.

I am setting expenditure levels for the 12 rate-capped authorities. In most cases there will again be a cash standstill on budgeted total expenditure in the current year. In three cases where budgets this year show an exceptionally sharp increase in spending, I am setting lower spending levels.

I am open to representations for redetermination of expenditure levels. Where an existing authority applies mainly because it considers we have made inadequate allowance for functions inherited from the GLC and metropolitan counties, or mainly because special accounting arrangements in its view imply unachievable economies, I shall not use my powers to reduce expenditure levels or impose conditions. My right hon. Friends the Secretaries of State for Education, the Home Department and Transport will be making separate announcements about expenditure levels for ILEA and the new joint authorities.

The success of rate capping in curbing the worst excesses of the highest spenders means that for the generality of authorities we can now do without targets and penalties next year, that brings me to the rate support grant

[Mr. Patrick Jenkin]

settlement as a whole. I am today issuing to local authorities proposals for the main features of the settlement for next year. Copies are in the Library and the Vote Office.

The target system has operated since 1981-82 in order to put pressure on councils to restrain spending. Many of my hon. and right hon. Friends have in the past made the point that the system operates unfairly on low-spending councils, especially those spending below their GRE. Last January in the RSG debate I expressed the hope that for 1986-87 we could do without targets if there was a satisfactory alternative means of restraining spending. I believe that the block grant system can be modified to provide a sufficient deterrent to overspending and accordingly I can tell the House today that the system of targets and penalties will not apply next year.

Instead, expenditure restraint will be achieved by much stronger block grant pressures. I am proposing sharply to increase the rate at which a council's grant will be reduced as its spending rises in relation to GRE. The system will thus put more weight on the comparison of a council's spending with its GRE which is what my right hon. and hon. Friends have sought. Powerful pressures will remain on those councils which spend well above GRE. I am consulting local Government on the details.

I am proposing that aggregate exchequer grant should be the same cash sum as in this year's settlement, £11.8 billion, which is likely to be just under 47 per cent. of relevant expenditure next year. I am proposing to increase the sum provided for local authority current expenditure for 1986-87, as shown in this year's public expenditure White Paper, by £500 million, to £22.250 billion. That is less than local authorities would like but the Audit Commission's reports are showing how councils could save hundreds of millions of pounds without reducing services simply by getting better value for money.

The RSG settlement that I am proposing will be less complex than in past years; it will be fairer to responsible, low-spending authorities; it will maintain pressure on higher-spending authorities to find savings; and it will place firm control on the most extravagant authorities. If local government responds sensibly, average rate increases next year should be in low single figures.

**Dr. John Cunningham** (Copeland): Is the Secretary of State aware—clearly some of his hon. Friends are not—that he has just announced a massive increase in authoritarian central control of local authority expenditure and budgets? He has done so on two counts: first, on the implications of his statements on the Rates Act and, secondly, on his proposals for the rate support grant settlement. Is the right hon. Gentleman also aware that the reality of his statement is that more than 20 million people, under more than 30 authorities, will now have the level of their services and the budgets of their authorities dictated and controlled from Whitehall? That is what the Secretary of State has been telling the House this afternoon.

Why do his right hon. Friends who are responsible for the Inner London education authority, the police service, the fire service and transport, apparently intend to slip out in written answers, either today or tomorrow, their decisions on budgets for those authorities, instead of telling the House of Commons in this or other statements this afternoon? It is a scandalous abuse of Parliament.

Why do transport authorities such as South Yorkshire have to wait to be told by how much the Government intend to force up fares for public transport users in those areas?

Will the Secretary of State explain why the city of Newcastle upon Tyne is to be designated under the Rates Act? That city's expenditure has increased by 91.5 per cent. in real terms since 1978-79. For example, expenditure in Buckinghamshire in the same period increased by more than 112 per cent., in Somerset by more than 103 per cent., in West Sussex by 99 per cent., and in Cornwall by 98 per cent. Is the Secretary of State aware that the net expenditure of the city of Newcastle upon Tyne has fallen in real terms over that period? Is the Secretary of State also aware that if the penalty system that he imposed had not applied there would have been no need for rates increases in that city in the current financial year?

Why should the Secretary of State and his hon. Friends take any pride in increasing the problems facing the people of Liverpool and its city council by further designating that authority under the Rates Act?

The Secretary of State said that he wanted to encourage negotiations in the coming financial year. I welcome at least that part of his statement. So will he give a categorical assurance now, without equivocation, that if authorities approach him on that basis he will not use his severe reserve powers to make the situation worse for them?

On the rate support grant settlement, is the Secretary of State aware that this is the sixth successive year in which the Government have deliberately reduced the rate support grant—in this case, from 48.7 per cent. to just under 47 per cent. of local authority current expenditure? The figure of £11.8 billion that he announced will be a cut in real terms of 7 per cent., bearing in mind the current rate of inflation, because it is a cash freeze. Hon. Gentlemen need not shake their heads. That is the reality of the announcement.

Is the Secretary of State aware that there will be a shortfall in what councils—including Conservative councils—need to maintain their existing services, of almost £1 billion next year, as a result of this statement?

As Conservative Members appear to be welcoming this statement—based on the use of the GRE in a way that was never intended—will the right hon. Gentleman explain to them what will happen in the Tory borough of Brent, with an expenditure of 18.3 per cent. over GRE? What is to happen in the City of London, with a staggering excess of expenditure over GRE of 252 per cent.? What is to happen in Hammersmith and Fulham, where expenditure over GRE is more than 12 per cent., or Hillingdon, where it is more than 9 per cent., or Harrow or Enfield or Havering or Bexley or even—dare I remind the right hon. Gentleman?—Barnet, where expenditure is also in excess of GRE? What about Conservative Harrogate, Conservative Dartford, Conservative Adur or Conservative Ribbles Valley or Hertsmere? The list goes on and on. Having engineered a débâcle for the Conservative party in the shire counties this year, the right hon. Gentleman is about to do the same for the district authorities. Or does he through some political fix or manipulation of figures, intend to bail out the outer London Tory boroughs and others in a political gerrymander?

Is the Secretary of State aware that the £1 billion gap will inevitably increase if a settlement of the teachers

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PRIME MINISTER

SIR KENNETH BOND

To forestall any complaint from Lord Weinstock that we were not acting quickly enough on his suggestion, which came through Woodrow Wyatt, that Sir Kenneth Bond might undertake some work on value for money for the Government, I thought it best to have a word with Lord Weinstock direct.

Lord Weinstock said that the thought had come to him because he had read that, if the Audit Commission's Reports on Local Government were implemented, £1 billion of savings could be achieved. He had <sup>up</sup> thought that Sir Kenneth Bond would be just the man to follow such reports. Sir Kenneth is already on the Audit Commission, but the time is coming when Lord Weinstock could release him more continuously. Lord Weinstock said that he had not discussed the suggestion with Sir Kenneth Bond and had no idea whether it would appeal to him.

I explained that the achievement of the savings in local government was not so much a question of having the right man to follow them up but of having the necessary powers. The Audit Commission could follow up their recommendations by further reports on the extent to which the savings were being achieved by particular local authorities; but, apart from publicity of this sort, there was no other way at present of ensuring that local authorities made the possible savings. It was not therefore a case of needing someone with the time and energy to follow them through: the Audit Commission was already doing everything which there were powers to do.

I said to Lord Weinstock that we had wondered whether Sir Kenneth Bond could do something similar to the work of the Audit Commission in the Health Service or Central Government field, if this fitted in with Victor Paige or Sir Robin Ibbs. Lord Weinstock repeated that he did not know whether

E.R.

Sir Kenneth Bond would be interested in doing anything of this sort, but said that his gift was to achieve results rather than to deal in bureaucratic processes.

Andrew tells me that you floated with the Secretary of State for Social Services and Mr. Paige the other day the idea of extending an Audit Commission activity to the Health Service. Do you think that the right course is to follow this up in writing with Norman Fowler and ask him to discuss with Mr. Paige whether a project of this sort could be defined and mounted in the Health Service? (Since Sir Kenneth Bond is already on the Audit Commission, one way of doing it might be to extend the remit of the Audit Commission to the Health Service and put Sir Kenneth Bond specifically in charge of this part of the remit.)

Would you like us to follow up the proposal in this way with Mr. Fowler?

*Yes please*

*E.R.B.*

24 July 1985

SL3AKV

SP



BF // Wednesday  
Peter Rees  
receiving BF 24/7  
CCOL  
**CONFIDENTIAL** cc: BT/10

DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Rt Hon Peter Rees QC MP  
Chief Secretary  
Treasury  
Parliament Street  
LONDON SW1

24 July 1985

*Jim Pera.*

**LOCAL AUTHORITY CAPITAL EXPENDITURE: USE OF RECEIPTS**

I have seen with interest the exchange of letters between Patrick Jenkin and yourself of 16 and 17 July.

Clearly any interim legislation should not be allowed to obstruct our longer term goal of devising new capital control arrangements which will be effective and fair all round. So I see merit in legislation to bring an end to the cascade so that the unspent element of receipts from the prescribed proportion only can be carried forward for use to supplement an authority's allocation in a later year. That would bring greater order and certainty into the control system and would eliminate the unintended feature of "double counting". But it is also important for the education service that the full amount of authorities' receipts earned in a year should be available for use. Until now, this has been made possible by adding to the total available for the year's allocations the non-prescribed proportion of the estimated receipts from the sale of assets in that year. We must retain this element of flexibility. Without it, even with the modest increase in the net PES provision for which I have bid, many cost-effective schemes of rationalisation and improvement in education, which save recurrent expenditure, will not be achieved.

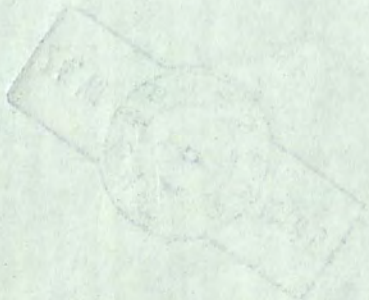
From the point of view of incentive, a 50% prescribed proportion for education would be more effective than the continuation of this year's level of 30%. Because, under Patrick Jenkin's proposals, which in this respect I do not think you are disputing, the unspent part of the prescribed proportion will remain available without further diminution for use in subsequent years, individual authorities' long term planning of rationalisation schemes in education would thereby be assisted.

Continued...

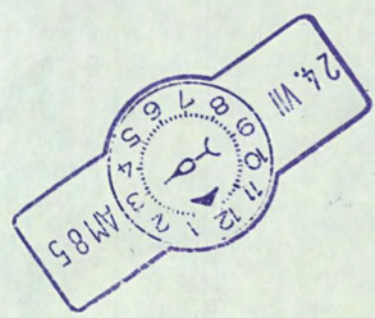
I am copying this letter the Prime Minister, Patrick Jenkin,  
Nick Edwards, Nicholas Ridley and Norman Fowler, and to Sir Robert  
Armstrong.

Emma,

Kate -



Relations: Local Govt. Pt 27





NDPm  
AT 23/7

Treasury Chambers, Parliament Street, SW1P 3AG

R C Williams Esq  
Private Secretary  
Welsh Office  
Gwydyr House  
Whitehall  
London  
SW1A 2ER

23 July 1985

Dear Colin

**RSG WALES SETTLEMENT 1986-87**

Your letter of 19 July to Joan MacNaughton enclosed a draft statement by your Secretary of State. The Chief Secretary has two small comments which he asked me to pass on to you.

The first is to propose that a new sentence be added after the second sentence of paragraph 6 (ending "relative to GRE"), on the lines "I believe that this will restrain spending in a way which is as effective, but fairer, than targets".

The second is to propose that the last two sentences of the penultimate paragraph should be replaced by "I believe that the new arrangements will be equally effective. The associations have told me that they share this view."

I am copying this letter to Joan MacNaughton, Tim Flesher, the private secretaries to the other members of E(LA) and to the Whips Office.

Yours sincerely  
Richard Broadbent

R J BROADBENT  
Private Secretary



LOCAL GOVT. Relations: Pt 27.



Subject

cc master

~~ce OL~~

RM

MR TURNBULL

LOCAL GOVERNMENT COMPETITIVE TENDERING

At the 1215 meeting with colleagues yesterday, the Prime Minister drew attention to the Early Day Motion on Local Government Competitive Tendering and the extent of Conservative support for it. She argued that this constituted a case for early action. The Lord President said that it would be possible to include this in the Local Government Bill next session if the Secretary of State for the Environment did not think it necessary to take early action on Widdecombe. The Prime Minister said that she thought that action on Widdecombe had an even higher priority.

In general discussion of the prospects for the Widdecombe Report, the Chairman of the Party said that he understood that the main report would be satisfactory, but there would be a less helpful minority report.

H.E.R.B.

23 July, 1985

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NBPM

RT 23/7

~~Casta~~

Treasury Chambers, Parliament Street, SW1P 3AG

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

22 July 1985

*Dear Alan***SALES OF LOCAL AUTHORITY MORTGAGES**

We spoke about your Secretary of State's letter of 19 July. You told me that the answer will be made tomorrow rather than today.

On the text of the proposed announcement, I said that on the question of individual refinancing deals the Chief Secretary would prefer to stick to the form of words suggested in his letter of 18 July. He thinks a neutral description of such arrangements seems a more helpful background to the presentation of the problems with the more objectionable kind of deals described later in the answer. You agreed that the best way of dealing with this point would be to revise the beginning of the second sentence of the first paragraph to read:

"A number of local authorities and new town development corporations have been taking steps to speed up this process by arranging for ...."

Second, I mentioned that the point (a) in paragraph 6 of your Secretary of State's letter (on why the change is not being made for other lending institutions) is not quite right. We understand that mortgages are bought and sold en bloc by commercial institutions, but for commercial reasons. It is of course correct that they do not have any incentive to secure a bogus capital receipt permitting more spending, and they would not therefore do so on the disadvantageous terms which some local authorities have accepted.

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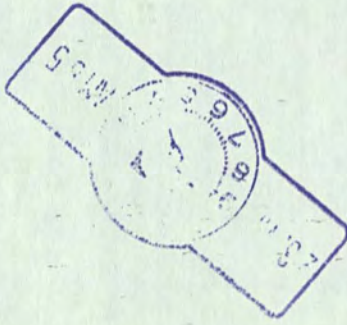
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I am copying this letter to Andrew Turnbull (No. 10),  
John Graham (Scottish Office), Colin Jones (Welsh Office),  
John Mogg (Trade and Industry), Richard Stoate (Lord  
Chancellor's Office), Henry Steel (Attorney General's Office)  
and to Richard Hatfield (Cabinet Office).

Yours sincerely  
Richard Broadbent

R J BROADBENT  
Private Secretary



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NBM  
22/7



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

From the Minister for the Arts

John Ballard Esq  
Private Secretary to the Secretary  
of State  
Department of the Environment  
2 Marsham Street  
London SW1

22 July 1985

*Dear John,*

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1986-87

I am writing on behalf of my Minister, who is out of the country on official business, both to follow up action apparently remitted to him by the E(LA) meeting on 16 July and to respond to your Secretary of State's letter of 17 July about the proposed Parliamentary announcement. *in Meeting Golden?*

Item 2(iii) of the E(LA) minutes for 16 July does not record the two points which Lord Gowrie was making, neither of which in fact related to the question of conditions attached to redetermination of precept limits in respect of the transport sector. Lord Gowrie will not therefore be involved in the discussion between Mr Jenkin and Mr Ridley on this latter point.

Lord Gowrie's first point instead concerned the post-abolition adjustments to be made to ratecapped authorities' expenditure limits in respect of services inherited from the upper tier. He was arguing that expenditure on the performing arts, museums and film in the successor authorities' areas was very unevenly distributed and would not adequately be reflected in adjustments based simply on population. If possible, he would prefer more accurate account to be taken of the actual incidence; as proposed for housing, parks and highways. OAL officials now understand from DOE, however, that the adjustments must be finalised within the next day or two for inclusion in the notification to ratecapped authorities following the Parliamentary announcement. That timescale makes it

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impracticable to establish agreed arts figures. We are therefore prepared for the arts adjustments to be made on the population basis proposed for the remaining services, provided that it is made clear, in the Parliamentary announcement or elsewhere, that the invitation to ratecapped authorities to seek redetermination in respect of the allowance for post-abolition inherited functions specifically applies to arts provision. This point is of considerable importance in view of the current controversy over the adequacy of the Government's provision for the arts after abolition.

Lord Gowrie's second point related to the "voluntary bodies" concession. Many arts bodies themselves fall within the category of voluntary bodies - particularly, but not only, those with a strong community flavour. He therefore wished it to be made clear that the concession embraced arts bodies, for the reasons given above. The underlying concern would of course partly be met if Lord Gowrie's first point is adopted, but would have even greater force if it is not.

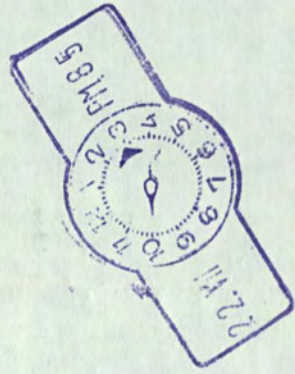
My Minister has no other comments on the draft Parliamentary announcement, or on the RSG proposals for Wales set out in the letters of 17 and 19 July from the Secretary of State for Wales.

I am copying this to the Private Secretaries of the Prime Minister, Lord President, other E(LA) members and the Chief Whips in the Commons and Lords.

*Yours sincerely*  
*Paul Thomas*

C P THOMAS  
Private Secretary

Relations: "Local Govt."  
PE 27



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NSPM

AT

22/7

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

22 July 1985

*Patrick Jenkin*

## STATEMENT ON RSG SETTLEMENT

You wrote to Willie Whitelaw on 17 July enclosing a draft of your statement to Parliament next week. I am generally content, but have the following comments.

At the end of paragraph 4, I propose that you add:-

"In all, the Government will next year be limiting the rates or precepts of 32 authorities with expenditure totalling [some £4 billion]."

This reflects the arguments you put to E(LA), and bring out the message that even though we are selecting fewer authorities, there is no let-up in our stance on rate-capping.

At the end of paragraph 5, I propose that you add:-

"These expenditure levels are tough but fair. They demonstrate the Government's continued determination to rein back the extravagance of the largest overspenders."

I propose that paragraph 9 should begin:-

"Instead, I am proposing much stronger block grant pressures, which I believe will be as effective, but fairer, than targets and penalties. I am proposing sharply to increase ....."

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and that the last sentence of that paragraph should read:

"Powerful pressures will remain on those authorities who overspend relative to GRE."

The increase in provision referred to in paragraph 10 should be £500 million, not "about £500 million."

I am copying this letter to the Prime Minister, Willie Whitelaw, the other members of E(LA), John Wakeham and Bertie Denham.

*Yours truly  
Peter Rees*

PETER REES



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*Relations: Local Govt. Pt 27*



NADPM AT 22/7 CCOL  
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

R/PSO/10498/85

22 July 1985

Dear Patrick

RATE SUPPORT GRANT SETTLEMENT

Thank you for sending me a copy of your draft statement to Parliament.

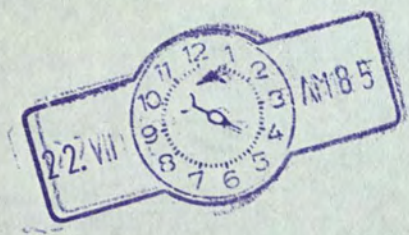
As you know, I cannot agree to the Transport Joint Boards being covered by the statement in the last sentence of Paragraph 6. I have written to you further about this in reply to your letter of 16 July. In my view it would be best not to make any reference to Joint Boards in your statement, but if you think it is important to do so you could say "My right hon. Friends the Home Secretary and the Secretaries of State for Transport and Education and Science will be making separate announcements about the expenditure levels of the authorities for which they are responsible."

As you know from the last E(LA) meeting, I foresee that I might need to use the power to make conditions on re-determination for the Transport Joint Boards and we were asked to consider this further. The wording of the fifth sentence in Paragraph 6 of your draft would preclude me from doing so. This could be avoided by qualifying the beginning of the sentence viz. "The first where an existing authority ...". I understand that your officials consider this would be acceptable. I recognise there are dangers in using this power, but it may prove necessary in the particular circumstances I face on transport and we should not therefore close the option at this stage.

I have no other comments.

/ Copies of this letter go to the Prime Minister, other members of E(LA), John Wakeham and Bertie Denham.

*Yours sincerely*  
*Nicholas Ridley*  
NICHOLAS RIDLEY



CONFIDENTIAL

SPW



10 DOWNING STREET

From the Private Secretary

22 July 1985

Dear John.

**RATE SUPPORT GRANT STATEMENT  
AND RATE LIMITATION 1986-87**

The Prime Minister has seen the draft statement attached to your Secretary of State's letter of 17 July to the Lord President. She is content with the substance of the proposals but wonders whether a more political style could be injected when setting out the successes of rate-capping this year, the deplorable behaviour of certain Councils and the ending of targets.

I am copying this letter to Private Secretaries of E(LA), Murdo Maclean (Chief Whip's Office) and David Beamish (Lord Denham's Office).

Yours sincerely  
Andrew Turnbull

(ANDREW TURNBULL)

John Ballard, Esq.,  
Department of the Environment.

CONFIDENTIAL

SPW

PRIME MINISTER

LOCAL AUTHORITY CAPITAL SPENDING

At the moment, the system works like this:

1. Blankshire council sells some disused land on 1 April 1985, and receives £100. (This is called an "in-year receipt".)
2. Regardless of what Blankshire actually does with the cash, it gets permission to spend an amount equal to 30% of the receipt, ie £30. (This is called the "prescribed proportion for in-year receipts"; the exact percentage depends on whether the sale is of housing or non-housing stock.)
3. The remaining £70 is double-counted. It is both redistributed in the form of extra permissions for spending by other councils, and carried over to the next year by Blankshire as an "accumulated receipt".
4. In 1986-87, Blankshire gets permission to spend 30% of the £70 - ie £21 - (the so-called "prescribed proportion of accumulated receipts") as well as any of the original £30 which it has not used up. This series of diminishing permissions continues ad infinitum.

The result of this system is that, for every £100 raised by Blankshire in 1985-86, £100 is spent over an infinite period by Blankshire itself, and another £70 is spent by other councils. Because Blankshire is not allowed to spend all the money at once, it gradually builds up a pile of unspent permissions. For England as a whole, these now total about £6 billion.

We must cancel for the future the rule under which are distributed among other councils. Agree a meeting

ccB/1/17  
the receipts  
cancel. That is the  
system Paul  
not  
Lead Pres Business Manager, SS/6  
CL/6, CST to sort this out?  
Oliver has offered a pre-meeting to  
go on to technicalities.

19 July 1985

B/P for 1400 meeting AT 12/17  
on 29/17

Changing the System

Everybody agrees that:

- i. the double-counting has to be eliminated;
- ii. this must not be done retrospectively.

The question is what "retrospectively" means.

The Chief Secretary wants a system like this:

- 1. Blankshire sells the land for £100 on 1 April 1985.
- 2. It gets permission to spend £30 of this within the year.
- 3. The remaining £70 is redistributed in the form of extra spending permissions for other councils.
- 4. Blankshire gets no more the next year, unless it has spent less than its £30; and even if it does have any of the £30 left over, only 30% of that can be spent in 1986-87. In the subsequent year, it can spend only 30% of what was left over from 1986-87, and so on.

The effect of this scheme is to eliminate the double-counting of money received by councils from 1985-86 onwards, and to reduce the pile of unspent permissions ("accumulated receipts") very rapidly:

	<u>Accumulated Receipts</u>
	(£m)
1985-86	c.6,000
1986-87	c.4,700
1987-88	c.4,300

But Patrick Jenkin rightly says that the Treasury scheme would be "retrospective" and would put him in an impossible

position, since he promised councils last year that they would in the long run be able to spend the whole of their 1985-86 receipts - not just a portion.

Patrick therefore wants the new system to affect only receipts gained from 1986-87 onwards. This would prevent the pile of "accumulated receipts" from growing at its present pace, but it would not deliver anything like the spending totals that the Treasury wants. The financial position is made even worse by DoE's demand that there should be a higher "prescribed proportion" for in-year receipts in 1986-87.

The solution may be to adopt the DoE suggestion of a fully prospective change in the system, but with lower "prescribed proportions" for "accumulated receipts" (eg 10%). This way, councils would still be able to spend all their 1985-86 receipts in the long run; but they would not be able to cause problems for the PSBR by using up their unspent permissions at a fast rate. The Chancellor apparently thinks that this would be difficult to sell; but it would not be as difficult as the Treasury's own proposal since it would not involve any element of retrospection; and it would deliver the Treasury's spending totals. DoE will certainly regard it as too draconian, but it would at least make sure that Patrick did not have to renege on any commitments made last year.

### Conclusion

We recommend that you should hold a meeting with the principal participants to settle the issue. You could be provided both with a full brief on the options and a short seminar to clarify any obscure points before the meeting.

*Oliver Letwin*

OLIVER LETWIN

**Dr. Cunningham:** If all this kindergarten economics is true now, why was it not true in 1981 when the right hon. Gentleman the Chancellor of the Exchequer was Financial Secretary to the Treasury, and the Government were making the PSBR and the money supply the biggest test of economic and political virility? If it was not true then, what has changed?

**Mr. Jenkin:** It was true then.

**Dr. Cunningham:** It was not.

**Mr. Jenkin:** Yes, it was. Of course it was. The hon. Gentleman has made exactly my point. When the receipts were taken in and not spent, they went to reduce the claim on the PSBR. [Interruption.] Of course they did.

**Dr. Cunningham:** The right hon. Gentleman has a strange memory. In 1981 there were no central Government-imposed controls on the expenditure of receipts by local councils.

**Mr. Jenkin:** I shall explain in a moment — [Interruption.] The Local Government, Planning and Land Act 1980 has always contained such a power. I shall come to that. The hon. Gentleman perfectly fairly asked why the figure was not taken into account. The answer is that it was. The figures go into the public expenditure total, net after receipt. Therefore, in the year in which the receipt was taken and not spent, it was taken into account. Therefore, if it is not treated as an addition to public sector borrowing when it is spent, it is being accounted for twice.

**Mr. Tapsell:** Does my right hon. Friend agree that in the leading article in today's *Financial Times*, that newspaper considers his argument in some detail and concludes that it is a purely statistical consideration with no relevance in the real world?

**Mr. Jenkin:** The writer of that leading article, which I have read, is not responsible for making the figures add up at the end of the day. [Laughter.] That is the responsibility that falls on my right hon. Friend the Chancellor of the Exchequer.

**Mr. Patrick Cormack** (Staffordshire, South):  
rose—

**Mr. Speaker:** Order. A large number of hon. Members wish to speak in the debate. It is the Secretary of State's decision whether or not he will give way.

**Mr. Cormack:** rose—

**Mr. Jenkin:** However much Labour Members shout, the simple truth remains that if a receipt is taken in and not spent, it either reduces borrowing or is lent, and that reduces the PSBR. If, subsequently, it comes back from borrowing and is spent, that increases the PSBR. There is no denying that logic. Capital spending by local authorities—

**Mr. Cormack:** rose—

**Mr. Jenkin:** I shall not give way. Mr. Speaker, you have reminded the House that this is a short debate and that many hon. Members wish to speak. I do not wish to take too much time.

**Mr. Geoffrey Rippon** (Hexham): If my right hon. Friend could leave this curious academic and statistical debate for a moment—some of us wish to help him and do not wish to vote with the Opposition—could he at

least, in the real world, give some assurances to local authorities that are in great difficulty that he will abandon from time to time those irrational arguments and give authorities some latitude in capital expenditure? That would help us a little.

**Mr. Jenkin:** I must say, with the greatest respect to my right hon. and learned Friend, that they are not academic arguments. They are real arguments that affect the management of the economy.

The 1980 Act always recognised, for this reason, that there had to be some regulation of the pace at which local authorities spend their accumulated receipts. The Act gave an order-making power to regulate the pace, and that is one purpose of the system of prescribed proportions. In previous years, we have used the power by order to slow the rate at which receipts could be spent by reducing the prescribed proportion. It is because of overspending during the past two years, and because of the threat of a big overspend next year, that we must reduce the proportion again. It will give us a much better chance to keep total spending within the cash limit without having to resort to disruptive and unfair measures later in the year.

To come to the point made by my right hon. and learned Friend the Member for Hexham (Mr. Rippon), that must be set alongside the increased end-year flexibility that I announced yesterday and that I am sure is welcomed by local authorities. My right hon. and learned Friend will also have noted that we have made provision for an extra £100 million to give a little extra allocation to those authorities which loyally complied with my request last year.

May I stress another point on which there has been much misunderstanding. The receipts are and will remain the property of local authorities. They can spend them in future years, but the Government must ensure that the pace at which they are spent is compatible with the Government's spending plans, which the House approved on 6 December. It is essential to stick to planned expenditure and to the economic strategy. We need financial discipline to maintain the economic growth that we are achieving.

I should quote something to the House:

"An essential element of the Government's strategy will be a continuing and substantial reduction over the next few years in the share of resources required for the public sector. It is also essential to reduce the public sector borrowing requirement in order to create monetary conditions which will encourage investment and support sustained growth and the control of inflation."

**Mr. Dennis Skinner** (Bolsover): It sounds like the Chancellor.

**Mr. Jenkin:** I can tell the hon. Gentleman that it was not my right hon. Friend the Chancellor, nor was it me, although I agree with it. It was from a letter—

**Mr. Skinner:** On a point of order, Mr. Speaker. Is it in order for the Chancellor of the Exchequer, every time the Secretary of State for the Environment falters, to give him a kick?

**Mr. Speaker:** Order. I repeat that many hon. Members wish to take part in the debate, and this simply takes up time.

**Mr. Jenkin:** Opposition Members will probably recognise those words from a letter written by the right hon. Member for Leeds, East (Mr. Healey), when he was Chancellor of the Exchequer, eight years ago this month,



NDR  
AT 19/7

CCOL



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

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

ODDI WRTH YSGRIFENNYDD  
PREIFAT YSGRIFENNYDD  
GWLADOL CYMRU

FROM THE PRIVATE SECRETARY  
TO THE SECRETARY OF STATE  
FOR WALES

19 July 1985

Dear Miss MacNaughton

**RSG WALES SETTLEMENT 1986/87**

In his letter of 17 July to the Lord President my Secretary of State noted that he intended to announce the Wales package in a Statement to the House following that made by the Secretary of State for the Environment. It has now been arranged that these Statements should be made next Thursday afternoon.

My Secretary of State has asked me to circulate now for the information of ... colleagues, a draft of the Wales Statement and this is attached. It remains subject to polishing by Mr Edwards early next week.

/ Copies of this letter and attachment go to Tim Flesher, Private Secretaries to other members of E(LA) and the Whips Offices.

Yours Sincerely  
P. Edwards  
PP R.C. Williams  
Private Secretary

Miss J MacNaughton  
Private Secretary to  
The Lord President



DRAFT PARLIAMENTARY STATEMENT - 25 JULY

WELSH RATE SUPPORT GRANT: 1986/87

With permission, Mr Speaker, I wish to make a statement about my proposals for the 1986/87 rate support grant settlement for Wales.

Local councils have begun to plan their budgets for next year. To help them I am today circulating my proposals for the key elements of the 1986/87 settlement. Copies of the explanatory material sent to Welsh councils have been placed in the Library and the Vote Office.

Before outlining my proposals it is important to briefly summarise the record of Welsh Authorities in recent years as this has had a major bearing on my strategy for 1986/87.

Local government spending on services in the 1960s and 1970s grew by 3 per cent or more a year in real terms, absorbing an every increasing share of the national product. I am pleased to say that in Wales this damaging trend has been halted. Spending in the present year is only fractionally higher, incost terms, than in 1979. Since 1979 the average annual increase in rates has been 30 per cent lower than when Labour were last in office. The total rise since 1979 has been 7 percentage points below the change in the RPI.

Success in reining back current spending has also enabled me to release a significant amount of resources for capital investment. Gross capital spending in Wales has grown twice as fast as inflation since 1981/82.

In the RSG debate last January I told the House that I would consider whether to abandon targets for 1986/87. I have now decided to do so, but at the same time to toughen the alternative means of containing spending by raising the rate at which local authorities will lose grant as their spending rises relative to GRE. The local authority associations, with whom I have discussed this issue in detail, are prepared to accept this as a reasonable price to pay for moving away from selective controls and for restoring a greater measure of local accountability. The precise system of controls proposed for 1986/87 has, in fact, been strongly influenced by the views of the associations, and the Welsh Counties Committee in particular.

Under the new arrangements the great majority of councils will now face a cash reduction in grant if they opt for an above average increase in spending. An important feature of the new scheme is that it also dramatically increases the rating benefits for below average growth in spending; and I am sure many councils will come to recognise this in the coming months.

In order to moderate some of the large poundage increases which would otherwise have come about I have taken up the Welsh Counties idea of limiting the aggregate of GREs, to a total 10 per cent below the actual level of provision for the year.



I turn now to the level of resources.

Following discussions with the associations I propose to add £15 million to the provision for current expenditure shown in last year's public expenditure White Paper. The adjusted total proposed is £1368 million. If Councils succeed in holding their spending to this figure by the end of this Parliament they will have met my objective of returning, in cost terms, spending to the level recorded in 1979/80.

Taking into account the other elements of spending, total relevant expenditure for RSG purposes is provisionally estimated to be £1598 million. This is £76 million, or 5 per cent more than the amount authorities have budgeted to spend in the present year.

In arriving at the relevant expenditure total I have taken account of the pressure on the resources for advanced further education. The Committee of the Wales Advisory Body has told me that an early decision on the size of the AFE pool would greatly assist their annual planning exercise for this sector. I have therefore proposed to the Welsh Counties Committee that the pool should total £31 million in 1986/87, an increase of £2½ million, or 8.8 per cent, over the figure for 1985/86.

Aggregate grant in support of relevant expenditure will be £1067 million, giving a grant percentage of 66.8 per cent - virtually the same figure as for the present year. In cash terms grant is £54 million, or 5.3 per cent, higher than the level in the supplementary report for 1985/86.

The final ingredient of my proposed package is an £11 million addition to the existing provision for local authority capital investment. This enhancement to 1986/87 resources is linked directly to Welsh authorities' efforts to contain their current expenditure in 1985/86.

When all the elements of the package are taken together the arithmetic shows that if councils spend in line with the provision I have set rate rises next year should not, on average, exceed the going rate of inflation. Indeed a good number of councils will be able to cut the rate burden while still budgeting for a moderate cash increase in spending.

The tough but more straightforward and less interventionist arrangements I intend to introduce next year should provide authorities with sufficient incentive to budget moderately and a firmer basis on which to plan their spending effectively. Targets and holdback have been extremely successful in Wales. The associations have assured me that the new arrangements will be equally effective. I trust that they prove to be so.

I commend my proposals for the 1986/87 settlement to the House.

Relations: Local GOVT: PL-27



CONFIDENTIAL



CC 100  
01  
2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

19/7  
17 July 1985

Dear Chief Secretary

SALE OF LOCAL AUTHORITY MORTGAGES

Thank you for your letter of 18 July recording our discussion on the sale of local authority mortgages. I also have Michael Havers' letter of 19 July on the same subject. *(File with A7)*

In the light of these letters we have now made further changes to the draft answer and circular to local authorities as attached. I would add the following comments on your letter and Michael Havers'.

On non-Housing Act mortgages I note that what you say about making the consent of the mortgagor apply from a date in, say, 2 or 3 months' time when we have completed consultations. I think it could be a bit complicated to have two effective dates both preceding the legislation. But we do not need to settle this for the moment and the draft answer leaves it open to us to proceed as you suggest when the consultations are complete.

On your general concern about macro-economic implications of mortgage refinancing I do not think I can go along with your line. I know that the Treasury have lately taken the view that receipts from refinancing deals should not give cover for additional expenditure. But colleagues generally have not considered this and it runs counter to E(A) decisions last autumn (E(A) (84) 22 Meeting item 2) that authorities should be encouraged to sell their mortgage books. In the light of that decision I publicly commended this to the Building Societies last autumn, and I do not think we should now go back on this.

Our public stance now therefore must, I suggest, be that we continue to welcome the refinancing of individual local authority mortgages by the private sector. But we are concerned when local authorities, activated solely by a desire to increase receipts rapidly, sell whole blocks of mortgages in one transaction without reference to their borrowers or even without their knowledge. It is this kind of "greedy" action by local authorities which we are now going to block off, so that they cannot go over the heads of their borrowers in a hasty way. But ordinary refinancing of individual mortgages can proceed as before, and I see no reason to retract my firm encouragement of this, though as you will see in the revised draft answer I have put my welcome a little bit into the past so as to go some way to meet your concern.

The explanation overleaf deals I think also with Michael Havers' point. We are genuinely concerned with protecting the interests of mortgagors and that is the purpose of the change we are making. We are not however applying it to other lending institutions because:-

- (a) there is no evidence that large blocks of mortgages are disposed of by institutions in the same way (except where transfer is a commercial necessity, as for example when an institution is failing), since clearly an institution will not have the same incentive to generate capital receipts as local authorities do;
- (b) it would be much more complex to legislate for the generality of institutions, would get into complex questions of mortgage law and would require difficult distinctions to be made between circumstances in which sales of mortgages would have to be permitted (eg commercial necessity) and those where consent of the mortgagor would be required;
- (c) building societies are already precluded (by lack of satisfactory powers) from buying mortgages.

For these reasons I think we can reasonably distinguish between local authority (and New Town and Housing corporation) cases and the private sector in the way that we are proposing to do so.

We are putting down the question today. I hope that you will be able to agree the final version of the draft answer urgently in time for us to answer the question on Monday 22 July.

I am copying this letter to the Prime Minister, Nick Edwards, George Younger, Norman Tebbit, Quintin Hailsham, Michael Havers and Sir Robert Armstrong. Could I ask for any comments by noon on 22 July?

*Yours sincerely*  
*Patrick Jenkin*

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

The Chief Secretary  
Treasury

DRAFT PARLIAMENTARY QUESTION AND ANSWER

Sale of Local Authority Mortgages

DRAFT QUESTION

To ask the Secretary of State for the Environment, whether he is aware of moves by local authorities to dispose of their mortgages en bloc to financial institutions.

DRAFT ANSWER

Local authorities have normally retained mortgages until they have been redeemed by the individual borrower in the same way as private sector lenders such as the building societies and the banks. Last autumn however, I welcomed the initiative which a number of local authorities and new town development corporations were taking to speed up this process by arranging for building societies to offer replacement loans to the authority's borrowers individually enabling them to pay off their council mortgages. The borrower is free to decide whether or not to enter into a new mortgage contract with the building society, which may offer better terms. And the local authority gets the advantage of an earlier capital receipt.

# CONFIDENTIAL

Recently, however, some authorities have packaged their mortgage loans and sold them direct to financial insititutions, without consulting with the borrowers, in order to generate in a short time large blocks of additional capital receipts. This is an artificial transaction and should not count as an addition to capital receipts. Moreover, the borrower may have no say in the matter, and may be unaware of the transaction until after the event. We believe that local authorities should not sell a mortgage without the prior consent of the mortgagor.

Accordingly, the Government proposes to legislate at the earliest opportunity to give home owners with a local authority mortgage the right to decide whether or not the local authority may dispose of its interest to a specified purchaser. A transfer without consent would be invalid. In order to give interim protection to such mortgagors, our intention is that the legislation conferring this right should have retrospective effect as from midnight tonight.

We shall also consider whether the borrower's consent should be required before a local authority sells a mortgage of industrial or commercial property; we shall consult on this.

Some sales of mortgages have taken place on terms which may leave the local authority with a continuing financial risk in relation to the mortgage. Such transactions are, in substance, the equivalent of expensive borrowing rather than a genuine disposal of assets.



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Subject to further consideration and consultation on the practicalities, we intend to legislate to require that any sale of a mortgage should provide for the transfer of risk to the purchaser, if it is to be treated as a capital receipt; but any requirement of this kind would not have effect from today.

My Department is writing today to local authorities and other interest organisations to draw this announcement to their attention, and to consult on the details of the proposal. My Rt Honourable friend, the Secretary of State for Wales, is writing in similar terms to Welsh local authorities.

## DRAFT CIRCULAR LETTER TO LOCAL AUTHORITIES

THE SALE OF LOCAL AUTHORITY MORTGAGES

1 Local authorities will be able to sell mortgages only with the prior consent of the borrower, under legislative proposals announced today by the Secretary of State for the Environment. Parliament will be asked to make this requirement effective from midnight tonight for most house mortgages. I enclose a copy of the Secretary of State's announcement to the House of Commons.

2 This letter describes in more detail the Secretary of State's intentions.

- 'Changes with immediate effect' describes the legislative provisions which it is proposed should have effect from midnight tonight.

- 'Further possible changes' describes other provisions which may be included in the legislation, subject to consultation.

Any of these latter changes would not be given effect from today.

Changes with immediate effect

3 Local authorities may sell their interest as mortgagees only with the consent of the borrower.

Sale of a mortgage

4 The sale of a mortgage is to include the disposal of any interest in:

- a mortgage; or
- a mortgage debt.

The Borrower's consent

5 The borrower's consent means consent given:

- before any sale of his mortgage;

- Pg 8 of 12
- in writing; and
  - in relation to a named buyer.

Any consent given by a borrower is to lapse automatically after six months, if the sale has not by then taken place. But the authority may seek the borrower's consent afresh.

#### Mortgages affected

7 The proposed legislation will apply from midnight tonight to sales of 'Housing Act mortgages'. These are mortgages relating mainly to residential properties, arranged under the following powers:

- Small Dwellings Acquisition Acts 1899 to 1923;
- Housing Act 1957, sections 104 & 119;
- Housing (Financial Provisions) Act 1958, section 43;
- Housing Act 1974, section 100;
- Housing Act 1980, Part I; and
- Housing & Building Control Act 1984, section 24.

#### Further possible changes

8 The Government intends to apply the proposed provisions to all residential mortgages. The few which are not among the 'Housing Act mortgages' - such as residential mortgages created in connection with sales under the Local Authority (Land) Act 1963, section 3 - will be included, subject to consultation on detailed definitions.

9 The Government is also considering the application of the same requirement to mortgages of non-residential property.

10 Subject to further consideration of the practicalities, the Government intends that the legislation should require that any sale of a mortgage should provide for the transfer of risk to the purchaser, if it is to give rise to a capital receipt.

**CONFIDENTIAL**

Coverage

11 Legislation is proposed to local authorities in England and Wales. The New Town Development Corporations and the Housing Corporation will be required to apply similar principles.

Consultation

12 The principle that the borrower's consent should be required before any sale of a 'Housing Act mortgage' is not the subject of consultation.

13 The Secretary of State does invite comments on:

- which mortgages should be regarded as 'residential mortgages' in applying his proposals on 'Housing Act mortgages' to other mortgages of residential property; and
- the considerations relevant to:
  - any extension of similar provisions to mortgages of non-residential property; and
  - a requirement that the sale of a mortgage should provide for the transfer of risk to the purchaser, if it is to give rise to a capital receipt.

14 The Department should receive any comments by midday on Monday 16 September 1985.

Contact Point in the Department

15 If you wish to:

- respond to the Secretary of State's invitation to comment;
- or
- make any enquiry about the 'Changes with immediate effect',

please write to

Mortgages Consultation  
HA4 Division  
Room N11/14  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

or telephone Mr H R Cunniah on 01-212 3055

Relations: Local Coast PE-27



Prime Minister ①  
Agree to substance of M Jenkin's  
proposals while calling for  
improvements in presentation?

ceB1

18 July 1985

AT 18/7

PRIME MINISTER

RATE-CAPPING AND RATE SUPPORT GRANT, 1986-87

Yes

1. Rate-capping

Patrick Jenkin's criteria for selecting rate-capped authorities in 1986-87 are comprehensible and sensible. The capped authorities will be high-spenders by anybody's standards. They will all be Labour-controlled.

The new precept controls will apply to Passenger Transport Authorities, Fire Joint Boards, and Police Joint Boards in each of the six metropolitan areas, as well as to the ILEA and the Fire Joint Board in London. All of these except the London Fire Board will be dominated by Labour. The ILEA is likely to be the only real trouble spot.

Patrick is right to guarantee that he will not make further reductions or impose onerous conditions on councils if they produce reasonable arguments for redetermination of their expenditure limits. This concession will make it more difficult for the Far Left to explain themselves if they refuse to discuss the limits with DoE.

2. Rate Support Grant

Paragraphs 7-11 of the minute are amazingly lacklustre. Patrick is announcing the end of targets. That is - or ought to be - a major political bull-point. If he presents it as a low-key administrative alteration, he will have lost a rare opportunity to score a propaganda coup. Shouldn't someone in DoE - eg a special adviser - revamp the style? While he is about it, he might put in a rather more rhetorically effective passage on the success of rate-capping this year, and the abominable behaviour in some

councils: this is meant to be a statement in the House of Commons, not a diplomatic communiqué.

We recommend that you write to Patrick Jenkin, welcoming the substance of his proposals, but suggesting that he should adopt a more politically effective style.

*Oliver Letwin*

OLIVER LETWIN

CONFIDENTIAL

B/R with pm  
advice

10 NO



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

18 July 1985

Dear Chief Secretary

LOCAL AUTHORITY CAPITAL EXPENDITURE

We discussed today issues arising from E(A)'s discussion on 1 July.

On mortgage refinancing, I attach slightly revised versions of the draft Answer and Circular letter to local authorities, which I would propose to issue on Monday. The amendments to the draft I circulated on 17 July are designed to make it clear that we are consulting about measures to ensure that risk is transferred to the new mortgagee, with a presumption in favour of legislation, but that any such provisions would not have immediate retrospective effect.

On capital receipts, we were unable to agree and you are considering the next steps.

May I meanwhile offer these comments on your letter of 17 July.

I find your proposal unacceptable for a number of reasons, but especially because it would apply to unused receipts gained in 1985/86. Our discussion in E(A) was about a changed position from 1 April 1986. The Prime Minister in her summing up of the discussion said that "Local authorities could not, however, be deprived of the benefit of their accumulated unspent capital receipts, given the Government's repeated commitments on this point." The commitments were given in order to secure support for a change in the law that applied to 1985/86 and after. We meant - and intended to mean - that authorities could spend 20% of 1985/86 receipts in that year, but the balance could be spread forward and spent in later years. To resile from that assurance would place me in an untenable position.

I am happy to discuss the issues again with colleagues before the recess, if a meeting can be arranged. But your proposal, which would have the effect of sharply reducing authorities' to spend from their own resources below the level on which they are now counting, could not in my view be carried through the two Houses.



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I am copying this letter to the Prime Minister, Willie Whitelaw, Quintin Hailsham, Keith Joseph, Nick Edwards, Nicholas Ridley, Norman Fowler, John Wakeham and Michael Havers and to Sir Robert Armstrong.

*for Alan*

PATRICK JENKIN

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

The Rt Hon Peter Rees QC MP

## DRAFT PARLIAMENTARY QUESTION AND ANSWER

## SAE OF LOCAL AUTHORITY MORTGAGES

DRAFT QUESTION

To ask the Secretary of State for the Environment, whether he is aware of moves by local authorities to dispose of their mortgages en bloc to institutions.

DRAFT ANSWER

Like private sector lenders, such as the building societies and the banks, local authorities have normally retained mortgages until they have been redeemed by the individual borrower. I welcome the initiative which a number of local authorities and new town development corporations have been taking to speed up this process by arranging for building societies to offer replacement loans to the authority's borrowers individually, enabling them to pay off their council mortgages. The borrower is free to decide whether or not to enter into a new mortgage contract with the building society.

Recently, some authorities have packaged their mortgage loans and sold them direct to financial institutions. The borrower may have no say in the matter and <sup>may</sup> be unaware of the transaction until after the event. We believe that local authorities should not sell a mortgage without the prior consent of the mortgagor.

Accordingly, the Government proposes to legislate at the earliest opportunity to give homeowners with a local authority mortgage the right to decide whether or not the local authority may dispose of its interest to a specified purchaser. In order to give interim protection to such mortgagors, our intention is that the legislation conferring this right should have retrospective effect as from midnight tonight.

Some sales of mortgages have taken place on terms which may leave the local authority with a continuing financial risk in relation to the mortgage. Such transactions are, in substance, the equivalent of expensive borrowing rather than a genuine disposal of an asset. We shall consider whether the legislation should require any sale of a mortgage to provide for the transfer of risk to the purchaser; but any requirement of this kind would not have immediate effect from today.

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My Department is writing today to local authorities to draw the announcement to their attention, and to consult on the details of the proposal.

DRAFT CIRCULAR LETTER TO LOCAL AUTHORITIES

THE SALE OF LOCAL AUTHORITY MORTGAGES

1 Local authorities will be able to sell mortgages only with the prior consent of the borrower, under legislative proposals announced today by the Secretary of State for the Environment. Parliament will be asked to make this requirement effective from midnight tonight for most house mortgages. I enclose a copy of the Secretary of State's announcement to the House of Commons.

2 This letter describes in more detail the Secretary of State's intentions.

- 'Changes with immediate effect' describes the legislative provisions which it is proposed should have effect from midnight tonight.
- 'Further possible changes' describes other provisions which may be included in the legislation, subject to consultation. (Any of these latter changes would not be given immediate effect from today).

Changes with immediate effect

3 Local authorities may sell their interest as mortgagees only with the consent of the borrower.

Sale of a mortgage

4 The sale of a mortgage is to include the disposal of any interest in:

- a mortgage; or
- a mortgage debt.

The Borrower's consent

5 The borrower's consent means consent given:

- before any sale of his mortgage;

- in writing; and
- in relation to a named buyer.

6 Any consent given by a borrower is to lapse automatically after six months, if the sale has not by then taken place. But the authority may seek the borrower's consent afresh.

#### Mortgages affected

7 The proposed legislation will apply from midnight tonight to sales of 'Housing Act mortgages'. These are mortgages relating mainly to residential properties, arranged under the following powers:

- Small Dwellings Acquisition Acts 1899 to 1923;
- Housing Act 1957, sections 104 & 119;
- Housing (Financial Provisions) Act 1958, section 43;
- Housing Act 1974, section 100;
- Housing Act 1980, Part I; and
- Housing & Building Control Act 1984, section 24.

#### Further possible changes

8 The Government intends to apply the proposed provisions to all residential mortgages. The few which are not among the 'Housing Act mortgages' - such as residential mortgages created in connection with sales under the Local Authority (Land) Act 1963, section 3 - will be included, subject to consultation on detailed definitions.

9 The Government is also considering the application of the same requirements to mortgages of non-residential property, and the possibility of imposing requirements which will ensure that, for all sales of mortgages, the sale transfers all the risk to the purchaser.

#### Coverage

10 Legislation is proposed to apply to local authorities in England [and Wales]. The New Town Development Corporations and the Housing Corporation will be required to apply similar principles.

Consultation

11 The principle that the borrower's consent should be required before any sale of a 'Housing Act mortgage' is not the subject of consultation.

12 The Secretary of State does invite comments on:

- which mortgages should be regarded as 'residential mortgages' in applying his proposals on 'Housing Act mortgages' to mortgages of other residential property; and
- the considerations relevant to:
  - any extension of similar provisions to mortgages of non-residential property; and
  - any requirement that the sale of all mortgages should provide for the transfer of risk to the purchaser.

13 The Department should receive any comments by midday on Monday 16 September 1985.

Contact Point in the Department

14 If you wish to:

- respond to the Secretary of State's invitation to comment;
- or
- make any enquiry about the 'Changes with immediate effect',


please write to

Mortgages Consultation  
HA4 Division  
Room N11/14  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

or telephone Mr H R Cunniah on .01-212 3055.

SALE OF LOCAL AUTHORITY MORTGAGES

Organisations to be consulted



Association of County Councils  
Association of District Councils  
Association of London Authorities  
Association of Metropolitan Authorities  
British Bankers Association  
Building Societies Association  
Committee of London Clearing Bankers  
Committee of Scottish Clearing Bankers  
Greater London Council  
Housing Corporation  
Life Offices' Association  
London Boroughs Association  
New Towns Association  
Institute of Housing  
National Consumer Council  
SHAC and Shelter

LOCAL GOVT: PUS: PE 27,





NDRM  
AT 18/7

MR TURNBULL

18 July 1985

LOCAL AUTHORITY MORTGAGES

I understand that Treasury and DoE have agreed on a compromise:

- i. a sudden announcement that there will be legislation to prevent councils selling off mortgage books without the permission of individual mortgagors;
- ii. further consideration of the transfer of risk point, possibly leading to consultation in due course.

This seems a satisfactory result. But officials in the Lord Chancellor's Department and the Attorney General's Office have severe doubts. They say that the proposal to protect the individual mortgagor will cause difficulties, because people who hold mortgages with building societies and banks have no equivalent rights.

We shall have to wait until letters have arrived from the Chief Secretary and the Law Officers before briefing. I shall talk to you this evening.

OL let.

OLIVER LETWIN

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NBPM

CCM

AT

19/7



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

18 July 1985

Dear Secretary of State,

**SALE OF LOCAL AUTHORITY MORTGAGES**

Thank you for your letter of 17 July, which we discussed briefly this morning.

As you say in your letter, E(A) concluded that sales of mortgages should involve both the transfer of risk to new lending institutions and the concern of the individual borrower. Your letter explains that provisions dealing with the consent of the individual borrower on the lines you propose could be announced next week, to take effect from the date of announcement. But it became clear in our discussion that provisions dealing with the transfer of risk would require further consideration and consultation. We therefore agreed, subject to any comments other colleagues may have, that it would be right for you to make your announcement next week about legislation to require the borrower's consent, to take effect from the date of your announcement. Your announcement would also refer to the Government's concern that risk should be properly transferred before a mortgage refinancing transaction could be scored as a capital receipt, and say that the Government intended to introduce legislation on this point too, following further consideration and consultation (although legislation on this point would not be retrospective to the date of your announcement).

Your letter refers to the need to consult about the treatment of non-Housing Act mortgages, and I accept the case for that on the understanding that such mortgages are likely to constitute only a small proportion of local authorities' mortgage books. But I am not clear why

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legislation should not come into effect before Royal Assent in these cases. It would surely be possible to make a further announcement within two or three months, when consultations have taken place, and to make the provision effective from that date. I suggest we should work on that basis, and that your statement and the circular to local authorities should leave that possibility open.

Given my general concern about the macro-economic implications of mortgage refinancing, I should also be grateful if the second sentence of the draft statement could be amended to read:

"A number of local authorities and new town development corporations have been speeding up this process ...."

Subject to these points, and to drafting changes in the statement and circular to reflect our agreement on the handling of the transfer of risks provision, I am content with the texts and with your proposal for the PQ to be put down on 19 July for answer on 22 July.

I am copying this letter to the Prime Minister, Nick Edwards, George Younger, Norman Tebbit, Quintin Hailsham, Michael Havers and Sir Robert Armstrong.

*Yours Sincerely,*  
*Peter Rees*  
PETER REES

PP (Approved by the Chief Secretary and signed in his absence)





NDPM

BT

18/7

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

17 July 1985

Dear Secretary of State

LOCAL AUTHORITY CAPITAL EXPENDITURE: USE OF RECEIPTS

Thank you for your letter of 16 July, in which you set out a proposal for implementing E(A)'s remit on the treatment of past and future local authority capital receipts.

It will not surprise you that I have difficulty with it, because it would initially add to local authorities' spending power from receipts. It seems likely to produce additional spending power from receipts of about £½ billion in each of the years 1986-87 and 1987-88 - the very years in which we need to constrain it.

I would accept that your proposal would probably begin to reduce spending power from receipts by 1989-90. But by then we hope to be in the second year of operation of a properly reformed capital control system. The whole point of legislation in the 1985-86 session is to improve the position in the short-term, for 1986-87 and 1987-88. I see no point in proceeding with legislation that makes the position worse in those years.

I propose a different approach. First, it is essential that we bring the cascade to an end with effect from the carry-forward of unused 1985-86 receipts into 1986-87, if we are to make any impact on the position in that year. There will be no effect on accumulated receipts from past years, which will still be available as now. This is in line with E(A)'s conclusions that authorities should not be deprived of the benefit of their accumulated receipts from past years. 1985-86 receipts are in-year receipts, not accumulated receipts.

I am aware of the political sensitivities surrounding these issues; indeed, E(A) asked us also to take into account the need to maintain incentives to dispose of assets. For

that reason, I propose also that we should increase from 20 per cent to 30 per cent the prescribed proportion for housing receipts realised from 1986-87 onwards (and for any unspent portion of the prescribed proportion of such receipts arising in 1985-86.) This will help to ease the passage of the legislation through the House, and still produce a worthwhile result by containing the use of in-year and future receipts, and giving room for 1986-87 allocations nearer those for the current year at the present level of provision.

I am copying this letter to the Prime Minister, Keith Joseph, Nick Edwards, Nicholas Ridley and Norman Fowler, and to Sir Robert Armstrong.

*Yours sincerely*

PETER REES

*[Approved by the Chief Secretary]*





*MF with 14  
advice* *and*

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

17 July 1985

Dear Willie,

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1986/7

There were a few points that need to be clarified in the light of the meeting of E(LA) yesterday, but it may be helpful if I circulate now a draft of a statement I would propose to make to Parliament next week.

You will see that it covers the proposed Rate Support Grant Settlement and the Government's proposals for rate limitation for 1986/7. I would be grateful for any comments by close of play on Monday, 22 July.

Copies of this letter go to the Prime Minister, other members of E(LA), John Wakeham and Bertie Denham.

*Yours ever  
Patrick*

PATRICK JENKIN

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1986/7.

STATEMENT BY SECRETARY OF STATE FOR THE ENVIRONMENT:

1. With permission Mr Speaker I should like to make a statement about local government finance for 1986/7. It contains my proposals for the Rate Support Grant Settlement in England, and my decisions on selective rate limitation under the Rates Act 1984.

2. First, rate limitation. This year's round has gone well. It has saved ratepayers millions of pounds. We have begun to curb the worst overspending of the most profligate authorities.

3. I am today laying before the House, a report setting out how authorities will be selected for rate limitation next year. For authorities not previously selected, I am proposing the same criteria as I used this year: I am selecting authorities whose budget this year are more than 20% above GRE and more than 4% above target. For authorities which were selected this year, I am re-selecting them if their budgeted expenditure is more than 20% above GRE and either more than 1% above target or more than 30% over their expenditure in 1981-2.

4. On these criteria, 2 authorities, Liverpool and Newcastle, are selected for the first time; and 10 authorities are re-selected: Basildon, Camden, Greenwich, Hackney, Haringey, Illington, Lambeth, Lewisham, Southwark and Thamesdown. Next year will also see the first year of the operation of automatic precept control under the Local Government Act 1985. New authorities will come into existence, for which the Government will set expenditure levels and precept limits for three years.

5. I am also setting expenditure levels for the 12 rate-capped authorities. In most cases there will again be a cash standstill on budgeted total expenditure in the current year. In three cases where budgets this year shown an exceptionally sharp increase in spending, I am setting lower spending levels.

6. Under the Rate Act, I am open to representations for redetermination of these expenditure levels. Last year no-body applied. Authorities claimed they were afraid I would use my power to reduce their levels or impose onerous conditions. I suspect the real reason was their policy of non-compliance. Nevertheless this year I am prepared to give an undertaking not to reduce the expenditure level or impose conditions in two particular circumstances. The first is where an authority applied for a redetermination principally on the grounds that we have made inadequate allowance for functions inherited from the GLC or Metropolitan counties. The second is where the applicant argues, or I am persuaded, that primarily because of budgeted use this year of special funds or similar accounting devices, a cash standstill on its total expenditure figure implies unachievable economies. In considering any application for a redetermination I will pay particular attention to the question of funding for voluntary bodies  
rt hon Friends the Home Secretary and the Secretaries of State for

AMENDMENTS TO THE ATTACHMENT OF A LETTER  
FROM PATRICK JENKIN TO THE LORD PRESIDENT'S  
OFFICE ON RSG SETTLEMENT 1986/87.

2nd page

second line

insert "new" before "authorities" - eg  
.. expenditure levels they propose to set  
for the **new** authorities".

paragraph 5: line 8

after "the increased provision" insert

", some £22.2 billion is about the same in  
cash as this year's current expenditure  
objectives.."

If this is not clear ring David Mulley on  
212 4252.



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Transport and Education and Science are today announcing the expenditure levels they propose to set for the <sup>new</sup> authorities for which each is responsible.

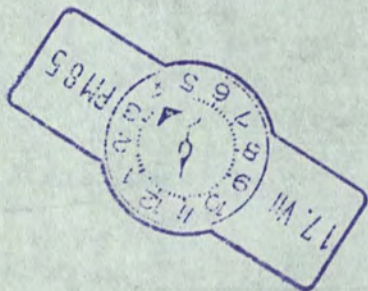
7. I turn now to the Rate Support Grant Settlement as a whole. I am today issuing to local authorities proposals for the main features of the Settlement for next year. Copies are in the Library and the Vote Office.

8. The target system has operated since 1981/2 in order to put pressure on councils to restrain spending. Many of my hon and rt hon Friends have in the past made the point that the system operates unfairly on low-spending councils especially those spending below their GRE. Last January, in the RSG debate, I expressed the hope that for 1986/7 we could do without targets if there was a satisfactory alternative means of restraining spending. I believe that the block grant system can be modified to provide a sufficient deterrent to overspending and accordingly I can tell the House today that the system of targets and penalties will not apply next year.

9. Instead, I am proposing sharply to increase the rate at which authorities will lose grant as their spending rises in relation to GRE. The system will thus put more weight on the comparison of a council's spending with its GRE which is what many of my hon Friends have sought. Councils that overspend relative to their GRE will still find that the pressures to find economies will be considerable.

10. I am therefore consulting local government on a detailed package of proposals for 1986/7 which will not involve targets and penalty. I am proposing that aggregate exchequer grant should be the same cash sum as in this year's Settlement, £11.8b, which is likely to just under 47% of relevant expenditure next year. I am proposing to increase the sum provided for local authority current expenditure for 1986/7, as shown in last year's public expenditure White Paper, by about £500m. The increased provision expenditure budgets. The Audit Commission's reports are showing how councils could save hundreds of millions of pounds without reducing services simply by getting better value for money.

11. Mr Speaker, the RSG Settlement which I am proposing will be less complex than in past years and it will be fairer to responsible, low-spending authorities. It will maintain pressure on high-spending authorities to find savings. If local government responds sensibly average rate increase next year should be in low single figures.





**CONFIDENTIAL**

*BIF with the original cc AD  
ST 117*

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

17 July 1985

*Dear Attorney-General*

SALE OF LOCAL AUTHORITY MORTGAGES  
RETROSPECTIVE LEGISLATION *act*

At a meeting on 1 July, (E(A)(85)12th Meeting (Item 3)) colleagues agreed proposals to restrict the circumstances in which a local authority is able to transfer its interest as mortgagee of property to another body. An important element of these proposals is that they should, in part, be retrospective to a date to be announced when the proposals are made public (we have in mind midnight of the same day). I am therefore writing to seek your views on this aspect of the proposals.

I enclose a copy of a letter to Peter Rees which sets out what I have in mind. You will see that it is intended to give retrospective effect only to the requirement that a local authority should obtain the borrower's consent (as specified in paragraph 3 of that letter), where the local authority has lent money (or left part of the purchase price of a house outstanding) on the security of a mortgage under specified provisions in the Housing Acts. These are the Small Dwellings Acquisition Acts 1899 to 1923; sections 104 and 119, Housing Act 1957; section 43 Housing (Financial Provisions) Act 1958; section 100, Housing Act 1974; Part I, Housing Act 1980; and section 23, Housing and Building Control Act 1984.

We are considering whether the requirement to obtain the borrower's consent should be extended to mortgages where other legislative provisions have been used. We accept, however, that the terms in which we would seek to achieve this are not yet sufficiently certain for us to make the legislation retrospective in respect of those mortgages and we intend to make this clear when the proposals are announced.

You will wish to consider the implications of our intention to make the proposals retrospective, in part, for any transactions entered into between the date of the announcement and the date when the proposed legislation comes into force. Our hope is that, by giving our intentions sufficient publicity, and writing on the day of the announcement to every local authority, on the lines of the draft circular enclosed with my letter to Peter Rees, there will in practice be little likelihood of transfers of local authority interests being made in the interim, without the borrower's consent; we accept however that there must be a possibility that this could happen. Our intention is to provide that any transfer without the necessary consent should be invalid and that the interest should remain

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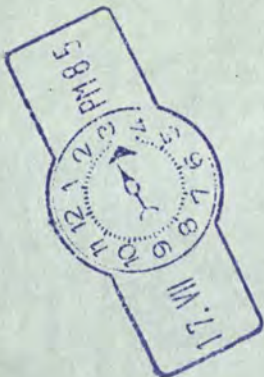
with the local authority. In relation to transfers which take place between the announcement and the commencement date of the legislation, the rule would be the same, but safeguards may be needed in order to protect the position of bona fide third parties. These could include:-

- (i) a body which takes a transfer of an interest under a mortgage from a bank, not realising that in the past that interest had been owned by a local authority; and
- (ii) the borrower, who may have been making payments to the wrong body, not realising that a transfer of the mortgagee's interest was invalid.

It may be that additional safeguards will be needed to deal with transfers before the commencement date (since these will not be invalid at the time they are made but will become invalid subsequently with retrospective effect). Subject to any views you may have, I propose that my officials should discuss the details of any such safeguards with the Lord Chancellor's Department and (in relation to registered land) the Land Registry.

Besides ensuring that the borrower has an opportunity to prevent a transfer of a local authority mortgage to a body which he might regard as likely to be unfavourable in its management of his mortgage, our aim in these proposals is to make it difficult for local authorities to dispose of mortgages on a large scale in block transactions. In order to achieve this aim, we have to make the provisions retrospective, since otherwise authorities may arrange such transactions as soon as our proposals are announced. We know from experience earlier this year that authorities may arrange such transactions as soon as our proposals are announced. We know from experience earlier this year that authorities and financial institutions can complete large scale sales of mortgages in as little as two or three weeks. If we allow an interval between our announcement and the coming into force of the legislation, we should expect many mortgage sales to be rushed through. I therefore hope that you will have no objection to the proposals I have described.

I am copying this letter to Nick Edwards, George Younger, Norman Tebbit and Quintin Hailsham.



Your sincerely  
Atkin

for

PATRICK JENKIN

Approved by the Secretary of  
State and signed in his absence

CONFIDENTIAL

The Rt Hon Sir Michael Havers QC MP



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BT  
1717

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SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 (Llinell Union)  
6106  
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 (Direct Line)  
6106  
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

De Willie

17<sup>th</sup> July 1985

**RSG WALES SETTLEMENT 1986-87**

I am writing to set out for you and other E(LA) colleagues the agreement I have reached with the Chief Secretary about the main features of the Wales RSG package, which is broadly consistent with the decisions reached in respect of England.

Current expenditure. The decision for England was to increase provision by £500m. The normal formula consequential of this for Wales would be £29.4m. The effect of the increased provision in England will be to set a target reduction in spending (budget to provision) of about 4½ per cent in cost terms. In Wales I have kept to the long-term objective of returning local authority spending in cost terms to the level it was at when we took office in 1979. In England that would require a target reduction of between 7 and 8 per cent compared to the 4½ per cent which has been decided upon between this year and next. In Wales it requires, on the same basis, a target reduction of only 1 per cent in cost terms, which can be set by increasing presently planned provision by £15m. This I propose to do.

The Chief Secretary has agreed that since the whole of the £29.4m indicated consequential is not required for current purposes, the resources available for Welsh local authority capital spending may be increased by £11m. I shall announce this as part of this package, since it has been my constant theme to the authorities that restraint in current spending will produce a dividend in terms of increased capital provision.

Aggregate grant. The figure for aggregate exchequer grant in England provides a 4.9 per cent increase on the post-holdback figure in 1985-86; if authorities meet the target reduction it would lead to an average rate increase of 2 to 3 per cent. I have agreed with the Chief Secretary that an average rate rise of about 5½ per cent would be tolerable in Wales. The increase in grant (again post-holdback 1985-86) to achieve this is 5.7 per cent, giving a grant total of £1067m. The effective grant percentage if authorities meet my target reduction would be marginally below that for the present year.

/The control mechanisms ...

The Rt Hon Viscount Whitelaw PC CH MC MP  
Lord President of the Council



The control mechanisms. Following detailed discussions with the Welsh local authority associations I have decided to abandon targets for 1986-87. Apart from the decision to abandon targets in England I have been influenced by the startlingly good performance of Welsh authorities this year (a total expenditure excess of only £4½m or 0.3 per cent) and their own willingness to see a substantial tightening of the mechanisms as a quid pro quo for doing without targets and restoring some measure of local accountability. Both sides of the Welsh Consultative Council have agreed on the following features:

- GRE will be constrained to a figure below the level of provision. This has the advantage of moderating some of the large poundage increases which would otherwise have come about. (I do not propose to introduce an unallocated margin as the aggregate provision in Wales will be a realistic target and not a signal).
- the slope of the poundage schedule below a 10 per cent threshold above GRE will be steepened by a factor of 2 (to yield a 3½ per cent rate rise for every 1 per cent change in spending relative to GRE). Above the threshold the slope will be steepened to yield a 5 per cent rate increase for every 1 per cent change in spending. The revised schedule will put virtually every authority in Wales into the position of being subject to a negative marginal rate of grant.
- a safety net on grant loss as a result of the tougher schedule will be set at a 20 pence rate at the rating authority level. In line with the Welsh associations' preference I shall limit grant gains to the equivalent of 5 pence at the rating authority level.

I believe that this package, though tough, will be seen as fair and should provide every incentive to Welsh local authorities to contain their spending in 1986-87 so as to meet my objective: a return in cost terms to the 1979 level of spending.

It is my intention to announce this package in a Statement to the House immediately following the Statement in relation to England to be made by Patrick Jenkin next week.

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

*J. Smith*  
*Nick*

cc *MS*

CONFIDENTIAL

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

17 July 1985

*Dear Chief Secretary*

SALE OF LOCAL AUTHORITY MORTGAGES

We discussed on 1 July at E(A)(85)12th the treatment of past and future local authority capital receipts, and the terms on which local authorities should be allowed to sell mortgages. I have written separately about capital receipts. I now seek colleagues' agreement on the action which we should take on the sale of mortgages.

Our conclusion at E(A) was that sales of mortgages should involve the transfer of risk to new lending institutions, and the consent of the individual borrower.

I propose a straightforward requirement that local authorities may only dispose of their interests in a mortgage with the consent of the mortgagor. This is to include assignments of a mortgage debt, and any equitable assignment of a local authority's interest in a mortgage. Legislation would require that the borrower's consent is given in writing; that it relates to a sale to a named buyer; and that it should lapse automatically after six months (to prevent authorities from accumulating consents long in advance of a transaction). The borrower's rights under the mortgage deed are to be unaffected by his giving of consent to a sale. The requirement for consent is to apply only to the disposal of its interest in the mortgage by the local authority, and not to any subsequent disposal.

I propose that the legislation requiring the borrower's consent should have effect retrospectively as from midnight on the date on which we announce our intention to legislate. Since time is so short, I am consulting Michael Havers in parallel about this retrospection. But I see no alternative to immediate introduction. If we allow an interval before the legislation comes into effect, we could expect many deals to go through in the meantime; we saw earlier this year how quickly such sales can be completed.

The retrospective elements of the legislation will have to be confined to the requirements for borrower's consent described in paragraph 3 above, and to mortgages under the Housing Acts (listed in the enclosed draft circular) which comprise the vast majority of local authority mortgages. We have examined ways in which we might ensure transfer of risk to the new lending institution; but this has proved very complex, mainly because it would be so difficult to close off loopholes which would

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# CONFIDENTIAL

make the legislation ineffective. I believe that the requirement of the borrower's consent will go a long way to discourage bulk refinance deals, and therefore I suggest that we do not pursue the requirement for transfer of risk.

We need to consider further the application of the legislation to mortgages of residential property arranged other than under the Housing Acts; and the application to mortgages of non-residential property. I propose that we should announce our intentions to consider provisions on these points in the legislation, but offer to consult the local authority associations and others before reaching firm decisions. Since we cannot at this stage give a firm indication of the proposed legislation on these points, we shall not be able to bring these other provisions into effect until Royal Assent at the earliest.

I propose that new towns and the Housing Corporation should follow the same principles as we are applying to local authorities. We can, however, apply them to the other bodies by administrative means; it would be my intention to do so.

I enclose a draft Parliamentary Answer in which I would announce our decisions. I also enclose a copy of a draft circular letter which the Department would send to each local authority, explaining in more detail the terms of the proposed legislation. Subject to the views of the Law Officers on retrospection, I should be grateful for agreement to these proposals and to the terms of the draft announcement. I should like the Question to be put down on 19 July for answer on 22 July; I could then have a brief preliminary discussion with Local Government leaders at the meeting of the Consultative Council on Local Government Finance on 23 July. I should therefore be grateful for responses by midday on Friday 19 July.

I am copying this letter and its enclosures to the Prime Minister, Nick Edwards, George Younger, Norman Tebbit, Quintin Hailsham, Michael Havers and Sir Robert Armstrong.

*Yours sincerely*

*P. Jenkin*  
*Patrick Jenkin*

PATRICK JENKIN

Approved by the Secretary of  
State and signed in his absence

# CONFIDENTIAL



## DRAFT PARLIAMENTARY QUESTION AND ANSWER

## SALE OF LOCAL AUTHORITY MORTGAGES

DRAFT QUESTION

To ask the Secretary of State for the Environment, what measures he will take to protect the local authority mortgagors from the disposal of their mortgages to financial institutions.

DRAFT ANSWER

Like private sector lenders, such as the building societies and the banks, local authorities have normally retained mortgages until they have been redeemed by the individual borrower. I welcome the initiative which a number of local authorities and new town development corporations have been taken to speed up this process by arranging for building societies to offer replacement loans to the authority's borrowers individually, enabling them to pay off their council mortgages. The borrower is free to decide whether or not to enter into a new mortgage contract with the building society.

Recently, some authorities have packaged their mortgage loans and sold them direct to financial institutions. The borrower may have no say in the matter and be unaware of the transaction until after the event. We believe that local authorities should not sell a mortgage without the prior consent of the mortgagor.

Such transactions may leave the local authority with a continuing financial risk in relation to the mortgage. In some cases, the transaction is in substance the equivalent of expensive borrowing rather than a genuine disposal of an asset.

Accordingly, the Government proposes to legislate at the earliest opportunity to give homeowners with a local authority mortgage the right to decide whether or not the local authority may dispose of its interest to a specified purchaser. In order to give interim protection to such mortgagors, our intention is that the legislation should have retrospective effect as from midnight tonight. My Department is writing today to local authorities to draw the announcement to their attention, and to consult on the details of the proposal.

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## DRAFT CIRCULAR LETTER TO LOCAL AUTHORITIES

THE SALE OF LOCAL AUTHORITY MORTGAGES

1 Local authorities will be able to sell mortgages only with the prior consent of the borrower, under legislative proposals announced today by the Secretary of State for the Environment. Parliament will be asked to make this requirement effective from midnight tonight for most house mortgages. I enclose a copy of the Secretary of State's announcement to the House of Commons.

2 This letter describes in more detail the Secretary of State's intentions.

- 'Changes with immediate effect' describes the legislative provisions which it is proposed should have effect from midnight tonight.

- 'Further possible changes' describes other provisions which may be included in the legislation, subject to consultation.

Any of these latter changes would not be given effect retrospectively.

Changes with immediate effect

3 Local authorities may sell their interest as mortgagees only with the consent of the borrower.

Sale of a mortgage

4 The sale of a mortgage is to include the disposal of any interest in:

- a mortgage; or
- a mortgage debt.

The Borrower's consent

5 The borrower's consent means consent given:

- before any sale of his mortgage;

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- in writing; and
- in relation to a named buyer.

6 Any consent given by a borrower is to lapse automatically after six months, if the sale has not by then taken place. But the authority may seek the borrower's consent afresh.

#### Mortgages affected

7 The proposed legislation will apply from midnight tonight to sales of 'Housing Act mortgages'. These are mortgages relating mainly to residential properties, arranged under the following powers:

- Small Dwellings Acquisition Acts 1899 to 1923;
- Housing Act 1957, sections 104 & 119;
- Housing (Financial Provisions) Act 1958, section 43;
- Housing Act 1974, section 100;
- Housing Act 1980, Part I; and
- Housing & Building Control Act 1984, section 24.

#### Further possible changes

8 The Government intends to apply the proposed provisions to all residential mortgages. The few which are not among the 'Housing Act mortgages' - such as residential mortgages created in connection with sales under the Local Authority (Land) Act 1963, section 3 - will be included, subject to consultation on detailed definitions.

9 The Government is also considering the application of the same requirements to mortgages of non-residential property.

#### Coverage

10 Legislation is proposed to apply to local authorities in England [and Wales]. The New Town Development Corporations and the Housing Corporation will be required to apply similar principles.

Consultation

11 The principle that the borrower's consent should be required before any sale of a 'Housing Act mortgage' is not the subject of consultation.

12 The Secretary of State does invite comments on:

- which mortgages should be regarded as 'residential mortgages' in applying his proposals on 'Housing Act mortgages' to mortgages of other residential property; and
- the considerations relevant to any extension of similar provisions to mortgages of non-residential property.

13 The Department should receive any comments by middday on Monday 16 September 1985.

Contact Point in the Department

14 If you wish to:

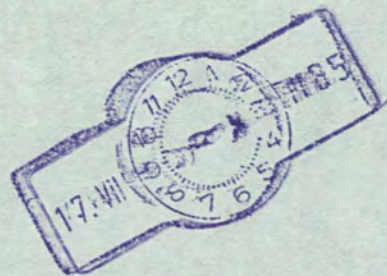
- respond to the Secretary of State's invitation to comment;
- or
- make any enquiry about the 'Changes with immediate effect',

please write to

Mortgages Consultation  
HA4 Division  
Room N11/14  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

or telephone Mr H R Cunniah on 01-212-3055

**CONFIDENTIAL**





NAPM

~~CCNO~~

AT

17/7

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

17 July 1985

Dear Home Secretary

with AT?

Thank you for copying to me your letter of 16 July to Peter Rees.

I have no objection to your proposal to say that the proposed extra £6.4 million of expenditure will be taken into account in the RSG settlement for 1986-87, on the understanding that this does not reopen the agreement to increase the aggregate provision by £500 million, and that you will feel able to make this statement whatever share of that £500 million is allocated to the police provision.

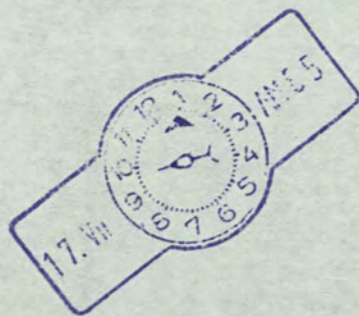
I cannot, though, accept that a disregard for 1985-86 is justified. You estimate that the additional expenditure will be some £500,000 in aggregate, or £250,000 after police specific grant. That represents only some £5,500 per police authority. We surely cannot argue that police authorities are obliged to exceed target by that amount as a result of your initiative. I have turned down a number of disregard requests on de minimis grounds, even though they concerned larger expenditure than that. A disregard for such a small sum would present me with an unacceptable precedent, and would be very difficult to refuse to allow a large number of similarly negligible items. I hope you can agree that the disregard proposal is by no means essential to your announcement.

I am copying this to the Prime Minister, Peter Rees and Sir Robert Armstrong.

Yours sincerely

*[Signature]*  
PATRICK JENKIN

Approved by the Secretary of State  
and signed in his absence



File

RSG SETTLEMENT: DES PROVISION

£m

	1985-86	1986-87				
		Cmd. 9428	KJ Bid I	KJ Bid II	KJ Bid III	KJ Bid IV
Education Allocation	10,259	10,604	11,204	10,994	10,854	10,750
Pro-Rata Proportion of Unallocated Margin	298	0	0	0	0	c.250
Hypothecation of Reserve	0	0	0	0	140 <u>or</u> 200	0
Total Imputed Education Provision	10,557	10,604	11,204	10,994	10,994 <u>or</u> 11,054	c.11,000
Actual LEA Budgets	11,040					

Comparisons for Presentational Purposes

There are two obvious comparisons:

(1) Education Allocation 1986-86 vs. KJ Bids II-IV 1986-87 = Cash Change of (as in note to FM)

10,259	c.11,000	+7.0%
--------	----------	-------

(2) Actual LEA Budgets 1985-86 vs. KJ Bids II-IV 1986-87 = Real Terms Change of

11,040	c.11,000	-4.5%
--------	----------	-------

Why choose (2) as a method of presentation, when (1) is also true?



Fm  
2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

16 July 1985

*Dear Chief Secretary*

## LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/7 - TREATMENT OF CAPITAL RECEIPTS

Following the E(A) discussion on 1 July, our officials have been considering proposals for legislation in respect of capital receipts. You and I are to meet on Thursday this week, 18 July, for a preliminary discussion. I thought it would be helpful to set out in advance, for you and other interested colleagues, my proposals on the way in which we should implement the E(A) decision. I am writing separately about mortgages.

The Prime Minister in her summing up made it clear that there could be no question of depriving local authorities of the right to spend over time the full amount of those receipts which they have already generated. As it is not practicable to make mid-year changes in the rules, I take this to mean that the cascade effect must continue to apply to receipts arising up to 31 March 1986. There was also sympathy at the meeting for the view that, in the light of the difficulty in getting through the changes for 1985/6, it was not practicable to contemplate any further reduction in the prescribed proportions for accumulated receipts. This points clearly towards leaving the situation in respect of accumulated receipts exactly as it is now and legislation only in respect of receipts arising next year and thereafter. We should aim to restore the original intention behind the 1980 Act that the relevant prescribed proportion should be applied to any given receipt on a once-for-all basis. Even that step will be difficult to get through the House and we shall need to offer an increase in the prescribed proportion for future receipts as a recompense.

I therefore propose the following as the maximum package which would in my view command assent in Parliament:

- a. The present rules should continue to apply to all receipts generated on or before 31 March 1986, ie up to and including the present financial year. The cascade rule would continue to operate, and the prescribed proportions would be unchanged at 20% for most housing receipts, 30% for housing land and most non-housing receipts, 100% for low cost home ownership receipts and 1% for repayment of Housing Association Grant.

b. New rules would apply to all receipts generated on or after 1 April 1986. The cascade rule would be ended. Authorities would be able to spend in any one or more years the prescribed proportion applying when the receipt is generated, but no more at any time. To give authorities greater certainty, the prescribed proportion would be fixed. It would generally be 50%, except that the present 100% and 1% proportions would not be changed. There are other small adjustments for which I would wish to argue, including restoring housing land receipts to 100%.

This proposal should minimise the political opposition to legislation. It has positive presentational features: the choice of 1 April 1986 avoids any suspicion of retrospection; the raising of the prescribed proportion thereafter would help to offset the adverse effect for authorities of ending the cascade; and the fixing of the prescribed proportion would remove the most annoying uncertainty in the present system so far as authorities are concerned.

It will be important if we are to sell this change successfully that it should not come as a bolt from the blue. We do not want accusations of bad faith. I would like therefore to say something about it at next week's meeting of the Consultative Council on Local Government Finance. I may in any case be pressed to say something about the timetable for legislation on the longer term review. I would propose to say that I have ruled out major legislation in the 1985/6 session. But I would then go on to say that we are considering two minor changes, one of which would be the end of the cascade. I need at the same time to be able to give an absolute assurance that we shall not be depriving authorities of the right to spend over time the whole of receipts accumulated up to and including this financial year; otherwise we shall start hares and there will be a rush to spend before the legislation takes effect.

The above proposal is, as I say, as far as I believe we can go. I am well aware that the above proposal does not offer an immediate reduction in excess spending power in 1986/7. However, I have to put it to you that I do not believe that the House of Commons would agree to any more stringent measures. If that is right, then our next problem will be to reconcile the outcome with the cash limit for local authority capital implied by the present baseline. I attach a table which shows what would have to happen to capital allocations if the existing baseline is to be delivered. I am sure you will see that the level to which allocations would have to be reduced is, quite simply, unrealistic, (and for 1987/8 it would get even worse). We therefore face a choice. Either we could repeat last year's exercise which involves making harsh cuts only to find that local authorities fail to deliver so that we get the worst of all worlds; or we could recognise reality, make an estimate of what we think local authorities will actually spend and increase the PESC provision accordingly. When we come to the bilaterals, the bids which I and other spending Ministers have made will therefore have to be treated very seriously. The bald fact is that present plans are not deliverable because there is no combination of rule changes and allocation levels designed to meet them which we can sell to Parliament, to say nothing of the continuing deterioration of local infrastructure implicit in them.

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I am copying this letter to the Prime Minister, Keith Joseph, Nick Edwards, Nicholas Ridley and Norman Fowler, and to Sir Robert Armstrong.

Yours sincerely

*for* Atkin

PATRICK JENKIN

Approved by the Secretary of  
State and signed in his absence

The Rt Hon Peter Rees QC MP

EFFECT ON 1986/7 ALLOCATIONS AND ACCUMULATED RECEIPTS OF ENDING CASCADE

£m

1986/7 provision	PRESENT SYSTEM WITH CASCADE		ENDING THE CASCADE PRES. PROP. 50% FOR NEW RECEIPTS <sup>1</sup>	
	4150 (baseline)	5000	4150 (baseline)	5000
1. Total spending power (provision ÷ 0.85)	4875	5875	4875	5875
2. Spending power from accumulated receipts (6300 x 0.25)	1575	1575	1575	1575
3. Spending power from in year receipts (assumed to be 2000)	500	500	1000	1000
4. New prescribed expenditure	450	450	450	450
5. Allocations (now 1 less rows 2 to 4)	<u>2350</u>	<u>3350</u>	<u>1850</u>	<u>2850</u>

<sup>1</sup> For further details see covering letter



DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Kenneth Baker Esq  
Minister for Local Government  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB

18 July 1985

*Mr Ken,*

I attach a copy of the evidence which the Department will be submitting tomorrow to the Widdicombe Inquiry. I shall make a brief written statement about the evidence explaining that copies are being made available to the House Libraries.

To meet the point in your letter to me of 19 June, you will see that the reference in the earlier draft to the lack of evidence held by the Department has been deleted and other minor changes made. Since I circulated the earlier draft, we have had the reports of pupils at schools in Liverpool being asked to take home to their parents propaganda in the form of a letter from the Chairman of the Education Committee. I understand that there will be a specific reference to this in a submission from your Department dealing with the roles of members and officers.

I am sending copies of this to Cabinet colleagues and Sir Robert Armstrong.

*Erin Keen*

cc OK.  
NAPM  
AT 16/7

INQUIRY INTO THE CONDUCT OF LOCAL  
AUTHORITY BUSINESS

Memorandum by the Department of Education and  
Science.

JULY 1985

## INQUIRY INTO THE CONDUCT OF LOCAL AUTHORITY BUSINESS

### MEMORANDUM BY THE DEPARTMENT OF EDUCATION AND SCIENCE

#### 1. ROLE OF THE SECRETARY OF STATE AND THE LOCAL EDUCATION AUTHORITIES

1.1 Section 1 of the 1944 Education Act sets out the broad role of the Secretary of State in a national system locally administered, having the duty to secure the effective execution by local education authorities of the national policy for providing a varied and comprehensive educational service in every area. Of the many specific duties and powers laid upon the Secretary of State in the 1944 Act, and in later legislation, particularly relevant to the administration of local Government are:

- a. the duty to decide (ie approve, reject or modify) local education authorities' proposals to establish, cease to maintain or significantly change the character of county schools, in cases where there have been objections; to decide all such proposals relating to voluntary schools; and to decide county school proposals if he has given notice that they will require his approval, even if there were no objections (1980 Act Sections 12-13);
- b. the duty to make the Instruments of Government for voluntary schools, the power to approve Articles of Government for county secondary schools and maintained institutions of Further education, which must be submitted by local education authorities and the duty to make Articles of Government for voluntary secondary schools (1944 Act Section 17);
- c. where the Secretary of State is satisfied that a local education authority or governing body have acted or are proposing to act unreasonably, the power to give such direction as he considers expedient; (1944 Act Section 68);
- d. the power to require an authority to provide him with reports, returns and other information he may wish to have relating to the exercise of any of his functions (1944 Act Section 92)
- e. where the Secretary of State is satisfied that an authority or a governing body is in default in respect of a statutory duty, he may make an order, giving such directions as he considers expedient for the purpose of enforcing the execution of that duty (1944 Act Section 99);
- f. the power to make regulations in respect of schools, colleges and teachers

(1944 Act Section 27);

- g. the duty to cause educational establishments to be inspected at appropriate intervals (1944 Act Section 77).

1.2 Implied by Section 1 of the 1944 Act is the duty of local education authorities to execute the national policy for providing a varied and comprehensive educational service in every area. In addition, Sections 7 and 8 place a general duty on the local education authority to contribute towards the spiritual, moral, mental and physical development of the community by securing that sufficient and efficient education throughout the primary, secondary and further stages of education shall be available to meet the needs of the population of the area. Specific duties laid upon local education authorities in the 1944 Act, and in later legislation, include:

- a. the duty to secure that premises of schools maintained by the local education authority conform to the standards prescribed by the Secretary of State (1944 Act Section 10);
- b. the duty to make Articles of Government for county primary schools, and to make Articles of Government for county secondary schools and Instruments and Articles of Government for colleges of further education subject to the Secretary of State's approval (1944 Act Section 17(3) and Section 1 of the Education (No 2) Act, 1968;
- c. the duty to establish education committees, in accordance with arrangements approved by the Secretary of State (1944 Act Schedule 1 Part II Para 1.)



## 2. EDUCATION COMMITTEES

### Statutory Background

2.1 The establishment of only 3 local Government committees (and corresponding chief officers) is obligatory under the law: Social Services, Police and Education; the statute governing Education Committees is the Education Act 1944 (as amended). The terms of Part II of the First Schedule to the 1944 Act are as follows:

- "1. Every local education authority shall, in accordance with arrangements approved by [the Secretary of State for Education and Science], establish such education committees as they think it expedient to establish for the efficient discharge of their functions with respect to education.
2. [repealed]
3. and 4. [deal with the establishment of joint education committees]
5. Every education committee of a local education authority shall include persons of experience in education and persons acquainted with the educational conditions prevailing in the area for which the committee acts.
6. At least a majority of every education committee of a local education authority shall be members of the authority; [plus a proviso dealing with joint education committees]
7. Every local education authority shall consider a report from an education committee of the authority before exercising any of their functions with respect to education: provided that an authority may dispense with such a report if, in their opinion, the matter is urgent.
8. A local education authority may authorise an education committee of the authority to exercise on their behalf any of their functions with respect to education, except the power to borrow money or to raise a rate.
9. The minutes of proceedings of an education committee of the local education authority shall be open to the inspection of any local government elector for the area on payment of a fee not exceeding [5p] and any such local government elector may make a copy thereof or an extract therefrom.

10. Every education committee of a local education authority may, subject to any restrictions imposed by the local education authority or the order of [the Secretary of State for Education and Science] by which the committee was established: -

- a. Appoint such sub-committees constituted in such manner as the committee may determine;
- b. authorise any such sub-committees to exercise any of the functions of the committee on their behalf.

11. Nothing in this Part of this Schedule shall require the reference to any education committee of a local education authority, or to any sub-committee of such a committee, of any matter which under any enactment for the time being in force is referred to any committee of the authority other than an education committee."

Comment : Areas of Difficulty and Possible Conflict

2.2 The special position of the education committee within its authority has increasingly tended to come under attack, especially where no political party has overall control and co-opted members hold the balance, or from those who favour an overriding corporate management approach within Local Government.

2.3 The importance of the statutory requirement that every local education authority shall consider a report from an education committee of the authority before exercising any of their functions with respect to education was emphasised in a judgement delivered by Hodgson J on 26 April 1985 in R.v. London Borough of Brent ex parte Gunning. This case involved the Authority's decision to propose the closure of certain schools. It was held, inter alia, that the publishing of such proposals is a function of an authority, and that therefore it must either have considered a report from its education committee before doing so or have considered and resolved collectively that the matter under consideration was too urgent to await such a report.

2.4 In the case of R.v Birmingham City Council ex parte NUPE (1984) it was held that by virtue of Section 101(10) of the Local Government Act 1972, an education committee (unlike an authority itself) had no power to delegate the discharge of its functions to an officer. The Association of County Councils have written to the Department of the Environment urging the need for a change in the law so as to remove the restrictions on delegation from application to education committees.

The Department has said that it would be prepared to consider such an amendment if it were satisfied that the Association of Metropolitan Authorities shared the ACC's view on this matter and if it could be demonstrated that the present provision was hindering efficient practice.

### 3. EDUCATION COMMITTEE MEMBERS

#### Statutory Background

3.1 Paragraphs 5 and 6 of Part II of the First Schedule to the 1944 Act govern the membership of education committees. In particular, paragraph 5 states that every education committee shall include persons of experience in education and persons acquainted with the educational conditions prevailing in the area for which the committee acts. DES Circular 8/73 (Welsh Office Circular 86/73) gives the guidance which presently obtains on how the terms of paragraph 5 of the Schedule might be met. It includes the following advice:

"It has invariably been found in practice that this requirement can be satisfactorily met only by appointing to the education committee members from outside the Council and all arrangements submitted for approval should include provision for the appointment of a reasonable proportion of such members. The Secretary of State does not have in mind any fixed proportion to be followed by all authorities irrespective of local circumstances, but ..... it is believed that authorities will wish to think in terms of a non-Council membership of between a quarter and a third of the total."

The Circular goes on:

"..... authorities should consider including particularly members nominated by the teaching profession and the Churches and also, in so far as this may be necessary having regard to the existing composition of the governing bodies of educational institutions members with knowledge and experience of industry and commerce, agriculture and the universities."

Subsequent paragraphs offer more detailed advice on the choice of nominees. The main recommendations are:

- i. teacher nominees should be representative of the primary, secondary and further and higher education sectors.
- ii. nominations should be sought from the Church of England (or the Church in Wales), the Roman Catholic Church and the Free Churches.
- iii. area health authorities should be represented either on education committees or - perhaps more appropriately - on relevant sub-committees.

3.2 The Act is silent about the numbers of members to be appointed to education committees except to say that elected members must form a majority. The numbers of members of both groups form part of committees' arrangements to which the Secretary of State's approval is required. The Circular reminds authorities that it is open to them to fix numbers of elected members either as a single figure or as lying between a given minimum and maximum; and it suggests that the latter system might be helpful in providing a measure of flexibility. In fact, most authorities have adopted the fixed numbers pattern. The Circular, which was issued to local education authorities in England and Wales in order to advise them of the policies of the Secretary of State, has no statutory force. The occasion of its issue was the establishment of a number of new local education authorities in 1973 under the local Government re-organisation provided for in the Local Government Act 1972. The Circular also invited existing local education authorities to reconsider their existing approved arrangements in the light of the fresh guidance.

Comment : Areas of Difficulty and Possible Conflict

3.3 The system of appointing co-opted members to provide professional and other expertise to education committees has been very widely adopted. The great majority of local education authorities co-opt to the education committees from 2 main groups: the Teachers and the Churches, although most also include representatives of other interests (eg industry, agriculture, higher education, health authorities, parents). A few authorities whose areas include a wide variety of ethnic and religious groups have decided that it would be inappropriate to include Church co-optees. The Department is aware of only one authority (Croydon) whose education committee contains no co-opted members. The authority maintain that the membership of its education committee is such as to satisfy the requirements of the 1944 Act; and that co-opted members nominated by teachers and the Churches have an opportunity to contribute through the Schools and Further Education Sub-Committees. The Secretary of State for Education and Science has recently rejected a formal complaint by the National Union of Teachers under Section 68 of the Education Act 1944 that the authority was acting unreasonably by its refusal to include co-opted members on the main education committee.

3.4 Over the years, few criticisms against the co-option system have been brought to the attention of the Department; there has, however, been an increase in complaints in the last year or two. Tensions arise in authorities where no one party has overall political control or where the political balance is comparatively precarious. In those circumstances some local education authorities have argued

that co-opted members, who are not directly accountable to the electorate, are able to exercise a disproportionate influence. A number of authorities have considered reducing or eliminating co-opted members, or removing their rights to vote in the education committee, although no formal proposals to remove voting rights have been put forward.

3.5 Section 80 of the Local Government Act 1972 debars teachers and other employees from election to their own authority. They may, however, stand for election to another authority; or be nominated as co-opted members of their own authority's education committee. A number of Chairmen of education committees are teachers in nearby authorities. It is open to question whether such arrangements could lead to abuse by authorities of similar political persuasion to enable members to function as full-time councillors or Chairmen to the detriment of their duties as employees.

#### 4. ROLE OF CHIEF EDUCATION OFFICERS

##### Statutory Background

4.1 Section 88 of the 1944 Act requires every local education authority to appoint a Chief Education Officer. Its terms are as follows:

"the duties of a local education authority with respect to the appointment of officers under the provisions of the [Local Government Act 1972], shall, without prejudice to the generality of those provisions, include the duty of appointing a fit person to be the Chief Education Officer of the authority."

In the case of the Inner London Education Authority the arrangements differ slightly in that its Chief Education Officer is appointed under the London Government Act 1963 rather than under the Local Government Act 1972.

##### Comment: Areas of Possible Difficulty

4.2 The value of the Chief Education Officer in giving objective, professional advice to the education committee was reaffirmed recently in the Government White Paper "Better Schools" (Cmnd. 9469) published on 26 March 1985, which says (paragraph 265):

"In order to manage the service it provides, each local education authority needs to have access to professional advice across the whole range of its responsibilities. The Chief Education Officer and his professional staff are the principal means through which the local education authority performs its functions. The role of the professional is both to assist the authority in the formulation of its policies, and to be the main agent of their implementation. In both capacities, the Chief Education Officer and his staff have a key role in developing and improving the quality of the education service."

4.3 The Chief Education Officer is a servant of the local education authority and as such is accountable to that authority. Accordingly, the Department would not expect difficulties arising from this relationship to come to its attention in a formal way. However, the dispute between the Newham education authority and the Director of Education has now been formally brought to the Department's attention.

## 5. SCHOOLS GOVERNMENT

### Statutory Background and Policy

5.1 The present position on school government is in a state of flux. There are shortcomings in the present arrangements which the Government aims to remove by the new framework for school government proposals which were announced in the White Paper "Better Schools" (see paragraph 4.2). The running of a maintained school should be a co-operative venture by the maintaining local education authority, the governing body and the head teacher whose respective functions are set out in Articles of Government. Model articles were issued in 1945 which allowed each party appropriate interlocking responsibilities, but the articles adopted have come to vary widely, and they often fail to allow governing bodies an adequate role in their schools' affairs. The effect of a set of articles also needs to be considered in the light of the composition of the governing body. This is set out in the Instrument of Government which falls to be made by the local education authority except in the case of a voluntary school where this would be made by the Secretary of State. The 1944 Act left it open to local education authorities to appoint the majority of governors in all except for 2 sorts of voluntary schools (aided and special agreement schools). While the 1980 Education Act introduced elected parent and teacher governors it did not disturb the scope for the local education authority majority; all but a few local education authorities avail themselves of this and are thus able to dominate governors' proceedings irrespective of the articles' provision.

5.2 Against this background, the Government announced in March 1985 plans to legislate at the first opportunity for a new framework for schools government to guarantee governing bodies the scope to act as a suitably independent force for good in the lives of their school. There are 2 parts to this framework:

- a. the reconstitution of governing bodies (except those for aided and special agreement schools) so that neither the local education authority nor any other interest is in the majority and to extend their base of representation to include not only elected parents and teacher governors but also to require the governing body itself to co-opt additional members locally;
- b. specifying in some detail the appropriate functions of local education authorities, governing bodies and headteachers in the operation of schools so that governing bodies cannot be over-ridden in the exercise of their assigned functions.



Comment : Areas of Difficulty and Possible Conflict

5.3 Weaknesses in the present arrangements allow various shortcomings. At present, the majority on most governing bodies is appointed by the local education authority. While it would be desirable for such governors to be appointed principally for the personal qualities they could bring to the governing body, it is to be expected that, as local education authorities are political bodies, political considerations also come into play. Some local education authorities formalise this by adopting set formulae to ensure that minority as well as majority parties are appropriately represented on school governing bodies (imposing this as necessary by terminating existing appointments). A safeguard against corrupt practice is to be found in the Education (School Governing Bodies) Regulations 1981, SI 1981/809, as amended, made by the Secretary of State under Section 4 of the 1980 Act which, inter alia, lay down circumstances in which governors with a personal or financial interest in a matter for decision shall withdraw from the proceedings. Those Regulations also limit to 5 the maximum number of governorships an individual may hold.

5.4 The local education authority majority on most governing bodies can generally mean that authorities may unduly influence the affairs of a body which should enjoy a degree of autonomy. Appointment of staff is one area where abuse might be significant since often only a small group of governors is involved and the local education authority can use its majority to secure a majority on an appointments panel. Majority party representatives on a governing body could meet beforehand as a 'caucus', taking decisions which pre-empt those of the governing body. The reconstitution of governing bodies proposed in "Better Schools", so that local education authority appointments will no longer be in the majority coupled with a statutory entrenchment of powers guaranteeing a reasonable degree of independence for school governing bodies, will much reduce the opportunity for such practices concerning local education authority representation; and allow a broad-based governing body to play its proper role as an identifiably separate force in each school's life.

## 6. GOVERNMENT OF INSTITUTIONS OF FURTHER EDUCATION

### Statutory Background

6.1 Section 1 of the Education (No 2) Act 1968 provides that all maintained institutions of further education must have an Instrument and Articles of Government made by the local education authority. The Instrument determines the composition of the governing body while the Articles deal with the division of powers and responsibilities between the local education authority, the governors and the principal and academic board. Articles are subject to approval by the Secretary of State. For the generality of Further Education Colleges, Instruments are not. However, it was a condition of granting polytechnic status that Instruments for polytechnics should be subject to such approval. The 5 ILEA polytechnics are special cases, being bodies incorporated as limited companies operating under memoranda and articles of association which, broadly speaking, serve the same functions as the Instruments and Articles of the maintained polytechnics and are similarly subject to the Secretary of State's approval.

6.2 Guidance on the content of Instruments and Articles, embodying questions such as status, institutional autonomy and involvement of local interests in the affairs of colleges, was issued specifically for polytechnics in DES Administrative Memorandum 8/67 and for other colleges in DES Circular 7/70. Model articles were appended to the latter and still form the basis for most polytechnic articles today. Although the intention was to address the issues of the distribution of powers, etc, the model does so in very general terms which are open to varying interpretations.

### Comment : Areas of Difficulty and Possible Conflict

6.3 The 1968 Act and the related administrative guidance are an attempt to reconcile the need for institutional autonomy in academic and detailed management matters, which was thought to be the greater the larger the proportion of advanced level work undertaken by the institution, and the financial and broad managerial responsibilities of the maintaining authorities. The arrangements were not designed to prescribe or contain the range of implementation and the Department does not monitor in detail their interpretation by individual authorities. The guidance predates the present polarisation in local government politics and current pressures on local authority spending. It is sometimes suggested that political and financial pressures are now having an adverse effect on the running of further education establishments.

6.4 For example local authorities can influence nominations to governing bodies to secure an effective majority for the controlling party. The local authority often provides the largest single block of nominations to the governing body; the second largest block of nominations usually comprises individuals representing local industry, commerce and the professions. Many of the remaining members will be people in the employ of the authority, eg staff of the institution, heads of local schools, principals of other colleges etc. Generally speaking, Instruments place the responsibility for appointing all categories of members (except ex-officio members) in the hands of the authority, although some consultation with other local bodies may be a requirement. Authorities may be able to increase their control over governing bodies by the co-option of their supporters to fill some of the non-local education authority seats. Appointments are sometimes made by co-option by the governors, who, when the governing body is in the process of reconstitution, may comprise local education authority and staff governors only.

6.5 If local authorities, in these ways, secure a party political predominance over a governing body there is a greater risk (but not a certainty) that the governing body's powers will be exercised in a harmful manner. For example they may be used to influence the appointment of senior staff other than strictly on relevant academic grounds. This can be done by using the reserve powers given to the authority by the Articles of Government to refuse to confirm the appointment of candidates for senior posts, and by using the appointments procedure to ensure that a sympathetic candidate obtains a key post (as in 5.4 ante).

7. SUMMARY

7.1 This submission sets out the particular features of the administration of the education service by local government; considers the position of education committees; points to the need for professional expertise in the advice presented to the education committees by the Chief Education Officer; and also describes the arrangements for managing schools and colleges through governing bodies. It outlines the scope for possible abuse and mentions relevant action already in hand to prevent such abuse. The Committee will no doubt wish to consider whether further action is necessary in the light of the evidence they receive.

7.2 The Committee will also wish to consider whether evidence can be obtained on a wider range of matters affecting the operation of the education service, and of concern to Ministers. These include the possibility of improper political influence, whether exerted by elected members or officials, over aspects of the curriculum; the issue of material of a biased nature for use in schools or for the information of governors; and political campaigning more generally, on which some evidence has already been submitted to the Committee by Government Departments. Such matters are of great sensitivity and there is proper scope for disagreement on particular issues, but the Committee's recommendations on underlying principles to be observed will be of considerable value.



PRIME MINISTER

Prime Minister ②  
For information only at this stage. Mr  
Jenkin is considering the ombudsman option  
further and reporting back to H. MEA 12/7  
12 July 1985

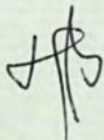
LOCAL AUTHORITY CONTRACTS

Left-wing councils have been putting politically motivated conditions into their contracts with suppliers. Illustrating this is the "Peterborough Council Condition". This bans firms which have worked at the Cruise Missile sites at Greenham and Molesworth. H Committee rightly agreed that action must be taken, but that Patrick Jenkin's proposal to legislate had serious problems.

We recommend a suggestion that H Committee discussed, namely that an "Ombudsman type" figure be appointed. The person should have the following characteristics:

- be accessible to the public directly (unlike the Ombudsman);
- be able to consider written submissions in private without lawyers;
- be able to administer a very speedy remedy from a clear set of rules.

The rules defining or banning "political" contract conditions must be prepared speedily by officials.



HARTLEY BOOTH

Pinner Minutes (2)

A draft reply to the Pinner is  
attached. AT 11/7

MR TURNBULL

10 July 1985

BARNET: AUDIT COMMISSION PROFILE

You asked for an analysis of the new Audit Commission profile of Barnet. It is a model of the genre. The ratio analyses at the back (which are a new feature) pinpoint the causes of waste, and should enable the Council Treasurer to identify large numbers of savings.

It is worth asking why there is no similar profile available for Government Departments. All we have are the FMI returns, which seem amazingly amateur by comparison. Couldn't the Chancellor set up an Audit Commission for Central Government? This would give both the Treasury and the Efficiency Unit a far more powerful tool for reducing overheads than they at present possess.

Barnet's Position

The profile suggests that Barnet's performance is roughly average for its class. There are several points of interest:

1. Spending has decreased by about 6.5% in real terms since 1981/2; but Exchequer Grant has declined even faster (from 36.3% of spending to 31.5%). As a result, domestic rate bills for Barnet's inhabitants have risen

by 20% in real terms over the same period. True, this figure for rate increases includes a rising GLC precept; but the main culprit is definitely the Grant reduction.

2. However, despite the increases, Barnet's domestic rates remain low by the standards of Outer London Boroughs.
3. All the measure of social deprivation indicate that Barnet's inhabitants are, on average, considerably better off than those in many other Outer London Boroughs.
4. Staffing levels are erratic, varying widely between services. In Recreation, Housing and Personal Social Services, Barnet employs less staff per head of population than the average for its class; but it has large numbers of Refuse Collection and Secondary School support staff.
5. General costs also vary widely between services: residential care for children (though still vastly expensive) is cheaper than the class average, whereas refuse collection is noticeably more expensive.
6. Management efficiency is also highly variable: management costs seem to occupy too much of the housing budget, whereas the Sports Halls seem to keep their

deficits low through good cost control and a sensible charging policy.

7. The borough is still slowish in its planning decisions.
  
8. Some aspects of policy still seem old fashioned: for example, it is odd to find car parks without charges, when the average Outer London Borough makes over £500,000 a year on its parking.

The Prime Minister may wish to congratulate the Commission on the professional and useful way in which the report is presented.

*Oliver Letwin*

OLIVER LETWIN



**CONFIDENTIAL**

cc ol  
file

PRIME MINISTER

I don't want to make your task tomorrow at Cabinet harder but, as I warned you in my 5 July minute, the proviso in Willie's minute to you of 1 July recognised that Education's needs cannot be met within the £500m uplift. That assessment still stands; I am writing separately about your Private Secretary's letter of 9 July (see attached). A further £140m as set out in my minute is needed to enable me to show that I am maintaining the "Better Schools" policies. The figures already take account of the savings to be achieved both from falling school rolls and from greater efficiency.

This would not be extra spending: it will be spent anyway. But without an explicit reference to that £140m extra "Better Schools" will have become incredible.

Even with the £140m extra we shall still be squeezing hard, but we would have a valid "Better Schools" policy.

I am copying this minute to Nigel Lawson.

K.J.

KJ

10 July 1985

Department of Education and Science

Relations: Local GUE, PE27

File 200  
**CONFIDENTIAL**

## DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

ZPPS.

Andrew Turnbull Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

10 July 1985

Dear Andrew,

Rate Support Grant Settlement 1986-87

My Secretary of State has seen your letter of 9 July and welcomes the Prime Minister's recognition that the difficulties for education arising from the decision to add £500m to overall provision for local authority expenditure in 1986-87 should be further discussed. He does not however consider that the problem could be satisfactorily resolved in E(LA) unless tomorrow his colleagues can agree to some increased flexibility as suggested in his minute of 5 July.

You point out in your letter that an addition of £390m to the 1986-87 cash plans for relevant current expenditure in education would represent an increase of 7% compared with 1985-86 plans. That misses the point in two important respects:

- (i) it ignores the fact that the Government's plans for 1985-86 contained additional provision of £595m unallocated to services in recognition of the likelihood of local authority overspending of which a part is to be attributed to education. 1986-87 contains no equivalent unallocated margin. That makes the position that much more severe.
- (ii) Actual spending on education in 1985-86 is likely on the basis of local authority budgets, to exceed the plans for relevant expenditure on education by almost £800m. The reality is that increasing 1986-87 cash plans by £390m implies a cash standstill on 1985-86 levels of spending on education or a 4.5% reduction in real terms.

The problem is the very large gap between what, on all available information, local authorities are likely to spend on education in 1986-87 and our expenditure plans. In my Secretary of State's view that gap cannot be closed by methods of presentation alone.

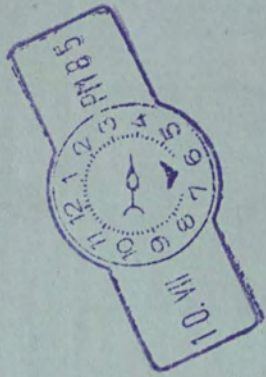
**CONFIDENTIAL**

I am sending copies of this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the members of E(LA), the Paymaster General, the Parliamentary Secretary, HM Treasury, the Minister for Local Government, and to Sir Robert Armstrong.

yours sincerely,  
Rob Smith

ROBERT SMITH  
Private Secretary

Reflections: Local Out PEZ7





FILE

SLH

10 DOWNING STREET

THE PRIME MINISTER

Dear Mr. Read,

I am most grateful to you and John Banham for the excellent presentation you made to the Cabinet on the work of the Audit Commission. We found it extremely stimulating. The scope for improvement in efficiency in local government, which your work is uncovering, is enormous. You have our fullest support in your efforts to have the savings you have identified realised.

We have taken to heart, however, that the pursuit of greater efficiency is not just a matter for local government but must be high on the agenda for all other parts of the public sector, including our own Departments.

Yours sincerely

Harold Wilson

John Read, Esq.

RW



SUBJECT  
cc MASTER

late  
sl/3ajk

10 DOWNING STREET

9 July 1985

From the Private Secretary

COMMISSIONERS IN LIVERPOOL

Your Secretary of State came to see the Prime Minister today to discuss the possible candidates for Commissioners in Liverpool. He said there were no signs that the Liverpool Council were taking steps to produce a legal budget. A financial collapse therefore looked inevitable, the only question being when. It was possible the Council could find ways of lasting through until February; equally they could run out of money in August. One difficulty was that the District Auditors no longer had access to the Council's books and, in consequence, Departmental Accounting Offices could no longer be sure that the money was being properly spent. The Department was taking legal advice on this which might lead to grant payments being suspended before 7 August when they were scheduled to end.

Given these uncertainties it was important to make progress with contingency plans. The proposal for Commissioners for a short period had been investigated but found not to be workable. Two versions of a Commissioners Bill were being refined.

The Secretary of State for the Environment said he had looked at possible candidates for the Chairman and Deputy Chairman of the Commissioners. As Chairman, he was seeking someone who was known and respected locally but who was not too closely identified with the Government. As Deputy Chairman he was seeking someone who could perform the role of Chief Executive. As Chairman his first choice was Sir Leslie Young; and as Deputy Chairman Mr Tom Caulcott, currently Chief Executive of Birmingham. Alternatives as Deputy Chairman were Sir John Boynton and Mr Gardner who was shortly to retire as Chief Executive of Tyne and Wear. The Prime Minister agreed with your Secretary of State's first choices and raised no objections to the second choices.

Your Secretary of State also put forward the names of Mr Christopher Chataway, Mr Clive Thornton and Lord Mellish. In discussion it was agreed that none of these were suitable. It was agreed that a role should be found for Mr Maurice Stonefrost, though not in Liverpool. CST.

It was agreed that your Secretary of State could sound out Sir Leslie Young on a confidential basis, and if he were content with Mr Caulcott as his Deputy Chairman, the Department could sound him out also.

ANDREW TURNBULL

John Ballard, Esq.,  
Department of the Environment .





SRWAEY

file

10 DOWNING STREET

*From the Principal Private Secretary*

9 July 1985

Mr. Ronald Grierson came in to see me yesterday evening at his request to put an idea about the future use of County Hall. He said that it would in his view be politically damaging to the Government if, following the abolition of the Greater London Council, County Hall were allowed to remain vacant for any length of time. Having recently visited Toronto, he had been very impressed with the way in which Harbour Front, one of the buildings on the Toronto waterfront, was being used for instruction for schoolchildren in civics by Mrs. Ann Tindall, an enterprising lady who had told him that she would be willing to start a similar activity in Britain. Mr. Grierson suggested that, whatever the longer term use for County Hall, an operation of this sort could be mounted from 1 April.

I said, in line with your advice, that the responsibility for disposal of County Hall would be vested in the residual body following the abolition of the GLC and the Government hoped that the residual body would look at use by the private sector among the options for its future. I suggested that, if Mr. Grierson wanted to pursue his idea he should put it to Sir Godfrey Taylor, and he said that he would do so.

768B

John Ballard, Esq.,  
Department of the Environment.

cc.  
LPO  
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MIN.LOCAL GOV  
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CH.DUCHY  
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CONFIDENTIAL



10 DOWNING STREET

9 July, 1985.

*From the Private Secretary*

**RATE SUPPORT GRANT SETTLEMENT 1986-87**

The Prime Minister has seen your Secretary of State's minute received on 5 July.

I understand that, as requested by the Lord President, officials have examined whether the agreed figure for local authority current expenditure provision in 1986/87 can be presented as being compatible with the Government's policies on local government services, and on education and police in particular, and that their report is likely to be discussed in E(LA), under the Lord President's chairmanship early next week. The Prime Minister suggests that that discussion will need to take account of the suggestions in your Secretary of State's minute. She notes that your Secretary of State is now seeking an extra £390 million for education next year rather than £600 million.

The Prime Minister questions the assertion (made at the end of paragraph 2 in your Secretary of State's minute) that an addition of '£390 million ..... involves presenting our plans for education in terms of a real-term reduction in expenditure of 4.5 per cent from 1985/6 budgets'. She notes that, if your Secretary of State were to obtain an addition of this order, it would represent an increase of over 7 per cent in 1986/7 cash plans for relevant current spending in education compared with plans for 1985/6; and she very much hopes that - whatever the outcome of the discussions next week - your Secretary of State will seek to present figures in the most sensible and favourable light, rather than in what paragraph 5 of his minute calls an 'unnecessarily masochistic' form.

I am sending copies of this letter to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the members of E(LA), the Paymaster General, the Parliamentary Secretary, HM Treasury, the Minister for Local Government, and to Sir Robert Armstrong.

(Andrew Turnbull)

R.L. Smith, Esq.,  
Department of Education and Science.

CONFIDENTIAL

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✓

CONFIDENTIAL



CPD  
cc 81  
PPS?  
Prime Minister (2)  
To note

AT  
8/7

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

ms

8 July 1985

Patrick Jenkin

**PRESENTATION OF THE 1986-87 RSG SETTLEMENT**

Now that we have settled most of the issues on the 1986-87 RSG settlement - and E(LA) is meeting on 15 July to consider the remaining points - we need to think about how the package should be presented. Good presentation will be vital if we are to get maximum credit from the twin messages that we are freeing local authorities from a much-disliked control but at the same time not easing up on the pressures to reduce spending.

Announcing the abolition of targets will be popular - notably with our own backbenchers - and we should, of course, make the most of that. We should be able to secure a wide welcome, both inside and outside Parliament, for the fact that we have been able to do away with a system which had prevented many shire counties and shire districts spending up to GRES - which are, rightly or wrongly, widely seen as an objective assessment of need.

What will be rather harder - but certainly no less important - will be to get across the message that we have not changed our general stance towards local authority spending, and that we are still committed to securing cost-term reductions to the benefit of taxpayers and ratepayers. Our friends on local councils who have striven hard to make savings would not thank us if they felt their efforts had been in vain, and we were now giving the green light to higher spending.

We shall, of course, be able to point to the continued use of rate-capping as evidence of our determination to keep tough controls on the largest overspenders. That is why it seems to me important to keep the coverage of rate-capping as wide as practicable and to impose tough expenditure levels.

For non-rate-capped authorities we shall need to emphasise the effects of the tougher block grant pressures.

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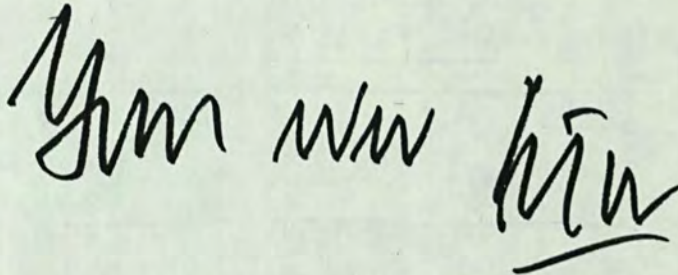
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There is a positive point to get across here: relying on block grant pressures will hit hard at those spending well above GRE, but will help those spending at or below GRE - a group that now includes not just many shire counties but also the more responsible London boroughs such as Wandsworth and Croydon. For those above GRE we shall be providing transitional help via safety nets on grant losses: but in the long run they will be exposed to the full consequences of their overspending.

On rates and the level of grant, we shall be able to say we have struck a balance between the need to maintain the grant pressures on local authorities and the aim of keeping rate rises low. If authorities spend at the level provided for in the Government's plans, rate rises will on average be well below the rate of inflation.

The main task of presenting the settlement will of course fall to you and to the other Ministers in your Department. I should be grateful to see an early draft of your statement as soon as possible. But other Ministers too will inevitably have a role in presenting the package, and it seems to me important to agree a common and robust line.

I am copying this letter to the Prime Minister, the Lord President, the Leader of the House, and the Chancellor, to the other members of E(LA) and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES

CONFIDENTIAL

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87/7

Ply  
OL  
9/7/85

**The Audit Commission  
for Local Authorities in England and Wales**

1 VINCENT SQUARE, LONDON SW1P 2PN  
TELEPHONE: 01-828 1212 TELEX: 299192 AUDCOM

FROM THE CONTROLLER

C/85-7/JMMB/PAC

July 8, 1985

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

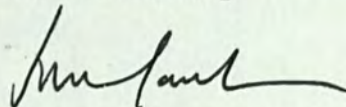
Dear Prime Minister

My Chairman and I much appreciated the opportunity last week to review the results of the Commission's first two years in the value for money area with you and your colleagues. If I may say so, we were particularly encouraged in what is a somewhat lonely task by your evident interest and concern to see that action results and that our efforts are marketed suitably aggressively.

As my Chairman indicated in his recent letter, we have already sent copies of the relevant authority Profiles to your Cabinet colleagues. I thought that you might like to have the latest edition for Barnet. This is enclosed. It is the second edition and incorporates a number of changes and improvements - both in the quality and extent of the information and in the way it is presented. A complete set of the Profiles, for all 456 principal local authorities, is available in the Library of the House of Commons.

We plan to issue a third edition with our handbook on Economy, Efficiency and Effectiveness in December, for the beginning of our third audit round. This will include local investigations of energy conservation, management of the stock of some 4.4 million council dwellings, the management of cash within local authorities and purchasing arrangements (following up our initial work in 1984).

Yours sincerely



John M M Banham

PRIME MINISTER

Sir Keith's letter (Flag A) looks like an attempt to reopen the agreement reached for an increase of £500 million on local authority spending over PEWP levels. It is not. It is about two things:

- (i) How the inevitable overspend above the target figure is presented. Should the Government make some planned provision for it?
- (ii) How education fares in the nominal share out between services of the total agreed.

Both these issues will be considered by E(LA) under the Lord President's Chairmanship next week. Mr. Brearley's minute (Flag B) suggests a reply. Oliver's note (Flag C) suggests that you could go further.

Agree:

- (i) reply as drafted by Cabinet Office?
- (ii) with Oliver's addition?

*As slightly amended*

*AT*

*Yes*

*no*

8 July 1985

CONFIDENTIAL

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MR. TURNBULL

c Mr Wiggins

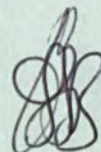
RSG SETTLEMENT 1986/87

We had a word on Friday evening about Sir Keith Joseph's minute, and I promised you some advice.

I see no need for the Prime Minister to become involved. Next week (Monday) E(LA) will be considering, on the basis of a report from officials, how to square presentationally the £500m extra provision now agreed with Departmental requirements, especially education and police. This discussion can take account of Sir Keith Joseph's points. The reduction in his bid from £600m to £390m will in fact make the task slightly easier.

Sir Keith is also suggesting that, in its public expenditure discussion on Thursday, Cabinet will need to take account of local authority spending pressures when determining the size of the Reserve. This is so, but there will be no need for the Cabinet to get into detailed figuring on this aspect. His suggestion (para 4) for "ear-marking" part of the Reserve for LA. expenditure is likely, I think, to be resisted by the Treasury, at least if it is to be a public "earmarking", but this will be discussed at E(LA) and Cabinet does not need to be troubled with it at this stage.

I attach a draft reply reflecting this advice.



C J S BREARLEY

8 July 1985

CONFIDENTIAL

*Robert Smith*

DRAFT LETTER, ANDREW TURNBULL TO ~~ELIZABETH HODKINSON~~, DES

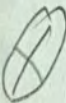
RATE SUPPORT GRANT SETTLEMENT 1986-87

*46*

The Prime Minister has seen your Secretary of State's minute received on 5 July.

*by the Lord President,*

I understand that, as requested by the Lord President, officials have examined whether the agreed figure for local authority current expenditure provision in 1986/87 can be presented as being compatible with the Government's policies on local government services, and on education and police in particular, and that their report is likely to be discussed in E(LA), under the Lord President's chairmanship, early next week. The Prime Minister suggests that that discussion will need to take account of the suggestions in your Secretary of State's minute. ~~She is pleased to note~~ that your Secretary of State is now seeking an extra £390 million for education next year rather than £600 million.

 → [Copies to ...]



MR TURNBULL

8 July 1985

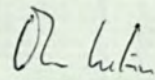
RSG SETTLEMENT FOR 1986/7

Chris Brearley's draft letter seems eminently sensible. But, to prevent the DES getting away with murder, it may be worth adding a paragraph on the following lines:

X

The Prime Minister <sup>questions</sup> ~~does not, however, accept~~ the assertion (made at the end of paragraph 2 in your Secretary of State's minute) that an addition of '£390 million . . . . involves presenting our plans for education in terms of a real-term reduction in expenditure of 4.5% from 1985/6 budgets'. She notes that, if your Secretary of State were to obtain an addition of this order, it would represent an increase of over 7% in 1986/7 cash plans for relevant current spending in education compared with plans for 1985/6; and she very much hopes that - whatever the outcome of the discussions next week - your Secretary of State will seek to present figures in the most sensible and favourable light, rather than in what paragraph 5 of his minute calls an 'unnecessarily masochistic' form.

The point is that the DES achieve their gloom and doom by comparing 1986/7 plans with 1985/6 outturn; if one compares like with like, the results look altogether more encouraging.

  
OLIVER LETWIN

PRIME MINISTER

COMMISSIONERS IN LIVERPOOL

Mr Jenkin will come with a shortlist of three names for Chairman and five for Deputy Chairman which he wishes to try out on you. A further issue is whether he should be authorised to sound out anyone considered suitable. Hitherto you have been reluctant for him to do this until the likelihood of Government intervention in Liverpool was much clearer. A central estimate of the financial collapse of Liverpool is currently December but there is substantial variation on either side. One way in which it could run out of money earlier is that, with the Auditors being excluded, Accounting Officers in Departments may feel that they no longer have any assurance that grant money is being spent properly and that they may have to cease paying. Legal advice is being sought on this.

AT

ANDREW TURNBULL

8 July 1985

R.S.G.

Statement without targets

Article for redevelopment

PRIME MINISTER  
COMMISSIONERS IN

ANDREW TURNBULL  
1997



10 DOWNING STREET

u MASTER SET

*From the Private Secretary*

8 July, 1985.

## LOCAL GOVERNMENT FINANCE

On Friday, 5 July, the Prime Minister met Mr. Roy Thomason, Conservative Leader of the Association of District Councils; Mr. Lewis Moss, Leader of the Conservative Group on the Association of County Councils, and Mr. Peter Bowness, Leader of the Conservative Group on the Association of Metropolitan Authorities. Also present were Mr. Waldegrave, Mr. Redwood and Mr. Letwin.

The Prime Minister welcomed the opportunity for an exchange of views with the Leaders of the Conservative groups on the different Local Authority Associations. She started from the view that changes were needed both to the system of rates and the system whereby central government paid grant to the local authorities. The debate should be conducted against the background of the Government's responsibility to retain control of total public expenditure.

Mr. Thomason agreed that the system of local government finance could not be sustained much longer. There should be less detailed control by central government of local government finance though he accepted the Government's responsibility for control over the total of public expenditure. Any new system must give greater accountability so that councils were forced to justify to their electorates the resources they raised from them. One consequence of this greater freedom might be that Labour authorities would abuse their position, but to some degree this should be accepted if they were genuinely accountable. He believed that the solution for local government finance should start from the non-metropolitan areas and then be applied in the metropolitan areas. He suggested separate taxes for the shire councils and shire districts. There should be an end to precepting. To put the whole of the burden currently borne by rates to a residents' charge would create very specific gainers and losers. He therefore supported a mixture of taxes in which the shire districts levied rates, using an approved rate base, and the counties levied a residents' charge.

Mr. Moss agreed that the present system could not continue. The new system could be based either on more centralisation or on more local discretion and

accountability. He believed the former was inconsistent with Conservative philosophy. Greater accountability had to satisfy two conditions; first, money raised locally should be spent locally, and second, those receiving services should contribute to them.

He, too, supported separate taxes for the counties and districts. He had originally been a supporter of local income tax, but now recognised that the (entirely correct) policy of raising the income tax threshold would erode the accountability which local income tax would produce. He therefore saw a role for a residents' charge though believed it would have to be graduated. This should be done by rebates from central government whose responsibility it was to relieve poverty.

Domestic rates levied at 70p could cover all the expenditure of the shire districts (others suggested a 50p rate plus a 25 per cent grant). Commercial and industrial rates should remain, being collected locally but with capping by central government. The counties would receive non-domestic rates and the capitation charge. He also saw considerable scope for raising more from charges. Government could divide services into different categories, and specify the proportion, say 100, 75 or 50 per cent which should be covered by charges. (Mr. Thomason was less sanguine about the scope for raising finance in this way.) Finally, he made a plea for full exemplification of any options. He suggested that all the details should be worked out before the election for implementation.

Mr. Bowness made a plea for more certainty in the grant arrangements. It was very difficult to run local government budgets professionally if, as happened at present, the amount of grant could change substantially shortly before the start of the financial year simply on account of changes in budgets of other authorities. He also made a plea for full exemplification.

From the point of view of one-tier metropolitan authorities, the continuation of rates and residents' charge looked unattractive. He believed there should be protection for commercial and industrial ratepayers but warned against a national system in which rates were averaged out. This would deny those authorities which had run their affairs responsibly any benefit from past initiative. If there were significant changes in the pattern of rates there should be a long period of transition.

He was less enthusiastic than his colleagues about a residents' charge which he believed would be expensive to administer. There would be strong pressure for release which would weaken the accountability it was intended to deliver.

The Prime Minister said that Britain was a unitary

State with a strong tradition of national standards for the different services set by Government. There was authority to raise tax other than that devolved by Parliament; local government could not be seen as a separate sphere of Government, but as a means of delivering statutory services combined with some degree of local discretion. At present the latitude enjoyed by local authorities was too great. The Government had no control over what local authorities were spending on delivering the statutory services. While many local authorities were efficient, a good many were not, and were abusing their local autonomy. The Government supporters were rightly saying that the Government was the taxing authority but was allowing inequitable tax to be imposed.

The Prime Minister said the present system of rates could not continue. It was hopelessly unfair. There was no market by which to determine rental values. A system based on capital values would be just as bad; people improving their property would attract more rates. A system based on square footage might be better. She believed, therefore, that domestic rates should be abolished and replaced by a residents' charge. Business rates should continue as there was a better basis for valuation.

The system of central government grant should also be substantially overhauled. Despite over 60 criteria for assessing need, the system was still arbitrary. The local authority representatives agreed that as good a result could be achieved with many fewer indicators. Population and its age distribution were by far the dominant influences.

The Prime Minister gave an assurance that any changes would have an extended transitional period, perhaps over a full Parliament.

Concluding the discussion, the Prime Minister said she welcomed the opportunity for an exchange of views, and hoped the local authority representatives would keep in touch with Department of the Environment Ministers. It was agreed that both sides were free to acknowledge that an informal meeting had taken place, with either side free to state what points it had made.

I am sending copies of this letter to Mike Bailey (Office of the Minister for Local Government, Department of the Environment), and to Barbara Jones (Mr. Waldegrave's Office, Department of the Environment).

John Ballard, Esq.,  
Department of the Environment.

Andrew Turnbull



PRIME MINISTER

LIVERPOOL AND RATE LIMITATION

*ie MISC 109.*

Although we are not now meeting on Tuesday, you may like to know where we stand with Liverpool. I attach a situation report. I should stress that we are finding it difficult to get reliable information, particularly on the credit front.

On rate limitation, you will know that Lambeth set a rate within their limit on 3 July - the last rate capped Council to do so. We will continue to monitor the performance of the selected authorities, keeping in touch with the Audit Commission, in particular to watch whether the deficits threatened by some do in fact materialise. Year 1 of rate limitation has highlighted the absence of a specific date by which authorities must fix their rates. I am writing separately to colleagues on E(LA) proposing that we legislate to fix such a date in the next Session.

I am copying this minute to members of MISC 109 and to Sir Robert Armstrong.

*J.H. Gallant*  
for P.J.

8 July 1985

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

## LIVERPOOL SITUATION REPORT

## I. AUDIT

1. The Auditor issued formal notices of surcharge on 27 June to 49 Labour Councillors in Liverpool. His initial estimate of loss is £106,103 as a result of delay in rate making. The Councillors have until 19 July to respond. If not persuaded to halt proceedings, the auditor will then issue certificates of surcharge. (Since the amount involved is over £2,000 the councillors will face automatic disqualification from public office for five years.) Surcharge and disqualification would have effect at the end of the 6 week appeal period, if no appeal is made, or when all appeal opportunities have been exhausted. Press reports suggest that Liverpool Councillors intend to fight the proceedings all the way. Disqualification and fresh elections are unlikely to take place before the end of the year.

2. Press reports also suggest that Labour Councillors are seeking Union support if the Auditor proceeds with surcharging them. However, representatives of NUPE (who are likely to hold a secret ballot) NALGO, NUT and NASUWT seem to be luke-warm about a strike. The Auditor meanwhile is now having difficulty gaining access to Council papers. He may need to go to Court to enforce his rights to such access.

## II. FINANCIAL POSITION AND CREDIT

3. It is understood that the City Treasurer will be making a report on the financial position of the Council in the week beginning 8 July. There is no hard evidence about whether Liverpool have managed to borrow in the market. The Treasurer has however approached the PWLB to see what he would have to do to enable the Council to borrow from them (The PWLB have already indicated that they would need a written assurance that the Council was acting lawfully.)



4. Following the laying of the Rate Support Grant Supplementary Report for 1985/86 on 4 July, implementing holdback, Liverpool City Council will receive no further grant payments after 7 August until February/March. Because their budget of £265m is 19% above target, they lose £88m of a potential £118m in block grant. Following legal advice, DOE, DHSS and Treasury began paying rate-related grants (rate rebates etc.) to Liverpool.

5. DOE has produced three cash flow charts based on projections of the City's revenue and capital payments. These are attached at Annex A. They are highly speculative but indicate how collapse could occur in August, September, or as late as February depending on the Council's ability to borrow.

#### Lending between Authorities

6. MISC 109 asked whether a sympathetic authority could lend to Liverpool to help it out of financial difficulty. Paragraph 13(1) of Schedule 13 of the Local Government Act 1972 provides that:

'A local authority.....may lend to another authority ...on such terms as may be agreed between them, such sums as that other authority may require for any purpose for which that other authority are authorised to borrow money.'

There is no requirement for the Secretary of State to give consent. The terms and conditions of any loan are thus entirely a matter for the authorities concerned, subject to the following two constraints:-

- The borrower must have power to borrow (Authorities may borrow temporarily for revenue purposes against revenue receivable within the same financial year, and for capital purposes with a limit roughly equal to their capital allocation.);

- The lender must comply with its fiduciary duty to its ratepayers and satisfy the auditor. There must be adequate security and no loss or deficiency must arise in the transactions.

There is one exception to the general power in the Local Government Act quoted above. Schedule 13(8) of the Local Government Planning and Land Act 1980 provides that the G.L.C. may not borrow for the purpose of on-lending unless provision is made in their Money Act.

### III RATE LIMITATION

7. Although selection criteria for rate limitation in 1986/87 have yet to be settled, it is likely that Liverpool will be caught. Their budget of £265m is 22% above their Grant Related Expenditure Assessment and 19% above their target. The list of selected authorities will be announced before the Summer Recess.

### IV CONTINGENCY PLANNING

8. The Department has now received new prints of both the general and Liverpool - only Commissioner Bills, and is studying them urgently.

### LAMBETH

9. Despite the fixing of a rate on July 3rd, surcharge proceedings will continue against the 32 Labour Councillors responsible for the delay in rate-fixing. The Labour Leader Mr Knight has indicated that he will fight the case, and the timetable is likely to be similar to that for Liverpool described above. It is assumed, though we have yet to see, that the Council's credit position will now be secured.

LIVERPOOL CASH FLOW

1. At table A below are three cash flow scenarios, all of which are based on the projections of revenue and capital payments shown in table B below. As the information about Liverpool City Council's cash flow is very limited, these scenarios and the underlying payments projections must be considered as highly speculative.

- (a) Scenario I assumes that for the first three months of the financial year Liverpool raised loans only to meet new capital payments and necessary refinancing of their loan debt, using their cash reserves to cover the monthly revenue cash shortfall. This scenario assumes that after June no new loans are raised.
- (b) Scenario II assumes that for the first three months of the financial year Liverpool, irrespective of the level of their cash reserves, raised loans to meet new capital payments, their monthly revenue cash shortfall and any necessary refinancing of their loan debt. It likewise assumes that thereafter no new loans are raised.
- (c) Scenario III assumes that throughout the financial year Liverpool are able to raise loans to the full extent permitted by their borrowing powers - ie loans of £49m for new capital payments, temporary revenue borrowing pending the receipt of revenues, and borrowing for refinancing the loan debt.

2. Under scenario I and II, both of which assume that from June onwards Liverpool have lost their creditworthiness and hence can no longer borrow, financial collapse is predicted around August or September. With scenario III, which unrealistically assumes that Liverpool maintain creditworthiness, collapse is predicted not to occur until February 1986.

3. Obviously, there are also a whole range of intermediate scenarios where after June Liverpool continue to find some "soft lenders", but not sufficient lenders to meet all their borrowing needs. Under these scenarios financial collapse would be predicted to occur sometime in this coming winter.

TABLE A

## CASH FLOW SCENARIOS FOR 1985-86

	April £M	May £M	June £M	July £M	August £M	September £M	October £M	November £M	December £M	January £M	February £M	March £M
<u>Scenario I</u>												
*Cash reserves at start of month	62	44	29	10	2							
New borrowing in month excluding refinancing transactions	9	9	10	-	-							
Loan repayments net of refinancing transactions	-	-	-	-	27?							
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>							
Cash reserves at end of month	<u>44</u>	<u>29</u>	<u>10</u>	<u>2</u>	<u>(38)</u>							
<u>Scenario II</u>												
*Cash reserves at start of month	62	62	62	62	54	14						
New borrowing in month excluding refinancing transactions	27	24	29	-	-	-						
Loan repayment net of refinancing transactions	-	-	-	-	27?	?						
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>						
Cash reserves at end of month	<u>62</u>	<u>62</u>	<u>62</u>	<u>54</u>	<u>14</u>	<u>(10)</u>						
<u>Scenario III</u>												
*Cash reserves at start of month	62	62	62	62	63	63	56	47	44	41	13	
New borrowing in month excluding refinancing transactions	27	24	29	9	13	17	8	4	15	-	-	
Loan repayments net of refinancing transactions	-	-	-	-	-	-	-	-	-	15	39	
Monthly cash requirement (from Table B)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>	<u>17</u>	<u>7</u>	<u>18</u>	<u>13</u>	<u>11</u>	
Cash reserves at end of month	<u>62</u>	<u>62</u>	<u>62</u>	<u>63</u>	<u>63</u>	<u>56</u>	<u>47</u>	<u>44</u>	<u>41</u>	<u>13</u>	<u>(37)</u>	

\* These cash reserves arise due to unused capital receipts.

TABLE B

## LIVERPOOL CASH FLOW PROJECTIONS 1985-86

	April	May	June	July	August	September	October	November	December	January	February	March
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
Monthly Revenue Cash Shortfall (see previous sheet)	18	15	19	(1)	3	15	8	4	15	11	7	14
Monthly Net Capital Payments	<u>9</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>4</u>	<u>4</u>
Monthly Cash Requirement (excluding refinancing transactions)	<u>27</u>	<u>24</u>	<u>29</u>	<u>8</u>	<u>13</u>	<u>24</u>	<u>17</u>	<u>7</u>	<u>18</u>	<u>13</u>	<u>11</u>	<u>18</u>

Notes

1. The revenue cash projections assume the City Council is spending at the "£265m" level specified in their budget approved on 14 June 1985. Except in respect of the following items, payments and receipts have been assumed to fall evenly throughout the year.
  - (a) rate support grant, including the advance further education pooling adjustments, are shown in the projections on the basis of known payment schedules, assuming the RSG Supplementary Report for 1985/86 is first actioned on 7 August 1985;
  - (b) housing benefit grant, other housing grants and subsidies, urban programme and UDG grants, and such rate related grants as payments in lieu of rates for crown properties have likewise been included on the basis of known payment schedules; in the case of housing subsidy, Ministers have agreed that Liverpool's entitlement (£9m) should be withheld pending the City Council providing adequate assurances about submitting their final claim for 1983-84; the projection assumes these assurances will be received in time to commence subsidy payments in August;
  - (c) rate income has been included on the assumption that 90% will be received by way of 10 equal monthly instalments commencing July 1985; obviously if the rate is quashed these instalments would cease increasing the revenue cash shortfall by over £11m per month.
2. It has been assumed that there is no revenue cash shortfall brought forward in respect of previous years. The 1984-85 expected deficit of £9m will not become a cash deficit until further RSG Supplementary Reports which increase Liverpool's grant holdback are actioned, thereby resulting in a repayment of grant. Rate income received in 1985-86 in respect of previous year has been assumed to have been used to repay temporary revenue borrowing which was financing that year's expenditure.

CWO

3. The capital payment projection assumes total gross payments of £87m - the figure referred to in the City Council's response to the Secretary of State when he was considering making a direction under section 78 of the Local Government Planning and Land Act restricting the Council's ability to incur capital expenditure. The projection assumes that  $\frac{3}{4}$  of the capital payments will be incurred in the summer months. The projection also assumes capital receipts received of £6m (a figure likewise contained in Liverpool's response to the proposed section 78 direction) evenly distributed throughout the year.

Revenue Cash Flow on a "£265m budget"

	TOTAL		April £M	May £M	June £M	July £M	August £M	September £M	October £M	November £M	December £M	January £M	February £M	March £M	86/87
	£M	£M													
City Council Gross Expenditure	505														
City Council Income Other than AFE pool reimbursement	<u>96</u>														
Net City Council Expenditure	409	34	34	34	34	34	34	34	34	34	34	34	34	35	-
Merseyside County Council Precept Rate and Grant Borne Expenditure	<u>47</u> 456	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>4</u> 38	<u>3</u> 38	-
Rate Support Grant & AFE Pool reimbursement	50		13	10	10	10	-	-	-	-	-	3	2	2	-
Housing Benefit Grant (including disabled rate relief)	76		4	4	5	7	7	7	7	7	7	7	7	7	-
Housing Subsidy	9		-	-	-	-	3	1	1	1	1	1	1	-	-
Other Housing Grants	12		-	1	1	1	1	1	1	1	1	2	2	-	-
Urban Programme and UDG	20		-	5	-	-	5	-	-	5	-	-	5	-	-
Other Rate Related Grants	5		-	-	-	2	-	-	2	-	-	-	-	1	-
Other Grants	<u>36</u>		3	3	3	3	3	3	3	3	3	3	3	3	-
TOTAL GRANTS	208														
RATE INCOME (last payment in 1986-87)	<u>131</u>		=	=	=	<u>16</u>	<u>16</u>	<u>11</u>	<u>16</u>	<u>17</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	(11)
SHORTFALL (cash)	<u>117</u>		18	15	19	(1)	3	15	8	4	15	11	7	14	(11)

CMO



NBPM AT 8/7  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon Viscount Whitelaw CH MC  
Lord President of the Council  
House of Lords  
LONDON SW1A OPW

8 July 1985

*Dear Willie*

RSG SETTLEMENT

*with AT?* You sent me a copy of your letter to the Prime Minister of 1 July. I welcome the agreement, but it is clearly going to be difficult to live with the £500m increase in total local authority current expenditure, and I understand the particular difficulties that Keith Joseph and Leon Brittan have described in their recent letters.

The substantial reductions in revenue support for public transport that I have planned are already incorporated in the baseline. One adverse effect of this will be that the higher fares involved will add to the costs of the concessionary fares schemes for the old and handicapped.

Another difficult is the condition of local principal roads which are beginning to deteriorate alarmingly and a big backlog is building up as more counties patch and surface-dress to cut expenditure instead of resurfacing, so storing up trouble for the future. They are also faced with a sharp increase in material prices beyond their control.

I am sure that Norman Fowler and Patrick Jenkin also have difficulties on their services, and I have no wish to plead for special treatment. I think the only way to square the



circle will be to re-establish the unallocated margin. No doubt officials will be including this option in their further work in order that we can discuss it at the further meeting planned for E(LA).

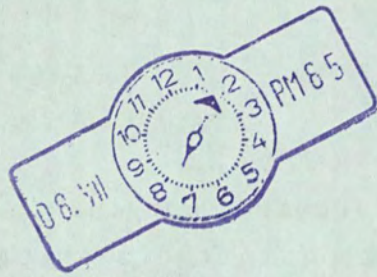
I am copying this to the Prime Minister, the Chancellor, members of E(LA) and Sir Robert Armstrong.

*Tomman*

*Nicholas*

NICHOLAS RIDLEY

LOCAL CONT: Res Pt 27



CONFIDENTIAL

PRIME MINISTER

Rate Support Grant Settlement 1986-87

1. I have seen the Lord President's minute of 1 July on the outcome of discussions about the broad shape of the Rate Support Grant Settlement for 1986-87. Your Private Secretary's letter of 2 July records your agreement with the outcome but makes no reference to the proviso in the Lord President's minute that an increase of £500m in the provision for 1986-87 raises serious difficulties for education. Although as the Lord President points out we are here concerned with the public expenditure signals which we should give to local authorities as they prepare their budgets next year, we shall also be giving them signals about the policies that we expect them to adopt for education.

2. I have naturally looked to see whether I can reduce my request for an extra £600m for education in 1986-87. This figure already involves a real-term cut of 2.5% and not, as the Lord President suggests, the maintenance of present spending levels. I can go some way to help. I attach a note by my officials which describes ways of reducing the requirement to £390m. These figures, of course, involve a sharp reduction in the areas identified by the Audit Commission as ripe for efficiency savings. £140m of the difference is however accounted for by the unavoidable overspend on school meals which for the purposes of our plans I would choose simply to ignore on the grounds that our provision for school meals is based on the most efficient practice and we believe it to be right. I shall campaign to try to secure all these savings and to persuade LEAs to make economies in school meals - although those who have most scope for savings are politically those least likely to be persuaded. But £390m is as low as I could possibly go. It involves presenting our plans for education in terms of a real-term reduction in expenditure of 4.5% from 1985-86 budgets.

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3. Even though in the event local authorities will not make savings of this magnitude, presenting our plans on the basis even of my reduced bid for an extra £390m will still sharply increase the pressures on education for savings - which lie behind so much Government unpopularity. If I am obliged to reduce further, I could not avoid having to tell local authorities to make cuts in those areas of education provision essential to making progress with our Better Schools policies and on which the seriousness of our intentions about standards will be judged.

4. There will be legitimate calls by other local government services - notably the police - on the total of £500m extra available. A pro rata share of it for education would contribute around £250m to the £390m I require, leaving £140m still to find. Given the general wish of colleagues not to add more than £500m explicitly to provision, it seems to me that we should instead acknowledge that there will be expenditure by local government in excess of the plans and earmark a part of the Reserve to meet it. It is already clear - as we explicitly recognized at the Lord President's meeting on 27 June - that the 1986-87 outturn will produce an overspend on local authority current expenditure and that will be a charge on the Reserve. When we consider the size of the Reserve next week, we should expect to have to take this into account.

5. No doubt it will be argued that earmarking a part of the reserve will set precedents but we are in the business of finding the least damaging presentational device to reconcile our public expenditure signals with our policies for local services. What I have in mind is a new kind of unallocated margin, which is not built into planned provision but is acknowledged to be a prior claim on the Reserve. It need not be as large as the full extent of the overspend that we realistically expect - £140m is necessary for education although you may think that to keep to that figure, which we know will be overspent is unnecessarily masochistic and that £200m would be preferable - but carefully presented it would preserve the credibility

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of our policies without significantly weakening our overall message to local government or adding to public expenditure provision. Without some such device, I should have no option but to admit that we have failed to make the provision necessary for our Better Schools policies.

6. I am sending copies of this minute to the Lord President, the Chancellor of the Exchequer, the members of E(LA); the Paymaster General; the Parliamentary Secretary, Treasury; the Minister for Local Government; and to Sir Robert Armstrong.

KJ.

K J

5/ July 1985

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Annex

Education Expenditure in 1986-87

1. The local authorities' assessment of the cost of their present policies on education and school meals in 1986-87 is £11265m or £660m above Cmnd-9428 plans. This assessment, which takes into account the latest information about financial outturn and demographic changes, is in the view of the Department an overestimate of the requirement. Savings of £60m would be obtained if LEAs were to:

	£m
(1) Maintain the Cmnd 9428 policy of a reduction in the school teacher force of <u>6000</u> a year from <u>1985</u>	25
(2) Achieve a 2% annual reduction in secondary schools education support and administrative staff to reflect falling rolls	10
(3) Tighten AFE student:staff ratios to <u>11.6:1</u> (from 10.4:1 in 1984-85). Implies a reduction of 2000 lecturers between January 1985 and 1987	10
(4) Tighten NAFE student-staff ratios (from 8.5:1 in 1984-85 to 8.9:1 in 1986-87 - a reduction of 2300 in the lecturer force	10
(5) Reduce administration costs	5

2. In addition it would be possible to advocate and defend further policy changes which required LEAs to

(1) Reduce still further school non-teaching costs in response to <u>falling school rolls</u> and rein back on the additional provision LEAs plan for repairs and maintenance	35
(2) Tighten further student:staff ratios in AFE and NAFE to 12:1 and 9:1 respectively - an overall reduction in aggregate of 6000 lecturers in both sectors between 1985 and 1987	15
(3) Reduce non-teaching costs in AFE and NAFE by 1% in real terms from efficiency savings	20

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3. Each of these policy changes represents a direct response to recent Audit Commission recommendations. They constitute in relation to teaching staff very ambitious targets of a kind which LEAs have not previously achieved. It should be noted that:

- (a) the forecasts for 1986-87 already assume savings of £60m on account of falling school rolls. This is based on the evidence that LEAs will continue to make progress in taking surplus places out of use. The continuing fall in secondary pupil numbers and new closure proposals now coming forward cannot contribute to savings in 1986-87.
- (b) the tighter staff-student ratios proposed for the further education sector assume a run-down of lecturer staff equivalent to the whole of natural wastage ie a recruitment freeze. To go further would involve incurring redundancy costs which would sharply offset the savings available in 1986-87
- (c) the reduction in non-teaching costs in both AFE and NAFE recognizes the scope for further efficiency identified by the Audit Commission. (Unit costs in AFE have already fallen by some 20% in the last 5 years).
- (d) The Audit Commission report on further education strongly implies that the resources released through increased efficiency should not be used to the benefit of the taxpayer but should be used to train more young people, particularly the young unemployed. (See paragraph 22 of the report).

4. On school meals and milk it might be possible to take the position, as in previous years that for the purposes of the GRE total we would ignore the anticipated overspend of £140m in 1986-87 and set the total at the figure implied by our policies. The prospects of reducing this overspend are negligible until legislation can be put in place

- (a) to require competitive tendering for the school meals service; and
- (b) to remove local authority discretion to provide free school meals to the children of families above the SB level.

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5. This presentational device has worked in the last 3 years because it has been possible to imply that the difference between the allocated total and actual expenditure is attributed within the unallocated margin for which our plans have provided. Without an unallocated margin, it would be necessary to stick to the line that the Government's plans were based on most efficient practice and were right in principle.

6. Taken together the measures proposed in paragraphs 2-6 reduce the original requirement of £660m (decreased to an estimated £600m by the savings outlined in paragraph 1) to £390m.

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FILE

10 DOWNING STREET

From the Private Secretary

5 July, 1985.

Rev Tom.

MISC 109

The Prime Minister has read Misc 109(85)4. She has noted that developments in Liverpool are expected to unfold rather more slowly. She has seen your Secretary of State's views on the proposal for short term Commissioners, and agrees that this proposal should not be developed further. Unless any member of the group requests a discussion, she doubts whether it is necessary for Misc 109 to meet on Tuesday, 9 July.

I am copying this letter to Private Secretaries to members of Misc 109 and to Richard Hatfield (Cabinet Office).

Your sincerely  
Andrew Turnbull

(Andrew Turnbull)

John Ballard, Esq.,  
Department of the Environment.

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**The Audit Commission  
for Local Authorities in England and Wales**

1 VINCENT SQUARE, LONDON SW1P 2PN  
TELEPHONE: 01-828 1212 TELEX: 299192 AUDCOM

FROM THE CHAIRMAN

CH/85-7/JLR/PAC

July 4, 1985

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

*Dear Prime Minister*

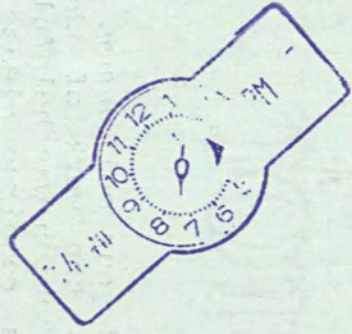
I would like to thank you and your colleagues for the great interest you all showed in the work of the Audit Commission. I hope that our presentation was helpful to you and if any further information is required please let me know.

In the meantime, we are sending direct to your colleagues further copies of the up to date profiles relating to their particular constituencies.

*Yours sincerely*  
*John L Read*

John L Read

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COMMUNICATIONS

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4

10 DOWNING STREET

From the Private Secretary

4 July, 1985

AUDIT COMMISSION PRESENTATION

Following the presentation by the Audit Commission to the Cabinet today a booklet on the Commission's work was distributed. This was handed personally to a number of Ministers but for those, like the Lord Chancellor, who did not receive a copy one is enclosed.

I am copying this letter and enclosure to Elizabeth Hodgkinson (Department of Education and Science), Geoff Dart (Department of Energy), Richard Mottram (Ministry of Defence), John Graham (Scottish Office), Colin Williams (Welsh Office), David Morris (Lord Privy Seal's Office), Steve Godber (Department of Health and Social Security), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Jim Daniell (Northern Ireland Office), Alex Galloway (Paymaster General's Office) and Richard Hatfield (Cabinet Office).

I am also copying this letter to Joan McNaughton (Lord President's Office), Len Appleyard (Foreign and Commonwealth Office), Hugh Taylor (Home Office), Rachel Lomax (HM Treasury), John Ballard (Department of the Environment), John Mogg (Department of Trade and Industry), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), Leigh Lewis (Office of the Minister without Portfolio) and Murdo Maclean (Chief Whip's Office) whose Ministers I believe, did receive copies. If anyone has been left out I will be pleased to put matters right.

(Andrew Turnbull)

R. Stoate, Esq.,  
Lord Chancellor's Office

2A7D

PRIME MINISTER

4 July 1985

William Waldgrave will be supporting you  
or be meeting. We will try and arrange 5 mins with him  
before the start so he can brief you on where the studies have got to.

MEETING WITH PETER BOWNESS, LEWIS MOSS AND ROY THOMASON

AT 4/7

The meeting was arranged at the request of Roy Thomason,  
(Bournemouth Councillor, and leader of the Association of  
District Councils). He wants to talk to you about the local  
finance reforms. Lewis Moss (Berkshire Councillor and  
leader of the Conservative group on the Association of  
Country Councils) and Peter Bowness (leader of Croydon  
Council and leader of the Conservative group on the  
Association of Metropolitan Authorities) have been invited  
as well.

ADL

All three leaders believe that the Government has lectured  
Conservative Councillors instead of listening to them,  
especially on the topic of local finance.

This is a chance to show that you are genuinely interested  
in their views about the deficiencies of the present system  
and the options for reform. It may be easier to make this  
clear and to elicit useful information if you begin by  
assuring them that nothing has yet been decided, and then  
ask a series of specific questions. These could include:

1. What are the features of the present system that  
cause most trouble:

- rate-capping?
- targets?
- non-domestic rates?
- domestic rates?

- capital spending controls?
- the complexities of the grant system?

2. Would they favour:

- more central funding of specific services, such as education?
- or minimal central control?

3. If they favour a less controlled system, do they accept that the quid pro quo is greater accountability to the electorate?

4. How would they achieve such accountability? In particular, do they approve of:

- the 80% limit on housing benefit rate relief proposed by Norman Fowler?
- a 'cap' on non-domestic rates?
- 'nationalisation' of non-domestic rates?
- a new domestic property tax?
- retention of domestic rates?
- a residents charge?
- a local income tax (favoured by the ADC)?
- a sales tax?
- more fees and charges?

5. What changes would they like to see in the arrangements for capital spending?
6. How can they help the Government to carry Conservative Councillors along with any reforms?

You may wish to end by stressing that the Government is determined to carry reforms by agreement within the Party rather than by imposing changes. And you might promise to have another discussion when Ministers have had a chance to think further but before the Green Paper is issued. Roy Thomason and Lewis Moss, in particular, will immensely value a hint that they are on the 'inside track'.

---

*Ol Letwin*

OLIVER LETWIN



10 DOWNING STREET

Prime Minister ①

As expected things are moving slowly in Liverpool so there is no real need to meet for a progress report.

Mr Jenkin has looked at the idea of short term Commissioners and come down against it. If you are content with his analysis there is no need to discuss it in MISC 109

(1) Do you accept Mr Jenkin's view?

(2) Do you still want to hold MISC 109 on Tuesday?

No. Mr JT 3/7

P.S. Irrespective of whether you hold MISC 109, Mr Jenkin would like 15 minutes to talk about names for Commissioners.





1.11.85 2 CF

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

3 July 1985

Dear David

RATE SUPPORT GRANT SETTLEMENT AND RATE LIMITATION 1986/7

I am writing to warn you that, as usual, my Secretary of State needs to make an announcement shortly before the Recess on his proposals for local government finance next year. This covers the RSG settlement and rate limitation for 1986/7.

The normal format is an oral statement in both Houses. We cannot make the announcement earlier than Wednesday 24 July, and the later after that date that we make it the better from our point of view. The problem is that we are formally consulting local government on these matters in the Consultative Council on Local Government Finance on 23 July; and we should let a decent interval elapse before announcing a decision if possible.

We have to let all local authorities know the date of the announcement a few days in advance so that they can arrange to collect the written supporting material as soon as it is released. It is therefore especially important to have a firm date for this announcement as early as possible. I would be very grateful if you could let me know the prospects.

I am copying this to Andrew Turnbull at Number 10, Joan McNaughton in the Lord President's Office and to Murdo Maclean in the Chief Whip's Office.

Yours sincerely

*John Ballard*

JOHN BALLARD  
Private Secretary

CONFIDENTIAL



PRIME MINISTER

PRESENTATION BY JOHN BANHAM: LOCAL GOVERNMENT AUDIT COMMISSION

I AM VERY PLEASED THAT YOU HAVE ASKED JOHN BANHAM TO GIVE US ALL A PRESENTATION ON THURSDAY. HE HAS ALREADY MADE A SIMILAR PRESENTATION TO KENNETH BAKER AND ME, AND I THINK YOU WILL FIND THAT HE PUTS OVER A STIMULATING AND CHALLENGING LINE. THE COMMISSION'S VALUE FOR MONEY WORK IS POLITICALLY IMPORTANT FOR US.

I HAVE LITTLE DOUBT THAT THERE IS ENORMOUS SCOPE FOR IMPROVING EFFICIENCY IN MOST LOCAL AUTHORITY SERVICES. THE PRESSURES WE HAVE IMPOSED HAVE HAD SOME EFFECT. THIS YEAR - AT LAST - AUTHORITIES' OVERALL ARE BUDGETING FOR NO REAL GROWTH IN CURRENT EXPENDITURE. MANPOWER HAS COME DOWN BY 4½% OVER THE LAST 5 YEARS. IN SOME SERVICES (EG REFUSE COLLECTION) ONE CAN SEE SIGNIFICANT REDUCTIONS IN UNIT COSTS. BUT THERE IS MUCH MORE TO DO.

THE AUDIT COMMISSION'S STUDIES ARE ALREADY SHOWING THE WAY, AND OVER THE LONGER TERM, THE COMMISSION LOOKS LIKE PLAYING A KEY ROLE IN IMPROVING VALUE FOR MONEY IN LOCAL GOVERNMENT. NOT ALL OF THIS WILL BE EXPENDITURE SAVINGS; SOME WILL TAKE THE FORM OF BETTER SERVICES DELIVERED.

JOHN BANHAM'S EXPOSITION OF THE POTENTIAL SOMETIMES SOUNDS A LITTLE TOO GOOD TO BE TRUE; BUT I THINK HE IS ESSENTIALLY RIGHT ABOUT THE DIRECTION AND LONG TERM SCOPE OF THE COMMISSION'S VFM WORK. THROUGH OUR TOP-DOWN MECHANISMS WE ARE PROVIDING A CLIMATE OF OVERALL PRESSURE ON LOCAL AUTHORITIES. WHAT THE AUDIT COMMISSION IS DOING IS DEMONSTRATING, ON THE GROUND, THAT IN SERVICE AFTER SERVICE THERE ARE MAJOR IMPROVEMENTS

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TO BE HAD. COUNCILLORS AND OFFICIALS WHO ARE EVEN HALF WILLING TO LISTEN CAN SEE THERE IS A REAL AND POTENTIALLY POPULAR ALTERNATIVE TO PROTEST. WHEN OUR LOCAL GOVERNMENT FINANCE STUDIES HAVE BORNE FRUIT, I HOPE THAT A SHARPER, LOCAL, BOTTOM-UP ACCOUNTABILITY WILL PROVIDE AN EVEN BETTER CLIMATE FOR VFM INITIATIVES.

EFFECTIVE FOLLOW-UP OF THE OPPORTUNITIES FOR VALUE FOR MONEY IMPROVEMENT IDENTIFIED BY THE COMMISSION'S INITIAL STUDIES IS A BIG PROBLEM THAT IS NOT YET FULLY SOLVED. THE COMMISSION CONCENTRATES ON MONITORED VFM PROJECTS IN INDIVIDUAL AUTHORITIES - AN INITIAL WAVE OF 1,600 OR MORE IS BEING FOLLOWED BY ANOTHER 1,000 A YEAR. HOW EFFECTIVE THE MONITORING CAN BE IN DELIVERING RESULTS IS NOT YET FULLY ESTABLISHED, THOUGH JOHN BANHAM MAY TAKE THAT STORY A STEP FURTHER. MINISTERS NEED TO DO OUR PART ALSO. KEITH JOSEPH HAS SET US A GOOD EXAMPLE OVER THE COMMISSION'S RECENT FURTHER EDUCATION REPORT. MY OFFICIALS HAVE BEEN DISCUSSING SYSTEMATIC FOLLOW-UP WITH OTHER DEPARTMENTS, AND I WILL WRITE SOON TO COLLEAGUES TO PUT THIS ON A FIRM MINISTERIAL BASIS.

THE AUDIT COMMISSION, USUALLY IN THE PERSON OF JOHN BANHAM, HAS TRIED SO HARD NOT TO APPEAR AS AN ENEMY OF LOCAL GOVERNMENT THAT IT HAS SOMETIMES GIVEN UNEXPECTED AID AND COMFORT TO OUR OPPONENTS. AND I HAVE TO SAY THAT ITS REPORT LAST YEAR ON BLOCK GRANT WAS ILL-CONCEIVED AND UNNECESSARILY POLITICAL IN PRESENTATION. THESE FRICTIONS HAVE BEEN GREATER THAN NECESSARY, BUT THEY HAVE ESTABLISHED THE VISIBLE INDEPENDENCE OF THE COMMISSION.

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I THINK JOHN BANHAM IS RIGHT TO PUT THE ROLE OF THE COMMISSION FORCEFULLY. FORCE IS NEEDED TO REVOLUTIONISE LOCAL GOVERNMENT EFFICIENCY. BUT THE REALLY BIG GAINS WILL COME WHEN THE YEAR BY YEAR VALUE FOR MONEY IMPROVEMENTS REALLY TAKE ROOT. THIS WILL TAKE TIME. WE CERTAINLY OUGHT TO SEE SIGNIFICANT IMPROVEMENTS COMING THROUGH IN THIS DECADE. BUT FOR US TO PUT FIGURES ON THESE NOW, AS JOHN BANHAM SOMETIMES DOES, WOULD RISK FALLING INTO THE OLD ERROR OF PLANNING ON HOPE WHEN WE SHOULD BE CONCENTRATING ON DELIVERY.

I AM SENDING A COPY OF THIS MINUTE TO SIR ROBERT ARMSTRONG.

A.H. Davis

P J

(APPROVED BY THE SECRETARY  
OF STATE AND SIGNED IN  
HIS ABSENCE)

3/7/85

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E.R.  
PRIME MINISTER

A note from Patrick Jenkin  
is also attached.

PRESENTATION BY THE AUDIT COMMISSION: AFTER CABINET

The Audit Commission Chairman, Mr. John Read and their Controller (ie Chief Executive) Mr. John Banham, are giving a presentation after Cabinet business is concluded tomorrow. Cabinet starts at 1000 and they will be standing by from 1100.

After you have introduced Mr. Read and Mr. Banham, Mr. Read will say a few words before handing over to Mr. Banham who will give the presentation. This involves a slide show which will last about 15 minutes. Mr. Read and Mr. Banham are then expecting to answer questions etc, for a further quarter of an hour.

Mr. Banham's presentation will focus on the general theme of obtaining better value for money from local government. So far, he estimates that he has looked at areas accounting for about one-third of all local government expenditure, and he reckons there are efficiency savings of some £1 billion to be made in that area alone. He will be ready to talk in particular about the report on further education which caught some attention recently, if colleagues so wish.

|| You may like to know that both Mr. Read and Mr. Banham are on three year fixed contracts with the Commission. Mr. Read is Executive Chairman of the LEP Group, a freight forwarding concern which is doing very well at present. He returned this morning from a three weeks' visit to the FAR East. He is on the Board of the Red Cross. Mr. Banham is also from the private sector, and is a director of McKinseys.

Mark Addison

(MARK ADDISON)

3 July 1985



27  
S/C.O.L.

10 DOWNING STREET

E(LA):  
(LP)  
HO  
DE 25 July, 1985

*From the Private Secretary*

SO D.Emp  
WO CS  
DOE DTrans  
DHSS CDL  
DTI

RATE SUPPORT GRANT SETTLEMENT 1986/87

The Prime Minister has seen the Lord President's minute of 1 July reporting on the agreement reached with the Ministers primarily concerned on the broad shape of the Rate Support Grant Settlement for 1986/87. The Prime Minister was content with the outcome and was very grateful to the Lord President and his colleagues on E(LA) for their long and patient work in producing this agreement.

I am sending a copy of this letter to Rachel Lomax (HM Treasury), the Private Secretaries to Members of E(LA), Murdo Maclean (Chief Whip's Office), Alex Galloway (Paymaster General's Office), Mike Bailey (Office of the Minister for Local Government) and Richard Hatfield (Cabinet Office).

(Andrew Turnbull)

Miss J. MacNaughton,  
Lord President's Office.

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✓



Prime Minister  
Content?  
AT 177

SCNO

PRIME MINISTER

Rate Support Grant Settlement 1986/87

Following our discussion with you on 25 June, I am pleased to be able to report that I have now reached agreement with the Ministers primarily concerned on the broad shape of the Rate Support Grant Settlement for 1986/87.

2. You will recall that when we discussed this on 25 June you concluded that there were persuasive arguments for seeking to abandon targets; that there were attractions in an unchanged percentage (48.7 per cent) for Aggregate Exchequer Grant (AEG); and that a cash standstill in local authority current expenditure as between 1985/86 and 1986/87 (an overspend of about £450 million over present provision for 1986/87 in the Public Expenditure White Paper (PEWP)) would be defensible. The Secretary of State for the Environment was asked to arrange for further exemplifications to be made, along the lines of our conclusions, so that I could chair a further meeting to resolve the issues.

3. On 27 June I chaired a meeting of the Chancellor of the Exchequer, the Secretary of State for Education and Science, the Secretary of State for the Environment, the Chief Secretary, and the Minister for Local Government. We achieved agreement on a targetless package involving an overspend of about £500 million on PEWP levels with a cash standstill (which implies a percentage reduction) in AEG.

4. I am particularly pleased that we managed to agree on a targetless settlement. We promised in this year's settlement that we would give serious consideration to the abolition of



targets. They are an unpopular form of rough justice, based as they are on past spending. To retain targets would have involved serious risk of difficulties with the successor authorities to the Greater London Council and the metropolitan county councils, including the possible need for them to levy high rates. There is a risk in abandoning targets of higher expenditure but we decided on balance that this was a lesser risk which we were prepared to run. We should be able to derive considerable credit from this decision to abandon targets.

5. At your meeting you saw the attractions of holding AEG constant in percentage terms (at 48.7 per cent) even though this would require an increase in its cash level. When we discussed this with you, we thought this might require an addition of £235 million to AEG. However, further work showed this to be an underestimate. To hold AEG constant in percentage terms would in fact require an increase of £450 million in AEG. Treasury ministers were strongly opposed to any increase in the cash level of AEG. Increases in the cash level would not simply mean lower rate increases; they would imply rate reductions unless local authorities chose, as they might well do, to increase the level of their spending accordingly. Agreement was reached on a cash standstill for AEG which Patrick Jenkin had proposed earlier, in the packages he had recommended to E(LA).

6. On local authorities' current expenditure, we reached broad agreement on a settlement just above cash standstill - an increase of £500 million in the provision for 1986/87 announced in PEWP. Keith Joseph saw potential difficulties in such a figure on the grounds that it would not accommodate the extra provision of £600 million for 1986/87 above PEWP levels which he feels is necessary to maintain education expenditure in real terms. There is potentially a similar problem with police expenditure. I hope this will prove not to be a real difficulty. We are not dealing with



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actual expenditure by local authorities in 1986/87 but with the signals we should give them as they develop their plans for that year. Nevertheless, I have asked officials in the departments concerned to do further work and report to me quickly to see if there is a problem.

7. Subject to that proviso, however, I believe we now have a Rate Support Grant Settlement for 1986/87 which meets our objectives. We can take considerable political credit for the abolition of targets; the rate poundage increases which it implies - even in respect of successor authorities - that should result should be acceptable; and it gives local authorities clear signals about the continuing need to restrain their expenditure. It will be particularly important for us to emphasise these positive features when the Government makes its announcement about the broad shape of the settlement.

8. I am sending copies of this minute to the Chancellor of the Exchequer, the members of E(LA), the Parliamentary Secretary, Treasury, the Paymaster General, the Minister for Local Government and Sir Robert Armstrong.

haw

Privy Council Office  
1 July 1985



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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Prime Minister ②

AT  
1/7

Lord Whitelaw  
 Lord President of the Council  
 68 Whitehall  
 SW1

*ms*

1 July 1985

*Dear William*

#### LOCAL GOVERNMENT EXPENDITURE AND EDUCATION

At Chequers on 23 June, you expressed the exasperation that we all share at our relative failure since 1979 to bring local government expenditure under effective control and concluded that we should now consider seriously the option of some degree of centralising the education service as the means of more nearly achieving our objectives.

In my view, such a remedy would cure the disease but kill the patient. We can secure better control of local government expenditure by dealing with the present system of local government finance and without cutting out the education function from local government. The key factors are

- removing the non-domestic rate as an independent source of local revenue: without this source of local taxation, the Government's potential leverage on overspending authorities could be greatly strengthened. Many of the areas where spending has been hardest to control would lose the larger part of their local tax base: for example, ILEA would be reduced to scarcely more than a quarter of its present rateable value
- putting in place a system of local taxation, be it a reformed property tax or otherwise, that bears on most or all electors and carries the full weight of marginal expenditure. We have to bring home the costs as well as the benefits of local services to local voters and make local government accountable to them.
- making the grant system support need assessed by Government and not marginal expenditure.

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We will be returning to our consideration of these possibilities later this year on the basis of the further work that Patrick Jenkin has been asked to set in hand and I continue to believe that these ideas in combination represent a better and surer means of securing our local government expenditure objectives than breaking up the system by removing education from it altogether.

Of course, I accept that in theory taking over the education service might offer a better prospect of securing greater uniformity in standards across the country; of ensuring implementation of our national policies; and allowing us to pursue new initiatives. A basic weakness of the present system is that we cannot ensure that local authorities will implement the clear national policy objectives that we are developing for education. Our plans for reform must therefore ensure greater policy control as well as greater expenditure control. But in my view we can accomplish that without having to pay the very high price of a centralised system. A general specific grant power for education applied to those parts of the service where the Government's policies would not otherwise be delivered would ensure that support from national taxation was used effectively and in the interests of better value for money. I am convinced that if we had had such a system in recent years, I could have made faster progress both to secure reductions in expenditure in areas like school meals and with our policies to raise standards. And such a general power would now help greatly to drive home the policies in "Better Schools".

This is not a half-way house; in my view it strikes the right balance in the partnership between central and local government. 100% Exchequer financing of education would effectively remove all local accountability and discretion, increasing local pressures for higher public expenditure, which would be directed at the Government. It would require a huge new central bureaucracy; draw the Government into taking responsibility for the details of local policies; and would in the long run destabilise local government to the point where fundamental reorganisation would be unavoidable. We would be foolish to venture down that road if we do not have to. In my view there are workable alternatives much more nearly in tune with our ideals and traditions as a party.

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

*Lawson,*

*/Kier.*



Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
Private Secretary  
10 Downing Street  
London  
SW1

28 June 1985

*Dear Andrew*

**E(A)(85)36 AND 37:  
LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROLS**

The Chief Secretary has just seen the Secretary of State for the Environment's paper (E(A)(85)37) and for the avoidance of doubt he has asked me to write to seek to clarify two points to which both the Secretary of State's paper and the Chief Secretary's paper (E(A)(85)36) refer.

**Double counting**

No individual authority can spend its own receipts twice, even over time. But the spending power of part of its receipts is taken into account in making allocations, and in this way is redistributed among local authorities collectively. Under present arrangements, however, that part of the spending power is not cancelled in the hands of the individual authority, which can still use it over time. So there is double counting at national level.

**Mortgage refinancing**

The Chief Secretary's proposal is to prevent block sales of mortgage books when the risk is not properly transferred to the new lender. His proposal would not restrict mortgage refinancing of a more conventional kind, where the risk passes to the institution providing the finance and is reflected in the terms.

I am copying this letter to the Private Secretaries to other members of E(A).

*Yours sincerely  
Richard*

**R J BROADBENT  
Private Secretary**

LOCAL AUTHORITY CAPITAL EXPENDITURE

The record on local authority capital spending is dismal. There is little relation between the Government's 'cash limit' and the amount actually spent. We face an overspend of between £750 million and £900 million for 1984/5; and 1985/6 may be almost as bad.

Everybody agrees that the system is mad: there is a massive amount of double-counting, and local authority treasurers do not know whether they are coming or going.

The Chief Secretary's 'Cascade' Proposal

*Flay A*

The Chief Secretary's proposal would put an end to double-counting, and would almost certainly solve the overspending problem.

But it is politically insensitive to an extreme degree.

Last year, when we tried to explain the Government's position on local capital spending to sympathetic backbenchers, it was uphill work: MPs found it hard to accept that councils should be prevented from spending 'their own money'.

This year, the position will be even worse, because capital spending is now a highly popular item. If you legislate retrospectively to prevent councils spending about £4.5 billion which they now expect to be available, you will have a backbench riot on your hands - not to mention the Lords.

Patrick Jenkin's Position

*Flay B*

Patrick Jenkin sees these political dangers. He wants to leave the system intact for 1986/7, and to change it

radically once the general reform of local finance has been settled.

This approach has two disadvantages:

1. Because of continued double-counting, the 'accumulated receipts' which pose such a threat to the PSBR could go on growing during 1986/7; (they have been increasing by over £500 million a year).
2. If the local finance reforms did not produce a radical and acceptable new system, the government would face exactly the same problem next year, when it would be even more difficult to carry unpopular legislative changes.

#### Eliminating the Problem in 1986/7

We believe that the best solution is to legislate now, but only prospectively. This would prevent double counting in future years, and would ensure that the accumulated receipts did not go on growing at breakneck pace. But it would leave local authorities in possession of the £4.5 billion's worth of spending permissions which the Chief Secretary wants to remove from them retrospectively.

If the 1986/7 capital spending arrangements were fairly 'generous' in other respects, councils and backbenchers might, grudgingly, accept such prospective legislation. There would undoubtedly be significant protests. But there would not be anything like the outrage that the Chief Secretary's proposals would cause.

#### Mortgage Refinancing

The Treasury's proposals to change the rules on mortgage re-financing are also politically insensitive.

\* Treasury are in difficulties on this issue as transfers of individual mortgages without transfer of risk were made possible in a 1980 Act, provide households consented. By requiring all mortgages in a block to have separate consents, Patrick Jenkin is doing no more than ensure that all mortgages are treated as individual ones.

Changing the rules suddenly in July of this year will cause a storm of protest, because many local authority treasurers - possibly including Liverpool - will have been reckoning on such re-financing deals as a method of balancing the books.

The alternative proposed by Patrick Jenkin is much more attractive. Legislation requiring the individual householder's consent to a transfer of his mortgage is difficult to oppose; like the Trade Union Acts, this move would emphasise personal rights rather than the government's big stick. And it would probably have much the same immediate effect on practice as the Chief Secretary's proposal, since local authorities are unlikely to conclude snap deals with banks or building societies if they have to seek permission from hundreds of individuals. \*

### Conclusion

We recommend that you should:

- reject retrospective legislation on the double-counting of receipts;
- ask Patrick Jenkin and the Chief Secretary to work up a Bill which prevents future double-counting; and
- accept Patrick's proposal to allow the transfer of mortgages only where the individual consents.

OL

OLIVER LETWIN



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PRIME MINISTER

P 01569

Local Authority Capital Expenditure Controls in  
England and Wales 1985/86

FLAGS A+B memoranda by the Chief Secretary, Treasury and by the  
Secretary of State for the Environment

BACKGROUND

In recent years local authorities have been encouraged to realise some of their capital assets (notably local authority housing, but also including surplus land, etc) by means of permission to spend the proceeds over and above their basic capital allocations. Since, however, the ability of authorities to generate such receipts differs, some proportion of the receipts generated each year has been 're-allocated' to other authorities, who have thereby been given permission to borrow additional amounts to fund new capital expenditure. At the same time, in order to restrain the overall public expenditure impact of this, local authorities have only been permitted to spend a 'prescribed' proportion of their receipts in the first year (with receipts over and above the prescribed proportion notionally allocated to other authorities). But although the rate at which authorities generating receipts can spend them has been controlled, they have not in practice been deprived of the money notionally reallocated to other authorities, which is then in principle available to them to spend in subsequent years. Thus over time an authority realising an asset may spend the entire proceeds; but the 'allocated' proportion is spent a second time by other authorities. This is the 'double counting' referred to by the Chief Secretary.

2. As well as realising physical assets, local authorities have been encouraged also to realise financial assets - the mortgages they have given to their residents, often for the purchase of local authority houses. Since it is not the purpose of local authorities to act as financial intermediaries, it makes good sense that building societies and other financial





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institutions should take over their mortgage loans, so ending the borrower's relationship with the local authority in question. Some authorities (notably Liverpool) have recently seen in mortgagerefinancing an opportunity to generate additional income outside Government controls; this is being done by transferring their mortgage books en bloc to banks, against advances from these banks, but without transferring the risks or changing their present relationships with individual borrowers. The transaction thus becomes essentially a financial device enabling the authority to borrow additional sums at rather onerous terms in an uncontrolled way; but there is no reliable legal basis for a Government challenge to this behaviour by local authorities.

### Proposals

3. The Chief Secretary proposes that clauses be included in the Local Government Bill to be enacted in the 1985/86 Session which would:

(i) Prevent 'double spending' of capital receipts by depriving local authorities making sales of assets of that proportion of the receipts which has been reallocated to other authorities; and

(ii) Defining 'capital receipts' so as to exclude block transfer of mortgages without transfer of risk.

The Secretary of State for the Environment rejects the first proposal, on the ground that the Government cannot reasonably deprive authorities of the benefit of money which is properly theirs, and that commitments have repeatedly being given in the context of debates about 'prescribed' expenditure that local authorities would be permitted over time to spend 100 per cent of their receipts. (For example, Mr Jenkin said on 13 March (OR col 345) 'there is nothing in the regulations to prevent these receipts in due course from being spent by the authorities to which they belong'.) On mortgage refinancing, although Mr Jenkin appears to disagree with the Chief Secretary's proposal,

*or they have  
come to believe  
are properly  
theirs*



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he in fact puts forward an alternative method of attaining the same objective; instead of redefining 'capital receipts', he would forbid the transfer of a mortgage without consent of the borrower.

#### MAIN ISSUES

4. The main issues are:

(i) Whether local authorities should be deprived of that proportion of their capital receipts 'reallocated' to other authorities.

(ii) Whether action should be taken to restrict the generation of capital receipts by mortgage refinancing devices which do not involve any transfer of risk away from the local authority lender.

The wider question of the future control of local authority capital expenditure is under study in the E(LF) context, and it would not be appropriate for E(A) to tackle this more fundamental question now. Decisions will, of course, be required in the Public Expenditure Round about the level of local authority capital expenditure to be accommodated in 1986/87 and subsequent years, and these decisions will need to reflect the decisions on the proposals currently before the Sub-Committee. If Ministers conclude that it is not possible to deprive authorities of the benefit of their accumulated unspent capital receipts, it may well be necessary to consider, initially in the course of the public expenditure bilaterals, the case for some further restriction of 'prescribed expenditure'; but there is no need for E(A) to tackle this issue now.

#### Treatment of accumulated unspent capital receipts

5. The Chief Secretary's case for a change is that the £6 billion of accumulated unspent capital receipts represent a severe threat to public expenditure control, and that this can only be overcome by depriving the authorities which hold these



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balances of the benefit of that proportion of the receipts which has already been allocated to other authorities. The argument against this is essentially political; that the Government has given repeated commitments that it would not do this. Mr Jenkin undoubtedly feels bound by the commitments he has given, and as he says, the Government might find considerable difficulty in convincing their supporters of the desirability of depriving local authorities of £4½ billion of the £6 billion they consider to be 'rightfully theirs'. Nevertheless if Ministers consider it essential to restrict local authorities' spending power in this way, the forthcoming Local Government Bill represents an opportunity, and it would be as well for work to begin as soon as possible to specify precisely how the desired effect was to be achieved; the legislative provisions necessary seem likely to be very complicated.

The way through  
is to leave  
existing  
accumulated  
receipts untouched  
but stop  
cascade spending  
from the  
future.

Restriction of mortgage refinancing

6. Despite their apparent disagreement, there is in practice a substantial meeting of minds between Mr Jenkin and Mr Rees on this issue. It is clearly desirable to prevent local authorities from securing extra funds outside Government control through devices of the kind operated by Liverpool. It may be sufficient to invite Mr Jenkin and Mr Rees to arrange for further study of the most convenient way of achieving the desired objective, and to report back in due course. It seems unlikely that further collective discussion of the problem will be required; subject to agreement on the detail, this discussion would constitute sufficient policy authority for the preparation of the necessary clauses for inclusion in next Session's Local Government Bill.

HANDLING

7. It may be convenient to divide the discussion into two parts, and start with the treatment of accumulated unspent capital receipts, on which the Chief Secretary, Treasury and the Secretary of State for the Environment could be invited to state their cases. (You may, however, feel that the politics of the situation



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are so clear that you would wish to state your own position at the outset). You will then wish to establish the sense of the Committee on the possibility of legislation on the lines proposed by the Chief Secretary, Treasury. On mortgage refinancing, the main protagonists might again be invited to state their positions; in view of the extent of agreement on substance, there is probably no need for an extended discussion.

#### CONCLUSIONS

8. You will wish to reach conclusions on:

(i) Whether or not provisions should be included in the forthcoming Local Government Bill to restrict local authorities' use of their accumulated unspent capital receipts.

(ii) Whether or not provisions should be included in the same Bill to prevent local authorities from securing additional funds by mortgage refinancing devices which do not involve the transfer of risk to a new lending institution.

J B UNWIN  
Cabinet Office  
28 June, 1985

→ 90L

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Note of a meeting in the Lord President's room,  
House of Lords at 3.45 p.m. Thursday 27 June 1985

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RATE SUPPORT GRANT SETTLEMENT 1986/87: ENGLAND

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Present:

Lord President of the Council  
Chancellor of the Exchequer  
Secretary of State for Education and Science  
Secretary of State for the Environment  
Chief Secretary, Treasury  
Minister for Local Government

Mr Brearley (Cabinet Office) and Miss MacNaughton were also present.

The meeting considered the major components of the Rate Support Grant (RSG) Settlement for 1986/87: the level of provision for local authority current expenditure to be announced; the level and percentage of Aggregate Exchequer Grant (AEG) and whether or not targets should be retained. They had before them a letter of 26 June from the Secretary of State for the Environment to the Lord President to which were attached the exemplifications of settlement packages requested by the meeting the Prime Minister had chaired on 25 June.

In discussion the following main points were made:

(a) Since the meeting on 25 June it had become clear that holding the percentage of AEG constant at 48.7% of total relevant expenditure would require an increase of some £450 million over provision for 1985/86. So large an increase could not realistically be contemplated. Nor did it appear to be necessary in order to secure low increases in rate poundages. Provision of £11,764 million, which would be the same in cash terms as provision for 1985/86 would reduce the grant percentage to just under 47%. It would not, however, have an unduly adverse effect on rate poundages and could readily be defended. A higher figure could <sup>arguably</sup> ~~equally~~ give too relaxed an expenditure

signal to local authorities.

(b) Because some authorities were spending above targets some £550 million of grant was being held back in the present year. There was therefore a case for saying that cash standstill provision in 1986/87 should be set at about £11,214 million. However, holdback was not taken into account in public references to the grant percentage and a figure based on it could not be defended publicly.

(c) There could be no absolute certainty about whether a regime with targets would be more successful in delivering any particular level of expenditure than one without targets. It was therefore necessary to balance the concern that some Ministers had that expenditure would be higher with a without-targets regime against the difficulties foreseen in and as a result of setting targets for the successor authorities to the Greater London Council and Metropolitan County Councils. Considerable importance must be attached to the risk of targets leading to high rates in the successor authorities which would necessarily reflect badly on the policy of abolition.

(d) Advantage had been seen at the Prime Minister's meeting in announcing a figure for local authority current expenditure which represented a cash standstill on expected expenditure in 1985/86. Such a figure would be about £450 million higher than the provision for 1986/87 in the 1985 Public Expenditure White Paper. It would, however, necessitate a  $4\frac{1}{2}\%$  real terms cut in expenditure, a level of reduction which had never been achieved in a single year and would not be credible. Furthermore it was almost certainly impossible to reconcile such a figure with the Education provision implied by the White Paper "Better Schools" or with the provision which would be necessary for the Police.

(e) On the other hand, it should be recognised that the figure under discussion was essentially a signal to local authorities about what was expected from them. Their actual expenditure was certain to be higher than any figure that was chosen, but the lower the signal, the lower the outturn could reasonably be expected to be.

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THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the need was for a set of decisions on expenditure, grant and targets which would give the right expenditure signals to local authorities without requiring high rate increases. After much discussion it had been agreed that the best settlement to this end would be to provide for an uplift of £500 million in the PEWP provision for local authority current expenditure in 1986/87, to hold Aggregate Exchequer Grant at its 1985/86 cash level (£11,764 million), and to abandon targets. Although the figure for expenditure was seen as a signal, and expenditure in the event was likely to be in excess of it, the question of whether the figure could be presented as being compatible with essential additional expenditure on Education and the Police would need further examination; and officials of the Treasury, DOE, DES and the Home Office should undertake this urgently. Any extra provision that might be agreed subsequently in order to reach a settlement on Teachers pay would, however, be additional to the £500 million uplift now agreed. He would report the outcome of their discussions to the Prime Minister and other colleagues.

Cabinet Office  
28 June 1985

[Mr. Malcolm Bruce]

misleading statement of the Prime Minister this afternoon? She implied that the Gordon barracks in my constituency have been reprieved. The barracks has been reprieved only as a TA base, not as a training centre.

Will not the Leader of the House acknowledge that we need a debate because of the Ministry of Defence's argument that the reason for the closure of both barracks is that there are insufficient recruits in Scotland and Wales to sustain them? Scotland has twice as many recruits as Wales, yet the Government have not reprieved the Bridge of Don barracks in my constituency. Will the Leader of the House acknowledge that the only way that I can save it is to run under a bus, if there are any left after the Transport Bill becomes an Act?

**Mr. Biffen:** I will not respond to the invitation to comment upon the hon. Gentleman running under a bus, but his point is a particularly suitable one for him to try his luck in the Ballot for the Adjournment.

## Rate Support Grant (Scotland)

4.1 pm

**The Secretary of State for Scotland (Mr. George Younger):** With permission, Mr. Speaker, I shall make an announcement about local authority expenditure and rate support grant in Scotland.

Scottish local authorities are planning expenditure in 1985-86 which is some £91 million or 3.2 per cent. above the guidelines that I issued to them. When I met the Convention of Scottish Local Authorities on 24 June, I said that I was disappointed that despite my warnings that grant penalties would be more severe than last year, local authorities continue to plan for significant overspending. The total of local authority budgets is still above the 1984-85 outturn in real terms and is 1.8 per cent. above expenditure in 1978-79. Given the continued overspending, I have decided that for 1985-86 the total penalty would be £126 million. I will lay the necessary Rate Support Grant Order shortly and grant reductions will start on 10 July. I have today placed in the Library a paper showing how the abatement will affect each local authority, and letters of notification to them are being posted today. The penalties are on a tariff which starts at a grant loss of 70 per cent. of overspend, rising to a grant loss of 90 per cent. of overspend for a 1 per cent. excess over guideline and 110 per cent. for a 2 per cent. excess. At 2.5 per cent. the rate of penalty is 120 per cent. and then steepens to 140 per cent. at 3 per cent. and 170 per cent. at 3.5 per cent. excess and above.

While these severe penalties have been necessitated by the continued overspending of some local authorities, no authority which is planning to spend at guideline will suffer a penalty, and I am glad to see that this year 30 local authorities will avoid penalties by budgeting within guidelines. I very much hope that the remaining authorities will reduce their expenditure to guideline and thus eliminate their penalties, to the benefit of their ratepayers when penalties are recalculated at outturn.

When I announced the penalties for 1984-85 I said that, in response to representations from the Convention, penalties would be adjusted in the light of outturn to give incentives to authorities to respond to the grant abatement. Authorities bringing their expenditure within guidelines would have their penalties cancelled. Those reducing their overspending would have their penalties reduced. When I met the Convention on 29 April it asked that this adjustment should first be made on the basis of provisional outturn. When I saw the Convention on 24 June, I told it that I was able to agree to this suggestion. An initial adjustment of penalties on the basis of provisional outturn will be made for the first time in Scotland this year. The 1984-85 penalties will be further adjusted in the light of audited final outturn about January.

I am glad to see that 13 authorities subject to penalty on their 1984-85 budgets have brought their expenditure within guideline at provisional outturn and will have their penalty cancelled unless final outturn figures show them to be above guideline. The repayment of penalties will obviously be of benefit to ratepayers. Most other authorities subject to penalty have reduced their expenditure and will have some repayment of penalty under the new arrangements introduced last year. I am sorry to say that nine authorities have increased their spending and will have increased penalties. The total



amount of penalties to be repaid in respect of 1984-85 is £29 million. Overspend for 1984-85 is still—at £77 million—too high.

There is no need for authorities to lose grant and it is in the interests of their ratepayers to spend at guideline. I hope those who have not budgeted at guideline for 1985-86 will bring their expenditure to guideline at outturn.

**Mr. Donald Dewar** (Glasgow, Garscadden): It is sometimes easy to lose sight of the enormity of what the right hon. Gentleman is doing in the welter of detail that he provides. Last year the excess over guidelines was £114 million and penalty £90 million. This year the excess is £91 million—a very considerable improvement according to the terms of reference of the right hon. Gentleman—but the penalty is to be £126 million. Even if we exclude Edinburgh, where there are complicating factors, the excess is £74 million and the penalty will be £117 million.

Can the right hon. Gentleman say why, for the first time, he has thought it necessary to impose what can only be described as punitive fines, which are based neither on justice nor on logic? There is no pretence that the Secretary of State is trying to ensure that the guidelines are met. It is a vendetta, with stinging penalties for any local authority that does not bow the knee to his personal diktat. How does he justify this when local authority budgets between 1984-85 and 1985-86 increased by only 4 per cent., which is well below the rate of inflation? Will he tell the House whether the comparable abatement in England and Wales for 1985-86 will be weighted in a similar way, with a clawback of more than £1 in the pound, or whether this is a particular form of torture that he has devised for Scottish local democracy?

Has the right hon. Gentleman considered the impact upon individual local authorities? For example, in Strathclyde the excess over guidelines in 1984-85 was £50 million and the penalty £38.5 million. This year the Strathclyde excess will be £41 million—£9 million less than last year—but the penalty will be increased from £38.5 million to £67.5 million, the equivalent of 5p on the rates. According to my calculations, the penalty is 165 per cent. of the excess over guidelines. Even if there were merit in the guidelines, which is a matter of considerable controversy, there is no case for imposing an additional penalty of this kind. Can the right hon. Gentleman say why the hard-pressed councillors of Strathclyde should be expected to make a saving of this kind in this financial year? How many teachers does he think will have to go to the wall, how many home helps, how many occupational therapists—

**Mr. Albert McQuarrie** (Banff and Buchan): And social workers.

**Mr. Dewar:** Yes, and social workers. Unlike the hon. Member for Banff and Buchan (Mr. McQuarrie), I do not think that the term "social workers" is an insult. They do a useful job. An authority such as Strathclyde cannot find £67 million at the fag end of the year. This announcement will result in an unreasonable and unreasoning butchery of local government services.

Last year the excess in Central region was £4 million and the penalty £3 million. This year the excess is slightly down—about £4 million—but instead of £3 million the penalty will be £7 million. Does the right hon. Gentleman

expect to be thanked by his political allies in Lothian region, which in 1985-86 has an excess over guidelines of £7.5 million and which will be asked to pay a penalty of £8.8 million? In other words, Lothian region will be brought below the already completely inadequate guidelines that have been set by the Secretary of State. Lothian is not unique. Tayside is in exactly the same position.

What about some of the hideous complexities that will now face Edinburgh district council? The right hon. Gentleman seems determined to throw everything at the situation, including the kitchen sink—[HON. MEMBERS: "Too long."] Will he confirm that Edinburgh will be deprived of the entire needs element of its rate support grant settlement? Even if it meets his demands—because of the right hon. Gentleman's allegation that its spending is excessive and unreasonable—and makes cuts of £16.3 million, it will still be faced with more than £1 million in penalties as a result of this announcement.

Does the right hon. Gentleman accept, as any fair-minded person would, that his announcement is a recipe for chaos and that he is deliberately creating confrontation while at the same time parading around Scotland lamenting and complaining about the very crisis for which he is largely responsible? Even now, at this late date, will not he make some contribution to settling a difficult and dangerous situation by abandoning what amounts to no more than a pointless and punitive campaign against local democracy in Scotland?

**Mr. Younger:** To hear the hon. Gentleman, one would think that all this was complete news to him. But he knows perfectly well that last year the huge gap between what local authorities were planning to spend and our provision was met half way by an extra £98 million that was found by the Government. At that time I clearly said that, as part of that, the penalties would be much more severe this year. What is more, I have said that every time I have met the local authorities and I have also said it in public. Therefore, no one should be surprised that the penalties are much more severe.

The hon. Gentleman described the penalties as fines. That is not correct, because authorities can get this money back by bringing their spending down at outturn. Indeed, quite a number of authorities that suffered penalties last year have now got some money back. That will either reduce the net effect of these penalties or in some cases will wipe them out altogether. In England and Wales, the reverse of what the hon. Gentleman said is the case. The highest levels of penalties in England and Wales are far higher than in Scotland. The highest is 300 per cent. of overspend, which is much more severe.

The penalty for Strathclyde is large because it is a large authority with large expenditure. Although the penalty is up this year, that masks the fact that Strathclyde will get some money back from the penalty that it was scheduled to pay last year because it has brought its expenditure down at outturn. It is not all that difficult for Strathclyde, but I accept that it is not easy.

As to the time of the year, the hon. Gentleman might have mentioned the fact that we have managed to make the announcement considerably earlier. Last year's announcement was made well into July. I hope that this earlier announcement will be helpful.

Edinburgh is in a unique situation. I confirm what the hon. Gentleman said, that as things are going at the

[Mr. Younger]

moment Edinburgh will come out of grant altogether. But it will get that back if it brings its spending down to anywhere near guidelines. I have merely asked Edinburgh to go 3 per cent. above guidelines in the order that I propose to bring forward. But it is interesting to note that such are Edinburgh's extraordinary spending plans that, had the penalty been 60 per cent. rather than the higher figures I have mentioned, it would still have lost rate support grant this year, given its planned level of overspending. Edinburgh is in a totally different situation, and I urge everyone in Edinburgh to think again before they do real damage to the city.

Several Hon. Members *rose*—

**Mr. Speaker:** Order. I must bear in mind that this is an Opposition Day. A large number of hon. and right hon. Members wish to take part in the subsequent debates, and there is also an application under Standing Order No. 10. I am anxious that questions on this statement do not continue much beyond 4.30 pm. Questions should therefore be brief.

**Sir Hector Monro (Dumfries):** Will my right hon. Friend accept that he is absolutely right to implement the grave warnings that he has given over many years? Does he also agree that some local authorities, such as Dumfries and Galloway, have, through prudent budgeting, kept within the guidelines and deserve credit for doing so? In next year's formula will he consider some incentive for those authorities that have kept within guidelines this year so that they benefit from their prudence?

**Mr. Younger:** I am very grateful to my hon. Friend. It is worth pointing out that even those authorities that have kept within guidelines have had to work extraordinarily hard and have had to make very difficult decisions to do so. I hope that they will be duly regarded for the contribution that they have made. We shall be looking at ways of ensuring that they are not penalised for their care and responsibility.

**Mr. Bruce Millan (Glasgow, Govan):** Are not these outrageous penalties just another part of this dishonest charade that we have had from the Government every year? They have laid down completely unrealistic guidelines and have pretended that they can be reached, when the Secretary of State well knows that they cannot. They have now come forward with these penalties that are a burden on the ratepayer. Will the right hon. Gentleman stop talking about penalties on local authorities, because these are penalties on rates and services? They expose the hypocrisy of the Secretary of State posing as a friend of the ratepayer. He provided an ostensible £50 million of relief for domestic and commercial ratepayers, reduced that to £30 million, and, as a result of this announcement, has taken away £100 million more than he is giving in the current year.

**Mr. Younger:** The right hon. Gentleman is quite wrong. It is extraordinary that he should say that guidelines cannot be reached when 30 Scottish local authorities are now planning to do just that. He might also note that the guidelines are in some cases above the needs assessment. As for a charade, he will recall that when he imposed penalty, it was completely unfair and bore no

relation whatever to the amount of overspend by particular authorities. That we have put right, and now the penalty at least bears a fair relationship to overspend.

**Lord James Douglas-Hamilton (Edinburgh, West):** Was not the Edinburgh district council Labour group fully warned about the consequences of its actions? Much more important, will my right hon. Friend strongly emphasise to those Labour councillors that if they reduce spending to within guidelines they will again be entitled to grant?

**Mr. Younger:** I certainly confirm what my hon. Friend has said. Edinburgh's course is beyond understanding, particularly when it has been asked to achieve a figure that is quite a long way above guidelines. Edinburgh is being treated very well.

**Mr. Donald Stewart (Western Isles):** Is the right hon. Gentleman aware that the so-called guidelines are simply his arbitrary figures so that he can act in accordance with Treasury diktat? Is he aware that any kudos he received for the £50 million repayment, later massaged to £30 million, will disappear when the ratepayers feel the effect of this massive piece of political chicanery?

**Mr. Younger:** The right hon. Gentleman might have been well advised to wait until he saw the figures, when he will find that the Western Isles does rather better out of this change than he might have thought.

**Mr. John Maxton (Glasgow, Cathcart):** Exactly how many local government jobs does the right hon. Gentleman expect to be lost as a result of his announcement? Does he not agree that the local authorities he is penalising have a much better mandate than he has to govern the people of Scotland?

**Mr. Younger:** I do not expect that this will lose nearly as many jobs as would be lost if spending were allowed to get out of control. That is what I am trying to prevent.

**Mr. Nicholas Fairbairn (Perth and Kinross):** Will my right hon. Friend accept my congratulations on fulfilling the punishment of extravagant sinners, but will he remember that forgiveness is also part of the treatment of sinners? One of my sparse virtues is an ability to understand the English language. I understand what an assessed need is, but not what a guideline is. It is absurd that a frugal council such as Perth and Kinross should have a guideline that is £1.2 million below what the Scottish Office has assessed as its need, whereas in extravagant Edinburgh the guideline is 10 per cent. above assessed need. Cannot we change such a mad system?

**Mr. Younger:** I appreciate what my hon. and learned Friend has said. As I have told him, we are looking hard to see whether we can get a more accurate calculation of guideline in the future. I sympathise with him on that point. I agree with what he said about the repentance of sinners, but they must repent before one can forgive them.

**Mr. Norman Buchan (Paisley, South):** Surely nothing extravagant has been done by any of these authorities. Much of what they have done has been caused by the duties imposed on them by central Government and the central Government cuts from which they have suffered. How much longer will we see our urban services in particular run down under this Government? What will happen to the marvellous and massive private housing improvement in Glasgow, for example, which has now stopped in mid-stream as a result of these punitive

measures. This is part of the problem facing local authorities, and the Government will go down in shame for having halted these things.

**Mr. Younger:** The hon. Gentleman is quite mistaken in thinking that there is any effect whatsoever on housing improvement in Glasgow. That comes under the Housing Corporation, which has been very generously funded by the Government. As to the statement that none of these authorities has indulged in any extravagance, the credibility of the people of Edinburgh will be stretched beyond belief if they read that the hon. Gentleman has said that.

**Mr. Albert McQuarrie** (Banff and Buchan): I congratulate my right hon. Friend on the method that he has adopted to ensure that the high-spending authorities are penalised when levying these undue charges against the ratepayers. Will my right hon. Friend accept, however, that rural areas and places such as Banff and Buchan district council and Grampian regional council have found it difficult to keep to his guidelines, but nevertheless have endeavoured to do so? I sincerely hope that the work that they have put in will be found to be of benefit when they realise what local authorities will enjoy in abatement.

**Mr. Younger:** My hon. Friend is absolutely correct in that. Indeed, he is being unduly modest because he will find, when he sees the figures, that not only is Grampian within guidelines and has no penalty, but Banff and Buchan has some money back from the penalty that it would have had to pay last year because it has got its spending within guidelines.

**Mr. Robert Hughes** (Aberdeen, North): Surely the Secretary of State is aware that there is not a single local authority in Scotland that believes his guidelines are fair and provide the kind of finance needed for a local authority to supply services to ratepayers. Not even Grampian regional council, or Banff and Buchan district council, has a good word to say about the guidelines. Will he not take that into account? Secondly, he seems to express some surprise that there should be outrage on the Opposition Benches because we knew that this statement was coming. I tell the right hon. Gentleman that somebody who is sentenced to be hanged knows that capital punishment is coming, but that does not make it any the more palatable when it finally arrives.

**Mr. Younger:** I should have thought then, with that last point in mind, that such a person would not commit the crime in the first place if he could avoid it.

Aberdeen still has some penalty to pay, but the hon. Gentleman may be reassured to know that it will be getting back some of the penalties that it incurred last year because it got its spending down nearer to guidelines.

**Mr. Michael Forsyth** (Stirling): Does my right hon. Friend not agree that, if there is any hypocrisy in this matter, it lies with those Socialist councils in Scotland that are bleating about having to cut services because of cuts in rate support grant which they have brought on themselves by having chosen to spend millions of pounds on supporting striking miners, giving money to CND, sending councillors on trips to eastern Europe and elsewhere and many other extravagances, in the sure and certain knowledge that not only would the ratepayers have to pay but they would lose grant and incur penalties as a result?

**Mr. Younger:** Yes, I certainly agree that some of the things on which such councils as Stirling are spending money are almost beyond belief. My hon. Friend will agree with me, I am sure, that, while these authorities seem to enjoy putting on the crown of the great overspenders, they do not like it when there is some penalty as a result. They should realise that one goes with the other.

**Mr. Norman Hogg** (Cumbernauld and Kilsyth): I understood the Secretary of State to say in reply to my hon. Friend the Member for Glasgow, Garscadden (Mr. Dewar) that relevant expenditure was to be increased by £98 million. Surely this does not meet inflation, and, since local authority expenditure has risen by only 4 per cent., it represents a cut in real terms?

**Mr. Younger:** That is not quite the point that I was making. I was saying that there was initially a gap of about £200 million last year. I moved just about halfway to make it easier for local authorities. In return, I expected them to do better, and I warned them that there would be severe penalties. The hon. Gentleman may be pleased to know, however, that his local authority will get some benefit from the changes in the order.

**Mr. Gerald Malone** (Aberdeen, South): I am grateful to my right hon. Friend for announcing earlier that Aberdeen district council would get a refund of penalty on 1984-85. Is that not the best possible incentive for it to remain within guidelines this year and to make every effort to ensure that its expenditure is reasonable?

**Mr. Younger:** My hon. Friend is absolutely right to say that it is a tremendous incentive. It compares very much with the previous system, which meant that authorities got completely indiscriminate penalties related only to their proportion of rate support grant, which often bore no relation to the amount of overspending that they had incurred.

**Mr. Robert MacLennan** (Caithness and Sutherland): Is it not the case, whether or not local authorities in Scotland have met their guidelines, that they are virtually united in regarding the system of guidelines and penalties as being operated with gross unfairness? Is it not also the case that, after six years as Secretary of State, the right hon. Gentleman has wholly failed to protect ratepayers from overspending local authorities, has failed to promote local accountability and has failed to develop a system that is comprehensible to anyone?

**Mr. Younger:** I have been used for years to the "On the one hand, on the other hand" speeches of the SDP, but to call for freedom for local authorities to spend what they like and then to criticise me for not curbing overspenders is beyond even me.

**Mr. Bill Walker** (Tayside, North): Does my right hon. Friend agree that the whole problem of local authority expenditure began way back, before the general election of 1979, when the compact that existed between local authorities and Government worked? It broke down during the winter of discontent in the late 1970s, and, sadly, the expenditure base from which the prudent authorities began under guidelines meant that, as the years went by, the prudent authorities found it much more difficult to maintain the guidelines. Those that have deserve rewards. I should have liked to have seen more rewards for those authorities that had been good and even steeper penalties

[Mr. Bill Walker]

for those that had been bad, because the fact is that being good has not been an adequate reward, and it is time that we got rid of the whole system.

**Mr. Younger:** I appreciate my hon. Friend's last point. It is desirable that those who have made the very difficult efforts necessary to keep within guidelines are rewarded. I think that the system now is very much fairer than it was. My hon. Friend is right in referring to this as a long-standing problem. I am afraid that the honour still falls to the Opposition, when in power, of having—in 1976—made the biggest ever cut in one year.

**Mr. David Lambie** (Cunninghame, South): As a Strathclyde Member of Parliament, I wish to add my protest to those of my right hon. and hon. Friends as this vicious attack on the ratepayers of Strathclyde. Is the right hon. Gentleman aware that Cunninghame district is the unemployment black spot in the United Kingdom, with every third man unemployed? Is the Secretary of State further aware that Cunninghame district council is known as a responsible authority, one which not only carries out good housekeeping now but has done so in the past? Why should we suffer further when we have done well in Cunninghame and have tried to keep to the Government's guidelines? Why should we be penalised?

**Mr. Younger:** I do not always agree with the hon. Gentleman or with Cunninghame district council, but in this case it has had a much fairer deal because on this occasion it is getting back some money and is a net gainer from these changes.

**Mrs. Anna McCurley** (Renfrew, West and Inverclyde): Does not my right hon. Friend think that it is time to consider a new system which prevents this annual wrangling of an auction every year and makes it very difficult for councils to organise their budgets, particularly when the budgets are affected halfway through the year?

**Mr. Younger:** My hon. Friend is absolutely right to say that making these changes in the middle of the year is extremely difficult. That is why I have been pressing local authorities to do this much earlier—in fact, long before the year starts. Some of them did so and some of them did not. My hon. Friend will be glad to know, however, that Inverclyde council is one that will be getting back some penalty as a result of the savings that it has made.

**Mr. Gavin Strang** (Edinburgh, East): Is the Secretary of State aware that the brutal cut he is trying to impose on Edinburgh amounts to an attempt to make a complete mockery of the decision of the Edinburgh people to elect a Labour council, and will do real damage to the level of services and to housing provision in Edinburgh? Will he admit that the 15.7p rate that he is trying to impose on Edinburgh is precisely the rate that was moved unsuccessfully by the minority Tory group last March, and that he has made no attempt to acknowledge the successful 22.7p rate moved by the majority Labour council?

**Mr. Younger:** The hon. Gentleman must know, as does everyone on Edinburgh council, that the council has deliberately and openly—it has been quite honest about it—set out to bust every one of the rules and regulations governing dealings between central and local government.

If it does that, it must expect the normal methods to be used. I hope that, in the interests of the ratepayers of Edinburgh, it will now get its spending down. After all, all that I am asking it to do is to cover the huge growth in spending which it has instigated. There is no question of ordinary services being affected.

**Mr. James Hamilton** (Motherwell, North): Does the right hon. Gentleman recognise that my district council is operating within the guidelines? However, that does not deter the council from stating that this is the worst Government in history when it comes to looking after the interests of local government. Will the right hon. Gentleman take cognisance of the fact that, if Strathclyde works within the guidelines, there will be serious cuts in social services? Because of the clawback that will be imposed on the council, the right hon. Gentleman will not be able to fulfil his promise on Tuesday that the teachers would be taken care of with an increase in rate support grant.

**Mr. Younger:** I appreciate what the hon. Gentleman says about his local district authority. I applaud the council for coping with its difficult task in operating within the guidelines. Of course, it is not easy for a large authority like Strathclyde district council to get its spending quickly down to the guidelines. However, I have urged the council to do so for six years. If the council had started to act earlier, it would have found it much easier to get within the guidelines.

**Mr. Malcolm Bruce** (Gordon): Will the right hon. Gentleman accept that my colleagues and I do not approve of or support Socialist councillors accused of breaking the law, even though we may disagree with the Government's choice of guidelines? We believe that the position in Edinburgh warrants some flexibility from the right hon. Gentleman, and not law-breaking by the council. Will the right hon. Gentleman acknowledge that, following the rates debacle last month, the Scottish people know how much the Government are responsible for forcing up rates? They will see this decision as a further move by the Government to force up rates and consequently to cut services next year. In those circumstances, will the right hon. Gentleman undertake to ensure that the £126 million penalty which he is now clawing back will be handed back directly to Scottish ratepayers?

**Mr. Younger:** I am grateful to the hon. Gentleman for his clear statement about giving no support to law-breaking. I hope that that statement will be noted in all quarters. However, the hon. Gentleman's remarks about overspending were quite off beam. I thought that he would have been thoroughly pleased that his district local authority and regional local authority have avoided any penalty. Surely he must feel therefore, that this penalty system is much fairer than the one that operated before the Conservative party came to power.

**Dr. Norman A. Godman** (Greenock and Port Glasgow): I am pleased to hear the right hon. Gentleman's positive reference to Inverclyde district council. Has he calculated the number of teachers' jobs that may disappear because of these penalties and other proposed cuts?

**Mr. Younger:** It is for the local authorities to decide the details of the cuts. The provision that the Government have made allows, in general, local authorities to provide teachers up to full Red Book standard, plus an extra 6 per

cent. to allow for curriculum development. If local authorities are already employing many more than that, they may have to reduce the numbers to make some savings. The provision is certainly perfectly adequate.

**Mr. Fairbairn:** On a point of order, Mr. Speaker. The documents that the Secretary of State promised the House would be in the Library are not available. It is difficult for Back Benchers to frame their questions when the information about which they are either going to cheer or complain is not available.

**Mr. Younger:** Further to that point of order, Mr. Speaker. If that is the case, I shall look into it at once and make sure that hon. Members get that information as quickly as possible.

**Mr. Millan:** Further to the point of order, Mr. Speaker. Is this procedure not an abuse of the House? The Front Bench at least should have these details instead of having to rely upon details in the Library. The Secretary of State has information that is denied to the rest of the House. This information is not included in the statement.

**Mr. Robert Hughes:** Further to that point of order, Mr. Speaker. The Secretary of State has refused to answer any supplementary questions. He has simply looked up the figures and said that "the hon. Gentleman" or "the hon. Lady may be pleased to know" that his or her authority has received some sort of benefit. If the right hon. Gentleman is going to abuse the provisions of a statement in this way, he should at least ensure that a copy is available, not only in the Library but in the Vote Office, so that hon. Members may study the figures and have a sensible question and answer exchange.

**Dr. Godman:** Further to the point of order, Mr. Speaker.

**Mr. Speaker:** Order. I want to call the Front Bench soon.

**Dr. Godman:** The problems faced by Back Benchers in these circumstances are worsened by this lack of information, especially when figures and percentages are bandied about between the two Front Benches. Back Benchers are in a difficult enough position. They should be provided with the information that is necessary for them to ask good questions.

**Mr. Speaker:** Order. The hon. Member's point rings a chord with me, but this is not my responsibility. The Secretary of State is responsible for placing papers in the Library.

**Mr. Jim Craigen** (Glasgow, Maryhill): As this Front Bench speaker does not have the detailed abatement figures either, I ask the Secretary of State to spell out some of the details concerning certain authorities, because hon. Members are faced with great difficulties when their authorities are affected and they do not have full details.

Why, when the total budget is to increase by less than the rate of inflation, does the right hon. Gentleman propose to unleash this chaos on Scottish local government? The right hon. Gentleman has not yet given details of the staffing cuts that will be necessary for the remainder of the current year to fulfil the proposed guidelines. Has Edinburgh already received £2.5 million of the needs element in RSG? Does the right hon. Gentleman propose taking that money away from the council? If so, how will he do it? Why is the right hon. Gentleman conducting this frenzied attack on Scottish local authorities, the ratepayers and the services that are provided in these areas? Why does he continue to give us these bland assurances that he has the interests of Scotland's ratepayers at heart when, in fact, COSLA representatives must have given him a roasting the other day when he met them? Perhaps the Secretary of State would like to tell us what the COSLA representatives said this morning when he consulted them about these outrageous proposals.

**Mr. Younger:** Talking about strange roles, the hon. Gentleman's role as the supporter of ratepayers is pretty odd in view of the fact that he is a greater supporter of overspending councils than anyone.

I gave instructions that the information should be made available in the Library, which was asked to release the information. I shall of course look into the matter. I very much regret any shortcoming in the provision of information for hon. Members.

The proposed spending for the coming year is not increasing as much as the probable rate of inflation, but the spending must be related to what the country can afford. If that is not done, worse things might befall us. No business or family anywhere in Britain has a guarantee that what it spends next year will be fully uprated for inflation. The public sector cannot be guaranteed in that way.

An over-provision had already been made to Edinburgh, and we are considering the best way to rectify that position.

NBRM  
AT CCAD  
27/6



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

27 June 1985

Dear Nick,

NEW BURDENS ON LOCAL GOVERNMENT

Thank you for your further letter of 13 June.

I resisted your earlier suggestion that there should be official-level discussions on the list of new burdens because of the danger that this could so easily turn into a wrangle over detailed drafting or presentational points. This would not only be unproductive; it would change the whole nature and purpose of the exercise.

On reflection, however, I am prepared to accept that we should seek to eliminate mistakes or repair omissions before Ministers become involved in the exercise. I propose, therefore, that the draft list should be circulated at official level, say, 7 days before I write to colleagues. This should give sufficient time to identify any basic errors and will, I hope, meet your point.

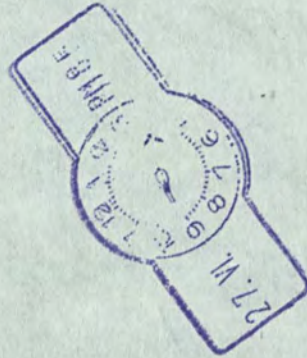
Copies go as before.

*Patrick Jenkin*  
Patrick

PATRICK JENKIN

Local Govt Birt 27

Relating



Ld Pres  
Home Sec  
DES  
DOE  
LPS

DHSS  
CST  
Att Gen  
M/S Local Govt DOE

File  
85



10 DOWNING STREET

From the Private Secretary

27 June 1985

Dear John.

MISC 109: EDINBURGH

The Prime Minister has seen your Secretary of State's minute of 26 June and has noted the action he proposes to take in relation to Edinburgh. She agrees that, in view of the possible interaction between the situations in Edinburgh, Liverpool and Lambeth, the Scottish Office should where necessary be represented at meetings of MISC 109.

I am copying this letter to the Private Secretaries to Members of MISC 109, to Iain Jack (Lord Advocate's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

John Graham, Esq.,  
Scottish Office,



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K01165

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file

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8259

CONFIDENTIAL

A Turnbull Esq.,  
P/S No 10 Downing Street,  
London. SW1A.

26 June 1985

Dear Andrew,

RSG SETTLEMENT 1986/87

I attach a note of the meeting the Prime Minister held yesterday on this subject.

Copies go to the private secretaries to the Chancellor of the Exchequer, members of E(LA), the Chief Whip, the Minister for Local Government, and the Paymaster General, and to Richard Hatfield.

Yours ever  
Chris

C J S BREARLEY

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Note of a meeting in the Prime Minister's Room,  
House of Commons at 5.30 p.m. Tuesday 25 June 1985

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RATE SUPPORT GRANT SETTLEMENT 1986/87: ENGLAND

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Present:

Prime Minister  
Lord President of the Council  
Chancellor of the Exchequer  
Secretary of State for Education  
and Science  
Secretary of State for the Environment  
Chief Secretary, Treasury  
Minister for Local Government

Mr Brearley (Cabinet Office), Mr Butler, Mr Turnbull and Mr Letwin were also present.

The meeting considered a minute of 24 June from the Lord President of the Council to the Prime Minister reporting on the discussions in the Ministerial Sub-Committee on Local Authority Expenditure (E(LA)) and separately under his chairmanship on the major elements of the English rate support grant settlement for 1986/87. The issues for decision were whether or not targets should be retained as a control on local authority spending, the overall provision for current expenditure by local authorities in 1986/87, and the level of Aggregate Exchequer Grant (AEG) in that year. A judgement on what would be an acceptable level of increase in rate poundages was relevant to these issues.

In discussion the following main points were made -

- (a) Local authority rates were a matter of great concern and it would be wrong for the Government to pursue policies on expenditure provision or the level of AEG which would have

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the effect of increasing them. This was especially so in Greater London and the Metropolitan areas where it would not be understood if the apparent effects of the abolition of the Greater London Council (GLC) and the Metropolitan County Councils (MCCs) was an increase in rate poundages. These considerations pointed to holding expenditure provision down as far as possible, while not necessarily being unduly tough on AEG. On the face of it a given sum of money would have a greater proportionate impact if used, via AEG, to alleviate rate poundages rather than being spread more thinly to alleviate some element of central government taxation.

(b) The provision in the Government's Public Expenditure White Paper (PEWP) for local authority current expenditure relevant for rate support grant in 1985/86 was being exceeded. The latest estimate of out-turn was £22,203 million. A settlement that involved a lower level of expenditure in cash in 1986/87 would not be defensible. A settlement at cash standstill (4½% real terms cut) might, however, be defended. This would involve an increase of about £450 million in the provision for 1986/87 announced in the PEWP. Such an increase might, however, be too low to be realistic; so great a real-terms cut in local authority expenditure had never been achieved. Furthermore, the Secretary of State for Education and Science and the Home Secretary were looking for increases in provision for their own services of £600 million and £170 million respectively. Other service Ministers might also have claims to make. Such increases, could by no means be accommodated within a cash standstill.

(c) The level of AEG as a percentage of total relevant local government spending had been reduced very substantially since 1979 and now stood at 48.7%. Changes in AEG had only a small effect on expenditure but a much more direct effect on rate poundages. Even a cash standstill in AEG would reduce its percentage and have the effect of increasing rate poundages. There was therefore a

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strong case for holding AEG constant in percentage terms even though this would necessitate an increase in its cash level.

(d) It might not be necessary to increase AEG in order to secure low increases in rate poundages. Indeed with an increase in AEG the Government's intentions as to both public expenditure and rate poundages could be at risk as authorities could spend more without increasing rate poundages beyond what they thought would be acceptable to their ratepayers.

(e) What would happen would depend on the effectiveness of the block grant mechanisms, whether with or without targets and holdback. There was a strong case for abandoning targets because of the difficulties in and as a result of setting targets for the successor authorities to the GLC and MCCs. There was also a high risk of expenditure being higher than predicted with the so-called Grant Related Expenditure (GRE) exemption as authorities were likely to increase expenditure towards GRE in order to safeguard their position for future years. The block grant mechanisms, without targets, would impose a severe regime, while the highest spenders would be rate-capped. On the other hand the risk of retaining targets might be over-stated, and there were also grave doubts as how effective targetless regimes would be; particularly for relatively low levels of increase in current expenditure and relatively high levels of AEG.

(f) Final decisions, especially on targets, were now needed extremely urgently if a statement was to be made before the recess.

THE PRIME MINISTER, summing up the discussion, said that, if possible, the twin objectives of low levels of increase in public expenditure and low levels of increase in rate poundages should be met. A cash standstill in local authority current expenditure as between 1985/86 and 1986/87 (an increase of about £450 million over present provision for 1986/87 in the PEWP) would be defensible. There were also attractions in an un-

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changed percentage for AEG. Finally there were persuasive reasons for seeking to abandon targets. Because some new considerations had been introduced, the full implications of packages reflecting these views needed to be considered before final decisions could be taken. The Secretary of State for the Environment should therefore arrange for exemplifications to be circulated to those present for discussion, under the chairmanship of the Lord President of the Council, later in the week.

Cabinet Office  
26 June 1985

Q10



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*File*

*CCOL*

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

26 June 1985

*Dear Lord President*

RSG SETTLEMENT 1986/87

At our meeting with the Prime Minister yesterday evening, I was asked to illustrate £450 million packages with and without targets, keeping the 1985/86 AEG percentage.

We thought then that keeping the same grant percentage would add £235 million to AEG. In fact that would make it 47.8% of estimated relevant expenditure. If we are to keep the 1985/86 percentage figure, 48.7%, we should need to increase AEG by £454 million. To avoid confusion I show the effect of both AEG figures in the exemplifications.

I enclose tables illustrating the packages in the same way as I have illustrated earlier packages. We are to meet tomorrow to discuss them.

I am copying this to the Prime Minister, Nigel Lawson, Peter Rees and Keith Joseph, and to Sir Robert Armstrong.

*Yours sincerely*

*P. Jenkin*  
PATRICK JENKIN

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

The Lord President

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DETAILS OF PACKAGES

ANNEX 1

	AEG + £235m (47.8%)		AEG + £454m (48.7%)	
	Package 450 without targets	Package 450T with targets	Package 450 without targets	Package 450T with targets
PREDICTIONS				
Predicted overspend on Cmnd 9428	£450m	£450m	£450m	£450m
**Predicted overspend if ½ headroom used	(£450m)	(£800m)	(£450m)	(£800m)
Real terms difference from 1985/86 total expenditure budgets				
***England	-1.5%	-1.5%	-1.5%	-1.5%
Shire districts	+0.9%	+4.6%	+1.0%	+4.6%
Shire counties	-0.6%	-0.5%	-0.7%	-0.6%
Met districts	-2.1%	-3.0%	-1.9%	-3.1%
Met counties	-1.3%	-2.2%	-1.3%	-2.2%
Inner London/ILEA	-4.1%	-4.2%	-4.1%	-4.1%
Outer London	-3.5%	-3.9%	-3.4%	-3.8%
GLC/Met Police	-3.2%	-3.4%	-3.2%	-3.4%
***Real terms difference from 1985/86 <u>current</u> expenditure budgets	4.5%	4.5%	4.5%	4.5%

\*\* Headroom is the difference between the total of targets or expenditure levels and predicted expenditure. In 1982/83 local authorities used about ⅓ of headroom.

\*\*\*Predicted real terms cuts in total expenditure understate the cuts implied for actual current expenditure on services because total expenditure in 1985/86 was depressed by one-off creative accounting devices, eg use of special funds. The predicted 1.5% real cut in total expenditure in England under package 450 is equivalent to a **4.5%** real cut in current expenditure; assuming 4½% inflation.

	AEG + £235m (47.8%)		AEG + £454m (48.7%)	
	Package 450 without targets	Package 450T with targets	Package 450 without targets	Package 450T with targets
<b>BLOCK GRANT ARRANGEMENTS</b>				
GREs change from 1985/86	4%	4%	4%	4%
Thresholds to taper	GRE + 5% & GRE + 10%	GRE + 5% GRE + 10%	GRE + 5% & GRE + 10%	GRE + 5% GRE + 10%
Slope below 1st threshold	1.15	1.05	1.15	1.05
between thresholds	1.3	1.15	1.3	1.15
above 2nd threshold	1.5	1.3	1.5	1.3
Safety nets	20p	25p	20p	25p
CAPS	£6m	£7m	£8m	£9m
<b>TARGET METHODOLOGY</b>				
Total of targets	-	£23428m	-	£23428m
***Targets are maximum of	-	GRE + 4% target + 3.75% budget - 1.5%	-	GRE + 4% target + 3.75% budget - 1.5%

\*\*\*1985/86 targets were target +3.75% for authorities spending above GRE and GRE +3.75% for the rest, subject to a minimum of budget -1½% and a maximum of budget +4½%.



## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
-----				
CLASS SUMMARY				
-----				
Shire districts	-2.6	2.0	-7.5	-3.7
Shire counties	4.9	4.1	-7	-1.2
Metropolitan districts	2.3	6.9	-3.7	-1.4
Metropolitan counties	4.7	11.5	-7.9	1.8
Inner London boroughs/ILEA	5.2	6.7	2.0	3.0
Outer London boroughs	2.3	8.5	-4.0	-3
GLC and Metropolitan Police	9.3	9.0	5.8	5.8
=====				
=====				
England	4.1	5.8	-1.2	-2
=====				

\* Is poundage change (%) if authority were to make a real terms standstill in its total expenditure.  
A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* Is poundage change (%) if authority were to make a 2% real terms cut in its total expenditure.  
A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES				
Avon	5	10	-0	-0
Bedfordshire	4	4	-2	-3
Berkshire	4	3	-2	-2
Buckinghamshire	4	3	-2	-3
Cambridgeshire	4	3	-2	-3
Cheshire	6	5	0	-0
Cleveland	5	13	-1	-0
Cornwall	2	-0	-4	-6
Cumbria	3	1	-2	-3
Derbyshire	6	5	0	-0
Devon	6	5	0	-0
Dorset	3	2	-2	-3
Durham	5	3	-1	-2
East Sussex	4	2	-2	-2
Essex	6	5	0	0
Gloucestershire	3	1	-3	-4
Hampshire	6	6	1	1
Hereford and Worcester	5	3	-1	-2
Hertfordshire	5	4	-0	-1
Humberside	6	5	1	0
Isle of Wight	-6	-4	-11	-8
Kent	7	6	1	1
Lancashire	8	7	2	2
Leicestershire	6	5	-0	-1
Lincolnshire	4	2	-2	-3
Norfolk	5	3	-1	-2
Northamptonshire	4	3	-2	-3
Northumberland	-0	-3	-5	-8
North Yorkshire	5	3	-1	-2
Nottinghamshire	6	5	0	-0
Oxfordshire	3	1	-2	-3
Shropshire	2	-1	-5	-6
Somerset	2	-0	-3	-5
Staffordshire	6	5	1	0
Suffolk	4	2	-2	-3
Surrey	4	3	-0	-1
Warwickshire	3	1	-2	-3
West Sussex	4	2	-2	-2
Wiltshire	4	1	-2	-4

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON				
City of London	4	4	3	3
Camden	5	5	2	2
Greenwich	12	16	7	10
Hackney	12	19	3	7
Hammersmith and Fulham	19	26	6	12
Islington	10	15	3	5
Kensington and Chelsea	-5	-1	-21	-15
Lambeth	5	13	-0	5
Lewisham	3	15	-3	6
Southwark	10	15	3	6
Tower Hamlets	13	17	7	10
Wandsworth	-26	-19	-44	-35
Westminster	4	4	3	3
Barking and Dagenham	10	16	3	6
Barnet	1	6	-5	-3
Bexley	2	6	-4	-2
Brent	3	16	-4	5
Bromley	-1	1	-7	-4
Croydon	1	-2	-6	-8
Ealing	1	5	-6	-4
Enfield	-1	6	-7	-6
Haringey	2	12	-3	3
Harrow	-0	10	-6	-3
Havering	5	8	-1	1
Hillingdon	8	13	2	3
Hounslow	0	12	-6	4
Kingston-upon-Thames	3	7	-3	-1
Merton	-5	-2	-12	-8
Newham	10	18	1	5
Redbridge	-3	-0	-9	-6
Richmond-upon-Thames	-2	8	-7	-3
Sutton	-2	0	-8	-5
Waltham Forest	11	14	4	8
GLC	10	10	8	8
ILEA	5	5	3	3
Met. Police	7	6	-0	-1

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>				
Bolton	-3	-5	-9	-10
Bury	2	6	-3	-1
Manchester	11	16	4	8
Oldham	-5	-6	-11	-11
Rochdale	0	13	-6	1
Salford	-2	7	-7	-5
Stockport	-2	0	-7	-4
Tameside	-4	9	-9	-3
Trafford	-2	0	-8	-5
Wigan	-0	8	-5	-4
<b>MERSEYSIDE</b>				
Knowsley	-3	11	-9	-2
Liverpool	5	16	-1	2
St Helens	2	6	-4	-2
Sefton	-2	-2	-7	-7
Wirral	1	-1	-5	-7
<b>SOUTH YORKSHIRE</b>				
Barnsley	5	9	-0	1
Doncaster	-1	11	-6	-1
Rotherham	-4	5	-9	-6
Sheffield	5	16	-1	5
<b>TYNE AND WEAR</b>				
Gateshead	9	11	3	4
Newcastle upon Tyne	1	14	-3	5
North Tyneside	5	16	-1	5
South Tyneside	8	14	1	3
Sunderland	-0	19	-6	7
<b>WEST MIDLANDS</b>				
Birmingham	8	7	-0	-1
Coventry	4	8	-1	0
Dudley	-2	-5	-7	-10
Sandwell	1	-2	-6	-7
Solihull	-6	-4	-11	-9
Walsall	-1	4	-7	-5
Wolverhampton	0	-1	-7	-7
<b>WEST YORKSHIRE</b>				
Bradford	4	2	-2	-4
Calderdale	-9	-9	-14	-14
Kirklees	1	0	-4	-7
Leeds	5	3	-1	-1
Wakefield	-1	1	-7	-4

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
METROPOLITAN COUNTIES				
Greater Manchester	5	13	-1	0
Merseyside	4	18	-1	8
South Yorkshire	5	12	1	4
Tyne and Wear	3	15	-4	3
West Midlands	5	4	-1	-2
West Yorkshire	5	13	-0	1

## SHIRE DISTRICTS WITH 85/6 BUDGET OVER £10m

Bristol	15	19	9	11
Langbaurgh	14	19	8	13
Middlesbrough	5	16	-1	7
Stockton-on-Tees	15	17	9	12
Derby	3	6	-3	-1
Plymouth	-20	-14	-26	-19
Bournemouth	-5	-2	-12	-8
Brighton	2	18	-5	5
Basildon	9	12	5	8
Southend-on-Sea	-2	1	-9	-6
Portsmouth	17	23	10	14
Southampton	-2	1	-8	-5
Kingston upon Hull	-39	-36	-44	-42
Blackburn	2	16	-4	6
Blackpool	-15	4	-21	-9
Norwich	14	20	8	13
Northampton	-9	-6	-15	-12
Nottingham	-25	-20	-33	-27
Stoke-on-Trent	1	5	-4	-2
Thamesdown	9	14	5	8

## Analysis of other shire districts by number falling into different poundage change bands

Cut more than 10%	103	66	131	101
Cut 0% to 10%	71	76	66	82
Increase 0% to 10%	56	72	73	70
Increase 10% to 20%	46	57	6	23
Increase 20% to 30%	-	5	-	-
Increase 30% to 40%	-	-	-	-
Increase more than 40%	-	-	-	-

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
CLASS SUMMARY				
Shire districts	-4.8	-1.2	-9.7	-6.9
Shire counties	3.5	3.0	-2.3	-2.5
Metropolitan districts	-4	4.3	-6.4	-4.0
Metropolitan counties	3.4	10.1	-2.3	.3
Inner London boroughs/ILEA	5.1	6.5	1.8	2.8
Outer London boroughs	.1	5.8	-6.3	-3.3
GLC and Metropolitan Police	9.1	8.8	5.6	5.5
=====				
England	2.6	4.3	-2.8	-1.8

\* 1% poundage change (%) if authority were to make a real terms standstill in its total expenditure.  
A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* 2% poundage change (%) if authority were to make a 2% real terms cut in its total expenditure.  
A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

DATE: 26 JUN-85

ANNEX 2: AEG+454

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES				
Avon	4	9	-1	-1
Bedfordshire	2	3	-4	-4
Berkshire	3	2	-3	-3
Buckinghamshire	3	2	-4	-4
Cambridgeshire	2	1	-4	-4
Cheshire	5	4	-1	-1
Cleveland	3	12	-3	-2
Cornwall	-1	-3	-8	-9
Cumbria	0	-1	-5	-6
Derbyshire	4	4	-1	-1
Devon	5	4	-1	-2
Dorset	2	0	-4	-4
Durham	2	1	-3	-4
East Sussex	2	1	-3	-4
Essex	5	5	-0	-0
Gloucestershire	1	-1	-5	-6
Hampshire	6	5	-0	-0
Hereford and Worcester	3	1	-3	-4
Hertfordshire	4	3	-1	-1
Humberside	5	4	-1	-1
Isle of Wight	-9	-8	-14	-12
Kent	7	6	0	0
Lancashire	7	7	1	1
Leicestershire	5	4	-2	-2
Lincolnshire	2	0	-4	-5
Norfolk	3	2	-3	-4
Northamptonshire	2	1	-4	-5
Northumberland	-5	-7	-10	-11
North Yorkshire	3	2	-3	-3
Nottinghamshire	5	4	-1	-1
Oxfordshire	1	-0	-4	-4
Shropshire	-2	-4	-9	-10
Somerset	-1	-3	-7	-8
Staffordshire	5	4	-1	-1
Suffolk	2	1	-4	-4
Surrey	3	3	-1	-2
Warwickshire	1	-1	-5	-5
West Sussex	2	1	-4	-4
Wiltshire	1	-0	-5	-5

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON				
City of London	4	4	3	3
Camden	5	5	2	2
Greenwich	12	16	7	10
Hackney	12	18	3	6
Hammersmith and Fulham	19	25	5	10
Islington	10	15	2	5
Kensington and Chelsea	-9	-7	-25	-21
Lambeth	5	13	-1	5
Lewisham	3	14	-3	5
Southwark	9	14	3	5
Tower Hamlets	13	16	7	10
Wandsworth	-34	-27	-51	-42
Westminster	4	4	3	3
Barking and Dagenham	9	13	2	3
Barnet	-2	2	-8	-6
Bexley	-0	3	-6	-5
Brent	0	14	-6	3
Bromley	-4	-3	-10	-8
Croydon	-3	-5	-10	-11
Ealing	-2	2	-9	-7
Enfield	-5	2	-11	-9
Haringey	2	11	-4	2
Harrow	-3	6	-9	-6
Havering	3	5	-3	-3
Hillingdon	7	10	0	-1
Hounslow	-3	12	-9	1
Kingston-upon-Thames	0	3	-6	-5
Merton	-8	-6	-15	-12
Newham	10	15	0	2
Redbridge	-6	-4	-12	-10
Richmond-upon-Thames	-5	5	-9	-7
Sutton	-5	-3	-11	-9
Waltham Forest	10	13	4	7
GLC	10	10	8	8
ILEA	5	5	3	3
Met. Police	6	5	-2	-2



DATE: 26 JUN-85

ANNEX 2: AEG454

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>				
Bolton	-9	-9	-15	-14
Bury	-0	3	-5	-5
Manchester	10	15	3	7
Oldham	-11	-9	-17	-15
Rochdale	-1	10	-7	-2
Salford	-6	4	-12	-8
Stockport	-5	-3	-10	-8
Tameside	-9	6	-14	-6
Trafford	-5	-4	-10	-8
Wigan	-5	5	-10	-7
<b>MERSEYSIDE</b>				
Knowsley	-5	8	-11	-5
Liverpool	3	15	-3	1
St Helens	-1	3	-6	-5
Sefton	-7	-6	-12	-11
Wirral	-3	-3	-8	-9
<b>SOUTH YORKSHIRE</b>				
Barnsley	2	6	-3	-3
Doncaster	-3	8	-9	-4
Rotherham	-8	2	-13	-10
Sheffield	4	15	-1	3
<b>TYNE AND WEAR</b>				
Gateshead	6	8	1	0
Newcastle upon Tyne	-1	12	-5	3
North Tyneside	4	14	-1	3
South Tyneside	7	11	0	0
Sunderland	-5	15	-10	3
<b>WEST MIDLANDS</b>				
Birmingham	7	6	-2	-2
Coventry	2	4	-4	-3
Dudley	-6	-8	-12	-13
Sandwell	-3	-5	-9	-10
Solihull	-10	-8	-16	-13
Walsall	-5	-0	-10	-9
Wolverhampton	-4	-5	-11	-11
<b>WEST YORKSHIRE</b>				
Bradford	1	-1	-6	-6
Calderdale	-14	-12	-19	-17
Kirklees	-3	-4	-9	-10
Leeds	3	2	-3	-3
Wakefield	-5	-3	-10	-8

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Real standstill		2% real cut	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
METROPOLITAN COUNTIES				
Greater Manchester	4	12	-2	-1
Merseyside	2	17	-3	6
South Yorkshire	5	11	1	3
Tyne and Wear	1	13	-6	0
West Midlands	4	3	-3	-3
West Yorkshire	4	9	-1	-2

## SHIRE DISTRICTS WITH 85/6 BUDGET OVER £10m

Bristol	15	17	8	9
Langbaugh	13	18	8	11
Middlesbrough	5	16	-1	6
Stockton-on-Tees	15	14	9	9
Derby	-0	3	-6	-5
Plymouth	-24	-18	-30	-24
Bournemouth	-8	-6	-15	-12
Brighton	2	15	-6	2
Basildon	9	12	5	8
Southend-on-Sea	-5	-3	-11	-9
Portsmouth	16	20	9	12
Southampton	-4	-3	-11	-9
Kingston upon Hull	-40	-39	-46	-45
Blackburn	2	16	-4	6
Blackpool	-17	1	-23	-11
Norwich	14	19	8	12
Northampton	-12	-9	-18	-15
Nottingham	-29	-24	-36	-31
Stoke-on-Trent	-2	2	-7	-6
Thamesdown	9	13	5	7

## Analysis of other shire districts by number falling into different poundage change bands

Cut more than 10%	115	101	147	131
Cut 0% to 10%	67	65	64	76
Increase 0% to 10%	60	72	64	54
Increase 10% to 20%	34	38	1	15
Increase 20% to 30%	-	-	-	-
Increase 30% to 40%	-	-	-	-
Increase more than 40%	-	-	-	-



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Tim Flesher Esq  
Private Secretary  
10 Downing St  
LONDON

26 June 1985

*Dear Tim*

*J 27/6*

RATE SUPPORT GRANT (SCOTLAND)

I attach a draft of the statement which my Secretary of State intends making tomorrow afternoon about local authority expenditure and rate support grant in Scotland and would be grateful for your clearance.

I am sending copies of this letter to David Morris (Lord Privy Seal's office), Murdo Maclean (Chief Whip's office), Richard Hatfield (Cabinet Office), Joan MacNaughton (Lord President's Office), John Ballard (Department of Environment), Richard Broadbent (Chief Secretary's Office), David Beamish (Lords Chief Whips Office) and Bernard Ingham.

*For Secretary*  
*Andy Rinning*

ANDY RINNING  
Private Secretary

## DRAFT STATEMENT FOR SECRETARY OF STATE

### RATE SUPPORT GRANT (SCOTLAND)

WITH PERMISSION, MR SPEAKER, I SHALL MAKE AN ANNOUNCEMENT ABOUT LOCAL AUTHORITY EXPENDITURE AND RATE SUPPORT GRANT IN SCOTLAND.

SCOTTISH LOCAL AUTHORITIES ARE PLANNING EXPENDITURE IN 1985-86 WHICH IS SOME £91 MILLION OR 3.2% ABOVE THE GUIDELINES THAT I ISSUED TO THEM. WHEN I MET THE CONVENTION OF SCOTTISH LOCAL AUTHORITIES ON 24 JUNE I SAID THAT I WAS DISAPPOINTED THAT DESPITE MY WARNINGS THAT GRANT PENALTIES WOULD BE MORE SEVERE THAN LAST YEAR, LOCAL AUTHORITIES CONTINUE TO PLAN FOR SIGNIFICANT OVERSPENDING. THE TOTAL OF LOCAL AUTHORITY BUDGETS IS STILL ABOVE 1984-85 OUTTURN IN REAL TERMS AND IS 1.8% ABOVE EXPENDITURE IN 1978-79. GIVEN THE CONTINUED OVERSPENDING, I HAVE DECIDED THAT FOR 1985-86 THE TOTAL PENALTY WOULD BE £126 MILLION. I WILL LAY THE NECESSARY RATE SUPPORT GRANT ORDER SHORTLY AND GRANT REDUCTIONS WILL START ON 10 JULY. I HAVE TODAY PLACED IN THE LIBRARY A PAPER SHOWING HOW THE ABATEMENT WILL AFFECT EACH LOCAL AUTHORITY, AND LETTERS OF NOTIFICATION TO THEM ARE BEING POSTED TODAY. THE PENALTIES ARE ON A TARIFF WHICH STARTS AT A GRANT LOSS OF 70% OF OVERSPEND RISING TO A GRANT LOSS OF 90% OF OVERSPEND FOR A 1% OVERSPEND, 110% FOR A 2% OVERSPEND. AT 2.5% THE RATE OF PENALTY IS 120% AND THEN STEEPENS TO 140% AT 3% AND 170% AT 3.5% EXCESS AND ABOVE.

WHILE THESE SEVERE PENALTIES HAVE BEEN NECESSITATED BY THE CONTINUED OVERSPENDING OF SOME LOCAL AUTHORITIES, NO AUTHORITY WHICH IS PLANNING TO SPEND AT GUIDELINE WILL SUFFER A PENALTY AND I AM GLAD TO SEE THAT THIS YEAR 30 LOCAL AUTHORITIES WILL AVOID PENALTIES BY BUDGETING WITHIN GUIDELINES. I VERY MUCH HOPE THAT THE REMAINING AUTHORITIES WILL REDUCE THEIR EXPENDITURE TO GUIDELINE AND THUS ELIMINATE THEIR PENALTIES TO

THE BENEFIT OF THEIR RATEPAYERS WHEN PENALTIES ARE RECALCULATED AT OUTTURN.

WHEN I ANNOUNCED THE PENALTIES FOR 1984-85 I SAID THAT, IN RESPONSE TO REPRESENTATIONS FROM THE CONVENTION, PENALTIES WOULD BE ADJUSTED IN THE LIGHT OF OUTTURN TO GIVE INCENTIVES TO AUTHORITIES TO RESPOND TO THE GRANT ABATEMENT. AUTHORITIES BRINGING THEIR EXPENDITURE WITHIN GUIDELINES WOULD HAVE THEIR PENALTIES CANCELLED. THOSE REDUCING THEIR OVERSPENDING WOULD HAVE THEIR PENALTIES REDUCED. WHEN I MET THE CONVENTION ON 29 APRIL THEY ASKED THAT THIS ADJUSTMENT SHOULD FIRST BE MADE ON THE BASIS OF PROVISIONAL OUTTURN. WHEN I SAW THE CONVENTION ON 24 JUNE, I TOLD THEM THAT I WAS ABLE TO AGREE TO THIS SUGGESTION. AN INITIAL ADJUSTMENT OF PENALTIES ON THE BASIS OF PROVISIONAL OUTTURN WILL BE MADE FOR THE FIRST TIME IN SCOTLAND THIS YEAR. THE 1984-85 PENALTIES WILL BE FURTHER ADJUSTED IN THE LIGHT OF AUDITED FINAL OUTTURN ABOUT JANUARY.

I AM GLAD TO SEE THAT 13 AUTHORITIES SUBJECT TO PENALTY ON THEIR 1984-85 BUDGETS HAVE BROUGHT THEIR EXPENDITURE WITHIN GUIDELINE AT PROVISIONAL OUTTURN AND WILL HAVE THEIR PENALTY CANCELLED UNLESS FINAL OUTTURN FIGURES SHOW THEM TO BE ABOVE GUIDELINE. THE REPAYMENT OF PENALTIES WILL OBVIOUSLY BE OF BENEFIT TO RATEPAYERS. MOST OTHER AUTHORITIES SUBJECT TO PENALTY HAVE REDUCED THEIR EXPENDITURE AND WILL HAVE SOME REPAYMENT OF PENALTY UNDER THE NEW ARRANGEMENTS INTRODUCED LAST YEAR. I AM SORRY TO SAY THAT NINE AUTHORITIES HAVE INCREASED THEIR SPENDING AND WILL HAVE INCREASED PENALTIES. THE TOTAL AMOUNT OF PENALTIES TO BE REPAID IN RESPECT OF 1984-85 IS £29 MILLION. OVERSPEND FOR 1984-85 IS STILL - AT £77 MILLION - TOO HIGH.

THERE IS NO NEED FOR AUTHORITIES TO LOSE GRANT AND IT IS IN THE INTERESTS OF THEIR RATEPAYERS TO SPEND AT GUIDELINE. I HOPE THOSE THAT HAVE NOT BUDGETED AT GUIDELINE FOR 1985-86 WILL BRING THEIR EXPENDITURE TO GUIDELINE AT OUTTURN.



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL - CMO

Prime Minister  
To note. Agree Mr Younger should  
join Misc 109?

AT  
24/6

PRIME MINISTER

26 June 1985

MISC109: EDINBURGH

Yes and

1. I have been following the MISC109 papers and read with interest the minutes of the meeting of 19 June. You will remember that the arrangement was when MISC109 was set up that I should report if difficulties developed with any Scottish authority which were comparable to those then foreseen, and now being positively prepared for, in England.

2. In relation to Edinburgh I am proceeding under statutory powers to seek to force a rate reduction on the grounds that their budgeted expenditure is "excessive and unreasonable". You will know that I have used such powers successfully against a number of Scottish authorities eg Lothian Region in recent years. The District Council's budgetary proposals are very extravagant indeed and the reduction I have felt obliged to press for is proportionately greater than I have ever previously sought to achieve against any Scottish District Council (and just about as large in post-revaluation terms as the sums I have previously sought from regions - who have much more scope for rapid increases in income from fees and charges). There is therefore no doubt, at this stage of the financial year, that unless the local authority take urgent steps to reduce expenditure below the very high level at which it has been running, the effect of the reduction I am asking Parliament to determine in the rate income for the whole year will be to enforce very severe reductions from whatever date the District Council choose as the start of a more sensible regime. And the longer they delay, the worse the consequences for the city will be.

3. I am answering an arranged Question today to make clear that I am sticking to my original intention to secure a rate reduction of 5.2p. I have studied the

E. R.

voluminous material that the District Council have sent me since I announced my intention and Michael Ancram and I received a deputation from the Council last week. But I see no reason to change my view as to what would be a reasonable reduction in the rate.

4. I do not think I need trouble you - nor MISC109 colleagues - with a lot of detail about Edinburgh's financial prospects. But, although the procedures are very different, the scenario could be not unlike that which is emerging in Liverpool: there could be substantial redundancies (including a number to whom the authority have recently given short term contracts), some evident reduction in services and increasing anxiety about the good financial standing of the city with potential lenders. Doubts about their standing may well be sharply increased when I announce tomorrow - what is already widely understood - that the penalty for overspending on the scale Edinburgh are committed to is going to be a total withdrawal of their RSG for the rest of the year. And the Lord Advocate is already pursuing in the Court of Session an action for specific implement of another reduction (of 1.8p) in the Edinburgh rate in relation to separate processes in the housing field.

5. In previous years when I have been using my powers in this field the authorities with whom I have been dealing have often by this stage been showing some willingness to come to their senses. It is not clear what Edinburgh's attitude is going to be but at present I judge them to be much more recalcitrant.

6. I think it follows that I could quickly find myself with a situation in which I had to consider whether it would be an advantage to be able to contemplate appointing Commissioners. I should therefore want to consider whether the legislation Patrick is preparing should be extended to Scotland - which may not be at all straightforward. My officials are getting in touch with his accordingly.

7. I thought you would wish to have this interim report.

8. You may agree that I should be represented at the meeting of MISC109 next week.

9. Copies go to the members of MISC109, to Sir Robert Armstrong and to Kenny Cameron.

# SECRET

TO: [Illegible]

FROM: [Illegible]

SUBJECT: [Illegible]

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ND PM BT 26/6 CC NO

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A-2AU

R J Broadbent Esq  
Private Secretary to the Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

26 June 1985

Dear Richard,

**EDINBURGH DISTRICT COUNCIL**

I am writing to let you know of the steps my Secretary of State is about to take concerning his action against Edinburgh District Council's budget for 1985-86. Our officials have already been in touch about this.

On 22 May the Secretary of State invited Edinburgh's comments on a proposal to reduce their rate by 5.2p on account of their excessive and unreasonable estimated expenditure. He received their written representations on the deadline of 12 June and discussed these with representatives of the Council on 17 June. There was nothing in either the representations or the meeting to persuade the Secretary of State to change his proposal. Accordingly he has decided to move as quickly as possible to lay a Report before Parliament seeking approval to the full 5.2p rate reduction originally proposed.

The next steps are as follows. Today (26 June) the Secretary of State will announce in answer to a Question that he will lay a Report seeking approval to the 5.2p reduction. We aim to lay the Report next week for a debate in the week commencing 15 July, if possible.

I am copying this to Andrew Turnbull, John Ballard and Murdo Maclean.

Yours sincerely,  
*John Graham*

J S GRAHAM  
Private Secretary

Pub.  
22  
22

Told  
Pub  
24.6.85

15

11,764  
11,999  
23.5

PRIME MINISTER

24 June 1985

RSG SETTLEMENT: 1985/6

All the proposals under discussion involve significant real term cuts in local authority spending.

Treasury and DoE cannot agree about the exact size of the cuts generated by the various packages, because they are engaged in a technical dispute about different measures of local spending.

Such technical difficulties can, however, be ignored because both the local authorities and the newspapers will focus on what is called 'relevant current' spending. This is the measure that affects the provision for services like education.

The most important figures are these:

24.161. 11,764 4.76

	<u>Told</u> <u>Public Expend</u>	<u>Facts</u>	<u>Chief Sec's</u> <u>Package</u>	<u>DoE</u> <u>Package</u>
1985/6 LA Relevant Current Spending		Est. £22,203m		100
1986/7 Public Expd. White Paper Provision		£21,750m	450	
1986/7 Predicted LA Spending			£22,100m	£22,420m
Difference between Predicted 1986/7 spending and 1985/6 Budgets:				
a. Cash terms			-0.4%	+1.0%
b. Real terms			-4.9%	-3.5%

Predicted Overspend against Public Expd. White Paper Provision

	£350m	£670m
--	-------	-------

235

48.7

As you can see from the table:

- the Chief Secretary's package yields a smaller predicted overspend, but forces local authorities to make a cut in cash terms; whereas
- the DoE package allows a larger predicted overspend, but yields a more moderate real terms cut.

The precise effects of the multitude of sub-variants offered by Lord Whitelaw are unknown and unknowable. For example, it is not clear whether spending would rise more sharply if targets were removed from all authorities (as DoE want) or if they were removed only from those authorities below GRE (as the Treasury would prefer): paragraph 6 of Lord Whitelaw's minute explains the two sides of the arguments clearly - and there is some truth in both of them.

In other words, there is no clever wheeze that can get Ministers off the hook. If you want half-way decent public spending totals, you have to accept politically difficult cuts. All the options on offer will cause major political rows. The problem is to find the least costly package that you can get away with politically.

There are four principles that help to solve this problem:

- i. Removing targets though risky, makes it politically easier to achieve bigger cuts; both because this will be a news item in itself, helping to counterbalance the 'destruction of local services' story; and because rate rises in the boroughs and districts affected by GLC/MCC abolition will be lower if targets go by the board.

- ii. Cuts in total spending are easier if you keep Aggregate Exchequer Grants high, because reductions in aggregate grant force the rates up dramatically. (The significance of this effect varies with the package chosen and the assumptions made: if you take the worst case, a reduction of £750 million in Aggregate Exchequer Grant could cause average shire district rates to rise by 12.0% instead of 1.2% - with the same predicted local authority spending).
- iii. A cut is easier to defend if, in some terms, it is not a cut. For example, a 4.5% real terms cut is much easier to explain than a 4.9% real terms cut, because Ministers can truthfully say that (given the Government's estimates of inflation in 1986/7) it represents a 'standstill in cash terms'.
- iv. It is better to have a severe cut with some compensating 'bull' points than an anaemic cut with no compensating good news. Announcing a big cut in overall real terms spending, but with more money for popular items like capital spending and proper restructuring of teachers' pay, will win far more friends than announcing a 'not so harsh' RSG settlement.

### Conclusion

Bearing these principles in mind, we recommend that you should seek an arrangement on these lines:

1. A cash standstill in 1985/6 Budgets (a 4.5% real terms cut, leading to a predicted overspend of about £450 million against the Public Expenditure White Paper).

2. A reduction of £100 million in Aggregate Exchequer Grant. This gives the Treasury a small contribution towards tax cuts, but keeps down rate raises in sensitive areas like the Outer London Boroughs. For example, Barnet would have a rate rise of about 7% instead of the c.20% rise which it would have if the grant were reduced by £750 million.
3. Removal of targets (providing the 'good news' item).
4. Agreement that if the teachers accept Keith Joseph's restructuring package, the money (a maximum of £100 million) should be additional to the RSG settlement.

Our informal soundings with Treasury and DoE officials suggest that a package of this sort might win grudging acceptance from both sides.

It might be possible to reduce current spending still further - down to the Treasury's preferred levels - if Ministers agreed to take a more relaxed attitude to capital spending. This would to some extent pre-judge a decision that has yet to be made. But the local authorities would very much like the hint of relaxation, since they think that the Government is unfairly preventing them from spending money which they were previously encouraged to raise.

*Ol Letw.*

OLIVER LETWIN



CONFIDENTIAL

PRIME MINISTER

Rate Support Grant Settlement 1986/87  
(Minute to you of 24 June from the Lord President of the  
Council)

BACKGROUND

1. E(LA) has failed to reach agreement about the future of local authority targets and the public expenditure provision for local authority spending for 1986-87. The Lord President of the Council has minuted you reporting E(LA)'s failure and setting out the issues for decision.

Proposals

2. The Secretary of State for the Environment recommends:

(a) that targets should not be retained for 1986-87; instead, block grant pressures, involving a steepened slope, should control local authority expenditure;

(b) an overspend of £670 million above Public Expenditure White Paper (PEWP) figures for current expenditure by local authorities for 1986-87;

(c) a cash standstill in Aggregate Exchequer Grant (AEG). This is shown as "Package 670 without targets" in the Annexes.

3. The Chief Secretary recommends:

(a) that targets be retained for 1986-87, but with GRE-exemption (Grant Related Expenditure Assessment-exemption), ie no authority would have a target below its GRE;

(b) an overspend of, at the most, £350 million above PEWP for current expenditure by local authorities in 1986-87;

(c) a reduction of £750 million in Aggregate Exchequer Grant.

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This is shown as "Package 360T with targets" in the annexes.

4. The Secretary of State for Education and Science has bid for extra provision for education in 1986-87 of £600 million above PEWP levels; and the Home Secretary has bid for extra provision of £170 million for the police.
5. The rate poundage implications of these packages are spelt out in the coloured annexes to the Lord President's minute. Each annex illustrates a different level of Aggregate Exchequer Grant.

MAIN ISSUES

6. The main issues are:
  - (a) the public expenditure provision for local authorities - really the key issue;
  - (b) whether to abandon targets for 1986-87 or to retain them (with a GRE-exemption);
  - (c) the level of Aggregate Exchequer Grant;
  - (d) rate poundage implications.

Public Expenditure Provision for Local Authorities

7. As long as the Government stands by PEWP, any overspending by local authorities will need to be balanced by cuts in other expenditure programmes. E(LA) recognised this but did not believe that the PEWP figures for local authorities were realistic, based as they were on a 6½ per cent real terms cut.

8. The Chief Secretary is prepared to go up to an overspend of £350 million. Mr Jenkin is recommending an overspend of £670 million ( a real terms cut of 3½ per cent). Sir Keith Joseph is looking for an extra £600 million to maintain education expenditure in real terms; and the Home Secretary is bidding for an extra £170 million for police.

9. E(LA) doubted whether a realistic settlement could be



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achieved with an overspend of less than £500 million (a real terms cut of 4.2 per cent). The level of overspend that can be agreed will rest on a political judgement of the wisdom of making compensating cuts in other expenditure programmes against the need to reach a realistic and defensible RSG settlement. The trick is to keep the pressure on while not having a settlement so low that it ceases to be credible.

#### Targets

10. In this year's settlement, Ministers gave assurances that they would seriously consider whether targets could be abandoned in the 1986-87 settlement. To abolish targets would have political attractions.

11. The Chief Secretary supports the retention of targets but with a GRE-exemption, ie no authority would have a target below GRE. This would meet a major criticism of targets, namely that they can be set below GRE, which is often seen as the Government's own perception of need.

12. The Department of the Environment model forecast expenditure to within  $\frac{1}{4}$  per cent (£50 million) of the level of local authorities' budgets for 1985-86. But this model has had no experience of working with a no-targets regime. Mr Jenkin believes that while the predictions for individual authorities under a targetless system may be more uncertain, for expenditure overall the model's predictions should be no more uncertain without targets than with them. He also believes that 1986-87 outturns will be particularly uncertain, because of the abolition of the Greater London Council (GLC) and Metropolitan County Councils (MCCs), and because it is difficult to assess the extent to which authorities benefitting from GRE-exemption will spend up to their targets to avoid being penalised by low targets the following year (the Chief Secretary believes few would; Mr Jenkin observes that two-thirds of the headroom was used up in 1982-83 when the GRE-exemption was last in operation and believes the effect would be at least as great this time).





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13. Mr Jenkin sees many difficulties in devising defensible targets for successor authorities because appropriate information about the interborough distribution of the expenditure of the former authorities is not available. He believes that boroughs will take legal action against the targets they have been allotted and that the Government may face defeat in the Courts. He believes grant disregards would have to be issued to successor authorities to forestall this and that this could shift targets upwards by between £50 million to £100 million. The Chief Secretary does not deny there are difficulties in setting targets for successor authorities, but believes Mr Jenkin is exaggerating the problems. The difficulties were, however, sufficient to persuade E(LA) as a whole, the Chief Secretary apart, that targets should not be retained for 1986-87.

Aggregate Exchequer Grant (AEG)

14. The Chief Secretary favours a cut of £750 million in AEG as part of the Government's policy of reducing the proportion of local authority spending subsidised by the national taxpayer and to make local electors more conscious of the cost of local services. The Secretary of State for the Environment favours a cash standstill in AEG (which would of course still be a reduction in the proportion of local authority spending financed by AEG). The Department of the Environment's computer model suggests that changes in the level of AEG would not have a major influence on the level of local authority spending, but cuts in AEG could lead to marked increases in rates.

Rate Poundage Implications

15. The rate poundage implications for the various packages are set out in the coloured Annexes 2 to 5 attached to the Lord President's minute.

What is an acceptable level of rate poundage increases is very much a matter of political judgement. It will probably be



particularly important to ensure that rate increases are not markedly acute in the outer London boroughs and in successor authorities. If they were, the rise might be attributed to the abolition of the Greater London Council and the wisdom of the Government's abolition policy called into question.

## HANDLING

16. You will wish to invite the Lord President of the Council to report on the E(LA) discussions and the Ministerial meetings he has chaired. I suggest that, so far as possible, you should then take the issues one by one: Public Expenditure; targets or not; and Aggregate Exchequer Grant. On each you will wish to invite the Secretary of State for the Environment to put forward his views and the Chief Secretary to respond. The Secretary of State for Education and Science may wish to comment on the public expenditure aspect in particular. The Chancellor of the Exchequer may wish to comment throughout.

## CONCLUSIONS

17. You will wish to reach conclusions on:

(a) what should be the level of overall public expenditure for local authorities in 1986-87: £350 million overspend; £670 million or something else.

(b) whether to abandon targets for local authorities for 1986-87, or to retain them with a GRE-exemption; and, if the latter, whether to give a commitment that targets below GRE will not be re-introduced.

(c) what should be the level of Aggregate Exchequer Grant for 1986-87; cash standstill, a reduction of £750 million or something in between.

C J S BREARLEY

wk.  
24 June 1985

GRG

CC NO.



PRIME MINISTER

**RATE SUPPORT GRANT SETTLEMENT 1986/87: ENGLAND**

E(LA) has now had four meetings under my chairmanship in an attempt to reach agreement about the future of targets and the public expenditure provision for local authority spending in 1986/87. I have also had two separate meetings with the Chief Secretary, Treasury and the Secretary of State for the Environment. Despite repeated attempts to reach agreement on a realistic and defensible settlement, I have to report with regret that I have been unable to resolve the differences that have emerged. We do, however, need early decisions if the main elements of the rate support grant settlement are to be announced in July. You have kindly agreed to chair a meeting of those of us primarily concerned tomorrow at 5.00 pm.

2. The issues that need to be decided are:

- (a) whether or not targets should be retained (in addition to block grant pressures) as a control on local authority spending;

This cannot, however, be decided in isolation from:

- (b) the overall provision for current expenditure by local authorities in 1986/87;
- (c) the level of aggregate Exchequer Grant (AEG);

and consequently:

- (d) what we judge to be an acceptable level of increase in rate poundages.



Whether to retain targets

3. In this year's settlement, Ministers promised that the Government would give serious consideration to the abandonment of targets and holdback for 1986/87. At E(LA)(85) 1st meeting, all members of the Committee agreed that targets should be abolished from 1986/87 if this could be done without unacceptable public expenditure cost. The Secretary of State for the Environment has argued subsequently that any reasonable public expenditure settlement can be achieved without targets, using block grant pressures alone; notably by increasing the rate at which grant is withdrawn for increases in expenditure and introducing thresholds at given levels of expenditure at which the rate of withdrawal becomes greater still. He has also argued that the information available is not adequate to construct robust targets for the joint boards and Borough and District Councils (the successor authorities) that will take over the functions of the Greater London Council (GLC) and Metropolitan County Councils (MCCs) from 1 April 1986. Consequently he believes there is a high risk that disregards will have to be granted, or court cases lost, or that the successor authorities will have to rate considerably in excess of their pre-abolition level. At best the Government will appear inept and unable to live up to its promises. It would be a self-inflicted wound.

4. The Chief Secretary, on the other hand, believes that the difficulties with the targets of successor authorities are over-stated and that there would be problems for only a small proportion of the GLC and MCC's expenditure which would not preclude workable targets being set. He is also sceptical of the ability of targetless regimes to deliver stated levels of expenditure; and it is arguable that to abolish targets



← would give authorities the wrong spending signal. He has therefore proposed that targets should be retained with the important modification that no authority would have a target below its Grant Related Expenditure Assessment (the so-called GRE exemption). This means that the criticism of the low-spenders, many of whom are our friends, that targets prevent them from spending at their objectively assessed level of need (the GRE) would be defused.

5. We have had much discussion of these points. It is evident that there will be considerable difficulties in constructing targets for the successor authorities as the GLC and MCCs are not co-operating in giving DOE relevant information and some of it in any case does not exist. How serious these will be is very difficult to judge but clearly there is some risk of the consequences Patrick Jenkin fears.

6. There is then the question of the confidence we can have in regimes, either with or without targets, delivering predicted levels of expenditure. The DOE computer model is on largely untested ground both with targetless packages and with the GRE exemption. Peter Rees has argued that a targetless package must carry a greater risk of higher expenditure because while authorities spending below GRE will be exposed to much the same pressures under his or Patrick Jenkin's approach, authorities above GRE will be more severely constrained by targets and holdback if targets are retained. Patrick Jenkin does not accept this: he argues that his approach will still impose restraint on low-spenders (though more fairly than under a target regime) and a very tough regime on high-spenders, the most recalcitrant of which will be rate-capped in any event. Furthermore, he has argued that low-spending authorities are likely to spend appreciably more under Peter Rees' "targets with GRE exemption" approach as they will remember what happened



in 1983/84 when we re-introduced full targets below GRE, after a period of GRE exemption, in a way which benefitted those authorities which had not kept expenditure down. Peter believes that this risk could be reduced by a formal Government undertaking not to remove the exemption in a future year.

Patrick believes that such an undertaking would be treated with some scepticism by local authorities.

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7. There can be no certainty about what will happen. What we need to weigh up is the risk of a targetless regime failing to control expenditure effectively against the difficulties that retaining targets could create for us with the successor authorities in London and the metropolitan areas. In the end a majority of E(LA) believed that the risks of keeping targets were greater than those of abolishing them.

#### Public Expenditure

8. The latest estimate of local authority current expenditure relevant for rate support grant in the current year is £22,203 million. The provision in this year's Public Expenditure White Paper (PEWP) for 1986/87 on a comparable basis is £21,750 million. This represents a real terms cut in current expenditure (assuming inflation of 4 1/2 per cent) of 6 1/2 per cent. In terms of total expenditure, the real terms cut is 3 1/2 per cent. We are all agreed that this figure is not realistic and that provision will have to be increased.

By the end of our discussions Patrick Jenkin was advocating a settlement involving a predicted overspend of £670 million above PEWP levels. This would mean a reduction in real terms of 3 1/2 per cent in current expenditure (3/4 per cent in 'total' expenditure). Peter Rees did not feel able to go above £350 million overspend (a real terms reduction of 5 per cent in current expenditure; 2 per cent in 'total' expenditure).

We were not able to bridge this gap.



9. There is obviously a limit to how large a real-terms cut can be achieved in a single year; the most ever achieved in the past for current expenditure is about 2 per cent, and on present predictions there will be a real terms standstill in 1985/86. I should add, moreover, that Keith Joseph indicated during our discussions that he would be looking for extra provision for education in 1986/87 of £600 million above PEWP levels, and Leon Brittan that he would be looking for an extra £170 million for the police. These sums, let alone what other service ministers may claim, cannot be accommodated even with the overspend advocated by Patrick Jenkin.

10. Of course if our PEWP plans are to be maintained overall, increased provision for expenditure by local authorities will need to be offset by savings in other services.

Aggregate Exchequer Grant

11. It is generally agreed that the level of total government grant to local authorities (Aggregate Exchequer Grant (AEG)) has very little effect on the level of expenditure. It is, of course, important in relation to the level of central government taxation. Futhermore, together with the level of expenditure, it is a major determinant of rates and we need to reach a decision about its quantum. The figure this year is £11,764 million which represents 48.7 per cent of total relevant local government spending. This was a reduction from £11,874 million and 51.9 per cent in 1984/5 in accordance with our policy of cutting the share of local government spending subsidised by the national tax payer in order to strengthen accountability.

12. It is common ground that AEG should not be increased in cash next year. This cash standstill will itself reduce the proportion of spending financed by about 2 per cent. (to 46.4)  
Peter Rees argues, however, that a cash standstill is equiv-



alent to a £500 million increase in net grant paid, since there would be no holdback without targets. He would therefore like to see a sizeable cash cut in AEG which would lower the percentage still further. (£750 million of AEG takes percentage to 45.5)

Implications for rates

13. Decisions on methodology (targets or not), public expenditure and AEG have direct implications for rates. The attached annexes contain the exemplifications we believe will be most useful to our discussion. They show the implications for rate poundages of:

- (i) the package Peter Rees prefers (£350 million overspend\*, with targets with GRE exemption);
- (ii) a targetless package achieving the same overspend (£350 million\*);
- (iii) Patrick Jenkin's preference (£650 million overspend, targetless); and
- (iv) a with-targets package achieving that overspend (£670 million).

Under each package the effect is shown of four different levels of AEG (cash standstill and reductions of £250 million, £500 million and £750 million). Any settlement we agree will need to involve defensible rate poundage increases. It will be particularly important, too, to make sure that rate increases are not excessive in the successor authorities, especially the Outer London Boroughs. If we failed to do so, rate increases would be attributed to the abolition of the GLC and MCCs and the wisdom of our abolition policy would come into serious question.

\*For technical reasons, the exemplifications in the annexes are in fact based on overspend of £360 million.





Conclusion

14. I am sorry to trouble you with these inevitably complex issues. I would very much have preferred that it had not been necessary to do so. But time is now very pressing, especially if targets are retained, if all the necessary work is to be done for an announcement before Parliament rises in July.

15. I am sending copies of this minute to the members of E(LA) Committee, to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Minister for Local Government, the Paymaster General and Sir Robert Armstrong.

hp/w

Privy Council Office  
24 June 1985

DETAILS OF PACKAGES

ANNEX 1

	Package 670 without targets	Package 670T with targets	Package 360 without targets	Package 360T with targets
<b>*PREDICTIONS</b>				
Predicted overspend on Cmd 9428	£670m	£670m	£360M	£360m
**Predicted overspend if ½ headroom used	(£670m)	(£980m)	(£360m)	(£660m)
Real terms difference from 1985/86 total expenditure budgets				
***England	-0.5%	-0.5%	-1.9%	-1.9%
Shire districts	+0.9%	+5.1%	+0.7%	+3.8%
Shire counties	+1.0%	+1.0%	-1.2%	-0.9%
Met districts	-1.4%	-2.2%	-2.5%	-3.5%
Met counties	-0.5%	-1.9%	-1.7%	-2.9%
Inner London /ILEA	-4.3%	-4.2%	-4.3%	-4.3%
Outer London	-2.6%	-3.0%	-3.7%	-4.1%
GLC/Met Police	-3.2%	-3.1%	-3.2%	-3.7%
*** Real terms difference from 1985/86 <u>current</u> expenditure budgets	-3.5%	-3.5%	-4.9%	-4.9%

\* The figures assume no AEG reduction. The model predicts that AEG reductions have little effect on spending levels.

\*\* Headroom is the difference between the total of targets or expenditure levels and predicted expenditure. In 1982/83 local authorities used about ½ of headroom.

\*\*\* Predicted real terms cuts in total expenditure understate the cuts implied for actual current expenditure on services because total expenditure in 1985/86 was depressed by one-off creative accounting devices, eg use of special funds. The predicted ½% real cut in total expenditure in England under package 670 is equivalent to a 3½% real cut in current expenditure; the predicted 1.9% real cut in total expenditure under package 360 is equivalent to a 4.9% real cut in current expenditure assuming inflation at 4.5%.

DETAILS OF PACKAGES (Cont)

ANNEX 1 (Cont)

	Package 670 without targets	Package 670T with targets	Package 360 without targets	Package 360T with targets
<b>BLOCK GRANT ARRANGEMENTS</b>				
GRES change from 1985/86	4%	5%	2%	3%
Thresholds to taper	GRE +5% & GRE +10%	GRE +10%	GRE +5% & GRE +10%	GRE +5%
Slope below 1st threshold	1.0	0.9	1.25	1.15
between thresholds	1.2	0.9	1.35	1.3
above 2nd threshold	1.4	1.1	1.5	1.3
Safety nets	25p	25p	35p	25p
Caps	£5m	£5m	£5m	£5m
<b>TARGET METHODOLOGY</b>				
Total of targets	-	£23580m	-	£23230m
***Targets are maximum of		GRE +5% Target +3.75% Budget -1½%		GRE +3% Target +3% Budget -1½%

\*\*\*1985/86 targets were target +3.75% for authorities spending above GRE and GRE +3.75% for the rest, subject to a minimum of budget -1½% and a maximum of budget +4½%.

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 46.5%)		+£360m (AEG 47.1%)		+£670m (AEG 46.5%)		+£360m (AEG 47.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>CLASS SUMMARY</b>								
Shire districts	3.5	4.3	1.2	4.1	-1.0	-0.6	-4.1	-2.6
Shire counties	4.6	2.9	4.8	2.3	.1	-1.3	-1.2	-3.9
Metropolitan districts	4.9	7.2	5.6	10.4	-.4	.1	-.8	.8
Metropolitan counties	8.7	11.4	11.3	16.6	3.5	2.9	5.2	6.2
Inner London boroughs/ILEA	6.3	6.9	7.6	7.8	3.1	3.3	4.3	4.0
Outer London boroughs	7.7	9.8	9.0	13.7	1.8	2.3	2.2	3.6
GLC and Metropolitan Police	9.1	8.9	9.4	10.0	6.0	5.9	5.8	6.6
England	5.5	5.6	6.0	6.6	1.0	.5	.4	-.3

\* Is poundage change (%) if authority were to make a real terms standstill in its total expenditure. A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* Is poundage change (%) if authority were to make a 2% real terms cut in its total expenditure. A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT
 

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	Poundage change (%) if real standstill A				Poundage change (%) if 2% real cut AA			
	+£670m (AEG 46.5%)		+£360m (AEG 47.1%)		+£670m (AEG 46.5%)		+£360m (AEG 47.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES								
Avon	6	6	8	17	2	1	3	4
Bedfordshire	5	4	3	10	0	-0	-2	-1
Berkshire	3	1	3	-4	-2	-3	-3	-9
Buckinghamshire	3	0	2	-4	-2	-4	-4	-10
Cambridgeshire	3	0	3	-3	-2	-4	-4	-9
Cheshire	5	4	4	6	0	-0	-1	-0
Cleveland	8	10	11	22	3	0	4	8
Cornwall	2	1	1	-4	-3	-3	-5	-10
Cumbria	4	3	4	6	-1	-1	-1	-2
Derbyshire	7	4	10	4	3	-0	4	-1
Devon	5	4	5	-0	1	-1	-1	-6
Dorset	3	1	2	-4	-2	-3	-3	-9
Durham	5	5	5	8	0	1	-1	-0
East Sussex	3	0	2	-4	-2	-3	-3	-9
Essex	5	2	5	1	0	-2	-1	-4
Gloucestershire	2	1	2	-2	-2	-3	-4	-7
Hampshire	5	2	5	1	1	-2	-1	-5
Hereford and Worcester	4	0	3	-2	-1	-4	-3	-8
Hertfordshire	4	3	3	3	-1	-1	-2	-2
Humberside	7	6	8	10	2	1	1	1
Isle of Wight	-1	-1	-3	-1	-5	-5	-8	-7
Kent	6	3	6	-1	1	-1	-0	-7
Lancashire	8	7	9	6	3	3	2	1
Leicestershire	5	2	5	-1	0	-3	-2	-7
Lincolnshire	4	3	3	-0	-1	-1	-3	-6
Norfolk	4	-0	3	-6	-1	-4	-3	-12
Northamptonshire	4	0	5	-2	-1	-4	-2	-7
Northumberland	0	-0	0	4	-4	-4	-5	-5
North Yorkshire	4	4	4	3	-0	0	-2	-3
Nottinghamshire	8	4	11	9	4	0	5	0
Oxfordshire	3	3	2	1	-1	-1	-3	-4
Shropshire	1	-0	1	-6	-4	-5	-6	-11
Somerset	2	1	1	-2	-3	-3	-5	-7
Staffordshire	6	5	6	6	1	1	1	0
Suffolk	3	1	3	-1	-1	-3	-3	-6
Surrey	3	3	3	2	-1	-0	-2	-3
Warwickshire	3	3	2	1	-1	-1	-4	-4
West Sussex	3	-1	2	-6	-2	-4	-3	-11
Wiltshire	3	2	2	-1	-2	-2	-4	-7

1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 46.5%)		+£360m (AEG 47.1%)		+£670m (AEG 46.5%)		+£360m (AEG 47.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON								
City of London	4	4	4	4	3	3	3	3
Camden	5	5	5	5	2	2	2	2
Greenwich	15	17	20	19	10	11	14	12
Hackney	17	20	24	25	8	8	15	13
Hammersmith and Fulham	23	17	34	33	11	4	20	17
Islington	13	16	19	20	6	6	12	10
Kensington and Chelsea	4	1	8	5	-10	-11	-8	-10
Lambeth	10	16	15	19	4	7	9	10
Lewisham	9	19	15	22	3	9	8	12
Southwark	13	16	19	20	6	6	12	10
Tower Hamlets	16	17	21	20	10	10	15	12
Wandsworth	-11	-10	-18	-17	-25	-23	-36	-34
Westminster	4	4	4	4	3	3	3	3
Barking and Dagenham	14	12	18	23	8	3	11	11
Barnet	5	7	6	11	1	-0	-0	-0
Bexley	7	8	8	12	1	0	1	1
Brent	17	28	16	28	10	16	9	16
Bromley	4	4	3	6	-1	-1	-3	-2
Croydon	-0	-1	-1	-5	-6	-6	-8	-12
Ealing	6	5	7	11	-0	-1	-1	-1
Enfield	2	4	3	12	-3	-4	-3	-2
Haringey	7	14	10	18	1	5	5	8
Harrow	2	9	5	17	-3	-2	-1	3
Havering	8	9	11	15	3	2	5	4
Hillingdon	11	11	16	21	5	1	9	8
Hounslow	12	12	12	12	5	10	5	10
Kingston-upon-Thames	7	8	8	12	2	1	2	1
Merton	2	2	-1	-0	-4	-4	-8	-7
Newham	15	12	20	24	5	1	10	10
Redbridge	3	3	2	2	-2	-2	-5	-4
Richmond-upon-Thames	1	9	3	15	-3	-2	-3	2
Sutton	4	3	2	3	-1	-1	-4	-3
Waltham Forest	13	13	17	17	7	8	10	10
GLC	10	10	10	10	8	8	8	8
ILEA	5	5	5	5	3	3	3	3
Met. Police	6	5	7	10	0	-0	-0	2

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 46.5%)		+£360m (AEG 47.1%)		+£670m (AEG 46.5%)		+£360m (AEG 47.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>								
Bolton	-1	-1	-2	-3	-6	-6	-9	-9
Bury	6	8	7	12	2	1	1	1
Manchester	14	14	18	20	8	7	11	10
Oldham	-2	-3	-4	-4	-7	-7	-11	-10
Rochdale	3	10	8	20	-2	-1	1	7
Salford	-0	8	1	16	-5	-3	-5	2
Stockport	4	3	2	3	-1	-1	-4	-3
Tameside	-2	12	-2	18	-7	0	-7	5
Trafford	4	3	2	3	-1	-1	-4	-3
Wigan	-0	11	1	16	-4	-0	-5	3
<b>MERSEYSIDE</b>								
Knowsley	-1	9	3	18	-6	-2	-3	4
Liverpool	7	19	8	26	1	6	1	11
St Helens	6	8	7	12	1	0	1	1
Sefton	2	2	-2	-1	-3	-2	-8	-6
Wirral	2	0	3	7	-3	-4	-3	-4
<b>SOUTH YORKSHIRE</b>								
Barnsley	8	9	10	15	3	2	4	3
Doncaster	1	11	4	17	-4	-0	-1	4
Rotherham	-1	3	-1	12	-6	-6	-6	-1
Sheffield	10	13	13	22	5	2	8	11
<b>TYNE AND WEAR</b>								
Gateshead	11	10	14	18	6	4	8	7
Newcastle upon Tyne	9	19	9	19	4	12	4	12
North Tyneside	11	13	14	22	5	2	8	11
South Tyneside	12	11	16	22	6	1	10	9
Sunderland	1	19	3	26	-4	7	-2	12
<b>WEST MIDLANDS</b>								
Birmingham	6	-2	6	-6	-1	-7	-3	-13
Coventry	8	8	10	14	3	2	3	3
Dudley	-2	-0	-3	-6	-6	-4	-9	-11
Sandwell	2	2	-0	0	-3	-3	-7	-6
Solihull	0	1	-4	-3	-4	-3	-10	-8
Walsall	3	2	3	10	-2	-3	-3	-3
Wolverhampton	3	2	1	1	-3	-3	-6	-5
<b>WEST YORKSHIRE</b>								
Bradford	6	4	9	4	0	-1	2	-3
Calderdale	-6	-7	-7	-4	-10	-11	-13	-12
Kirklees	2	3	3	8	-3	-2	-3	-3
Leeds	4	4	4	8	-0	0	-2	-0
Wakefield	4	3	2	4	-1	-1	-4	-3





1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT
 

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	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 45.5%)		+£360m (AEG 46.1%)		+£670m (AEG 45.5%)		+£360m (AEG 46.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>CLASS SUMMARY</b>								
Shire districts	7.3	7.3	6.2	7.8	2.9	2.4	1.1	1.1
Shire counties	6.0	5.0	5.4	4.2	1.6	.9	-.2	-1.9
Metropolitan districts	7.5	9.4	8.8	12.9	2.3	2.4	2.7	3.4
Metropolitan counties	9.2	11.7	11.8	17.0	4.2	3.3	6.0	6.9
Inner London boroughs/ILEA	6.6	7.2	8.1	8.1	3.4	3.5	4.7	4.3
Outer London boroughs	10.7	12.2	12.7	16.5	4.9	4.7	6.0	6.5
GLC and Metropolitan Police	10.2	9.5	10.9	10.2	7.1	6.5	7.4	6.8
<hr/>								
England	7.2	7.4	7.6	8.4	2.8	2.4	2.3	1.7

\* Is poundage change (%) if authority were to make a real terms standstill in its total expenditure.  
 A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* Is poundage change (%) if authority were to make a 2% real terms cut in its total expenditure.  
 A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 45.5%)		+£360m (AEG 46.1%)		+£670m (AEG 45.5%)		+£360m (AEG 46.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES								
Avon	6	6	8	16	2	1	3	4
Bedfordshire	9	7	10	14	5	3	4	3
Berkshire	5	5	3	1	1	1	-3	-4
Buckinghamshire	5	4	3	1	0	0	-3	-5
Cambridgeshire	5	4	3	0	-0	0	-3	-5
Cheshire	9	7	8	8	4	3	2	2
Cleveland	8	9	10	21	3	0	4	7
Cornwall	2	2	2	-3	-2	-2	-5	-9
Cumbria	3	3	4	6	-1	-1	-1	-1
Derbyshire	7	4	9	4	2	0	3	-1
Devon	5	4	5	0	1	0	-1	-5
Dorset	5	4	2	0	0	1	-3	-5
Durham	4	5	5	8	0	1	-0	-0
East Sussex	4	4	2	-0	0	0	-3	-5
Essex	6	6	5	3	2	2	-1	-2
Gloucestershire	6	5	2	2	1	1	-4	-3
Hampshire	6	5	5	2	1	1	-0	-3
Hereford and Worcester	4	4	3	0	-0	-0	-3	-5
Hertfordshire	8	7	7	6	4	3	2	1
Humberside	7	6	7	10	2	1	2	1
Isle of Wight	4	2	3	3	-0	-1	-2	-3
Kent	6	4	6	-0	2	-0	0	-6
Lancashire	8	8	8	7	3	3	2	1
Leicestershire	5	4	5	0	0	-0	-1	-5
Lincolnshire	5	4	3	1	0	0	-3	-4
Norfolk	4	2	4	-4	-1	-2	-3	-9
Northamptonshire	4	0	4	-1	-1	-4	-2	-7
Northumberland	3	1	3	5	-1	-2	-2	-3
North Yorkshire	6	5	4	3	2	2	-1	-1
Nottinghamshire	8	4	10	9	3	0	4	1
Oxfordshire	8	7	6	5	4	3	1	1
Shropshire	3	3	1	-3	-2	-2	-6	-8
Somerset	5	5	2	2	1	1	-4	-4
Staffordshire	6	5	6	6	2	1	1	1
Suffolk	5	4	3	1	1	1	-2	-4
Surrey	8	7	5	5	4	3	1	1
Warwickshire	8	6	6	5	3	3	1	0
West Sussex	3	3	2	-2	-1	-0	-3	-7
Wiltshire	5	4	3	1	0	0	-3	-4

1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 45.5%)		+£360m (AEG 46.1%)		+£670m (AEG 45.5%)		+£360m (AEG 46.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON								
City of London	4	4	4	4	3	3	3	3
Camden	5	5	5	5	2	2	2	2
Greenwich	16	17	21	20	11	12	16	13
Hackney	18	20	26	26	9	8	17	14
Hammersmith and Fulham	25	20	37	35	13	7	23	19
Islington	14	16	20	20	7	6	13	11
Kensington and Chelsea	11	6	18	12	-2	-6	1	-4
Lambeth	10	16	16	19	5	7	10	11
Lewisham	10	19	16	22	4	10	10	13
Southwark	14	16	20	20	7	7	13	11
Tower Hamlets	17	17	22	20	11	11	16	13
Wandsworth	-1	-3	-6	-8	-16	-16	-24	-25
Westminster	4	4	4	4	3	3	3	3
Barking and Dagenham	16	14	21	24	10	6	14	12
Barnet	10	11	12	15	5	3	6	4
Bexley	11	11	14	17	6	4	7	5
Brent	16	28	15	27	9	16	9	15
Bromley	9	7	9	11	4	3	3	2
Croydon	4	3	1	0	-2	-2	-7	-6
Ealing	10	8	13	16	4	2	6	3
Enfield	7	7	9	16	2	-0	3	2
Haringey	8	15	12	18	2	5	6	9
Harrow	6	12	11	20	1	1	4	7
Havering	13	12	17	19	8	5	10	8
Hillingdon	15	13	21	24	9	4	14	11
Hounslow	11	12	11	12	5	10	4	10
Kingston-upon-Thames	11	11	14	17	6	4	8	6
Merton	7	5	6	4	1	0	-1	-2
Newham	16	14	23	26	7	3	13	11
Redbridge	8	6	8	6	3	2	2	0
Richmond-upon-Thames	5	12	8	18	1	1	3	5
Sutton	9	7	9	8	4	2	2	1
Waltham Forest	15	15	19	19	8	9	13	11
GLC	10	10	10	10	8	8	8	8
ILEA	5	5	5	5	3	3	3	3
Met. Police	10	8	13	10	4	2	6	3

1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+f670m (AEG 45.5%)		+f360m (AEG 46.1%)		+f670m (AEG 45.5%)		+f360m (AEG 46.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>								
Bolton	4	2	2	1	-1	-2	-4	-5
Bury	11	11	13	16	7	4	7	5
Manchester	16	17	20	22	9	9	13	12
Oldham	3	1	2	1	-3	-4	-5	-5
Rochdale	7	13	13	24	1	2	6	11
Salford	3	10	6	17	-2	-2	0	4
Stockport	9	7	8	8	4	3	2	2
Tameside	-0	12	3	19	-5	0	-2	6
Trafford	9	7	8	7	4	3	2	1
Wigan	3	12	6	18	-1	0	1	5
<b>MERSEYSIDE</b>								
Knowsley	3	12	8	21	-2	1	2	8
Liverpool	7	18	9	25	1	6	2	10
St Helens	11	11	13	16	6	4	7	5
Sefton	7	6	4	4	2	2	-1	-1
Wirral	2	0	3	7	-3	-4	-3	-4
<b>SOUTH YORKSHIRE</b>								
Barnsley	12	12	16	19	8	5	10	8
Doncaster	5	12	9	21	0	2	4	8
Rotherham	3	6	4	16	-1	-3	-1	3
Sheffield	12	15	16	24	7	5	10	12
<b>TYNE AND WEAR</b>								
Gateshead	15	13	20	22	10	7	14	11
Newcastle upon Tyne	8	19	8	19	4	12	4	11
North Tyneside	12	15	16	24	7	5	11	12
South Tyneside	15	14	20	25	9	4	13	13
Sunderland	1	18	2	25	-4	6	-3	12
<b>WEST MIDLANDS</b>								
Birmingham	6	2	6	-3	-0	-3	-2	-10
Coventry	12	12	16	18	7	5	9	7
Dudley	4	4	-1	-1	-1	-0	-7	-6
Sandwell	7	5	6	5	2	1	-0	-1
Solihull	6	5	3	2	1	0	-3	-3
Walsall	8	6	9	14	3	1	3	1
Wolverhampton	8	6	7	6	2	1	0	-1
<b>WEST YORKSHIRE</b>								
Bradford	5	4	8	4	-0	-1	1	-2
Calderdale	-2	-4	-2	0	-6	-8	-7	-8
Kirklees	1	3	2	8	-3	-2	-4	-3
Leeds	9	7	9	10	4	3	3	2
Wakefield	9	7	8	8	4	3	3	2



1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 44.5%)		+£360m (AEG 45.1%)		+£670m (AEG 44.5%)		+£360m (AEG 45.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
CLASS SUMMARY								
Shire districts	9.8	9.7	9.5	10.1	5.4	4.8	4.3	3.5
Shire counties	8.4	7.3	7.2	6.5	4.0	3.2	1.7	.5
Metropolitan districts	9.2	11.4	11.3	14.8	4.1	4.4	5.2	5.4
Metropolitan counties	9.2	12.1	11.9	17.1	4.3	3.9	6.2	7.2
Inner London boroughs/ILEA	6.8	7.3	8.3	8.3	3.6	3.7	5.0	4.5
Outer London boroughs	12.6	14.1	15.1	18.2	6.9	6.6	8.5	8.4
GLC and Metropolitan Police	11.0	10.2	12.0	11.0	7.9	7.2	8.5	7.6
England	9.0	9.2	9.4	10.1	4.6	4.2	4.1	3.4

\* Is poundage change (%) if authority were to make a real terms standstill in its total expenditure.  
A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* Is poundage change (%) if authority were to make a 2% real terms cut in its total expenditure.  
A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT
 

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	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+f670m (AEG 44.5%)		+f360m (AEG 45.1%)		+f670m (AEG 44.5%)		+f360m (AEG 45.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES								
Avon	6	6	7	16	2	1	2	3
Bedfordshire	13	10	14	17	8	6	8	6
Berkshire	9	8	6	5	4	4	0	-0
Buckinghamshire	8	8	5	4	4	3	-0	-1
Cambridgeshire	8	7	5	4	4	3	-1	-1
Cheshire	12	10	12	11	7	6	7	5
Cleveland	7	9	10	21	3	0	4	7
Cornwall	6	6	2	-0	1	1	-4	-5
Cumbria	3	3	4	6	-1	-0	-1	-1
Derbyshire	7	4	8	4	2	0	3	-1
Devon	8	7	5	3	3	3	-1	-2
Dorset	8	8	4	4	4	4	-1	-1
Durham	7	5	7	8	3	1	2	0
East Sussex	8	7	4	3	4	4	-1	-2
Essex	10	9	8	6	6	5	2	1
Gloucestershire	9	8	6	5	5	4	1	0
Hampshire	9	8	6	5	5	4	1	0
Hereford and Worcester	8	7	5	4	4	3	-1	-2
Hertfordshire	12	10	11	9	7	6	6	4
Humberside	6	6	7	10	2	2	1	1
Isle of Wight	7	5	7	6	3	1	2	0
Kent	7	7	6	2	2	2	0	-3
Lancashire	8	8	8	7	3	4	2	1
Leicestershire	8	7	5	4	3	3	-1	-2
Lincolnshire	9	8	6	4	4	3	-0	-1
Norfolk	5	6	3	-1	1	2	-2	-6
Northamptonshire	4	3	4	1	-0	-1	-2	-5
Northumberland	6	4	7	8	2	0	1	-0
North Yorkshire	10	9	8	7	6	5	3	2
Nottinghamshire	8	4	10	9	3	0	4	1
Oxfordshire	11	10	10	8	7	6	5	4
Shropshire	6	6	1	1	1	2	-5	-5
Somerset	9	8	6	5	5	4	1	-0
Staffordshire	8	6	8	7	4	2	3	1
Suffolk	8	8	6	5	4	4	0	-0
Surrey	11	10	10	8	7	6	5	4
Warwickshire	11	9	10	9	7	5	5	4
West Sussex	7	6	2	1	3	3	-3	-3
Wiltshire	8	8	5	4	4	4	-0	-1

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 44.5%)		+£360m (AEG 45.1%)		+£670m (AEG 44.5%)		+£360m (AEG 45.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON								
City of London	4	4	4	4	3	3	3	3
Camden	5	5	5	5	2	2	2	2
Greenwich	17	18	22	20	12	12	17	13
Hackney	18	21	27	26	9	9	17	14
Hammersmith and Fulham	26	23	38	35	13	10	25	19
Islington	14	16	21	21	7	7	13	11
Kensington and Chelsea	16	10	24	16	2	-2	7	1
Lambeth	11	16	16	19	5	8	10	11
Lewisham	10	19	16	22	4	10	10	13
Southwark	14	16	20	20	7	7	13	11
Tower Hamlets	17	17	23	20	11	11	17	13
Wandsworth	5	3	2	-2	-10	-11	-16	-19
Westminster	4	4	4	4	3	3	3	3
Barking and Dagenham	17	17	22	25	10	8	15	13
Barnet	13	13	16	18	8	6	10	7
Bexley	14	14	18	20	9	6	11	8
Brent	16	27	15	26	9	15	8	15
Bromley	12	10	13	14	8	6	7	5
Croydon	8	7	5	4	2	2	-2	-3
Ealing	14	11	17	19	8	5	10	6
Enfield	10	10	13	19	5	2	6	5
Haringey	8	15	13	18	3	6	7	9
Harrow	9	15	14	23	4	3	8	9
Havering	16	15	21	22	11	8	14	11
Hillingdon	17	16	22	24	11	7	15	14
Hounslow	11	12	10	12	5	10	4	10
Kingston-upon-Thames	14	14	18	20	10	7	12	9
Merton	10	8	10	8	5	3	3	1
Newham	17	17	24	26	8	6	14	12
Redbridge	11	9	12	10	6	5	6	4
Richmond-upon-Thames	8	14	12	21	4	3	6	8
Sutton	12	10	13	11	7	5	7	4
Waltham Forest	15	15	20	19	9	10	14	12
GLC	10	10	10	10	8	8	8	8
ILEA	5	5	5	5	3	3	3	3
Met. Police	14	10	17	13	8	5	10	7



1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 44.5%)		+£360m (AEG 45.1%)		+£670m (AEG 44.5%)		+£360m (AEG 45.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>								
Bolton	7	5	6	4	2	1	0	-1
Bury	14	14	16	19	10	7	11	8
Manchester	16	18	21	22	10	10	15	12
Oldham	6	4	6	4	1	-1	-0	-2
Rochdale	10	15	16	26	4	4	9	13
Salford	6	12	10	20	1	1	4	7
Stockport	12	10	12	11	8	6	7	5
Tameside	2	14	7	21	-2	3	1	9
Trafford	12	10	12	10	7	6	6	5
Wigan	6	14	10	21	2	3	4	8
<b>MERSEYSIDE</b>								
Knowsley	6	14	11	24	0	3	5	10
Liverpool	7	18	12	24	1	6	5	10
St Helens	14	14	17	19	9	6	11	8
Sefton	10	9	9	7	6	5	3	2
Wirral	1	0	2	6	-3	-4	-3	-4
<b>SOUTH YORKSHIRE</b>								
Barnsley	15	15	19	22	10	8	14	10
Doncaster	8	15	12	24	3	4	7	11
Rotherham	6	9	8	19	2	-1	-3	6
Sheffield	13	17	17	24	7	7	12	13
<b>TYNE AND WEAR</b>								
Gateshead	18	16	23	24	13	9	17	14
Newcastle upon Tyne	8	19	8	19	4	11	3	11
North Tyneside	13	17	17	24	7	7	12	13
South Tyneside	16	16	21	26	10	7	14	13
Sunderland	0	17	2	24	-4	6	-4	11
<b>WEST MIDLANDS</b>								
Birmingham	6	5	6	1	0	-0	-2	-6
Coventry	15	14	20	21	10	8	13	10
Dudley	7	7	3	3	3	3	-2	-3
Sandwell	10	8	11	8	5	4	4	2
Solihull	9	8	7	6	4	4	1	0
Walsall	11	8	13	17	6	4	7	4
Wolverhampton	11	9	12	9	5	4	5	3
<b>WEST YORKSHIRE</b>								
Bradford	5	4	7	4	-0	-1	1	-2
Calderdale	1	-1	2	3	-3	-5	-3	-5
Kirklees	1	2	2	7	-4	-2	-3	-3
Leeds	12	10	13	13	8	6	7	5
Wakefield	12	10	12	11	8	6	7	5



## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 43.5%)		+£360m (AEG 44.1%)		+£670m (AEG 43.5%)		+£360m (AEG 44.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>CLASS SUMMARY</b>								
Shire districts	11.9	12.0	11.8	12.3	7.5	7.2	6.7	5.7
Shire counties	10.8	9.7	9.5	9.0	6.5	5.6	4.2	3.0
Metropolitan districts	11.1	13.4	13.2	16.6	6.1	6.3	7.1	7.3
Metropolitan counties	9.1	12.5	11.7	16.9	4.3	4.5	6.2	7.2
Inner London boroughs/ILEA	6.9	7.5	8.5	8.4	3.7	3.8	5.2	4.6
Outer London boroughs	14.2	15.9	16.9	19.8	8.5	8.5	10.4	10.1
GLC and Metropolitan Police	11.7	10.9	12.8	11.7	8.6	7.9	9.3	8.4
England	10.7	10.9	11.1	11.9	6.4	6.0	5.9	5.2

\* Is poundage change (%) if authority were to make a real terms standstill in its total expenditure. A real terms standstill in total expenditure for all authorities is roughly equivalent to a 3% real terms cut in current expenditure (see Annex 1 for details).

\*\* Is poundage change (%) if authority were to make a 2% real terms cut in its total expenditure. A 2% real terms cut in total expenditure for all authorities is roughly equivalent to a 5% real terms cut in current expenditure (see Annex 1 for details).

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+f670m (AEG 43.5%)		+f360m (AEG 44.1%)		+f670m (AEG 43.5%)		+f360m (AEG 44.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
SHIRE COUNTIES								
Avon	6	6	7	15	2	1	2	3
Bedfordshire	16	13	17	20	11	9	11	9
Berkshire	12	11	9	8	8	7	4	3
Buckinghamshire	12	11	9	8	7	6	3	2
Cambridgeshire	11	11	8	7	7	6	3	2
Cheshire	15	13	15	14	10	9	10	8
Cleveland	7	9	9	20	2	0	3	7
Cornwall	9	9	4	3	4	5	-2	-2
Cumbria	5	3	6	6	1	-0	1	-1
Derbyshire	6	4	8	4	2	1	3	-0
Devon	11	10	7	6	6	6	1	1
Dorset	11	11	8	7	7	7	3	2
Durham	9	7	10	11	5	4	5	3
East Sussex	11	11	7	6	7	7	2	2
Essex	13	12	11	10	9	8	6	5
Gloucestershire	12	11	10	8	8	7	4	3
Hampshire	12	11	10	8	8	7	5	3
Hereford and Worcester	11	10	8	7	7	6	3	2
Hertfordshire	14	13	14	12	10	9	9	7
Humberside	7	6	9	10	3	2	3	1
Isle of Wight	10	8	10	9	6	4	5	3
Kent	10	10	6	5	6	6	1	0
Lancashire	9	8	9	7	4	4	3	2
Leicestershire	11	10	8	7	6	6	2	1
Lincolnshire	12	11	9	8	7	6	3	2
Norfolk	9	9	3	3	4	5	-2	-2
Northamptonshire	7	6	6	4	3	2	-0	-1
Northumberland	9	7	10	10	5	3	4	2
North Yorkshire	13	11	12	10	9	8	6	5
Nottinghamshire	7	4	10	9	3	1	4	1
Oxfordshire	14	12	13	11	10	9	8	7
Shropshire	10	9	5	4	5	5	-1	-1
Somerset	12	11	10	8	8	7	4	3
Staffordshire	11	9	11	9	6	5	6	4
Suffolk	12	11	9	8	7	7	4	3
Surrey	14	12	13	11	10	9	8	7
Warwickshire	14	12	14	12	10	8	8	7
West Sussex	10	10	5	5	6	6	0	0
Wiltshire	12	11	9	7	7	7	3	2

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+£670m (AEG 43.5%)		+£360m (AEG 44.1%)		+£670m (AEG 43.5%)		+£360m (AEG 44.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
GREATER LONDON								
City of London	4	4	4	4	3	3	3	3
Camden	5	5	5	5	2	2	2	2
Greenwich	17	18	22	20	12	12	17	13
Hackney	18	21	27	26	10	9	18	14
Hammersmith and Fulham	26	25	38	36	14	12	25	20
Islington	14	16	21	21	7	7	14	11
Kensington and Chelsea	20	14	28	21	7	2	12	5
Lambeth	11	16	16	19	5	8	11	11
Lewisham	10	19	17	22	5	10	11	13
Southwark	14	16	21	20	7	7	14	11
Tower Hamlets	17	18	23	21	11	11	17	13
Wandsworth	10	8	8	3	-5	-5	-10	-14
Westminster	4	4	4	4	3	3	3	3
Barking and Dagenham	17	19	23	25	11	10	16	13
Barnet	16	16	19	21	11	9	13	10
Bexley	17	16	21	22	12	9	14	11
Brent	15	26	14	26	9	15	8	15
Bromley	15	13	17	17	10	9	11	8
Croydon	11	10	9	7	5	5	2	0
Ealing	16	14	20	22	10	8	13	9
Enfield	13	13	16	22	7	5	9	8
Haringey	8	15	13	18	3	6	7	9
Harrow	12	17	17	25	6	6	11	12
Havering	19	17	24	25	13	10	17	13
Hillingdon	17	18	23	24	11	9	16	14
Hounslow	10	12	10	12	5	10	4	10
Kingston-upon-Thames	17	17	21	22	12	10	15	11
Merton	13	11	14	11	8	6	6	4
Newham	17	19	24	26	8	8	15	12
Redbridge	14	12	15	13	9	7	9	7
Richmond-upon-Thames	10	17	14	24	6	6	9	11
Sutton	15	13	16	14	10	8	10	7
Waltham Forest	16	16	21	19	9	10	14	12
GLC	10	10	10	10	8	8	8	8
ILEA	5	5	5	5	3	3	3	3
Met. Police	16	13	20	16	10	8	13	9

## 1986/7 SETTLEMENT - % POUNDAGE CHANGES FOR REAL TOTAL EXPENDITURE STANDSTILL AND 2% REAL CUT

	Poundage change (%) if real standstill *				Poundage change (%) if 2% real cut **			
	+f670m (AEG 43.5%)		+f360m (AEG 44.1%)		+f670m (AEG 43.5%)		+f360m (AEG 44.1%)	
	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)	Without targets (%)	With targets (%)
<b>GREATER MANCHESTER</b>								
Bolton	10	8	10	7	5	4	3	2
Bury	17	17	20	22	12	10	14	11
Manchester	16	18	22	22	10	11	15	13
Oldham	9	7	9	7	3	2	3	1
Rochdale	11	17	17	28	5	6	10	15
Salford	8	15	13	23	4	3	6	9
Stockport	15	13	15	14	10	9	10	8
Tameside	5	16	9	24	-0	5	4	11
Trafford	15	13	16	13	10	8	10	8
Wigan	8	17	13	23	4	5	7	10
<b>MERSEYSIDE</b>								
Knowsley	8	17	14	26	2	5	7	13
Liverpool	9	17	15	25	3	5	8	11
St Helens	16	16	20	22	12	9	14	11
Sefton	13	12	12	10	9	8	6	5
Wirral	3	1	5	7	-1	-3	-1	-3
<b>SOUTH YORKSHIRE</b>								
Barnsley	18	17	22	25	13	10	17	13
Doncaster	10	17	15	26	5	6	9	13
Rotherham	8	11	11	21	4	2	6	8
Sheffield	13	19	17	24	8	9	12	13
<b>TYNE AND WEAR</b>								
Gateshead	19	18	24	26	14	12	18	16
Newcastle upon Tyne	8	19	8	19	4	11	3	11
North Tyneside	13	19	18	24	8	9	12	13
South Tyneside	16	19	21	26	10	9	15	14
Sunderland	-0	17	1	23	-4	6	-4	10
<b>WEST MIDLANDS</b>								
Birmingham	9	9	6	4	3	3	-2	-3
Coventry	18	17	23	24	13	10	16	13
Dudley	11	10	7	6	6	6	1	1
Sandwell	13	11	14	11	8	6	7	5
Solihull	12	11	10	9	7	7	5	3
Walsall	13	11	16	20	9	6	10	7
Wolverhampton	14	12	15	12	8	7	8	6
<b>WEST YORKSHIRE</b>								
Bradford	4	4	7	4	-0	-0	1	-2
Calderdale	4	2	5	6	-1	-2	-0	-3
Kirklees	3	2	5	7	-1	-2	-0	-3
Leeds	15	13	16	16	10	9	10	8
Wakefield	15	13	16	14	10	9	10	8





Prime Minutes (2)

To note

AT 24/6

cc ~~TA~~  
 SA

2 MARSHAM STREET  
 LONDON SW1P 3EB  
 01-212 3434

My ref:

Your ref:

24 June 1985

mb

Dear Mark

LOCAL AUTHORITY CAPITAL EXPENDITURE IN ENGLAND, 1985/6

I am writing to forewarn you of an announcement which my Secretary of State proposes to make next Wednesday, 26 June. It concerns the estimate, based on returns from local authorities in England, of the main capital expenditure cash limit in the current financial year. Net capital expenditure is expected to be in the range £1850m-£2750m compared with the cash limit of £1911m. It is therefore again likely that there will be an overspend. The figures are uncertain, and the Chief Secretary has agreed with my Secretary of State that no corrective action should be taken at present, as indicated in the attached draft Parliamentary Answer. He will continue to monitor the position.

We are committed to discussing the analysis of their returns with representatives of the local authority associations before an announcement is made. To minimise any risk of premature disclosure, a short paper will be sent to the associations in confidence on Tuesday, 25 June, for discussion with them the following day, leaving time, if necessary, for any amendment to be made to the answer that afternoon.

I am copying this letter and attachment to the private secretaries to the members of E(A), the Chief Whip and Sir Robert Armstrong.

Yours ever  
 A H Davis

A H DAVIS  
 Private Secretary

Mark Addison Esq



DRAFT PARLIAMENTARY ANSWER

Q. To ask the Secretary of State for the Environment, what forecast he has made of local authority capital expenditure in England in 1985/86; and if he will make a statement.

A. From returns submitted by local authorities, I estimate that net expenditure on services covered by the main cash limit will be in the range £1850m-£2750m compared with the cash limit of £1911m. Expenditure by local authorities on the urban programme and derelict land reclamation is likely to be within the total of £279m which is the local authority element of the urban aid cash limit.

I am concerned that there is again the prospect of an overspend against the main cash limit. This underlines the importance of the review which we are conducting with the local authority associations to find an improved system of control, ~~for the future.~~

I announced in the House on 18 December 1984 (Official Report col 165) that there would be no corrective action provided that outturn appeared likely to be within 5% of the cash limit (ie up to approximately £2000m). I recognise that authorities had to complete the recent returns at a very early stage and that there is still a considerable degree of uncertainty about the prospects for the year's outturn. I do not wish to cause unnecessary disruption to authorities' capital programmes when the figures are still so uncertain, and I propose no action at present. I shall continue to monitor the situation. If in the event there is an overrun on the cash limit it would be met from the reserve of £5 billion and <sup>would</sup> not ~~therefore~~ add to the planned total of public expenditure.



3



Prime Minister (2)  
 Do E was told not to concede that  
 principle of an advisory and consultative  
 body on planning in London unless it was  
 absolutely necessary. In the event Lord  
 Elton felt he had to offer the concession  
 (on a vote subsequent vote). The text  
 of the new clause is attached

2 MARSHAM STREET  
 LONDON SW1P 3EB  
 01-212 3434

My ref:

Your ref:

21 June 1985

Dear Lord President

LOCAL GOVERNMENT BILL: PLANNING AMENDMENTS FOR THIRD READING

Further to my letter of 28 May, you will be aware of the outcome  
 of the planning debates at Report on 10 June during which Rodney  
 Elton undertook, as we had agreed, to bring forward amendments  
 at Third Reading to provide for a borough-based planning committee  
 for London. I am sure that the flexibility that Rodney was able  
 to show contributed to our success in winning the three votes  
 - albeit by narrow margins.

I attach a copy of the amendments which we are now discussing  
 with John Sandford and with the London Boroughs Association.  
 You will see that the new clause applies only to London, where  
 the Committee would replace the London Planning Commission at  
 present provided for by the Bill. I believe that we can continue  
 to justify having special arrangements for London.

You will recall that Phyllis Stedman pressed very strongly for  
 any provision to extend also to the Met Counties. Although Rodney  
 undertook to consider this, he made it absolutely clear that  
 this was without commitment. I have no doubt, however, that  
 amendments to extend the new clause to the Met Counties will  
 be moved at Third Reading, and we must be prepared to resist  
 that.

I am copying this letter to the Prime Minister and to the Business  
 Managers in both Houses, and to Sir Robert Armstrong.

Your sincerely

Atkin

for

PATRICK JENKIN

Approved by the Secretary of  
 State and signed in his absence

(References are to the Bill as amended in Committee)

LOCAL GOVERNMENT BILL  
AMENDMENTS  
TO BE MOVED ON THIRD READING  
BY THE LORD ELTON

CLAUSE 4

Page 3, line 11, leave out subsection (2).

AFTER CLAUSE 4

Insert the following new Clause:-

("Joint  
planning  
committee  
for Greater  
London.

.-(1) The local planning authorities in Greater London shall not later than the abolition date establish a joint committee to discharge the functions mentioned in subsection (2) below.

(2) The joint committee required to be established under this section by the local planning authorities in Greater London shall -

- (a) consider and advise those authorities on matters of common interest relating to the planning and development of Greater London;
- (b) inform the Secretary of State of the views of those authorities concerning such matters including any such matters as to which he has requested their advice;

CONFIDENTIAL

- (c) inform the local planning authorities in areas adjoining Greater London, or any body on which those authorities and the local planning authorities in Greater London are represented, of the views of the local planning authorities in Greater London concerning any matters of common interest relating to the planning and development of Greater London and those adjoining areas;

and the committee may, if it thinks fit, contribute towards the expenses of any such body as is mentioned in paragraph (c) above.

(3) The expenses of the joint committee which have been incurred with the approval of at least two-thirds of the local planning authorities in Greater London shall be defrayed by those authorities in such proportions as they may decide or, in default of a decision by them, as the Secretary of State may determine.

(4) In this section references to the local planning authorities in Greater London are to the authorities which are the local planning authorities in Greater London for the purposes of Part II of the Town and Country Planning Act 1971 or section 4 above.").

#### SCHEDULE 1

Page 90, line 37, leave out Part II.

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Relative : local Gov. Pt 27.



cc ~~IF~~  
File  
2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

20 June 1985

Recd 15.25  
20/6.

Dear Andrew

LIVERPOOL

I enclose a line to take and a background note on Liverpool for the Prime Minister's Question Time this afternoon. I also enclose some further Q and A which you may find helpful to have in the office.

Yours sincerely  
John Ballard

JOHN BALLARD  
Private Secretary

Andrew Turnbull Esq

BRIEFING FOR PRIME MINISTER'S QUESTION TIME, 20 JUNE

LIVERPOOL CITY COUNCIL : LINE TO TAKE

The Council has made its rate and must now live with it. If they don't take steps to manage properly it will be their employees and the people of Liverpool who suffer. There are no powers to appoint Commissioners.



- Q1. Surely the Council is in an impossible position which Government grant penalties only make worse?
- A1. The present City Council have been in power since May 1983. They have done nothing to economise or increase efficiency. The Government have made ample resources available to Liverpool - £118m in block grant alone for this year. The Council's difficulties are of their own making.
- Q2. Won't the Government bail the City Council out?
- A2. Enormous sums of Government money are provided to Liverpool and Merseyside - over £1,000m last year. There will be no special concessions to the City Council. They must sort themselves out.
- Q3. Why won't the Attorney General act against the Council to quash the rate?
- A3. It is for the Council to sort themselves out.
- Q4. Is action by the Auditor irreversible? Will the Councillors concerned be surcharged and disqualified?
- A4. This is a matter for the independent Auditor. The Audit Commission is independent of Government. But I understand he is proceeding to recover losses resulting from the delay in the Council fixing a rate and this could lead to surcharge and disqualification. In the end it will be for the Courts to decide if the Councillors appeal against the certificate of surcharge.
- Q5. What if Liverpool's credit collapses?
- A5. It is for Liverpool to manage its own finances now that it has set a rate.
- Q6. Will the City Council be allowed to collapse?
- A6. The City Council is responsible for managing its finances in the interests of the people of Liverpool. It has made a rate and must manage within it.
- Q7. Will the Government appoint Commissioners to run the City?
- A7. There are no powers to appoint Commissioners. The City Council must put its own affairs in order.

## BACKGROUND

- 1 On 14 June Liverpool City Council passed a budget resolution which shows a gap of £117m between income and expenditure - a 9% increase in rates where 83% would be necessary to balance the books.  
CONFIDENTIAL The Government have decided that the Attorney General should take no action against the Council, and nothing should be done to precipitate financial collapse. Draft legislation to appoint Commissioners has been prepared as a very last resort.
  
- 2 Next week the Auditor will issue formal notices of surcharge (including the amount) to the Councillors responsible for the delay in rate fixing. The Councillors will have three weeks to respond. If not persuaded to halt proceedings, the Auditor will then issue certificates of surcharge. (Since the amounts concerned will be over £2,000 these would carry automatic disqualification). The Councillors then have six weeks to appeal to the Courts. Disqualification would take effect at the end of the Appeal period, if no Appeal, or when all Appeal opportunities have been exhausted.  
  
LAMBETH
  
- 3 The Council are the only rate-capped authority yet to fix a rate. They are due to meet again on 3 July.

Relts

PRIME MINISTER

② This can be turned to advantage. AT 20/6

20 June 1985

LIVERPOOL

We are hearing rumours of an interesting new possibility in Liverpool.

It appears that the local militant leaders of NALGO, NUPE, GMBATU and other public service unions may be planning a strike in the near future.

ms

Such a strike would serve three purposes:

- i. It would cause considerable inconvenience. One union leader is reported to have talked about "bringing the city to a halt".
- ii. It would relieve the council of the need to pay its workforce. Even a few weeks of strike would enable the Treasurer to balance his books for some time to come: the unions and the DHSS would, in effect, be subsidising the council.
- iii. It would enable Mr Hatton to say that the breakdown of services was caused not by the council's financial irresponsibility, but rather by "democratic" trade union opposition to the Government's policies.

This is, in short, just the sort of wheeze that might get the council off the hook - though there are plenty of pitfalls: the unions may not be able to bring their members out; the union laws could be used; the explicitly political nature of the action may make it unpopular with local residents; and councillors may find it difficult to control events once the strike starts. Everything depends on how the different parties handle publicity.

We shall keep you in touch with further news as it arrives.

Ol Letwin

OLIVER LETWIN

**CONFIDENTIAL**

PRIME MINISTER

19 June 1985

LIVERPOOL: LATEST INFORMATION

An accountant from DoE talked at the CIPFA Conference to the Treasurer of Liverpool Council. The Treasurer apparently told him that the city's finances would be in reasonable shape for another three weeks, would become difficult in July, and would enter a critical phase at the end of August, when there is a major debt redemption.

This fits closely with our previous guess that the refinancing of debt would be the major problem. The new point is that the difficulty will arise at the end of August - which we did not know until now. But this is no cause for panic: unexpected sums turned up last year, and they may well do so again.

Prime Minister

*Ol Letwin*

OLIVER LETWIN

An accurate judgement is needed of when Liverpool might run out of money. If this were in the middle of August and Parliament had to be recalled, Liverpool would have scored something of a propaganda victory by getting the Government to dance to its tune.

The best outcome is for a ratepayer to take legal action requiring setting of a proper rate before end July; the next best is that the screws tighten slowly in the Autumn. Try to avoid satisfying Liverpool's attention seeking.

AT

**CONFIDENTIAL**

19/6



Minister for Local Government

Department of the Environment  
2 Marsham Street London SW1P 3EB  
Telephone 01-212 3434

My Ref: J/PSO/14814/85

19 June 1985

*Ken Baker*

*Attached*

Thank you for your letter of 14 June with a copy of the submission which your Department has in mind to put to the Widdicombe Inquiry.

I am most grateful for the opportunity to be able to comment in view of the sensitive and difficult issues involved. As you say, the submission which your Department has prepared is largely factual and sets out very fairly some particular areas of difficulty in the education service. I agree that it should not conflict with the wide-ranging submissions which we intend to make to the Inquiry and which my officials will be discussing further with yours.

Might I suggest, however, that further consideration be given to those points in the submission, particularly at paragraph 7.2 which refer to the lack of evidence held by your Department - and, by implication, within Government generally - on particular developments such as political influence exerted on local government officers. Our difficulty here is that much of the evidence which we have of political abuses in local government is not of a kind which would come to Government Departments in any formal way. That may, however, be taken all too easily by our critics to imply that there is no evidence at all - and that plainly is not the case.

/ I am copying this to Cabinet colleagues and to Sir Robert Armstrong.

*Ken Baker*

*Ken Baker*

KENNETH BAKER

Local Count: Rets Pt 27

SECRET

①

PRIME MINISTER

18 June 1985

LIVERPOOL

Patrick Jenkin has been doing well in the rate-capping campaign because he has done nothing. The nerves of the rebel councillors have given way under the strain. Even Lambeth - the last of the rate-capped authorities - will almost certainly give way in early July. Any ham-fisted government intervention in Liverpool might give Lambeth new hope and put the rate-capping success in jeopardy.

So the principal message is: do not panic now. Ministers should stick to the policy they agreed in MISC 109 long ago.

Liverpool Finances

Leaving aside expenditure funded by specific grants and charges, Liverpool plans to spend £117 million more than it receives in rates and block grant.

---

<u>Expenditure</u>	£ million
BUDGET (expenditure 'relevant' to block grant)	265
<u>Income</u>	
<u>Rate set for 1985/6 for city purposes (excluding Merseyside precept)</u>	125
<u>Block Grant</u>	29
LESS:	
<u>Deficit carried over from 1984/5</u>	(6)
NET 'RELEVANT' INCOME	148
DEFICIT	<u>117</u>

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SECRET

# SECRET

The deficit of £117 million may look horrifying; but it will not occur suddenly. Each month, Liverpool receives an instalment of block grant, and an instalment of rates. The City's cash flow therefore looks roughly like this:

£ million: rough estimates

	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>
<u>Monthly 'Relevant'</u>						
<u>Expenditure</u>	22	22	22	22	22	22
<u>Monthly 'Relevant'</u>						
<u>Income:</u>						
Block Grant	6	6	6	6	6	-*
Rates	<u>10**</u>	<u>10</u>	<u>-</u>	<u>5</u>	<u>10</u>	<u>10</u>
Total	16	16	6	11	16	10
<u>NET MONTHLY</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>DEFICIT</u>	<u>6</u>	<u>6</u>	<u>16</u>	<u>11</u>	<u>6</u>	<u>12</u>

NB

\* By mid-August, Liverpool will have used up its entire block grant entitlement.

\*\* Rates for 1984/5 were still being paid in April and May; rates for 1985/6 will probably start to come in during July, with higher rate flows later in the year.

As you can see from the table, the monthly deficits until September are not so huge. They could be funded by the City Treasurer in at least four ways:

1. Delaying various 'relevant' spending items until later in the year - there is usually more room for such manoeuvres than the pessimists believe.

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2. Temporarily diverting specific grants and fees/charges to cover the deficits in the early months - this, too, should be possible.
3. Borrowing short-term from other sympathetic councils, such as the GLC, Sheffield, Newcastle - risky, but likely to be exploited.
4. Spending slightly below budget - we do not know how far the budget is a propaganda exercise rather than an actual plan for spending: there may be a lower, 'hidden budget'.

For all these reasons, we do not believe that Liverpool is likely to go bust before the autumn, unless they have a major need for refinancing of debt in the intervening months. There will probably be a need for such refinancing in the near future; but it is not clear when this will arise, or how large the problem will be.

We believe that there is a real chance that Liverpool will still be up and running for at least another two or three months. And even if there is financial trouble, the City has shown that it will be quite capable of treating Liverpool differently from the rest of the Government debt market: there is no reason to fear a general collapse of confidence.

#### Political Strategy

Derek Hatton is undoubtedly engaged in a war of nerves.

If he holds out until September, the City auditors will have completed the initial stages of the surcharge and disqualification proceedings. The councillors could then accept disqualification, and cause by-elections in October, just as the finances are breaking down; or they might find a

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way of keeping the books in balance for yet longer, while they appeal against disqualification.

Whatever the outcome, Hatton's aim is to stretch your nerves to breaking-point. If you allow Patrick either to negotiate about cash handouts, or to send in the Attorney General, with writs firing on all sides, Hatton will think that he has you on the run.

Given that there is little prospect of immediate financial collapse, the best course is, surely, to take no Government action for the present, but rather to find some local ratepayer who will take the council to court and get the illegal rate quashed. Couldn't Central Office identify such a person? (Failing that, we have one or two ideas of our own).

Besides being much less heavy-handed, a local ratepayer is (paradoxically) much more difficult for the council to resist. If the Attorney General has a writ issued, the council can refuse to comply, and play 'David facing Goliath'; this would not be possible with a local ratepayer.

#### Conclusion

We recommend that you should:

1. resist pressure for any Government action at this stage;
2. ask Central Office to stimulate a local ratepayer to start legal proceedings.

*Oliver Letwin*

OLIVER LETWIN

SECRET

K01158

PRIME MINISTER

To note Policy Unit advice

AT 18/6

Liverpool City Council(Minute to you of 17 June 1985 from Secretary of State  
for the Environment)

## BACKGROUND

MISC 109(85) 2nd meeting on 26 March 1985 considered the line the Government should adopt towards rate limited authorities and Liverpool. That meeting agreed that particular care should be taken to avoid any impression that the Government was prepared to step in to protect irresponsible authorities from the consequences of their actions, for example by providing extra finance or by introducing Commissioners.

2. The budget Liverpool City Council adopted on 14 June would require a City rate of £241.9 million (an increase in the total rate of 83 per cent) to finance it. Instead Liverpool City Council resolved a rate increase of 9 per cent raising only £125 million and leaving a deficit of £117 million. There is no evidence that the Council will monitor expenditure against income during the year to ensure spending keeps in line. Because the rate is insufficient to meet estimated expenditure the belief is that it would be found unlawful if brought before a Court.

3. From 18 June the Government Broker will no longer approve any temporary loans to Liverpool or Lambeth; and the market and the Public Works Loan Board are unlikely to wish to lend to Liverpool City given the potential deficit. The Treasurer of the City Council believes he may have cash flow problems by the end of June. The financial collapse of the City is therefore probable before the end of the year, and possibly sooner rather than later unless the Council makes a new, legal, rate. This it can only do if the present rate is quashed by a Court on grounds of insufficiency.



### Proposals

4. In his minute Mr Jenkin sets out three options for action in the light of Liverpool's decision to set a low rate and a deficit budget -

(a) to refuse to be drawn by the Council and to leave action to a local ratepayer and the Auditor; or

*The rate payer would seek equivalent action to the AG*

(b) to ask the Attorney General to seek judicial review of the Council's resolution, quashing the rate and making an Order against the Council to make a properly balanced budget and rate; or

(c) to negotiate with the Council and provide special grant or special borrowing consent.

5. Option C would mean a climb-down and a U-turn in Government policy which Mr Jenkin rejects forthwith. He believes the two other options are finely balanced, but recommends (b).

### MAIN ISSUE

6. The main issue for decision is -

whether to leave action to a local ratepayer or the auditor, or whether the Attorney General should seek judicial review of Liverpool's rate decision;

Other issues are -

whether to pay rate-dependent grants now that Liverpool has set a rate;

whether further attention should be given to contingency arrangements;

whether potential Commissioners should be approached in anticipation of service collapse.



Whether the Attorney General should seek judicial review

7. The arguments in favour are -

(a) it would show the Government's determination to nip in the bud deficit budgeting by local authorities;

(b) it is the only way to ensure that the Council have a further opportunity to make a legal rate (there is no evidence as yet that anyone else, eg. a local ratepayer, is prepared to apply to the courts);

(c) it might prevent financial collapse and the need for Commissioners - but there is no guarantee.

8. The arguments against are -

(a) the provocative action of Liverpool City Council notwithstanding, this would bring the Government straight away into a major political dispute with the Council; the Government would inevitably be accused of seeking to topple the Council for political reasons; (Government would be seen as intervening, before pressure developed in Liverpool calling for Government intervention.)

(b) the possibility of financial collapse and the eventual need to appoint Commissioners would remain;

(c) there is no guarantee the Council would set a new higher rate, even if it was given the chance;

(d) even if it did set a new higher rate, it would make sure the blame lay with the Government.

9. It seems likely that if either the Labour Group or anyone else wanted to set a different rate, then a local individual could be found to apply to the Court. The issue of whether the Attorney General should apply to the Courts seems therefore primarily to turn on the advantage to the Government of being

Have hand  
have they  
tried to find  
one?



seen to take action at this point. The pressure on the Labour Group may be stronger if the need to find their next move is left very clearly in their hands. The effect on Lambeth (the other remaining authority yet to rate) also needs to be considered.

#### Payment of Grant

10. So far this financial year, the Secretary of State for the Environment has not paid those grants which depend on a rate being set (eg. rate rebates, disabled rate relief, etc). Now that a rate has been passed, a decision needs to be taken on the propriety of making these grants, given the doubt about the rate's legality.

11. To pay these grants would ease the financial position of the City Council, would postpone the financial collapse and would buy time. But paying them might seem inconsistent if the Government were simultaneously challenging in the Courts the legality of the rate that had been set, and might conceivably prejudice the Government's legal argument that the rate was illegal. If, however, the Government does not initiate Court action forthwith, the case for withholding these grants is undermined.

#### Contingency Preparations

12. Mr Jenkin suggests that the contingency preparations should be examined again, because there is no guarantee against financial collapse and the need to appoint Commissioners. At MISC 109(85) 2nd meeting on 26 March 1985, Mr Jenkin said that contingency planning could not be taken much further without consulting outside bodies. You may wish to ask Mr Jenkin if he feels outside consultation is now necessary and, if so, what kind of consultation he has in mind.

#### Possible Approaches to Commissioners

13. Mr Jenkin suggests that the Government should shortly be approaching possible Commissioners in case there is an early



collapse. MISC 109(85) 2nd meeting on 26 March agreed that, at that time, no approaches should be made to possible Commissioners. It is obviously desirable to avoid the Government's plans being public at too early a stage (the same argument applies in respect of contingency arrangements generally, Paragraph 13 above) - but it may also be difficult, in practice, to find a sufficient number of suitable Commissioners (which points towards timely approaches). The collapse of services and the introduction of Commissioners may not follow too closely on financial difficulties. But time is beginning to run short and it might be wise to put approaches to possible Commissioners in hand soon.

#### Commissioner Legislation

14. Mr Jenkin says that Commissioner legislation might be needed during the summer or early autumn - possibly during the recess. Because events in Lambeth are uncertain as yet, it is too soon to decide whether the legislation (if needed) should cover Liverpool only or be more general. Unless the legislation is passed before the end of July there must be some possibility that Parliament might have to be recalled during the recess to deal with it. Decisions on these points may be easier to take as events become clearer in the next few weeks. But Mr Jenkin should not delay on bringing forward any outstanding policy issues on Commissioners.

#### HANDLING

15. I suggest that you deal first with the major issue for decision - whether the Attorney General should apply to the courts - and discuss other issues (payment of grants, contingency preparations and possible approaches to Commissioners) afterwards.

16. You will wish to invite the Secretary of State for the Environment to introduce his minute. All members of MISC 109 are likely to wish to contribute. The views of the Attorney General will be particularly relevant.

17. Once a decision has been taken on the main issue, you may



wish to invite the Secretary of State for the Environment to speak to the other points raised in his minute - whether rate-dependent grant should be paid, and his suggestions for a further look at contingency arrangements and possible approaches to Commissioners. The Attorney General and the Minister of State, Treasury will have views, and other Ministers may well wish to contribute.

## CONCLUSIONS

18. You will wish the Group to reach conclusions on -

- (i) (a) whether the Government should leave any action to a local rate payer and the District Auditor; or
  - (b) whether the Attorney General should seek judicial review of the Council's resolution, the quashing of the rate and the making of an Order against the Council to make a properly balanced budget and rate; or
  - (c) some other course of action.
- (ii) Payment of Grant - whether the Government should resume payment of grants dependent on a rate being set - or not;
  - (iii) whether more work needs to be done on contingency arrangements, and whether such work should involve consultation outside Government;
  - (iv) whether the Secretary of State for the Environment should shortly approach possible Commissioners;

and to note

- (v) that Commissioner legislation might be needed during the summer or early autumn.

C J S BREARLEY

18 June 1985





R. 18/6

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10 DOWNING STREET

From the Private Secretary

17 June 1985

Further to our telephone conversation I am now writing to confirm that the meeting with the Prime Minister will take place on Friday 5 July at 1530 at No. 10 Downing Street.

Copies sent {

I am copying this letter to Councillor Lewis Moss and Councillor Peter Bowness who will also be present at the meeting.

CAROLINE RYDER

K. R. Thomason, Esq.

7 Berwick Road,  
Bournemouth, BH3 7BB

Local Govt

Relating to 27

For misc 109 tomorrow.



10 DOWNING STREET

From the Private Secretary

Prime Minister (P)

A meeting of MISC 109 has been arranged to discuss this on Wednesday afternoon. A brief from the Policy Unit will come in tomorrow. As often before the difference is between those wanting early action to bring matters to a head and those preferring to sweat things out.

AT

17/6



PRIME MINISTER

LIVERPOOL CITY COUNCIL

1. The purpose of this minute is to seek your views on whether the Government should take any action following Liverpool's rate fixing last Friday. We have a meeting of MISC 109 to discuss it at 5.30pm on Wednesday (19 June).

Liverpool's Budget and Rate

2. We are in no doubt that the rate passed by Liverpool City Council, with its clear mismatch between estimated income and expenditure, would be found unlawful (on grounds of insufficiency to meet estimated expenditure) if brought before a Court. The City Solicitor, we understand, gave the same opinion during the budget debate. The Labour Group have made no attempt to "fudge" the deficit. The resolution shows a budget of £265m and a deficit brought forward from 1984/85 of £6m, notes that it would require a City rate of £241.9m (implying an increase in the total rate of 83%) to finance it and then proposes a rate increase of 9% which would raise only £125m - a gap of £117m. (Copy of resolution at Annex A). There is no suggestion that expenditure will be monitored through the year to keep it in line with income - and it is very doubtful with such a low rate that the City could achieve this even if it tried.

Comment

3. By making such an open challenge to the local government finance system, it is clear that the Council, whatever their ultimate objective, are seeking a confrontation with the Government. If the Council are allowed to get away with their action the lesson will be learned by other potentially obstructive authorities (including Lambeth who have yet to set their rate for 1985/86). In year 2 of rate limitation it would then become extremely difficult to prevent widespread deficit budgeting.



4. If the rate which the Council have fixed is allowed to stand, then the authority is likely to face early financial difficulties. The Treasurer has warned us informally that he may have cash-flow problems by the end of the month. It is unlikely that either the market or the Public Works Loans Board will be willing to lend to the City given the size, and clear existence, of the potential deficit; this is reinforced by the fact that the Government Broker will from tomorrow cease to approve any loans of temporary money on behalf of the National Debt Office to Liverpool or Lambeth. This will be seen in the market as a signal of the Government's attitude.

5. As colleagues will recall, the Council can only make a new higher rate if the present rate is quashed by the Courts on grounds of insufficiency. Without a new rate there must be a probability of collapse sometime before the end of the year, with sooner more likely than later.

6. We believe that with a higher rate increase (50%) and some savings, the Council could produce a balanced budget (Annex B suggests how this might be done). Whether it would be prepared to do so is another matter.

#### Options

7. We have three main options:-

a) To refuse to be drawn by the Council and leave any action to a local ratepayer and the Auditor; or

b) To ask the Attorney General to seek judicial review of the Council's resolution, the quashing of the rate, and the making of an Order against the Council to make a properly balanced budget and rate; or



c) To negotiate with the Council to fill the gap in the City's budget with either special grant or special borrowing consent. Since we have no powers to make special grants, and either course would be politically indefensible (not least in view of the Lambeth situation), this course is not considered further.

### Examination of the Options

#### Option (a)

8. By doing nothing we would leave the field open to others to respond to the Council's action. There is however no evidence that anyone will come forward to challenge the rate and provide the Labour Group (or a coalition of moderate Councillors) with the opportunity to make a proper one. In particular it seems unlikely at present that local Conservative or Liberal Councillors will act.

9. The District Auditor is already carrying out an extraordinary audit of the City Council in connection with the delay in rate fixing and consequent losses. He will be issuing an official notice next week to the Councillors concerned specifying the losses which he considers have been incurred. This process could be extended to embrace the consequence of the deficit budget, but the Auditor has no power to challenge the rate itself; his action could rather be directed at identifying surchargeable losses. Nor would his action be immediate. Any disqualifications of Councillors flowing from surcharge would be very unlikely to take effect before the late autumn, even if there were no appeals. It could easily run into the New Year if, as seems likely, the Councillors concerned appeal.



10. If no action is taken against the rate, the key issue will be how credit holds up. As already indicated, the Government Broker is not going to lend further. There is therefore a strong risk of financial collapse at any time from July onwards, and it would almost certainly occur before the Auditor's activities reached conclusions.

Option (b)

11. Our only means of ensuring that the Council have a further opportunity to rate is action by the Attorney General. This might, if done immediately, prevent financial collapse and the need for Commissioners. It would also demonstrate the Government's clear intention to stop authorities playing fast and loose with the local government finance system.

12. However this action would call for very careful presentation. The Council would paint the Government as vindictively enforcing its policies through the Courts and, if they did eventually set a higher rate, would lay the blame at our door. Alternatively they might present what had happened as a forerunner for opening negotiations. Furthermore, were the Council given the opportunity to rate again, there is no guarantee that they would take it up. (If they did not, they would be in contempt of Court and open to fines and possible imprisonment.) We must accept that if the Attorney General acts - or indeed if we do nothing - the possibility of financial collapse and the eventual need to appoint Commissioners remains. We could therefore require the Commissioner legislation during the summer or early autumn - possibly during the Recess. And I believe we ought shortly to be approaching possible Commissioner candidates if there is to be any chance of our being prepared for early collapse.





### Payment of Grants

13. In reaching a conclusion, there is one further immediate issue to bear in mind. We are still paying Rate Support Grant, since there is a statutory requirement to do so on the Secretary of State's best information about spending levels and there is no dependence in respect of RSG on a rate being made. But this year on legal advice we decided to make no payments of grants that are dependent on a rate being made (rate rebates, disabled rate relief, payments in lieu of rates on Crown properties and Enterprise Zones) until authorities had fixed rates. The relevant Accounting Officers (DOE, DHSS and Treasury) must now decide on the propriety of making such payments to Liverpool given the doubt over the legality of the rate. (The Treasurer has already told us that these payments would considerably ease his cash-flow position). This issue remains if we decide to do nothing.

### Conclusion

This is an evenly balanced decision. In order to give Liverpool a second chance, and seek to avert the risk of collapse and Commissioners, the rate must be quashed. Ideally this would be done, not by Government, but by a local ratepayer or Councillor. Financial and political considerations make it unlikely that anyone will come forward.

The only other way to quash the rate is to ask the Attorney to act. We would then be sending a clear signal to any other authorities - Lambeth this year, and rate capped authorities next - that we are not prepared to tolerate deficit budgeting. This is the course which on balance I recommend.

However there is no option which guarantees to avert the possibility of early collapse and the need to introduce Commissioner legislation sooner rather than later. We therefore need to look again at

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our contingency preparations. And if we decide that the Attorney General should take action, it will be essential to prepare the ground by careful briefing to the Press so that it is clear that this action is necessary in the interests in the people of Liverpool to seek to prevent financial breakdown and chaos.

I am copying this to members of MISC 109 and to Sir Robert Armsrong, Mr Brearley and Dr Walker.

*At Dani*  
*for*  
P J

17 June 1985

Approved by the Secretary of State  
and signed in his absence

D Y M Y

To: Mr Ramsay  
Rm NS/18  
2 Marsham St

CITY COUNCIL14th June, 1985Motion

That -

- (i) this Council re-endorses the policies upon which the people of Liverpool elected the Labour Party to power -
- (a) to defend existing City Council jobs and services;
  - (b) to create additional jobs and improve services;
  - (c) to build houses for rent;
  - (d) to end the threat of privatisation of City Council services;
  - (e) to refuse to impose increases in Rates, Rents and Charges to compensate for Government cuts in Grants.
- (ii) the Budget deliberations are made against a background in which Tory Government monetarist policies have brought devastation to Liverpool with untold suffering to thousands of Liverpudlians -
- (a) 60,000 people are registered unemployed in Liverpool;
  - (b) 51,000 jobs have been lost in the private sector since 1979;
  - (c) in parts of Liverpool, youth unemployment is an appalling 90%;
  - (d) up to May 1983 5,000 jobs had been cut in the City Council; and
  - (e) Liverpool suffers some of the worst housing conditions in Europe while, at the same time there are 15,000 unemployed building workers in the City.
- (iii) this Council condemns the Liberal Party for their callous disregard of the employment and service needs of the people of Liverpool. The Liberals have been very willing accomplices in the crimes of the Tory Government. The Liberals' actions are exemplified by:-

2 of 5

- (a) their public claim to being proud that they cut 5,000 jobs in the City Council;
  - (b) their cancellation of the Tenement Rehousing Programme;
  - (c) their cancellation of the Municipal House Building programme;
  - (d) their actions which resulted in Council housing rents in Liverpool being amongst the highest in the country;
  - (e) their cutting of jobs and reduction of services since 1979, in co-operation with the Tory Government;
  - (f) their disguising of cuts being made on behalf of the Tory Government in a cheap, cynical way in an attempt to gain short term electoral popularity; and
  - (g) their construction of the budget in March 1982 which is a major contributing factor in the financial crisis facing Liverpool.
- (iv) this Council is further aware that the budget deliberations are taking place following the Secretary of State failing to honour the agreement reached on the 9th July, 1984 arising out of the joint report of his officers and officers of this Council upon which the 1984/85 budget was based, viz:-
- (a) a capital allocation of £130 million which enabled the ~~enabled the decision on capitalisation~~ *decision on capitalisation* to be made;
  - (b) ongoing discussions to be held upon the scale of the Partnership Programme allocations, on Rate Support Grant and on targets and disregards; and
  - (c) the letter from the Merseyside Task Force on the 21st February, 1985 which advised the Council that £2½ million granted as part of the settlement was being withdrawn in 1985/86.
- (v) this Council demands the return of the resources stolen by the Tory Government since 1979, viz:
- (a) £170 million in Rate Support Grant;
  - (b) £24 million from Further Education;
  - (c) £69 million in Housing Subsidy;
  - (d) £96 million in the Housing Investment Programme;

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and calls upon the Secretary of State to -

- (a) remove the meaningless and arbitrary targets;
- (b) remove the deliberately punitive penalties of £88 million;
- (c) establish a realistic level of Rate Support Grant the minimum being that which was offered in 1979; and
- (d) establish a level of Housing, Environmental and Partnership allocations commensurate with the needs of Liverpool,

and demands that the agreement reached on the 9th July, 1984 is honoured in full.

- (vi) a rate increase of 9% be approved and the difference of £29 million be made up by the return of grant monies stolen from the people of Liverpool by the Tory Government since 1979.
- (vii) the base budgets of the various committees as set out in the summaries of income and expenditure be approved.
- (viii) in order to approve a consequential resource allocation of £265 million to cover the base budgets and to make provision for inflation and other contingencies the Council resolve and order that the estimated amount of £288,507,000 will be required for purposes to which the General Rate Fund or general rate are applicable by law, for a period commencing on 1st April, 1985 and terminating on 31st March, 1986.

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- (ix) (a) The General Rate Fund being insufficient for the purposes to which it is applicable by law and the Council having estimated that the amount required -
- (i) for those purposes during the period commencing on the first day of April one thousand nine hundred and eighty-five and terminating on the thirty-first day of March, one thousand nine hundred and eighty-six;
  - (ii) to defray any expenditure which may fall to be defrayed before the date on which the monies to be received in respect of the next subsequent rate will become available; and
  - (iii) for the purpose of paying the sums payable during the said period to other authorities under precepts issued by them;

is £171,605,000 a general rate of 268.97 pence in the pound on the rateable value of each hereditament as shown in the Valuation List or, if not shown in the Valuation List, as shown on a proposal made by the Valuation Officer be and the same is hereby made in respect of the period commencing on the first day of April, one thousand nine hundred and eighty-five and terminating on the thirty-first day of March, one thousand nine hundred and eighty-six; and

- (b) it is hereby specified that the said general rate is to be levied as follows, viz:-

At the rate of 268.97 pence in the pound on the rateable values of all hereditaments (other than domestic hereditaments, and mixed hereditaments, as defined in the General Rate Act 1967, as amended by the Local Government, Planning and Land Act 1980.)

At a rate of 250.47 pence in the pound on the rateable value of domestic hereditaments as so defined.

At a rate of 259.77 pence in the pound on the rateable value of mixed hereditaments as defined in S.48 (1)(b) General Rate Act 1967 as so amended.

At a rate of 264.37 pence in the pound on the rateable value of mixed hereditaments as defined in S.48 (1)(c) General Rate Act 1967 as so amended.

At the rate of 266.67 pence in the pound on the rateable value of mixed hereditaments as defined in S.48 (1)(d) General Rate Act 1967 as so amended.

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A REVISED BUDGET SUMMARY

£ thousand

Actual 1983-84		Estimate 1984-85	Probable 1984-85	Estimate 1985-86
221,161	1. Net expenditure of Committees 1984-85 budgets Inflation to November 1984 Other expenditure variations	218,879	218,879 0,422 8,486	218,879 10,740 14,050
	2. Utilisation of funds (a) Renewal and Repairs (b) Education - Books, Stationery, Materials (c) Fire Insurance	218,879	233,707 -5,000 -200 -2,600	240,009 243,667
	3. Contingency Provision	12,000		21,331
221,161	4. Opening deficiency	223,079	221,937	265,000
3,490	5. Closing deficiency	4,700	11,861	5,938
11,061			-5,950	
212,790	6. <u>Deduct: Rate Support Grant</u>	227,779	227,860	270,938
112,510		-111,816	-111,534	-29,005
00,280	7. <u>RATE REQUIREMENT FOR CITY SERVICES</u>	115,963	116,326	241,933 +
	<u>PROPOSED RATE LEVY</u>			"
100,280	8. For City Services	115,963	116,326	125,031 +
38,664	9. For County Services	41,470	41,600	46,574
38,944	10. PROPOSED TOTAL RATE LEVY	157,433	157,926	£171,605

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## LIVERPOOL BUDGET OPTIONS: 1985/86.

Annex B

	(1)	(2)	(3)	(4)	(5)
	1984/85 Approved Budget £M	1985/86 Budget Options £M			
The year's Expenditure to be met by Special Funds, block grant and rates.	231	265	227	255	249
Less contribution from Special Funds.	<u>8</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>12</u>
The year's Expenditure to be met by block grant and rates	223	265	227	243	237
Deficit brought forward from previous year.	<u>5</u>	<u>6</u>	<u>9</u>	<u>44</u>	<u>44</u>
Amount to be met by block grant and rates.	228	271	236	287	281
Less block grant.	<u>112</u>	<u>29</u>	<u>111</u>	<u>78</u>	<u>91</u>
Amount to be met by rates.	<u>116</u>	<u>242</u>	<u>125</u>	<u>209</u>	<u>190</u>
District Rate.	181.76p	379.3p	195.9p	327.6p	297.8p
Total Rate ( including Mersyside C.C. precept)	246.76p	452.3p	268.9p	400.6p	370.8p
Increase in District Rate on <i>previous year</i>	18%	109%	8%	80%	64%
Increase in Total Rate on <i>previous year</i>	16%	83%	9%	62%	50%

NOTES

- (1) Column 1 is the City Council's approved budget for 1984/85 on which they levied the rate in that year.
- (2) Column 2 represents ~~1985/86~~ budget adopted by the City Council and shows the rate which would be necessary to support that level of spending.
- (3) Column 3 shows a budget consistent with a 9% rate increase. It assumes a deficit brought forward from 1984/85 of £9m., which on the information available to the Department is more likely to be the final figure for the deficit than the £6m. included by the Council in their 1985/86 budget.
- (4) Column 4 shows a budget which, from information in a Report of the City Treasurer dated April 1985, we believe Liverpool could make without difficulty. The budget does not include major changes in policy except a rent increase in line with Government guidelines. It assumes special funds are used in 1985/86 and not in 1984/85 to obtain maximum benefit by way of reduced holdback.
- (5) Column 5 shows a budget consistent with a 50% rate increase. This option likewise assumes the use of special funds in 1985/86.





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

Leader of the Council  
PSB/DPD

TABERNER HOUSE,  
PARK LANE,  
CROYDON CR9 3JS

01-686 4433  
17th June 1985

Dear Mrs. Ryder,

Thank you for your letter of 7th June regarding the informal discussion the Prime Minister wishes to have with Mr. Roy Thomason, Mr. Lewis Moss and myself regarding local government finance. I shall be very happy to attend on Friday, 5th July at 3.30 p.m.

Yours sincerely,

Mrs. Caroline Ryder,  
Private Secretary,  
10 Downing Street,  
London SW1



cc 1/10

NDRM

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10/11

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State for Transport  
 Department of Transport  
 2 Marsham Street  
 London  
 SW1P 3EB

14<sup>m</sup> June 1985

*Nicholas*

**CAPITAL EXPENDITURE BY LOCAL AUTHORITY  
 BUS AIRPORT AND PORT UNDERTAKINGS**

I was pleased to see from your letter of 10 May that you are fully behind our reasons for seeking to control the capital spending of local authority bus companies and that a solution to the apparent double counting of some of this capital expenditure may be in sight.

The idea of controlling the external finance rather than the full capital expenditure of local authority transport companies is attractive. However, before we decide to go ahead, our officials need to consider it in detail, including the question whether legislation would be needed and the possible implications for other local authority companies. We would need to have a clear definition of internal resources and be able to ensure that they could only be spent by the company generating them and not leak through to other services. I suggest that work on these lines should begin straightaway.

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

*Peter Rees*

PETER REES

CONFIDENTIAL



*file*  
cc LPO - DHSS  
HO DTI  
DES CST  
SO JTP  
WO ~~DOE~~ MIS DOE  
CDLO

10 DOWNING STREET

*From the Private Secretary*

14 June 1985

*Dear John:*

LOCAL GOVERNMENT FINANCE STUDIES

The Prime Minister has seen your Secretary of State's minute of 13 June and is content with the proposals for carrying forward this work. She would be grateful if the Policy Unit could be represented on E(LF)(O).

I am copying this letter to Private Secretaries to members of E(LF) and to Richard Hatfield (Cabinet Office).

*Yours sincerely*

*Andrew Turnbull*

(ANDREW TURNBULL)

John Ballard, Esq.,  
Department of the Environment.

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*ced*

DEPARTMENT OF EDUCATION AND SCIENCE  
 ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
 TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

The Rt Hon Patrick Jenkin  
 Secretary of State for  
 the Environment  
 2 Marsham Street  
 London SW1

14 June 1985

*Dear Patrick,*

**WIDDICOMBE INQUIRY**

My officials have discussed with yours the question of a submission of evidence from my Department to the Widdicombe Inquiry and its relationship with the various submissions you are putting together.

It seems likely that the Inquiry will touch upon a number of matters specifically concerned with the education service and I thought it useful for them to have a fairly short and largely factual piece of evidence setting out some relevant matters arising from legislation and administrative arrangements peculiar to education, though I refer to more general matters for possible investigation. This will not, I judge, conflict with the wider-ranging submissions which you have made or are intending to make.

I should be grateful for early warning of any problems which you or other colleagues identify: I am conscious that the Inquiry have indicated that they want to receive any evidence by 21 June.

I am copying this to Cabinet colleagues and to Sir Robert Armstrong.

*Paragraph 7.3 in fact covers a range of improprieties reported to LEA: because no enquiry has been made into any of them I cannot assert such on any of them specifically but I seek to draw attention by a paragraph to what seems to be participation in several fields.*  
*Yours ever - Keith.*

# CONFIDENTIAL

## DES SUBMISSION TO THE WIDDICOMBE INQUIRY

### 1. ROLE OF THE SECRETARY OF STATE AND THE LOCAL EDUCATION AUTHORITIES

1.1 Section 1 of the 1944 Education Act sets out the broad role of the Secretary of State in a national system locally administered, having the duty to secure the effective execution by local education authorities of the national policy for providing a varied and comprehensive educational service in every area. Of the many specific duties and powers laid upon the Secretary of State in the 1944 Act, and in later legislation, particularly relevant to the administration of local Government are:

- a. the duty to decide (ie approve, reject or modify) local education authorities' proposals to establish, cease to maintain or significantly change the character of county schools, in cases where there have been objections; to decide all such proposals relating to voluntary schools; and to decide county school proposals if he has given notice that they will require his approval, even if there were no objections (1980 Act Sections 12-13);
- b. the duty to make the Instruments of Government for voluntary schools, the power to approve Articles of Government for county secondary schools and maintained institutions of Further education, which must be submitted by local education authorities and the duty to make Articles of Government for voluntary secondary schools (1944 Act Section 17);
- c. where the Secretary of State is satisfied that a local education authority or governing body have acted or are proposing to act unreasonably, the power to give such direction as he considers expedient; (1944 Act Section 68);
- d. the power to require an authority to provide him with reports, returns and other information he may wish to have relating to the exercise of any of his functions (1944 Act Section 92)
- e. where the Secretary of State is satisfied that an authority or a governing body is in default in respect of a statutory duty, he may make an order, giving such directions as he considers expedient for the purpose of enforcing the execution of that duty (1944 Act Section 99);
- f. the power to make regulations in respect of schools, colleges and teachers (1944 Act Section 27);
- g. the duty to cause educational establishments to be inspected at appropriate intervals (1944 Act Section 77).

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# CONFIDENTIAL

Implied by Section 1 of the 1944 Act is the duty of local education authorities to execute the national policy for providing a varied and comprehensive educational service in every area. In addition, Sections 7 and 8 place a general duty on the local education authority to contribute towards the spiritual, moral, mental and physical development of the community by securing that sufficient and efficient education throughout the primary, secondary and further stages of education shall be available to meet the needs of the population of the area. Specific duties laid upon local education authorities in the 1944 Act, and in later legislation, include:

- a. the duty to secure that premises of schools maintained by the local education authority conform to the standards prescribed by the Secretary of State (1944 Act Section 10);
- b. the duty to make Articles of Government for county primary schools, and to make Articles of Government for county secondary schools and Instruments and Articles of Government for colleges of further education subject to the Secretary of State's approval (1944 Act Section 17(3 and Section 1 of the Education (No 2) Act, 1968;
- c. the duty to establish education committees, in accordance with arrangements approved by the Secretary of State (1944 Act Schedule 1 Part II Para 1.)

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2 EDUCATION COMMITTEES

Statutory Background

2.1 The establishment of only 3 local Government committees (and corresponding chief officers) is obligatory under the law: Social Services, Police and Education; the statute governing Education Committees is the Education Act 1944 (as amended). The terms of Part II of the First Schedule to the 1944 Act are as follows:

- "1. Every local education authority shall, in accordance with arrangements approved by [the Secretary of State for Education and Science], establish such education committees as they think it expedient to establish for the efficient discharge of their functions with respect to education.
- 2. [repealed]
- 3. and 4. [deal with the establishment of joint education committees]
- 5. Every education committee of a local education authority shall include persons of experience in education and persons acquainted with the educational conditions prevailing in the area for which the committee acts.
- 6. At least a majority of every education committee of a local education authority shall be members of the authority; [plus a proviso dealing with joint education committees]
- 7. Every local education authority shall consider a report from an education committee of the authority before exercising any of their functions with respect to education: provided that an authority may dispense with such a report if, in their opinion, the matter is urgent.
- 8. A local education authority may authorise an education committee of the authority to exercise on their behalf any of their functions with respect to education, except the power to borrow money or to raise a rate.
- 9. The minutes of proceedings of an education committee of the local education authority shall be open to the inspection of any local government elector for the area on payment of a fee not exceeding [5p] and any such local government elector may make a copy thereof or an extract therefrom.
- 10. Every education committee of a local education authority may, subject to any restrictions imposed by the local education authority or the order of [the Secretary of State for Education and Science] by which the committee was established: -

# CONFIDENTIAL

- a. Appoint such sub-committees constituted in such manner as the committee may determine;
- b. authorise any such sub-committees to exercise any of the functions of the committee on their behalf.

11. Nothing in this Part of this Schedule shall require the reference to any education committee of a local education authority, or to any sub-committee of such a committee, of any matter which under any enactment for the time being in force is referred to any committee of the authority other than an education committee."

## Comment : Areas of Difficulty and Possible Conflict

2.2 The special position of the education committee within its authority has increasingly tended to come under attack, especially where no political party has overall control and co-opted members hold the balance, or from those who favour an overriding corporate management approach within Local Government.

2.3 The importance of the statutory requirement that every local education authority shall consider a report from an education committee of the authority before exercising any of their functions with respect to education was emphasised in a judgement delivered by Hodgson J on 26 April 1985 in R.v. London Borough of Brent ex parte Gunning. This case involved the Authority's decision to propose the closure of certain schools. It was held, inter alia, that the publishing of such proposals is a function of an authority, and that therefore it must either have considered a report from its education committee before doing so or have considered and resolved collectively that the matter under consideration was too urgent to await such a report.

2.4 In the case of R.v Birmingham City Council ex parte NUPE (1984) it was held that by virtue of Section 101(10) of the Local Government Act 1972, an education committee (unlike an authority itself) had no power to delegate the discharge of its functions to an officer. The Association of County Councils have written to the Department of the Environment urging the need for a change in the law so as to remove the restrictions on delegation from application to education committees.

The Department has said that it would be prepared to consider such an amendment if it were satisfied that the Association of Metropolitan Authorities shared the ACC's view on this matter and if it could be demonstrated that the present provision was hindering efficient practice.



## 2 EDUCATION COMMITTEE MEMBERS

Statutory Background

3.1 Paragraphs 5 and 6 of Part II of the First Schedule to the 1944 Act govern the membership of education committees. In particular, paragraph 5 states that every education committee shall include persons of experience in education and persons acquainted with the educational conditions prevailing in the area for which the committee acts. DES Circular 8/73 (Welsh Office Circular 86/73) gives the guidance which presently obtains on how the terms of paragraph 5 of the Schedule might be met. It includes the following advice:

"It has invariably been found in practice that this requirement can be satisfactorily met only by appointing to the education committee members from outside the Council and all arrangements submitted for approval should include provision for the appointment of a reasonable proportion of such members. The Secretary of State does not have in mind any fixed proportion to be followed by all authorities irrespective of local circumstances, but ..... it is believed that authorities will wish to think in terms of a non-Council membership of between a quarter and a third of the total."

The Circular goes on:

"..... authorities should consider including particularly members nominated by the teaching profession and the Churches and also, in so far as this may be necessary having regard to the existing composition of the governing bodies of educational institutions members with knowledge and experience of industry and commerce, agriculture and the universities."

Subsequent paragraphs offer more detailed advice on the choice of nominees. The main recommendations are:

- i. teacher nominees should be representative of the primary, secondary and further and higher education sectors.
- ii. nominations should be sought from the Church of England (or the Church in Wales), the Roman Catholic Church and the Free Churches.
- iii. area health authorities should be represented either on education committees or - perhaps more appropriately - on relevant sub-committees.

## CONFIDENTIAL

3.2 The Act is silent about the numbers of members to be appointed to education committees except to say that elected members must form a majority. The numbers of members of both groups form part of committees' arrangements to which the Secretary of State's approval is required. The Circular reminds authorities that it is open to them to fix numbers of elected members either as a single figure or as lying between a given minimum and maximum; and it suggests that the latter system might be helpful in providing a measure of flexibility. In fact, most authorities have adopted the fixed numbers pattern. The Circular, which was issued to local education authorities in England and Wales in order to advise them of the policies of the Secretary of State, has no statutory force. The occasion of its issue was the establishment of a number of new local education authorities in 1973 under the local Government re-organisation provided for in the Local Government Act 1972. The Circular also invited existing local education authorities to reconsider their existing approved arrangements in the light of the fresh guidance.

### Comment : Areas of Difficulty and Possible Conflict

3.3 The system of appointing co-opted members to provide professional and other expertise to education committees has been very widely adopted. The great majority of local education authorities co-opt to the education committees from 2 main groups: the Teachers and the Churches, although most also include representatives of other interests (eg industry, agriculture, higher education, health authorities, parents).

A few authorities whose areas include a wide variety of ethnic and religious groups have decided that it would be inappropriate to include Church co-optees. The Department is aware of only one authority (Croydon) whose education committee contains no co-opted members. The authority maintain that the membership of its education committee is such as to satisfy the requirements of the 1944 Act; and that co-opted members nominated by teachers and the Churches have an opportunity to contribute through the Schools and Further Education Sub-Committees. The Secretary of State for Education and Science has recently rejected a formal complaint by the National Union of Teachers under Section 68 of the Education Act 1944 that the authority was acting unreasonably by its refusal to include co-opted members on the main education committee.

3.4 Over the years, few criticisms against the co-option system have been brought to the attention of the Department; there has, however, been an increase in complaints in the last year or two. Tensions arise in authorities where no one party has overall political control or where the political balance is comparatively precarious. In those circumstances some local education authorities have argued

# CONFIDENTIAL

But co-opted members, who are not directly accountable to the electorate, are able to exercise a disproportionate influence. A number of authorities have considered reducing or eliminating co-opted members, or removing their rights to vote in the education committee, although no formal proposals to remove voting rights have been put forward.

3.5 Section 80 of the Local Government Act 1972 debars teachers and other employees from election to their own authority. They may, however, stand for election to another authority; or be nominated as co-opted members of their own authority's education committee. A number of Chairmen of education committees are teachers in nearby authorities. This raises the question whether such arrangements could lead to abuse by authorities of similar political persuasion to enable members to function as full-time councillors or Chairmen to the detriment of their duties as employees.

CONFIDENTIAL

CONFIDENTIAL

4. ROLE OF CHIEF EDUCATION OFFICERS

Statutory Background

4.1 Section 88 of the 1944 Act requires every local education authority to appoint a Chief Education Officer. Its terms are as follows:

"the duties of a local education authority with respect to the appointment of officers under the provisions of the [Local Government Act 1972], shall, without prejudice to the generality of those provisions, include the duty of appointing a fit person to be the Chief Education Officer of the authority."

In the case of the Inner London Education Authority the arrangements differ slightly in that its Chief Education Officer is appointed under the London Government Act 1963 rather than under the Local Government Act 1972.

Comment : Areas of Possible Difficulty

4.2 The value of the Chief Education Officer in giving objective, professional advice to the education committee was reaffirmed recently in the Government White Paper "Better Schools" (Cmd. 9469) published on 26 March 1985, which says (paragraph 265):

"In order to manage the service it provides, each local education authority needs to have access to professional advice across the whole range of its responsibilities. The Chief Education Officer and his professional staff are the principal means through which the local education authority performs its functions. The role of the professional is both to assist the authority in the formulation of its policies, and to be the main agent of their implementation. In both capacities, the Chief Education Officer and his staff have a key role in developing and improving the quality of the education service."

4.3 The Chief Education Officer is a servant of the local education authority and as such is accountable to that authority. Serious difficulties do not often come to the Department's notice. It has been reported that following a recent dispute with his local authority the director of education for Newham has agreed to resign by mutual consent.

## 5 SCHOOLS GOVERNMENT

Statutory Background and Policy

5.1 The present position on school government is in a state of flux. There are shortcomings in the present arrangements which the Government aims to remove by the new framework for school government proposals which were announced in the White Paper "Better Schools" (see paragraph 4.2). The running of a maintained school should be a co-operative venture by the maintaining local education authority, the governing body and the head teacher whose respective functions are set out in Articles of Government. Model articles were issued in 1945 which allowed each party appropriate interlocking responsibilities, but the articles adopted have come to vary widely, and they often fail to allow governing bodies an adequate role in their schools' affairs. The effect of a set of articles also needs to be considered in the light of the composition of the governing body. This is set out in the Instrument of Government which falls to be made by the local education authority except in the case of a voluntary school where this would be made by the Secretary of State. The 1944 Act left it open to local education authorities to appoint the majority of governors in all except for 2 sorts of voluntary schools (aided and special agreement schools). While the 1980 Education Act introduced elected parent and teacher governors it did not disturb the scope for the local education authority majority; all but a few local education authorities avail themselves of this and are thus able to dominate governors' proceedings irrespective of the articles' provision.

5.2 Against this background, the Government announced in March 1985 plans to legislate at the first opportunity for a new framework for schools government to guarantee governing bodies the scope to act as a suitably independent force for good in the lives of their school. There are 2 parts to this framework:

- a. the reconstitution of governing bodies (except those for aided and special agreement schools) so that neither the local education authority nor any other interest is in the majority and to extend their base of representation to include not only elected parents and teacher governors but also to require the governing body itself to co-opt additional members locally;
- b. specifying in some detail the appropriate functions of local education authorities, governing bodies and headteachers in the operation of schools so that governing bodies cannot be over-ridden in the exercise of their assigned functions.

CONFIDENTIAL

Comment : Areas of Difficulty and Possible Conflict

5.3 Weaknesses in the present arrangements allow various shortcomings. At present, the majority on most governing bodies is appointed by the local education authority. While it would be desirable for such governors to be appointed principally for the personal qualities they could bring to the governing body, it is to be expected that, as local education authorities are political bodies, political considerations also come into play. Some local education authorities formalise this by adopting set formulae to ensure that minority as well as majority parties are appropriately represented on school governing bodies (imposing this as necessary by terminating existing appointments). A safeguard against corrupt practice is to be found in the Education (School Governing Bodies) Regulations 1981, SI 1981/809, as amended, made by the Secretary of State under Section 4 of the 1980 Act which, inter alia, lay down circumstances in which governors with a personal or financial interest in a matter for decision shall withdraw from the proceedings. Those Regulations also limit to 5 the maximum number of governorships an individual may hold.

5.4 The local education authority majority on most governing bodies can generally mean that authorities may unduly influence the affairs of a body which should enjoy a degree of autonomy. Appointment of staff is one area where abuse might be significant since often only a small group of governors is involved and the local education authority can use its majority to secure a majority on an appointments panel. Majority party representatives on a governing body could meet beforehand as a 'caucus', taking decisions which pre-empt those of the governing body. The reconstitution of governing bodies proposed in "Better Schools", so that local education authority appointments will no longer be in the majority coupled with a statutory entrenchment of powers guaranteeing a reasonable degree of independence for school governing bodies, will much reduce the opportunity for such practices concerning local education authority representation; and allow a broad-based governing body to play its proper role as an identifiably separate force in each school's life.

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Statutory Background

6.1 Section 1 of the Education (No 2) Act 1968 provides that all maintained institutions of further education must have an Instrument and Articles of Government made by the local education authority. The Instrument determines the composition of the governing body while the Articles deal with the division of powers and responsibilities between the local education authority, the governors and the principal and academic board. Articles are subject to approval by the Secretary of State. For the generality of Further Education Colleges, Instruments are not. However, it was a condition of granting polytechnic status that Instruments for polytechnics should be subject to such approval. The 5 ILEA polytechnics are special cases, being bodies incorporated as limited companies operating under memoranda and articles of association which, broadly speaking, serve the same functions as the Instruments and Articles of the maintained polytechnics and are similarly subject to the Secretary of State's approval.

6.2 Guidance on the content of Instruments and Articles, embodying questions such as status, institutional autonomy and involvement of local interests in the affairs of colleges, was issued specifically for polytechnics in DES Administrative Memorandum 8/67 and for other colleges in DES Circular 7/70. Model articles were appended to the latter and still form the basis for most polytechnic articles today. Although the intention was to address the issues of the distribution of powers, etc, the model does so in very general terms which are open to varying interpretations.

Comment : Areas of Difficulty and Possible Conflict

6.3 The 1968 Act and the related administrative guidance are an attempt to reconcile the need for institutional autonomy in academic and detailed management matters, which was thought to be the greater the larger the proportion of advanced level work undertaken by the institution, and the financial and broad managerial responsibilities of the maintaining authorities. The arrangements were not designed to prescribe or contain the range of implementation and the Department does not monitor in detail their interpretation by individual authorities. The guidance predates the present polarisation in local government politics and current pressures on local authority spending. It is sometimes suggested that political and financial pressures are now having an adverse effect on the running of further education establishments.

For example local authorities can influence nominations to governing bodies to secure an effective majority for the controlling party. The local authority often provides the largest single block of nominations to the governing body; the second largest block of nominations usually comprises individuals representing local industry, commerce and the professions. Many of the remaining members will be people in the employ of the authority, eg staff of the institution, heads of local schools, principals of other colleges etc. Generally speaking, Instruments place the responsibility for appointing all categories of members (except ex-officio members) in the hands of the authority, although some consultation with other local bodies may be a requirement. Authorities may be able to increase their control over governing bodies by the co-option of their supporters to fill some of the non-local education authority seats. Appointments are sometimes made by co-option by the governors, who, when the governing body is in the process of reconstitution, may comprise local education authority and staff governors only.

6.5 If local authorities, in these ways, secure a party political predominance over a governing body there is a greater risk (but not a certainty) that the governing body's powers will be exercised in a harmful manner. For example they may be used to influence the appointment of senior staff other than strictly on relevant academic grounds. This can be done by using the reserve powers given to the authority by the Articles of Government to refuse to confirm the appointment of candidates for senior posts, and by using the appointments procedure to ensure that a sympathetic candidate obtains a key post (as in 5.4 ante).



## SUMMARY

7.1 This submission sets out the particular features of the administration of the education service by local government; considers the position of education committees; points to the need for professional expertise in the advice presented to the education committees by the Chief Education Officer; and also describes the arrangements for managing schools and colleges through governing bodies. It outlines the scope for possible abuse and mentions relevant action already in hand to prevent such abuse. The Committee will no doubt wish to consider whether further action is necessary.

7.2 At a number of places reference is made to ways in which existing arrangements appear to be open to abuse. No firm evidence of such abuse is held by the Department but the Committee will no doubt wish to consider whether evidence on this issue can be obtained.

7.3 The Committee will also wish to consider whether evidence can be obtained on a wider range of matters affecting the operation of the education service, and of concern to Ministers. These include the possibility of improper political influence, whether exerted by elected members or officials, over aspects of the curriculum; the issue of material of a biased nature for use in schools or for the information of governors; and political campaigning more generally, on which the Government has already submitted some evidence to the Committee. Such matters are of great sensitivity and there is proper scope for disagreement on particular issues, but the Committee's recommendations on underlying principles to be observed will be of considerable value.



NSM  
AD 14/85  
DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

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

13 June 1985

*Dear Patrick*

NEW BURDENS ON LOCAL GOVERNMENT

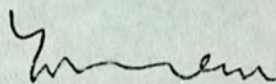
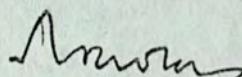
Thank you for your further letter of 20 May.

I fully appreciate that it is seldom possible to be authoritative or precise in forecasting the financial effects of change. There is plenty of scope for disagreement between Central and Local Government about the effects of our policies, and indeed there are often likely to be arguments on detail between different Government Departments.

Nevertheless I am surprised you do not think it worthwhile to take up my suggestion that our officials should at least discuss updates of your list of new burdens, identifying disagreements where necessary, before the list is circulated to Ministers. In respect of my own Department's entries, the list you circulated on 10 April was inaccurate and misleading: it cannot be helpful or efficient for Ministers to spend time dealing with errors which would easily be cleared up. Nor do I think you will achieve your objective of providing Ministers with a reasonably realistic overview unless we guard against such errors in future. I do not think that it would involve a lot of extra work. Normally no more than a phone call would be involved, especially once the new prior consultation system is operating.

I hope therefore you will reconsider the suggestion that updated lists should be discussed between officials before circulation.

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

A handwritten signature in dark ink, appearing to be 'G. ...'.A handwritten signature in dark ink, appearing to be 'Armstrong'.

NICHOLAS RIDLEY



PRIME MINISTER

LOCAL GOVERNMENT FINANCE STUDIES: FOLLOW UP TO E(LF) MEETING OF 21 MAY

The purpose of this minute is to let you and E(LF) colleagues know the arrangements being made to follow-up the E(LF) meeting of 21 May. My remit is to develop the proposals we outlined on 21 May, in the light of the Committee's views, and to report further; I understand that a meeting is being fixed for the last week of September.

The overall direction of the work during the next phase will be steered by an inter-departmental official committee (E(LF)(0)) under the chairmanship of my department. It will be meeting for the first time within the next week.

The day-to-day conduct of further development work will be in the hands of a series of informal topic-related working groups whose members will be drawn from the departments with direct interests.

The working groups will cover the following topics:

- a) Distribution This group will develop a range of possible packages (including exemplifications of alternatives to the main package which were not ruled out by E(LF), such as partial retention of property tax and capping of non-domestic rates) and show their effects on areas, households and businesses. It will also consider the likely effect on expenditure of the new finance regime.
- b) Grant Mechanisms This group will develop the technical arrangements for standard grant, adjustments for London, and transitional arrangements. It will also start longer term work on new needs assessment methodologies.

att. along  
look for call  
LCA  
no trace of minutes of this meeting  
at pp



- c) Tax Mechanisms This group will develop technical aspects of the residents' charge (administration, enforcement, feasibility of graduation etc). It will also consider the feasibility of a locally variable tourist tax and VED, and the option for assigned revenues.
- d) City Grant This group will develop the City Grant proposal and examine the possibility of greater use of specific grants (eg for education) in urban authorities.
- e) Fees and Charges The first task will be to assemble a fees and charges data base. We are considering contracting out much of the detailed work, possibly to the Audit Commission.
- f) Tighter operating framework This will refine our ideas on the steps necessary to promote "sincere" budgets by local authorities.

The detail of departments' contributions to the work of these groups will be discussed at the first meeting of E(LF)(0)).

No further technical work will be done on annual elections. This is essentially a political question to which we must return in September.

Work on developing effective mechanisms for controlling capital spending will be proceeding in parallel. Other departments are already involved.

E(LF)(0)) will be kept in touch with the progress of the working groups and will be able to respond to new issues as they arise. The final conclusions of the working groups will be drawn together in September and will form the basis of the further report to E(LF).

CONFIDENTIAL



In addition to these arrangements, in which my department will be taking the lead, the Treasury are to set up a working group to develop the modifications to the rating system put forward by Nigel Lawson at our meeting on 21 May. I believe that the Treasury may be considering setting up a wider-ranging committee to consider the combined effects of the proposals for change in personal taxation and income support together with changes in the local government financial system.

I am copying this minute to E(LF) colleagues and to Sir Robert Armstrong. I would be grateful if it could be circulated within departments on a strict "need to know" basis.

*I H Galloway*

P J

*Approved by the Secretary of State  
and signed in his stead.*

13 JUN 1985



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

PRIME MINISTER <sup>②</sup>

AS 13/6

A handwritten signature in black ink, appearing to be 'M' or 'W' with a flourish.

LAMBETH

As Patrick Jenkin mentioned at this morning's Cabinet, the Public Works Commissioners yesterday approved a £7 million loan application from Lambeth. This was despite the fact that the District Auditor had the previous day written to each of the Lambeth councillors warning them that he intended to surcharge them if they failed to set a legal rate forthwith.

2. I understand that the Commissioners received legal advice that, notwithstanding the District Auditor's letter, it could not yet be said with any certainty that Lambeth were in breach of the law, and that accordingly they were entitled to go on lending. The longer the councillors delayed setting a rate, the more likely it was that they were incurring losses at the ratepayer's expense; but it was not clear that that point had yet been reached. The Commissioners considered deferring a decision pending further information from Lambeth and a possible approach to Counsel, but in the end decided to approve the loan. They are, however, telling Lambeth that no further application will be considered without a clear statement from Lambeth's solicitor that Lambeth is acting within the law. A further application may be received in about 4 weeks, and the Commissioners will no doubt wish to take further legal advice then.

3. Patrick suggested this morning that, from the standpoint of putting pressure on Lambeth, it might have been better if the Commissioners had deferred a decision. But they are an



independent body under statute; it was their decision to take, and it is not strictly their role to take into account our wider objectives. If and when the PWLB cease to lend to this or any other local authority we may have reason to be thankful for their independent status.

4. I do not think, therefore, that we should be openly critical. The Public Works Loan Board does not announce individual loans, and therefore it may not become public. But if it does, and you are asked about it, I suggest that you could confirm that the loan has been approved but say that it is entirely a matter for the Public Works Commissioners.

5. I am sending a copy of this minute to Patrick Jenkin.

*Rachel Lawson*

N.L.

13 June 1985

*( approved by the Chancellor  
and signed in his absence )*



Fili

MR FLESHER

13 June 1985

GREATER LONDON ENTERPRISE BOARD (GLEB)

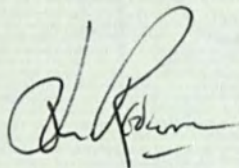
The March 1984 accounts of GLEB reveal a sorry state of play. Of the 18 investments where GLEB holds more than 10% of the equity share capital (the only ones listed) 5 are now in liquidation or full receivership.

Of the others, rudimentary information is given about the condition of 4 only of these investments. Airlec Vehicles is said to be trading profitably. The other 3 are heavy loss-makers. Whitechapel Computer Works Limited lost £126,000, and already has negative aggregate share capital and reserves. Bassett (1983) Limited lost £351,000 in the last financial year, and also has negative aggregate share capital and reserves. Magnatex Holdings Limited lost £115,000 in the last year (more than 10% of its aggregate capital). AMD Engineering Works (1984) Limited may also prove problematic, but there are no details. When Custom Shoes went bust, it owed £400,000 to GLEB (GLC News Release, 17 May 1985).

The other investments, about which GLEB is reticent, are primarily property groups. These should have more chance of making a go of their activities.

GLEB has already provided for losses of £1.9 million on total investments of £10.25 million.

GLEB have been clever in allocating some money to property, as this should keep some of its value. It also means that they will have an asset base, even after GLC funding has disappeared, and they have been interested in taking over GLC properties. The industrial and commercial investment they are undertaking seems to be of even lower calibre than that of the NEB. There is considerable and effective expenditure on PR.

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

JOHN REDWOOD

Ldr Assn of  
Dist. Councils.



10 DOWNING STREET

Cardine,

A Mr. Thomason  
(Bournemouth 0202  
292113) <sup>phoned</sup> to say he had  
received your letter of  
7/6 and unfortunately,  
the day to which you  
have referred, is in the  
week that he indicated  
would be inconvenient.

Could you phone him  
tomorrow morning

Thank you.

SUE  
13/6.

Now 5 July

②

PRIME MINISTER

DOE report that Liverpool will shortly be making a rate. The figure being considered is 20-25 per cent. This is likely to be insufficient to balance the books for which an increase of about 50-60 per cent would be required.

There are two possible course of events:

- (i) They make the rate and openly boast of a deficit budget.
- (ii) They make a 20-25 per cent rate, promise to make the necessary expenditure cuts but do nothing to deliver them.

Under (i) the District Auditor would probably intervene quickly. Under (ii) the position will drag on until it is clear they will end up in deficit. This could be several months. We will not know which until the announcement is made.

Lambeth are the only other council still holding out. So far they have remained solid though it only needs one defection to change the vote. If this does not happen, early action of the District Auditor will follow.

AT

ms

ANDREW TURNBULL

11 June 1985

LOCAL Gov.  
Relus.

9.9



CONFIDENTIAL

11 JUN 1985



ce JR

MF

PRIME MINISTER <sup>(2)</sup> No action this week but I expect you will have to get involved next week. AT 12/16

E(LA): RATE SUPPORT GRANT SETTLEMENT 1986-87, ENGLAND

This minute is to forewarn you that I may not be able to secure agreement in E(LA) on the main element of next year's rate support grant settlement. It does not call for any action at this stage.

2. I have now chaired three meetings of the Committee. Each year the problem is to reach a settlement which will on the one hand be tough on public expenditure while being realistic, and on the other hand lead to increases in the rate poundages in individual local authorities which are credible and acceptable. This year there is the further issue of whether or not to abandon targets and to rely on the (not insignificant) block grant pressures to produce the results we want. The great complexity of the system we have developed and pressure from our own supporters both suggest that we should get rid of targets if we can, that is if the price in public expenditure terms is not too high.

3. The Committee is at present divided between those (like Patrick Jenkin) who believe both that an increase in PES provision of something like £700 million (which would still represent a real-terms cut of 3 1/2 per cent) is needed if our plans are to be at all realistic and capable of delivery without unacceptably large increases to rate poundages and that such an expenditure could be delivered without targets; others who take a similar view on public expenditure but are worried that expenditure may go still higher if we abandon targets; and the Chief Secretary who believes that a lower public expenditure figure (lower by about £500 million)



should be the objective and that it would be quite wrong to risk abandoning targets. The gap has narrowed but is still wide and we are beginning to run out of time if all the necessary work is to be done before the July settlement announcement. I intend, however, to hold one further meeting of E(LA) when I shall try very hard to secure agreement, because I do not wish to trouble my colleagues in Cabinet with these issues, which are so beset with technicalities, if I can possibly avoid it.

4. The meeting is to be next Monday morning. If I cannot secure agreement I should like to have a word with you after that meeting about how we can best reach sensible decisions quickly.

5. I am copying this minute only to Sir Robert Armstrong.

hslw

Privy Council Office  
12 June 1985



Department of the Environment  
Room  
2 Marsham Street London SW1P 3EB  
Direct line 01-212  
Switchboard 01-212 3434

Robin Butler Esq  
10 Downing Street  
LONDON  
SW1

Note for the file:-

11 June 1985

Spoke to Mr. N. A. S. Owen today  
who agreed to see if projections  
on their brief could be produced.

Dear Robin,

REB

13.6.

Thank you for your letter of 9<sup>th</sup> May about the Herring Son and Daw report on the effects of a commercial revaluation.

Apologies for not coming back to you earlier: the report has been read with great interest by a number of our experts, and has just come back to me. The general concensus is:

- i. it is an excellent piece of work;
- ii. it would indeed be helpful if Herring Son and Daw could set their computer to work to show the effects of a commercial revaluation and a uniform non domestic rate (set for instance at the existing England average).

In sum, can we take their offer up. Given the nature of the Local Government Finance Studies operation, we shall of course need to proceed on an entirely "informal" basis.

Thank you for your help.

Yours,

Anthony

R A J MAYER



LOCAL GOVT: Relations: Pt 27.

12/6

# Association of County Councils

CR pps ?

From: Tilney House, 5 Tilney Street, Park Lane, London W 1

Lewis D. Moss, DL  
Leader and Chairman of the Policy Committee

Eaton House,  
66a Eaton Square,  
London. SW1W 9BH  
Telephone 01-235 1200

Mrs Caroline Ryder  
Private Secretary  
10 Downing Street  
London S W 1

LDM/AS

10th June 1985

Dear Mrs. Ryder, CR 121-1

Thank you for your letter of 7th June.

I welcome the opportunity of a discussion on the matter to which you refer and will look forward to meeting the Prime Minister at 10 o'clock on 25th June.

Yours sincerely,

Lewis Moss

LOCAL GOVT: Relations: p 27,



COOPERATION





10 DOWNING STREET

*From the Private Secretary*

7 June 1985

The Government is devoting considerable time to tackling the problem of local government finance. Before any decisions are reached, the Prime Minister would find it invaluable to hear the views of the main local government representative organisations.

The Prime Minister feels that it would be valuable to hear the views of you, Mr Roy Thomason and Mr Lewis Moss before further consideration is given to this issue. She would be pleased if you could come in for an informal discussion, at 10 o'clock on 25 June, free of fixed agenda or press attention.

(Mrs Caroline Ryder)

Councillor Peter Bowness



10 DOWNING STREET

*From the Private Secretary*

7 June 1985

As you know, the Prime Minister is keen to hear your views, and those of Lewis Moss and Peter Bowness, about the problems of local government finance. I wonder whether you could manage to come at 10 o'clock on 25 June for an informal discussion with no fixed agenda and with no press attention.

(Mrs Caroline Ryder)

K.R. Thomason, Esq.



10 DOWNING STREET

*From the Private Secretary*

7 June 1985

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(Mrs Caroline Ryder)

Councillor Lewis Moss



10 DOWNING STREET

Caroline

Draft letters to the three Councils,  
as promised. Could someone look  
up their full titles, honours etc? (DoE  
will supply if need be.)

I have checked these with Stephen,  
who is content with them.

Oliver

6-6-85

AIT

<sup>Government</sup> The Prime Minister is <sup>devoting</sup> spending considerable time <sup>to thinking</sup> thinking about the problem of local government finance. Before <sup>any decisions</sup> she comes <sup>one reached</sup> to any decisions she would find it invaluable to hear the views of the main local government representative organisations.

~~She is especially keen to meet you, Mr Roy Thomason and Mr Lewis Moss and would be pleased if you could come in for an informal discussion, at [time] , on [date] , free of fixed agenda or press attention.~~

~~I apologise for the short notice: The Prime Minister feels that it would be valuable to hear <sup>the views of you, Mr Roy Thomason and Mr Lewis Moss</sup> what you have to say before further consideration is given to this issue.~~

Concilia, Peter Bowness  
Walsley Barroughs Assoc.  
West. City Hall  
West PR JWI E GQP.  
828.8070. X2737.

235.1200.  
Mr Stevenson.



The Prime Minister is spending considerable time thinking about the problem of local government finance. Before she comes to any decisions she would find it invaluable to hear the views of the main local government representative organisations.

She is especially keen to meet you, Mr Peter Bowness and Mr Roy Thomason and would be pleased if you could come in for an informal discussion, at [time] , on [date] , free of fixed agenda or press attention.

I apologise for the short notice: the Prime Minister feels that it would be valuable to hear what you have to say before further consideration is given to this issue.

*Encls, Lewis Moss ~~fax~~  
Eaton Hse  
66a Eaton Sq  
JW1W 9BT*

ATU

As you know, the Prime Minister is keen to hear your views, and those of Lewis Moss and Peter Bowness, about the problems of local government finance. I wonder whether you could manage to come at [time], on [date]. *for an informal discussion with no fixed agenda and with no press attention.*

I apologise for the short notice: the Prime Minister feels that it would be valuable to hear what you have to say before further consideration is given to this issue.

Roy Thomason



10 DOWNING STREET

*From the Private Secretary*

3 June, 1985.

**LOCAL GOVERNMENT BILL**

The Prime Minister has seen your Secretary of State's letter to the Lord President of 28 May. She agrees with his proposals for handling the issues raised on the countryside, highways, and traffic management, waste disposal, and trading standards.

On planning, she feels that an advisory/consultative planning body in London should be avoided if at all possible. She feels, therefore, that this possibility should not be volunteered, but should only be offered if there is no other way out.

On ILEA, the Prime Minister agrees with the compromise suggested that only the first review could be implemented by secondary legislation.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Lord Denham's Office), Richard Hatfield (Cabinet Office), and to Sir George Engle, First Parliamentary Counsel.

JB.

(Andrew Turnbull)

John Ballard, Esq.,  
Department of the Environment.

CONFIDENTIAL



PART 26 ends:-

AT to PM 31.5.85

PART 27 begins:-

AT to JOE 3.6.85

