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PREM 19/1562

PART 26

SECRET

Confidential filing

Relations between Central and Local Government

Local Authority Expenditure

Local Authority Elections

Abolition of GLC and MCC's

(Att. folder contains Widdicome Report).

LOCAL GOVERNMENT

Pt 1: MAY 1979

Pt 28: AUGUST 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~5.8.85~~		~~19.11.85~~					
~~7.8.85~~		~~21.11.85~~					
~~27.8.85~~		~~22.11.85~~					
~~30.8.85~~		~~25.11.85~~					
~~6.9.85~~		~~26.11.85~~					
~~11.9.85~~		~~24.11.85~~					
~~16.9.85~~		Part Ends					
~~17.9.85~~							
~~24.9.85~~							
~~26.9.85~~							
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~~31.10.85~~							
~~6.11.85~~							
~~7.11.85~~							
~~11.11.85~~							

PREM 19/1562

PART 28 ends:-

MA TO DN 29/11/85

PART 29 begins:-

DN TO MA 2/12/85.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
H(85) 38	04.09.85
H(85) 18th Meeting, Minutes	11.09.85
E(LF)(85) 6	19.09.85
E(LF)(85) 8	30.09.85
CC(85) 30th Conclusions, Minute 4	31.10.85
CC(85) 33rd Conclusions, Minute 1	21.11.85

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

Signed P Wayland Date 20 February 2014

PREM Records Team

Published Papers

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

Local Authority Publicity: Interim report of the Committee of Inquiry into the conduct of Local Authority Business, chaired by David Widdicombe QC
HMSO, 1985 [ISBN 0 11 751811 5]

Signed A Wayland Date 20 February 2014

PREM Records Team

David Norgrove

Mr Denis Thatcher was fulminating to me at one of the Receptions earlier this week about the phenomenon of individuals in local government who manage simultaneously to enjoy elected membership of one Authority and paid professional employment under the auspices of another.

I believe that we are proposing to remedy this unsatisfactory dualism. Could you give me details to pass on to Mr Thatcher about what we propose and when it is likely to materialise?

MA

MICHAEL LAISON
29. 11.85

011/1286

CONFIDENTIAL

cc BG

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Ancram Esq MP
Minister for Local Government and the Environment
Scottish Office
New St. Andrew's House
St James Centre
Edinburgh
EH1 3SX

NBPM

29th November 1985

Dear Michael,

SALE OF LOCAL AUTHORITY MORTGAGES

Thank you for your letter of 8 November. I have also seen Kenneth Baker's letter to you of 22 November.

Like Kenneth, I am disappointed that you are not prepared to follow the policy line for England and Wales on borrowers' consent, but I shall not press this further at this stage. I hope that you will have good arguments to defend the difference between the countries if this question is probed in Committee. If the issue gives rise to any difficulties in handling the Bill in Committee, we shall need to be prepared to reconsider.

I am sending a copy of this letter to the Prime Minister, to Kenneth Baker and Nick Edwards, to other members of E(A) and to Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

CONFIDENTIAL

LOCAL GOVT
RELATIONS
PT 28

29 XI 1985

012/1286

CONFIDENTIAL

Prime Minister
To note that legislation to compel competitive tendering in local authorities has been ruled out for this year, but not next.
DRN
6/12

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

29th November 1985

Dear Kenneth,

LOCAL AUTHORITY CONTRACTING OUT

As suggested in my letter of 25 October, our officials have now discussed the possibility of limited interim measures. No. 10 Policy Unit have also been involved, so I am copying this letter to the Prime Minister.

A couple of half-baked clauses could queer the pitch for a proper scheme; and I accept that pressure of time makes it difficult to do anything more satisfactory in this year's Local Government Bill. This is disappointing when such a measure would be popular with our backbenchers, and would help us over a period of time secure some of the efficiency savings which we know can be made in local government. There is a lot at stake; John Banham of the Audit Commission suggested in his presentation to Cabinet last July that efficiency savings in the range £2-3 billion are possible, without reducing service standards. As you know, some authorities which have used competitive tendering on a voluntary basis have proved its worth - Lambeth ratepayers pay twice as much per head for refuse collection as Wandsworth ratepayers. Well prepared legislation to widen compulsory competitive tendering would help district auditors to highlight poor value for money in authorities reluctant to tackle inefficiency in their own workforce. I understand John Banham would welcome legislation for that reason. Legislation should also have some restraining effect on any excessive demands for pay increases by the trade unions representing the local authority manuals.

So I agree with Michael Ancram that we should certainly aim to have a Bill in 1986-87, and press on with detailed work with that in mind. We can use the time to work up the detail of how the legislation would work in practice (draft model contracts etc) so that legislation can be implemented quickly, with shorter transitional periods than would have been necessary if we had legislated in 1985-86.

CONFIDENTIAL

It will be important not to lose the public momentum of this policy. In addition to work on the legislation, I would see value in a report to H Committee, as the Lord President suggests, on any non-legislative measures which might be taken, and also on how we should make clear our continuing interest in this field.

I am sending copies of this to the Prime Minister, to the Lord President and other members of H Committee, to First Parliamentary Counsel and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

PM65

PM does not need to see this now DN (PP Duty Clerk)

PRIME MINISTER 2 NBPM pa.

LIVERPOOL

Some developments on Liverpool this evening.

At 1700 the DOE received a letter from the Liverpool Treasurer saying they were considering a deferred purchase scheme worth £65 million.

At 1800 the DOE replied saying they would strongly disapprove of a scheme that large. DOE told me that they would have replied in those terms to any Council.

With this knowledge Union Bank of Switzerland refused to lend £65 million.

At 1900 Phillips and Drew, the brokers for the deal, asked for the Government's observations on a £30 million deferred purchase scheme.

At 2030, by agreement with the Chancellor, the DOE replied, welcoming Liverpool Council's intention to set a legal budget, and noting that deferred purchase schemes do not require the Government's approval. The letter went on:

> "Where a scheme of this kind is suitably structured in accordance with my letter of 15 February 1985 to CIPFA, it would in our view accord with the legal framework of the local authority capital controls.
>
> This letter does not imply that the Government accepts any responsibility, either legally or otherwise, for liabilities under the scheme, which would rest with the city council."

The letter of 15 February sets out the DOE's understanding of the rules. DOE assure me that the first paragraph quoted above is entirely standard and used both to banks and to

members of local authorities who are concerned about deferred purchase schemes. The second paragraph was added at the insistence of the Chancellor.

The Bank of England, remarkably enough, believe that Phillips and Drew and Union Bank of Switzerland will be happy with this letter and go ahead with the deferred purchase scheme.

DOE understand that the Liverpool Treasurer is putting a budget to the Labour Party this evening which includes a £30 million deferred purchase scheme. If it goes through, the budget will then go tomorrow to the Finance Committee and then to the full Council.

Mr Baker will be minuting you early next week about this and with recommendations on what you and colleagues might say about Liverpool now.

DOE asked me what I thought your feelings would be about them volunteering a statement to the House next week. I said I thought you would be against it. Let the Speaker allow a PMQ or Debate if he chooses, but this is Liverpool's problem not the Government's.

David Norgrove
28 November 18975

CONFIDENTIAL

ECL

bc Prof. G.

10 DOWNING STREET

From the Private Secretary

26 November 1985

RATE SUPPORT GRANT SETTLEMENT 1986/87

The Prime Minister was grateful for the Lord President's minute of 22 November. She agrees with the conclusion that the previously announced figure for AEG should be retained. She also agrees that, despite the difficulties, the proposed distribution is an acceptable basis on which to proceed.

I am copying this letter to the Private Secretaries to members of E(LA), Rachel Lomax (H.M. Treasury), Murdo Maclean (Chief Whip's Office) and Michael Stark (Cabinet Office).

(David Norgrove)

Miss Joan MacNaughton,
Lord President's Office.

CONFIDENTIAL

Bw

CONFIDENTIAL

Prime Minister

Why does Hertfordshire get such a bad deal, Lincoln such a good one?

Agree the package as proposed by the Lord President?

DRN 22/11

PRIME MINISTER

RATE SUPPORT GRANT (RSG) SETTLEMENT 1986/87

As you know, E(LA) has been grappling with the final decisions necessary to enable the RSG Settlement for 1986/87 to be announced, following the tough decisions we took on local authority current expenditure earlier this year. Within the constraint of those - or, indeed, of any realistic - decisions, there will inevitably be difficulties in meeting all our conflicting requirements for the London boroughs post-abolition on the one hand, and for the shire counties on the other. One possible way of reducing the difficulties might have been to increase the level of Aggregate Exchequer Grant (AEG). Given the sensitivities involved, I though it best at the last meeting of E(LA) to leave to the Chancellor of the Exchequer the final decision on whether we could, in fact, contemplate increasing the level of AEG from that embodied in the Autumn Financial Statement. You will have seen from the letter to me of 21 November from the Chief Secretary, Treasury that the Chancellor feels that such a concession would not be justified, and that we should remain within the previously announced figure for AEG.

2. I am sure that we should now all live with the decision which we have taken and concentrate our efforts on presenting our policies vigorously. The package we have agreed has consensus acceptance as the best which we can do within the earlier decisions.

3. I am sending a copy of this minute to the members of E(LA), to the Chancellor of the Exchequer, the Chief Whip (Commons) and Sir Robert Armstrong.

Privy Council Office
22 November 1985

CONFIDENTIAL

Prime Minister
For discussion with Lord Whitelaw tomorrow?
DRN
25/11

PRIME MINISTER 25 November 1985

RATE SUPPORT GRANT: 1986-87

You asked why Liverpool gains so much when Hertfordshire loses so badly.

The fundamental answer is that the present grant system cannot be tailored to produce uniformly sensible results. Kenneth Baker has to act on "general principles" which, because the whole system is crazy, inevitably produces some bizarre individual effects.

In this case:

- Liverpool gains grant because:

1. The Government has pushed up the assessment of what all city authorities need to spend, to ensure that their grants go up and rates stay low following abolition; Liverpool benefits along with London and Manchester.

2. Liverpool may, in practice, do even better than my table suggests because it will be rate-capped next year, so its spending will be kept down and it consequently will not lose grant.

- Hertfordshire loses grant because:

1. Pushing up the assessment of spending needs for the cities means that, relatively, the assessment of the Shires' needs decreases and they consequently get a smaller share of the grant-cake; Hertfordshire suffers along with the rest.

2. Relative to their newly assessed needs, Hertfordshire will be spending a good deal, and will therefore suffer loss of grant.

3. The removal of targets exacerbates Hertfordshire's problems, because they - unlike Liverpool - used to benefit from sticking close to their targets.

4. The treatment of pre-1981/2 education debt has been altered, following representations from the ACC, and this happens to hit Hertfordshire.

If you want to produce low rate rises in post-abolition authorities - as Norman Tebbit, Kenneth Baker and the rest of E(LA) all believe is necessary - then you are bound to produce results like this. Even if the DoE dream up a scheme that hits Liverpool and protects Hertfordshire, other councils will take their places.

Of course, you could help Hertfordshire by adding to the total amount of Central Government grant provided. But that would:

a. give Liverpool an even bigger bonus; and

b. shoot the Chancellor's Autumn Statement down before it has had a chance to fly.

We reluctantly recommend that you should accept Lord Whitelaw's proposals, despite their effects on Liverpool and Hertfordshire.

Ok Let.

OLIVER LETWIN

Agreed MT

CONFIDENTIAL

Prime Minister
Agree the package as proposed by the Lord President?
DRN 22/11

cc BG

Why does Hertfordshire get such a bad deal, Lincs such a good one?

PRIME MINISTER

RATE SUPPORT GRANT (RSG) SETTLEMENT 1986/87

As you know, E(LA) has been grappling with the final decisions necessary to enable the RSG Settlement for 1986/87 to be announced, following the tough decisions we took on local authority current expenditure earlier this year. Within the constraint of those - or, indeed, of any realistic - decisions, there will inevitably be difficulties in meeting all our conflicting requirements for the London boroughs post-abolition on the one hand, and for the shire counties on the other. One possible way of reducing the difficulties might have been to increase the level of Aggregate Exchequer Grant (AEG). Given the sensitivities involved, I though it best at the last meeting of E(LA) to leave to the Chancellor of the Exchequer the final decision on whether we could, in fact, contemplate increasing the level of AEG from that embodied in the Autumn Financial Statement. You will have seen from the letter to me of 21 November from the Chief Secretary, Treasury that the Chancellor feels that such a concession would not be justified, and that we should remain within the previously announced figure for AEG.

2. I am sure that we should now all live with the decision which we have taken and concentrate our efforts on presenting our policies vigorously. The package we have agreed has consensus acceptance as the best which we can do within the earlier decisions.

3. I am sending a copy of this minute to the members of E(LA), to the Chancellor of the Exchequer, the Chief Whip (Commons) and Sir Robert Armstrong.

WSC

Privy Council Office
22 November 1985

CONFIDENTIAL

LOCAL GOVT
RELATIONS
PT 28

PRIME MINISTER 22 November 1985

RATE SUPPORT GRANT SETTLEMENT: 1986/7

There is no painless solution. All the options leave you open to attack from some quarter.

If you want to stick to the £11,764 million grant that you approved months ago, and if you want to prevent big rate rises in metropolitan areas following abolition, then you will have to steer money away from the shires.

The package devised by E(LA) does just that. It:

- gives London and other metropolitan areas £330 million more grant than this year;

- gives the shire areas (counties and districts) only £9 million more grant than this year.

Combined with rate-capping, this will produce:

- very low rate rises (in some cases, rate decreases) in London;

- low-ish rate rises in other metropolitan areas;

- high rate rises (in some cases, very high) in the shires, particularly at county level.

A few examples may help. If all local authorities spend the same amount in real terms as this year (which is a reasonable assumption about the average result, given the pressures now being exerted by the RSG system) then:

The figures in the annex for grant amounts are probably politically as important as these.

Kensington and Chelsea rates could drop by 10%.
Lambeth (rate-capped) rates could drop by 3%.
Westminster rates could rise by 1%.
Greenwich (rate-capped) rates could rise by 1.5%.

Ealing rate could drop by 6%.
Barnet rates could rise by 1.5%.
Richmond-upon-Thames rates could rise by 5%.

Birmingham rates could drop by 0.2%.
Gateshead rates could rise by 3%.
Liverpool (rate-capped) rates could rise by 5%.

North Yorkshire rates could rise by 6%.
Norfolk rates could rise by 7%.
Oxfordshire (hung council) rates could rise by 9%.
Hertfordshire rates could rise by 12%.

The arguments for accepting this package are that:

1. Abolition must be seen to deliver good results in London and the metropolitan areas.

2. There are no county elections in May, whereas the London boroughs and metropolitan districts do have major elections.

3. Even if more grant were given to the shires, they would still produce high rate rises because, 1) they will want to build up balances in their non-election year, and 2) they will be able to spend more painlessly now that targets have been abolished.

4. It is better to direct grant towards the metropolitan areas, which have an electoral interest in producing low rates next year, and which are restrained from excessive spending both by the tough block-grant régime and by expenditure limits.

The arguments against accepting the package are that:

1. You will have a nasty row with the shires.

2. The settlement will look like a reward for the bad behaviour of left-wing city councils.

3. There are plenty of shire district elections in May; your supporters there will not thank you for delivering this bombshell.

4. The Government's friends will do badly in the cities anyway, whereas the shire districts are winnable.

5. Abolition is no longer as much of an issue as it used to be.

6. Liverpool's antics have thrown inner city boroughs generally into public disrepute, so rate-rises there would not be blamed on the Government nearly as much as they would be in the shires.

The arguments are fairly evenly balanced. Since E(LA) have spent a long time weighing them up, and have opted in favour of the package, we reluctantly recommend that you should accept it.

But there is one caveat: Ken Baker should be asked to prepare the shire politicans for the bad news, and to explain our problems to them, so that the edge is taken off their indignation. Past experience shows that a little tactful groundwork of this sort can yield immense political benefits.

OL hdz.

OLIVER LETWIN

ANNEX

These are grant totals

GRANT CHANGES: 1985/86-1986/87

	1986/7 Change £m	1985/6 Grant £m
Kensington & Chelsea	+10	17
Lambeth	+14	48
Westminster	-65*	-26 **
Greenwich	+16	36
Ealing	+17	55
Barnet	+9	32
Richmond-upon-Thames	+3	12
Birmingham	+17	165
Gateshead	+7	40
Liverpool	+41	29
North Yorkshire	+4	109
Norfolk	-2	93
Oxfordshire	-5	39
Hertfordshire	-13	59

* Westminster's loss of grant is balanced by other gains following abolition.

* Westminster is a net contributor, through the London Rate Equalisation Scheme.

CC BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/19056/85

Your ref:

22 November 1985

NBPM

Dear Michael.

SALE OF LOCAL AUTHORITY MORTGAGES

Thank you for sending me a copy of your undated reply to John MacGregor's letter of 24 October.

I am, of course, disappointed that you feel unable to follow the English and Welsh line on borrower's consent. May I ask whether you are satisfied that Scottish borrowers will be adequately protected following the proposed changes to the capital receipts position? If local authorities are required to transfer all risk it will be more difficult for them to build borrower protection into their disposal arrangements than has been the case up to now.

You say in your letter that you can defend the non-coverage of Scotland. Does this mean that there will be a Scottish Minister on the Standing Committee of the Local Government Bill? Part II of the Bill extends to Scotland, so this would be appropriate.

I am sending a copy of this letter to Nick Edwards, George Younger, John MacGregor, other members of E(A), Sir Robert Armstrong and Sir George Engle.

Yours

Kenneth

KENNETH BAKER

Michael Ancram Esq MP

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

22 November 1985

Dear David,

LIVERPOOL

We spoke this morning on the telephone about the position in Liverpool. It clearly remains fluid, and much depends on the results of this evening's decision by the District Labour Party. But assuming that the Council do not come forward with a solution to their problem by Monday afternoon, my Secretary of State needs to be prepared to make some sort of statement in Parliament, whether in response to a PNQ or an emergency debate, or whether by oral statement.

As things stand at the moment, my Secretary of State would only propose to volunteer an oral statement if that were to avoid an emergency debate. I understand that the Lord Privy Seal shares that judgement. But I understand that Mr Hind, Conservative MP for Lancashire West, and doubtless other Members, will put down a PNQ on Monday, which the Speaker might be disposed to accept. In that case my Secretary of State would have to answer that anyway.

I enclose a first draft of the statement/answer which my Secretary of State would propose to make. Although clearly the decision whether or not to offer any statement must wait until Monday, I hope it is helpful to circulate this draft now. I should be grateful for comments on it, by mid-day on Monday.

I am sending a copy of this letter and enclosure to the Private Secretaries to other members of MISC 109, Murdo MacLean and David Beamish in the Chief Whips' offices, David Morris in the Lord Privy Seal's office, and Michael Stark in Sir Robert Armstrong's office.

Yours sincerely,

Robin.

R U YOUNG
Private Secretary

David Norgrove Esq

DRAFT PARLIAMENTARY STATEMENT (TO BE ADAPTED FOR REPLY TO PNQ)

LIVERPOOL

With permission, Mr Speaker, I wish to make a statement on the financial position of Liverpool City Council.

2 Liverpool City Council has announced that it is no longer able to pay the wages to its 31,000 staff. As a result, the services which the Council provides could deteriorate. I understand the Council has set up an emergency committee to maintain the minimum of essential services.

3 The Council's position arise directly from deliberate failure to manage its financial affairs properly. The Council could, if it wished, put its finances in order. The Stonefrost Report set out options. The Association of Metropolitan Authorities has been actively working on possible solutions. The Front Bench opposite, and trade union leaders at both local and national level have pressed the Council to resolve its difficulties to ensure that its own workforce and the people of Liverpool do not suffer.

4 Despite all of this, the City Council has so far rejected all offers of help and advice. Instead it has sought to use its own employees, and the people of Liverpool, as bargaining counters in an artificially created political confrontation.

5 Let me again make clear the Government's position. I am prepared to meet anyone who has Liverpool's best interest at heart, and I have done so frequently. However I am not prepared to meet the City Council while its leadership continues to behave irresponsibily and fails to carry out its duty to make a balanced budget and rate. The Government is not going to bail the Council out. There will be no extra money for them.

6 The Government is monitoring the position in Liverpool very closely to assess the extent to which essential services are being affected. It is the responsibility of the Council to ensure that vulnerable people are protected. I expect them to take that responsibility seriously.

7 The City Council is the elected authority responsible for running services in Liverpool. It must resolve its financial problems and do so quickly. Even at this late stage, it is possible for them to act to avoid chaos. If they fail to act, they will be harming the very people whom they have been elected to serve.

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

22 November 1985

Dear Stephen,

LIVERPOOL

The Home Secretary is meeting my Secretary of State on Monday at 6.15 pm. Sir Keith Joseph, Mr Fowler, and Mr Clarke will also be present.

As we discussed, it is not possible for us to send round a full agenda, not least because much will depend on what happens at tonight's meeting at 7 pm of the Liverpool District Labour Party and any subsequent decisions by the City Council over the weekend or on Monday morning. But I enclose a short note on the sort of issues which my Secretary of State would like to cover, which I hope you find helpful. I am circulating separately the draft of an oral Parliamentary statement, in case my Secretary of State has to make one on Monday afternoon.

I am copying this letter and enclosure to Bob Smith in Sir Keith Joseph's office, Tony Laurance in Mr Fowler's office, and Jacob Franklin in Mr Clarke's office, and, for information, to David Norgrove at No 10 and Private Secretaries to other members of MISC 109, and Michael Stark in Sir Robert Armstrong's office.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

Stephen Boys Smith Esq

AGENDA FOR MEETING WITH SERVICE MINISTERS, MONDAY 25 NOVEMBER

LIVERPOOL: CONTINGENCY ARRANGEMENTS

1. Statutory Duties

Are these being fulfilled? Ought service Ministers yet to write letters?

2. Magistrates Courts

Ought special arrangements to be made as proposed by the Home Secretary? Can this be separated from other contingency planning?

3. Contingency Planning

a. Review of City Council's own arrangements.

b. Financing of voluntary sector.

c. What arrangements could be made for Government to intervene in provision of essential services?

d. Could default powers be used?

e. Timing of any intervention.

f. Arrangements for preparing DHSS/Employment offices for major influx of clients. Timing.

22.VI.

With the compliments of

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand. W.C.2A 2LL

GTN 2921-
Direct Line 01-936-

CC86

GT[illegible]921-
Direct Line 01-936-
Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

The Private Secretary to the
Secretary of State for Education and Science,
Department of Education and Science,
Elizabeth House,
York Road,
LONDON, SE1 7PH.

21 November 1985

Dear Private Secretary,

LIVERPOOL CITY COUNCIL

The Solicitor General's letter of 21st November to your Secretary of State was inadvertently sent to the Secretary of State for the Environment. I enclose a copy of the letter your Secretary of State should have received. I apologise for the error.

I am copying this letter to the Private Secretaries to the members of MISC 109, the Employment Secretary and to Sir Robert Armstrong.

Yours sincerely,

D.J. SERJEANT

J

Local Govt Pt 28

Relations

With the compliments of

the Solicitor-General

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand, W.C.2A 2LL

01 405 7641 Extn. 3407

2 PPS

cc BG

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt. Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for Education and Science,
Department of Education and Science,
Elizabeth House,
York Road,
LONDON, SE1 7PH.

21 November 1985

NBPM

Dear Keith.

I have seen your minute of 6 November to the Prime Minister and Kenneth Baker's letter to you of 11 November.

I agree that you should write to the Council in the terms you propose as soon as you deem it necessary, and after consulting Kenneth on the timing of the letter.

I am copying this letter to the members of Misc. 109, the Employment Secretary and Sir Robert Armstrong.

Yours ever

Peter

Local Govt Pt 28

" Relations

25 XI PM 85

010

CONFIDENTIAL

CC BG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1A 2AT

(pa)

21 November 1985

Dear Lord President,

RATE SUPPORT GRANT (RSG) SETTLEMENT 1986-87

Following the meeting of E(LA) on 19 November (ATTACHED) I have discussed the RSG settlement further with Kenneth Baker. The Chancellor of the Exchequer and the Chief Whip have also been involved in the further discussions.

None of us are happy about the outcome in terms of the distribution of RSG under package B1. However given the constraints of the system (within which Kenneth Baker has assured us that package B1 is the best obtainable) and the need to stay within the previously announced figure for Aggregate Exchequer Grant we have reluctantly come to the view that we should proceed on the basis of package B1.

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

Yours Sincerely,

JOHN MacGREGOR

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

CONFIDENTIAL

cc OK

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Secretary of State
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

NBPM.

Dear Secretary of State

21 November 1985

LIVERPOOL: MAGISTRATES COURT SERVICE

I have seen a copy of your letter of 19 November to Kenneth Baker. Our commitment as a Government to the maintenance of law and order clearly means that we must ensure that the magistrates court service can be maintained in Liverpool. You suggested that payment of fines and fees to the Consolidated Fund be deferred and the moneys diverted to meet the expenses of the magistrates courts. The Treasury Solicitor's advice is that this would not be legal. I understand that our legal advisors are in touch with each other on this point but clearly if there is doubt as to its legality then this route will not be open to us.

Our officials are discussing the technical details of paying grants direct to the Committee if they could not otherwise continue to function. The money would come from Class IX Vote 6, subhead A.1 in which I understand that some £500,000 remains in respect of the specific grant to be paid to Liverpool this year for the magistrates court. It is essential if we are not to pay grant twice over that the total of grant paid for the year should not be greater than it would otherwise have been. Restoration of order should enable recovery of the funds already paid for the period to Christmas. Again, our officials are in touch about the detailed mechanisms for achieving this.

We agreed this morning that it is essential that no details of this contingency planning be allowed to leak out, even to courts service officials, until decisions on whether to activate any special arrangements have been taken. Meanwhile your officials can make the necessary preparations within government.

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

Yours sincerely,

Paul Lefroy

pp JOHN MacGREGOR

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

LOCAL GOVT: Relations: Pt 28

With the compliments of

the Solicitor-General

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand, W.C.2A 2LL

01 405 7641 Extn. 3407

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

The Rt. Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for the Environment, ? Education!!
Department of the Environment,
2, Marsham Street,
LONDON, SW1P 3EB.

November 1985

NBPM.

Dear Keith.

I have seen your minute of 6 November to the Prime Minister and Kenneth Baker's letter to you of 11 November.

I agree that you should write to the Council in the terms you propose as soon as you deem it necessary, and after consulting Kenneth on the timing of the letter.

I am copying this letter to the members of Misc. 109, the Employment Secretary and Sir Robert Armstrong.

Yours ever

Peter

J

LOCAL GOVT: Relations: Pt 28

22.XI. PM 8 5

CONFIDENTIAL

File DA
cc Olivier
Letwin

10 DOWNING STREET

From the Private Secretary

21 November 1985

Dear Stephen,

LIVERPOOL: MAGISTRATES' COURTS

The Prime Minister has seen the Home Secretary's letter of 19 November to the Secretary of State for the Environment.

The Prime Minister on balance favours the first of the two options mentioned in the Home Secretary's letter, that the justices' clerk should make funds available to the Magistrates' Courts Committee from fines and fees receipts, providing the resources available from this source are adequate for the purpose. The Prime Minister assumes that this option would not need a Parliamentary announcement whereas a special grant would, bringing with it the risk of giving the wrong signals to Liverpool Council.

I assume you will be in touch with DOE about the timing of any action on this.

I am copying this letter to the Private Secretaries to members of MISC 109 and to Michael Stark (Cabinet Office).

Yours sincerely,

David Norgrove

(David Norgrove)

Stephen Boys Smith, Esq.,
Home Office

CONFIDENTIAL

DA

MISC 109:

Lord Pres.
Home Sec.
Ch. Sec. HMT
S/S DES
S/S Env.
Min. State, Env. (Waldegrave)
Lord Privy Seal
Social Services
Att. Gen.

CONFIDENTIAL

file DA

bc Prof. Griffiths

10 DOWNING STREET

From the Private Secretary

21 November 1985

LIVERPOOL: PROGRESS REPORT

The Prime Minister was grateful for your Secretary of State's minute of 19 November. She agrees very strongly with the line he proposes to take, that the solution lies in the Council's hands.

I am copying this letter to the Private Secretaries to members of MISC 109, Leigh Lewis (Department of Employment), John Mogg (Department of Trade and Industry), Richard Allan (Department of Transport) and Michael Stark (Cabinet Office).

(David Norgrove)

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

BM

Prime Minister

There are strong rumours that Liverpool are about to cave in. They have told DoE that they could sort themselves out if only they were given £2 million (DoE said no) and they are meeting the AMA tomorrow. Agree to write as proposed, but any action to be left until the last possible moment?

DRN 20/11

PRIME MINISTER

LIVERPOOL : MAGISTRATES' COURTS

Prefer Option (i) (assuming the resources are sufficient)

Clearly, the work of the magistrates' courts must not be interrupted.

But we disagree with Douglas Hurd about the best method of keeping them going. It would be tactless to announce a special grant in the House of Commons at this stage; everyone would interpret this as a sign of the government losing its nerve.

The preferable course is Douglas's option ii - authorising the justice's clerk to provide the needed funds from the fines and fees received in Liverpool itself. This will not need to be announced in the House, and will not involve any explicit transfer of funds from the exchequer to Liverpool.

We strongly recommend that you should ask the Home Office to avoid any explicit new grant, and to let the justice's clerk fund the magistrates out of the fines and fees received in Liverpool, assuming that this can be done without a parliamentary announcement.

Oliver Letwin.

OLIVER LETWIN 20/11/85.

CC B/UP

PRIME MINISTER 20 November 1985

LIVERPOOL

There are disturbing signs in today's press that Ministers may be on the point of getting the jitters about Liverpool.

There is no need for you to take any action at this stage. Nor is any special meeting required. But you may wish to remind Cabinet tomorrow that:

1. The policy of brinkmanship has been working superbly.

2. The Government's public line should continue to be: "Liverpool council have been offered endless ways of solving their problems; if they fail to take these opportunities, they must live by the results of their own recklessness".

3. There is absolutely no question of taking over the city unless and until the people of Liverpool and the public in general are clamouring for the Government to do so.

This is just like the miners' strike: if your nerves are better than theirs, you will win.

Oliver Letwin

OLIVER LETWIN

CONFIDENTIAL

Prime Minister
To note
19/11

PRIME MINISTER

LIVERPOOL: PROGRESS REPORT

Liverpool City Council has announced that it will be unable to pay its staff after Thursday. It has so far rejected the proposals in the Stonefrost report, and the move by other local authorities to provide spare capital allocations appears to be foundering. The Council is increasingly isolated from the Trade Unions and the Labour Party. Councillors continue to demand a meeting with me. I am refusing this until they balance the books, a message I made clear in the House on Monday afternoon and which I will repeat to Liverpool Labour MPs when I see them on Tuesday.

Following the success of their action against the redundancy notices, the NUT are seeking to have the City's rate quashed. This could allow the Council to raise its rate. However the result is unlikely to come soon enough to prevent any financial problems that might arise at the end of this week.

We therefore face the risk of a progressive breakdown of services in Liverpool, including essential services such as care of children, the elderly and the disabled. The Council has said it will provide emergency cover for such services. We shall need to monitor the position carefully. Each Department concerned has a copy of a paper setting out contingency plans to handle breakdown of 'essential' services. These could be activated if we judge the need arises, but at present I see no need for that. As you know from recent correspondence DES are keeping under review the implications for them of any failure by Liverpool to carry out their statutory education duties.

I therefore propose no immediate action. I shall take every opportunity to hammer home the line that the solution lies in the Council's hands, and there is still time for them to avoid service breakdown by taking some or all of the steps recommended in the Stonefrost report.

I am copying this to members of MISC 109, David Young, Leon Brittan, Nicholas Ridley and Sir Robert Armstrong.

KB.

K B

19 November 1985

1.6.XI. 1965

CONFIDENTIAL

CC BG

QUEEN ANNE'S GATE LONDON SW1H 9AT

19 November 1985

BF // OL or DOE reply ?

Dear Secretary of State

LIVERPOOL: MAGISTRATES' COURTS SERVICE

In view of the impending inability of Liverpool City Council to continue to meet its financial obligations, I am writing to inform you and MISC 109 colleagues of action which I propose to take to enable the magistrates' courts service in Liverpool to continue to operate as normally as possible until more permanent arrangements can be made for the City's financial responsibilities to be discharged.

Law and order in Liverpool must be maintained in the coming weeks. Among the services involved in the operation of the criminal justice system, the magistrates' courts are alone in depending on the City Council for their funding. The staff of the magistrates' courts service are not, however, employed by the City Council: they are employed by the Liverpool Magistrates' Courts Committee, a committee of magistrates elected by their fellow magistrates in Liverpool. The City Council has a statutory obligation under the Justices of the Peace Act 1979 to act as paying authority for the magistrates' courts service, and it is the City Council's ability to continue to discharge its obligations under the 1979 Act which is now in doubt. To make arrangements now for the funding of the magistrates' courts service would, I think, both be consistent with the priority which we must give to the maintenance of law and order and compatible with the stance we have taken on the funding of those services whose staff are directly employed by the City Council.

The options which my officials have outlined to officials of your department and the Treasury are either:

(i) to authorise the justices' clerk in the area (who is also the clerk to the Magistrates' Courts Committee) to make funds available to the Committee from the fines and fees receipts in respect of which he accounts to the Secretary of State; or

(ii) to provide a special ad hoc grant to the Committee.

Option (ii) above would need to be announced to Parliament by means of an arranged Question, and authority would subsequently have to be sought in the next Appropriation Act. I myself have some preference for the second option but would be content with the first.

/Alternatives such as

The Rt Hon Kenneth Baker, MP

CONFIDENTIAL

Alternatives such as "farming out" the work of the Liverpool magistrates' courts to courts in neighbouring areas have been explored. But there are such strong doubts about the legality, as well as the feasibility, of such a course that no useful purpose would be served by pursuing it further. The magistrates' courts in Liverpool are now in imminent danger of being unable to continue to operate. In view of the urgency of making satisfactory local arrangements for the courts to continue to operate, I will assume that you and MISC 109 colleagues are content with my proposals to take action as outlined above unless I hear to the contrary by 21 November. Unless colleagues have strong views on which of the two options outlined above should be adopted, I would propose that officials of my Department should enter into detailed discussions with the Clerk to the Magistrates' Courts Committee, so that he can be assured that arrangements are being made to enable his staff to be paid an adequate temporary allowance, and to pay essential bills, so that the magistrates' courts can continue to function after such time as Liverpool City Council may show itself unable to meet its fincnail obligations.

Copies of this letter to to members of MISC 109 and to Sir Robert Armstrong.

Yours sincerely,

William Whitelaw

Approved by the Home Secretary
and signed in his absence.

I.C.M. BIBLIOTEKA AM85

MM

CONFIDENTIAL

CC/BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/19007/85

Your ref:

NBPM

19 November 1985

Dear Michael

RATE SUPPORT GRANT SETTLEMENT 1986/87

Thank you for your letter of 8 November.

I do appreciate your concern about the position of the Transport Joint Boards under the settlement. Indeed you and Patrick Jenkin exchanged letters and met to discuss this on a number of occasions since our intention to abolish the metropolitan counties was announced. Following these exchanges I have done everything I can to ensure that the transport boards get a reasonable grant settlement.

First, we reviewed all the main GREs for the transport boards - for passenger transport support, concessionary fares and support to rail services - in this year's Grants Working Group round. A number of options for changes to these formulae were developed which favoured the joint boards. In each case I was happy to agree to the option you preferred, even though this differed in some cases from my own initial choice.

We have now announced our intentions on GREs for next year. While I would be ready to consider this again for 1987/88, I do not see that any further GRE changes can be made for 1986/87.

Second, my officials have considered with your Department and the Home Office whether a change to the way block grant safety nets are supplied could improve the position of joint boards. I set out the results as package C in my letter of 6 November. Only the two highest spending transport boards (Merseyside and South Yorkshire) benefited substantially. A majority of the police and fire joint boards were actually worse off, because of the operation of the caps on grant gains. For this reason I did not feel colleagues would want to accept this change.

I am afraid that I do not see what further options are open to us to help the transport boards. The fact is that even at the expenditure levels you have proposed, the differences in their spending levels remain enormous. The West Midlands board has an EL below its GRE, while the South Yorkshire board's EL is no less than 125% above GRE. The block grant regime we have proposed for next year is designed to increase the pressure on spending above GRE, and this is bound to

Local Govt; Rels Pt 18

means that high spending boards will have to levy high precepts.

I am not myself convinced that this will put us in an impossible position. At ratepayer level, the proposals I have exemplified produce acceptable results. Furthermore the higher transport precepts will bring home to ratepayers the cost of the policies which have been pursued in this field by the counties concerned. No doubt you will be using the precept control powers in years after 1986/87 to ensure that spending is reduced to more reasonable levels. The results of that will feed through in the precepts for years after 1986/87.

I hope that on reflection you will agree that we can live with the results of our policies as far as the transport boards are concerned.

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

Yours ever
Kenneth

KENNETH BAKER

The Rt Hon Nicholas Ridley

2F.

CC BG

CONFIDENTIAL

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
London
SW1

18 November 1985

Dear Willie,

RATE SUPPORT GRANT SETTLEMENT 1986-87

ATTACHED

I have seen Kenneth Baker's paper E(LA)(85)15, proposing a package which would increase AEG by £200 million in addition to changing nets and caps.

In my view, this does more than is needed - and is more than we can afford - to give a tolerable outcome for our supporters in the shires.

Only last week we confirmed in the Autumn Statement that AEG would be the same in cash as in 1985-86. To announce an increase next month could be seriously damaging in a sensitive position. We have been having to emphasise in order to overcome public criticism that the Autumn Statement reflects the government's continued commitment to sound financial policies. If we start changing the numbers so soon it could have very serious effects on the credibility of our stance, in financial markets and more generally.

In addition, any increase in AEG would give local authorities quite the wrong signal. Publishing one figure in November and a higher figure in December can only encourage them to hope for further increases and in some cases to plan accordingly. This could be particularly serious in what could in any case be a particularly difficult situation on pay next year. We should not underestimate how damaging it would be to responsible financial planning if we are seen to chop and change on the figures so quickly.

Nor should we underestimate the cost. An additional £200 million of AEG will reduce the Chancellor's room for manoeuvre by that amount. For all these reasons, I must ask colleagues to reject any package involving an increase in AEG.

CONFIDENTIAL

We should, however, make as much use as we can of the levers available within the grant mechanisms. The increase in local contributions in the shire areas could be reduced to about 6 ½ per cent by a modified version of Package B, with the net on the slope of 15p instead of 10p; a net on GRE changes of 3p instead of 8p (all as proposed in Kenneth Baker's Option B3); and the intermediate slope threshold at 5 per cent above GRE in addition to the one at 10 per cent, as proposed in the July consultation package. The average increases in local contributions would then be 6.6 per cent in the shires, 6.4 per cent in the metropolitan areas and 1 per cent in London. Exemplifications of this package (B4) are attached.

Kenneth's paper mentions in a footnote that close-ending would in principle make a considerable difference (2 per cent) to the rate increase required in the shires, if authorities could predict it and take it into account in setting their rates. I accept that it is difficult for them to do so. But we know that Cambridgeshire seeks to do this, on apparently reasonable assumptions. And other counties may well be doing the same. We should certainly not discount close-ending altogether as a factor likely to be favourable to the shire counties, and potentially helpful in enabling them to keep rate increases down.

If colleagues wish to go further than I have proposed to help the shires, the other lever available is the London discount. Local contributions in shire areas could be reduced by a further ½ per cent, to about 6 per cent, by a 2½ per cent reduction in the London discount, to a 1¼ per cent further increase in local contributions in London.

Joint Boards

At our last meeting Douglas Hurd raised the problem of the joint boards losing block grant if they budget to spend at their expenditure levels.

I think it is important to recognise that this does not imply that joint boards will end up without the money they need to spend on the police; it affects how they will finance that expenditure. Their precept limits are set after taking full account of the block grant they will receive, and if we expect the police to remain a locally provided service, it seems to me right that ratepayers should contribute significantly to the costs of the police. Safety netting at ratepayer level in the way we are proposing in settling AEG will of course moderate the total call made on them from rates and precepts.

Any move to resolve the problem through additional specific police grant would mean re-opening recent expenditure decisions - with GRE's now settled, an increase in specific police grant would mean an increase in provision. And while, on present plans, the joint boards would need to precept for about £20 million in order to spend at their expenditure levels we would need to increase grant - and find expenditure provision for - £100 million to provide equivalent assistance through grant (because we could not distinguish between joint boards on the one hand and the shire counties and the Metropolitan Police, who account for the other three quarters of police spending on the other). I do not believe that we could justify such a drastic solution to a difficulty for some joint boards, particularly since we are in the middle of redetermining their ELs.

I agree however that officials should discuss urgently the points Douglas has raised. In the meantime, I hope he will agree that he should defend the present position against charges that it damages our policies on policing.

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

Yours ever,

JM

JOHN MacGREGOR

DATE 18-NOV-85

TABLE 1

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
TOTAL England	5.0	5.0
TOTAL Shire areas	8.0	6.6
TOTAL Metropolitan areas	5.4	6.4
TOTAL London	-.8	1.0

Summary of changes by numbers falling into different bands

SHIRE COUNTIES (authority level)		
Reduction more than 10%	-	-
Reduction 5% to 10%	-	-
Reduction less than 5%	-	-
Increase less than 5%	1	1
Increase 5% to 10%	27	37
Increase more than 10%	11	1
SHIRE DISTRICTS (authority level)		
Reduction more than 10%	31	26
Reduction 5% to 10%	11	14
Reduction less than 5%	25	57
Increase less than 5%	87	110
Increase 5% to 10%	91	62
Increase more than 10%	51	27
MET DISTRICTS (ratepayer level)		
Reduction more than 10%	-	-
Reduction 5% to 10%	-	-
Reduction less than 5%	1	1
Increase less than 5%	18	11
Increase 5% to 10%	15	21
Increase more than 10%	2	3
INNER LONDON BOROUGHS (ratepayer level)		
Reduction more than 10%	1	-
Reduction 5% to 10%	3	3
Reduction less than 5%	4	4
Increase less than 5%	5	6
Increase 5% to 10%	-	-
Increase more than 10%	-	-
OUTER LONDON BOROUGHS (ratepayer level)		
Reduction more than 10%	-	-
Reduction 5% to 10%	1	-
Reduction less than 5%	7	3
Increase less than 5%	10	10
Increase 5% to 10%	2	7
Increase more than 10%	-	-

DATE 3-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

		Package B (%)	Package B4 (%)
GREATER LONDON			
City of London		-.5	.1
Camden	RL	1.0	1.3
Greenwich	RL	.8	2.6
Hackney	RL	-3.8	-2.2
Hammersmith and Fulham		-8.0	-6.8
Islington	RL	-5.7	-4.0
Kensington and Chelsea		-10.6	-8.6
Lambeth	RL	-3.4	-1.9
Lewisham	RL	-3.1	-1.5
Southwark	RL	1.0	2.8
Tower Hamlets		.6	2.2
Wandsworth		-9.1	-6.7
Westminster		.3	.8
Barking and Dagenham		3.9	5.9
Barnet		-.8	2.9
Bexley		3.1	4.9
Brent		-2.8	-.4
Bromley		2.4	5.8
Croydon		1.0	5.4
Ealing		-6.3	-2.2
Enfield		.8	4.5
Haringey	RL	2.6	5.4
Harrow		-1.0	2.6
Havering		3.7	4.8
Hillingdon		7.5	7.2
Hounslow		2.6	3.0
Kingston-upon-Thames		-.4	3.3
Merton		-1.4	2.7
Newham		-4.3	-1.8
Redbridge		-1.6	2.3
Richmond-upon-Thames		4.6	8.4
Sutton		1.0	4.8
Waltham Forest		5.4	9.6
ALL PURPOSE AUTHORITY			
Isles of Scilly		-31.6	-39.4

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority. See table 4 for spending at EL.

DATE: 13-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

		Package B (%)	Package B4 (%)
GREATER MANCHESTER			
Bolton		2.4	5.0
Bury		6.7	6.0
Manchester		6.3	10.7
Oldham		3.6	4.1
Rochdale		4.2	4.8
Salford		6.8	7.6
Stockport		4.3	6.5
Tameside		3.4	4.0
Trafford		2.7	6.4
Wigan		5.2	5.7
MERSEYSIDE			
Knowsley		4.5	5.2
Liverpool	RL	4.7	6.7
St Helens		4.6	5.0
Sefton		4.0	6.3
Wirral		3.2	5.5
SOUTH YORKSHIRE			
Barnsley		10.8	9.5
Doncaster		9.3	9.8
Rotherham		9.8	10.3
Sheffield		14.7	15.9

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority. See table 4 for spending at EL.

DATE: 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

		Package B (%)	Package B4 (%)
TYNE AND WEAR			
Gateshead		2.5	4.0
Newcastle upon Tyne	RL	6.5	6.8
North Tyneside		5.2	4.9
South Tyneside		4.6	2.5
Sunderland		1.2	2.1
WEST MIDLANDS			
Birmingham		-.8	-1.0
Coventry		3.8	4.3
Dudley		3.3	4.2
Sandwell		3.1	4.0
Solihull		7.0	6.1
Walsall		5.4	5.5
Wolverhampton		.7	4.8
WEST YORKSHIRE			
Bradford		5.9	6.4
Calderdale		7.2	7.6
Kirklees		7.7	8.0
Leeds		8.5	8.1
Wakefield		9.6	8.9

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority. See table 4 for spending at EL.

DATE [illegible]-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
SHIRE COUNTIES		
Avon	9.8	8.6
Bedfordshire	11.4	8.7
Berkshire	10.9	8.7
Buckinghamshire	10.1	7.1
Cambridgeshire	8.3	5.3
Cheshire	8.7	8.3
Cleveland	9.4	8.1
Cornwall	7.3	6.2
Cumbria	6.3	7.6
Derbyshire	9.8	8.2
Devon	7.0	6.7
Dorset	8.7	6.7
Durham	7.8	8.0
East Sussex	7.9	7.6
Essex	10.5	7.9
Gloucestershire	8.0	7.4
Hampshire	10.9	8.1
Hereford and Worcester	8.2	7.0
Hertfordshire	11.4	10.4
Humberside	8.3	7.4
Isle of Wight	11.6	8.8
Kent	10.6	8.1
Lancashire	7.8	7.7
Leicestershire	9.0	7.9
Lincolnshire	7.6	8.5
Norfolk	8.3	6.6
Northamptonshire	8.9	5.9
Northumberland	1.0	1.0
North Yorkshire	5.8	7.3
Nottinghamshire	10.4	8.7
Oxfordshire	11.0	8.9
Shropshire	5.4	7.0
Somerset	8.1	7.0
Staffordshire	8.6	7.0
Suffolk	9.7	7.3
Surrey	11.3	8.7
Warwickshire	7.8	7.0
West Sussex	8.3	7.8
Wiltshire	7.5	7.0

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE: [illegible]-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
AVON		
Bath	-100.0	-100.0
Bristol	-7.0	-7.1
Kingswood	8.2	4.3
Northavon	9.1	5.7
Wansdyke	-14.6	-14.8
Woodspring	1.4	-1.6
BEDFORDSHIRE		
North Bedfordshire	-.4	2.5
Luton	-.4	-1.5
Mid Bedfordshire	.9	6.6
South Bedfordshire	2.9	2.9
BERKSHIRE		
Bracknell	-3.8	-4.0
Newbury	4.1	1.0
Reading	-9.5	-6.3
Slough	-66.5	-66.6
Windsor and Maidenhead	5.1	1.8
Wokingham	7.4	4.4
BUCKINGHAMSHIRE		
Aylesbury Vale	7.0	2.8
South Bucks	1.4	1.4
Chiltern	2.9	-2.6
Milton Keynes	.6	-2.0
Wycombe	6.9	2.7
CAMBRIDGESHIRE		
Cambridge	-22.9	-23.0
East Cambridgeshire	-8.0	-8.2
Fenland	-7.7	-7.8
Huntingdon	1.8	2.0
Peterborough	7.9	8.6
South Cambridgeshire	-.5	-.6
CHESHIRE		
Chester	.7	-1.9
Congleton	7.1	4.3
Crewe and Nantwich	5.9	.6
Ellesmere Port and Neston	8.9	4.7
Halton	-2.7	1.2
Macclesfield	4.1	1.0
Vale Royal	7.2	2.7
Warrington	6.2	.6

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE [redacted] NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
CLEVELAND		
Hartlepool	-1.0	-.6
Langbaurgh	14.6	14.4
Middlesbrough	1.8	5.2
Stockton-on-Tees	8.9	6.4
CORNWALL		
Caradon	2.9	-.5
Carrick	.6	-2.3
Kerrier	1.6	-1.6
North Cornwall	1.3	-2.1
Penwith	-1.5	-4.5
Restormel	2.5	-.7
CUMBRIA		
Allerdale	4.9	1.9
Barrow in Furness	-.2	-.0
Carlisle	11.5	8.4
Copeland	16.2	15.5
Eden	6.9	3.1
South Lakeland	4.8	1.9
DERBYSHIRE		
Amber Valley	13.4	6.6
Bolsover	16.1	11.4
Chesterfield	13.4	15.4
Derby	-12.3	-7.7
Erewash	6.2	2.2
High Peak	12.1	6.4
North East Derbyshire	20.6	18.9
South Derbyshire	12.0	8.6
West Derbyshire	13.6	7.4
DEVON		
East Devon	1.1	-2.5
Exeter	-28.2	-28.3
North Devon	.8	-2.1
Plymouth	-40.0	-40.2
South Hams	5.0	1.8
Teignbridge	1.5	-1.5
Mid Devon	5.3	2.0
Torbay	-10.3	-7.0
Torridge	6.1	3.3
West Devon	6.8	2.9

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

		Package B (%)	Package B4 (%)
DORSET			
Bournemouth		-23.4	-19.3
Christchurch		5.1	1.7
North Dorset		9.7	4.2
Poole		3.5	.4
Purbeck		7.6	3.2
West Dorset		8.4	3.3
Weymouth and Portland		-2.2	-2.7
Wimborne		6.3	2.9
DURHAM			
Chester-le-Street		13.8	14.9
Darlington		7.1	7.0
Derwentside		10.6	10.5
Durham		13.2	13.0
Easington		8.4	9.4
Sedgefield		14.5	14.4
Teesdale		4.5	1.1
Wear Valley		10.2	10.0
EAST SUSSEX			
Brighton		-21.5	-18.4
Eastbourne		-7.2	-3.9
Hastings		-25.4	-20.5
Hove		-100.0	-100.0
Lewes		5.1	2.0
Rother		4.0	.9
Wealden		5.5	2.1
ESSEX			
Basildon	RL	8.7	8.7
Braintree		4.8	1.6
Brentwood		4.4	1.3
Castle Point		2.1	-.7
Chelmsford		.6	.5
Colchester		-13.1	-13.2
Epping Forest		7.6	4.6
Harlow		3.8	3.8
Maldon		3.5	-.2
Rochford		8.8	5.7
Southend-on-Sea		-22.1	-17.4
Tendring		-.3	-3.2
Thurrock		4.3	4.3
Uttlesford		8.1	4.4

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

RL: Rate-limited authority. See table 4 for spending at EL.

DATE: 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
GLOUCESTERSHIRE		
Cheltenham	-13.1	-13.3
Cotswold	3.6	-.0
Forest of Dean	18.4	14.8
Gloucester	-55.7	-55.8
Stroud	9.0	5.4
Tewkesbury	3.2	-.4
HAMPSHIRE		
Basingstoke and Deane	3.3	.2
East Hampshire	13.2	6.5
Eastleigh	9.5	6.3
Fareham	9.2	3.5
Gosport	-12.8	-6.8
Hart	4.6	1.8
Havant	-4.9	-5.0
New Forest	5.5	2.1
Portsmouth	-8.7	-7.0
Rushmoor	6.7	4.9
Southampton	-22.4	-17.6
Test Valley	7.4	4.3
Winchester	9.5	6.6
HEREFORD AND WORCESTER		
Bromsgrove	6.1	2.3
Hereford	-7.0	-2.0
Leominster	2.4	-.9
Malvern Hills	4.6	2.4
Redditch	1.1	-.5
South Herefordshire	2.3	-1.7
Worcester	-6.4	-1.5
Wychavon	9.8	4.0
Wyre Forest	11.8	11.6
HERTFORDSHIRE		
Broxbourne	10.5	7.6
Dacorum	9.3	5.2
East Hertfordshire	7.2	4.5
Hertsmere	8.7	8.7
North Hertfordshire	3.6	.7
St Albans	4.1	.7
Stevenage	2.4	2.4
Three Rivers	12.5	6.5
Watford	-.9	-.5
Welwyn Hatfield	5.2	5.2

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
HUMBERSIDE		
Beverley	18.9	15.4
Boothferry	12.7	6.1
Cleethorpes	16.3	9.8
Glanford	25.6	19.2
Great Grimsby	-10.7	-10.8
Holderness	20.9	17.0
Kingston upon Hull	-34.9	-35.0
East Yorkshire	20.5	14.6
Scunthorpe	17.9	21.2
ISLE OF WIGHT		
Medina	-4.2	.7
South Wight	4.3	4.2
KENT		
Ashford	3.7	.4
Canterbury	-.4	-3.1
Dartford	16.4	16.2
Dover	4.9	1.4
Gillingham	-100.0	-100.0
Gravesham	3.2	.3
Maidstone	4.5	1.2
Rochester upon Medway	4.6	.9
Sevenoaks	13.2	7.1
Shepway	-1.4	-4.0
Swale	2.9	.2
Thanet	10.4	6.5
Tonbridge and Malling	10.3	4.3
Tunbridge Wells	2.1	-.9
LANCASHIRE		
Blackburn	8.7	9.5
Blackpool	-22.6	-22.7
Burnley	9.5	9.4
Chorley	11.8	5.0
Fylde	6.4	2.5
Hyndburn	-1.6	-2.6
Lancaster	6.3	.4
Pendle	8.8	8.6
Preston	-4.2	-5.5
Ribble Valley	17.6	13.1
Rossendale	9.8	9.6
South Ribble	9.6	6.8
West Lancashire	15.3	9.3
Wyre	11.1	8.0

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
LEICESTERSHIRE		
Blaby	10.1	6.4
Charnwood	-.4	-2.3
Harborough	10.3	6.2
Hinckley and Bosworth	9.5	5.7
Leicester	-28.4	-25.1
Melton	7.9	5.0
North West Leicestershire	10.8	4.4
Oadby and Wigston	3.9	3.8
Rutland	7.6	4.1
LINCOLNSHIRE		
Boston	15.4	11.6
East Lindsey	3.2	-.4
Lincoln	-27.0	-27.1
North Kesteven	8.8	5.8
South Holland	16.4	13.3
South Kesteven	.6	-3.5
West Lindsey	9.7	4.4
NORFOLK		
Breckland	4.6	.8
Broadland	10.7	6.9
Great Yarmouth	4.3	1.8
North Norfolk	3.2	-1.0
Norwich	-5.1	-.9
South Norfolk	9.4	5.4
King's Lynn and West Norfolk	-3.7	-6.9
NORTHAMPTONSHIRE		
Corby	8.6	4.4
Daventry	10.6	7.4
East Northamptonshire	-4.9	-5.1
Kettering	3.1	.1
Northampton	-6.7	-2.2
South Northamptonshire	15.2	10.5
Wellingborough	3.5	.7
NORTHUMBERLAND		
Alnwick	1.2	-2.5
Berwick-upon-Tweed	2.6	-1.2
Blyth Valley	11.8	13.4
Castle Morpeth	2.9	-.1
Tynedale	4.6	1.7
Wansbeck	7.2	9.9

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
NORTH YORKSHIRE		
Craven	6.4	3.2
Hambleton	6.7	3.3
Harrogate	10.4	10.2
Richmondshire	1.3	-1.3
Ryedale	4.8	1.2
Scarborough	.8	-2.0
Selby	6.1	3.1
York	-88.5	-88.6
NOTTINGHAMSHIRE		
Ashfield	11.2	9.0
Bassetlaw	6.2	6.2
Broxtowe	8.6	8.6
Gedling	5.3	2.9
Mansfield	6.9	7.5
Newark	2.3	-.6
Nottingham	-42.0	-42.1
Rushcliffe	6.9	2.4
OXFORDSHIRE		
Cherwell	-30.6	-30.8
Oxford	-45.2	-45.4
South Oxfordshire	7.3	2.9
Vale of White Horse	-16.7	-16.9
West Oxfordshire	6.8	3.4
SHROPSHIRE		
Bridgnorth	7.5	3.7
North Shropshire	10.3	6.4
Oswestry	3.6	.1
Shrewsbury and Atcham	3.7	.6
South Shropshire	3.6	.4
The Wrekin	13.4	9.0
SOMERSET		
Mendip	6.8	2.6
Sedgemoor	6.6	3.6
Taunton Deane	.6	-2.9
West Somerset	-1.4	-8.2
Yeovil	5.8	3.4

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

	Package B (%)	Package B4 (%)
STAFFORDSHIRE		
Cannock Chase	4.8	2.8
East Staffordshire	3.5	-.0
Lichfield	5.5	2.1
Newcastle-under-Lyme	5.7	1.4
South Staffordshire	8.6	5.2
Stafford	4.2	.7
Staffordshire Moorlands	5.5	2.3
Stoke-on-Trent	-14.0	-9.6
Tamworth	-2.8	-.5
SUFFOLK		
Babergh	8.8	5.5
Forest Heath	3.6	.5
Ipswich	-8.8	-4.9
Mid Suffolk	8.4	5.4
St Edmundsbury	8.4	4.3
Suffolk Coastal	6.3	2.9
Waveney	4.1	.9
SURREY		
Elmbridge	3.4	3.4
Epsom and Ewell	12.4	12.0
Guildford	-1.6	3.0
Mole Valley	.6	5.9
Reigate and Banstead	6.2	5.0
Runnymede	-1.7	4.2
Spelthorne	3.7	3.7
Surrey Heath	-4.7	-1.1
Tandridge	2.7	9.6
Waverley	.8	5.6
Woking	2.8	6.3
WARWICKSHIRE		
North Warwickshire	9.7	7.2
Nuneaton and Bedworth	12.7	14.9
Rugby	5.2	2.5
Stratford on Avon	9.0	6.1
Warwick	3.0	-.1

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

DATE 18-NOV-85

TABLE 2

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Real-terms standstill (85/6 budget+4.5%)

		Package B (%)	Package B4 (%)
WEST SUSSEX			
Adur		15.4	15.2
Arun		1.4	-1.6
Chichester		6.1	2.3
Crawley		2.1	2.1
Horsham		9.5	6.6
Mid Sussex		9.5	6.6
Worthing		-13.4	-9.1
WILTSHIRE			
Kennet		2.3	-1.1
North Wiltshire		3.7	1.0
Salisbury		1.9	-1.8
Thamesdown	RL	7.1	7.0
West Wiltshire		6.2	2.4

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

RL: Rate-limited authority. See table 4 for spending at EL.

TABLE 3

1986/7 SETTLEMENT - JOINT AUTHORITIES

Local contributions for Joint Authorities spending at EL

	Package B	Package B4
POLICE AUTHORITIES		
Greater Manchester Police Authority	13.5	12.7
Merseyside Police Authority	20.0	19.4
South Yorkshire Police Authority	14.9	14.8
Northumbria Police Authority	10.3	9.8
West Midlands Police Authority	9.4	8.9
West Yorkshire Police Authority	17.4	16.9
Metropolitan Police	14.8	14.8
FIRE AUTHORITIES		
Greater Manchester Fire Authority	6.9	6.7
Merseyside Fire Authority	5.2	5.2
South Yorkshire Fire Authority	8.6	8.2
Tyne and Wear Fire Authority	8.8	8.9
West Midlands Fire Authority	5.1	5.1
West Yorkshire Fire Authority	8.1	7.8
London Fire Authority	5.8	5.9
TRANSPORT AUTHORITIES		
Greater Manchester Transport Authority	12.9	13.0
Merseyside Transport Authority	39.2	39.4
South Yorkshire Transport Authority	36.8	36.8
Tyne and Wear Transport Authority	20.9	21.2
West Midlands Transport Authority	6.9	6.9
West Yorkshire Transport Authority	23.3	22.8
INNER LONDON EDUCATION AUTHORITY		
ILEA	79.0	79.0

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TABLE 4

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Rate-limited authorities and Joint Authorities spending at EL

Other authorities spending at real-terms standstill

		Package B (%)	Package B4 (%)
GREATER LONDON			
City of London		-3.4	-2.9
Camden	RL	-3.4	-3.0
Greenwich	RL	-6.4	-4.7
Hackney	RL	-24.8	-23.6
Hammersmith and Fulham		-10.6	-9.4
Islington	RL	-18.7	-17.2
Kensington and Chelsea		-13.5	-11.6
Lambeth	RL	-23.2	-22.0
Lewisham	RL	-16.9	-15.5
Southwark	RL	-10.2	-8.7
Tower Hamlets		-1.6	-.0
Wandsworth		-12.2	-9.8
Westminster		-2.7	-2.2
Barking and Dagenham		3.7	5.7
Barnet		-1.0	2.7
Bexley		2.9	4.7
Brent		-2.9	-.5
Bromley		2.3	5.6
Croydon		.8	5.2
Ealing		-6.4	-2.4
Enfield		.6	4.3
Haringey	RL	-7.9	-5.3
Harrow		-1.1	2.5
Havering		3.5	4.6
Hillingdon		7.3	7.0
Hounslow		2.5	2.9
Kingston-upon-Thames		-.6	3.1
Merton		-1.6	2.5
Newham		-4.5	-1.9
Redbridge		-1.8	2.1
Richmond-upon-Thames		4.4	8.2
Sutton		.8	4.6
Waltham Forest		5.3	9.5

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority.

TABLE 4

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Rate-limited authorities and Joint Authorities spending at EL

Other authorities spending at real-terms standstill

		Package B (%)	Package B4 (%)
GREATER MANCHESTER			
Bolton		3.5	6.1
Bury		7.8	7.0
Manchester		7.2	11.5
Oldham		4.7	5.2
Rochdale		5.1	5.7
Salford		7.8	8.6
Stockport		5.4	7.5
Tameside		4.3	4.9
Trafford		3.8	7.4
Wigan		6.2	6.6
MERSEYSIDE			
Knowsley		7.4	8.2
Liverpool	RL	-14.4	-14.0
St Helens		7.9	8.4
Sefton		7.6	9.9
Wirral		6.6	8.9
SOUTH YORKSHIRE			
Barnsley		4.4	3.2
Doncaster		3.4	3.9
Rotherham		3.5	4.0
Sheffield		9.2	10.5

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority.

DATE 18-NOV-85

TABLE 4

1986/7 SETTLEMENT - % CHANGES IN LOCAL CONTRIBUTION

Rate-limited authorities and Joint Authorities spending at EL

Other authorities spending at real-terms standstill

		Package B (%)	Package B4 (%)
TYNE AND WEAR			
Gateshead		6.5	7.9
Newcastle upon Tyne	RL	1.1	1.5
North Tyneside		8.7	8.5
South Tyneside		8.7	6.5
Sunderland		4.9	5.8
WEST MIDLANDS			
Birmingham		3.1	2.7
Coventry		7.4	7.8
Dudley		7.4	8.2
Sandwell		7.0	7.7
Solihull		11.0	9.9
Walsall		9.0	9.0
Wolverhampton		4.6	8.5
WEST YORKSHIRE			
Bradford		11.2	11.6
Calderdale		12.6	12.8
Kirklees		13.0	13.1
Leeds		14.4	13.8
Wakefield		15.5	14.6

* * * CHANGES IN LOCAL CONTRIBUTIONS AT RATEPAYER LEVEL * * *

RL: rate-limited authority.

RATE-LIMITED SHIRE DISTRICTS

Basildon	RL	4.1	4.1
Thamesdown	RL	-1.0	-1.7

* * * CHANGES IN LOCAL CONTRIBUTIONS AT AUTHORITY LEVEL * * *

18. XI. PM 85

CONFIDENTIAL

SRW

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10 DOWNING STREET

From the Private Secretary

18 November 1985

LIVERPOOL

The Prime Minister has seen your Secretary of State's minute of 6 November and the Secretary of State for the Environment's letter of 11 November about the proposed response if a substantial number of schools and colleges in Liverpool were to be closed.

B/F.

The Prime Minister accepts that in the circumstances he describes, your Secretary of State would have to write to Liverpool Council. She would be grateful to be consulted on the timing of the letter.

I am copying this letter to Robin Young (Department of the Environment).

(DAVID NORGROVE)

Rob Smith, Esq.,
Department of Education and Science

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11/11/85 CC BG

FROM THE MINISTER FOR LOCAL GOVERNMENT AND THE ENVIRONMENT

SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBPM.

November 1985

Dear John,

SALE OF LOCAL AUTHORITY MORTGAGES

FILE WITH DRN 11/11

Thank you for your letter of 24 October.

I am a little surprised that you express the expectation that E(A) should have been forewarned of a separate approach in Scotland. The proposal to require local authorities to obtain individual borrowers' consent emerged rather late in the day in the context of E(A) discussions primarily concerned with the capital control system in England and Wales. The minutes certainly make no reference to Scotland and there was no reference to the Scottish position in the extensive correspondence between colleagues in the interval between tht E(A) discussion and Patrick Jenkins's announcement. It is clear from the announcement itself that he understood that there was no presumption that the change would extend to Scotland.

The correspondence which I have mentioned is also relevant in that it includes a very clear statement by Patrick Jenkin, in his letter of 19 July to your predecessor, refuting Michael Havers' suggestion that legislation to require individual borrowers' consent to the disposal of their mortgages was designed "to control the undesirable financial activities of certain local authorities". It may be helpful if I repeat Patrick's words here:-

> "We are genuinely concerned with protecting the interests of mortgagors and that is the purpose of the change we are making."

It is in that light that George Younger and I have approached this proposal and that it why I emphasised in my letter of 16 October to Kenneth Baker that we are under no pressure whatever in Scotland to make the change proposed in England and Wales. We remain of the view that it would be misguided to legislate in the circumstances and that we can defend that decision. We are more apprehensive at the embarrassment that might arise if we proposed legislation which, in

Scotland, would have numerous predictable opponents but no supporters that we are aware of.

The question of intention which I have touched on above also seems to me to offer reassurance in relation to your anxiety that the other proposals which E(A) decided upon, relating to transfer of risk, might be undermined if we do not legislate on borrowers' consent. Since I assume that, for the reasons Patrick Jenkin outlined, it will not be difficult to demonstrate that these proposals originate from quite separate motives I am not clear that there is a risk of undermining. Certainly, we see no such risk within Scotland, in respect of the administrative action which we shall be taking to prevent the use of capital receipts where there is no transfer of risk. Similarly, I find it difficult to see that the absence of legislation in Scotland on borrowers' consent will weigh much with anyone in England when they are considering Kenneth Baker's legislation on transfer of risk.

Having carefully considered the matter further, as you requested, George Younger and I remain of the view that legislation on borrowers' consent would be inappropriate in Scotland.

Copies of this letter go, as before, to the Prime Minister, Kenneth Baker, Nick Edwards, other members of E(A) and to Sir Robert Armstrong.

Yours

Michael

MICHAEL ANCRAM

LOCAL GOVT
RELATIONS
PT 28

11 XI 85

cc BG

CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:
Your ref:

NSPM

11 November 1985

Dear Keith

Thank you for copying me your minute of 6 November to the Prime Minister about your proposed response to the closure of a substantial number of Schools and Colleges in Liverpool.

I accept that in such circumstances you would have little option but to write to the City Council, and I am therefore content with what you propose.

I welcome your offer to consult me about the timing of the letter, and to consult colleagues again before taking any default action which might follow it.

I am copying this to Members of MISC 109, David Young, and Sir Robert Armstrong.

Yours ever
Kenneth

KENNETH BAKER

The Rt Hon Sir Keith Joseph Bt MP

LOCAL GOVT: Relations: Pt 28

cc BG

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

8 November 1985

Dear Kenneth

RATE SUPPORT GRANT SETTLEMENT 1986/87

WITH DN?

I have seen Douglas Hurd's letter of 4 November about his Joint Boards. I am equally worried about the impact of the block grant settlement on the Transport Joint Boards, in particular the lack of safety nets on their block grant entitlements.

As you will well recall, I have been concerned from the outset about the difficulty of handling single service authorities in the block grant system, particularly for transport where satisfactory GRE formulae of general application are so difficult to devise. My and Home Office officials were assured earlier this year that the difficulties would be limited by the safety net arrangements but my officials tell me that this has now not proved to be the case. Most of the safety-net will operate at ratepayers level, which means, in effect, at second tier authority level. This means that the Joint Boards, unlike all other authorities, will not be protected from the full impact of the steeper GRE schedules.

I am now faced with what will look like very big precept increases associated with big fare increases and service cuts, and an enormous (5:1) precept range between Boards - a disastrous political mix. Like Douglas, I think something must be done to alleviate the situation and would suggest that we meet to discuss the issue before final decisions are taken on the settlement. I am not arguing for more expenditure. Indeed, I am cutting expenditure. But the impact of the present plans is almost indefensible.

I am copying this letter to the Prime Minister and members of E(LA).

Yours ever
Nicholas

NICHOLAS RIDLEY

11.XI. FM 3-5

file SRW

10 DOWNING STREET

From the Private Secretary

7 November 1985

The Prime Minister has now seen the Lord President's minute of 4 November about the outcome of E(LF) earlier this week. She was content with the conclusions reached by E(LF).

I am copying this letter to Michael Stark.

TIM FLESHER

Miss Joan MacNaughton,
Lord President's Office.

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Prime Minister
Mr Baker is content with this. Agree that Sir K Joseph may write in the circumstances he describes, but that you would also wish to be consulted on the timing?
Yes MT
DRS 15/11

PRIME MINISTER

LIVERPOOL

1. In my minute of 7 October I warned my colleagues that events in Liverpool might make it inevitable, and possibly advantageous, that I should seek to exercise my default powers in relation to Liverpool's duty to provide education services. Hitherto, at the urging of the Environment Secretary, I have not even asked the Council for an explanation of their actions and intentions in relation to their various alleged failures to discharge their duties under the Education Acts.

2. Although the situation in Liverpool remains fluid, it is now likely that, within a few weeks, a substantial number of Liverpool's schools and colleges may be closed for an indefinite period because for financial reasons the Council are not supplying them with fuel. If that happens, I shall come under great pressure to use my default powers. Given my statutory responsibilities, if I fail to take any action vis-a-vis the Council, a teacher union or others are likely to succeed in forcing me to act via a judicial review.

3. If the occasion arises, I therefore propose, subject to consultation with the Environment Secretary on its timing, to write to the Council (through my Department) on the lines of the attached draft. To issue such a letter would protect my statutory position. It would not oblige me to go to the length of issuing a direction to the Council to remedy default, since even if, in the light of their response, I am satisfied that default is occurring, I am not by law obliged to direct them to remedy the default, if I judge this not to be expedient. I have no intention of issuing a direction in respect of default in keeping schools open for the required 190 days during the 1985 school year, should such a default, if established, not at that stage be open to remedy.

CONFIDENTIAL

4. But once I have written as proposed, I shall be obliged also to consider in due course whether to issue a direction in respect of the 1986 school year, and, if it were not complied with to seek to enforce it by mandamus. My decisions would have to be governed by the circumstances as they develop, and their timing would be to some extent within my discretion. If I did, with the agreement of colleagues, come to issue a direction in the New Year, its effect would be to oblige the Council to put its financial house in order to the extent necessary to discharge its duties under the Education Acts.

5. Any action on these lines is likely to relate mainly to schools, since much of Liverpool's further education provision, including the polytechnic, is technically ultra vires.

6. I seek my colleagues agreement to my writing to the Council on the lines of the attached draft, as soon as I judge this necessary to protect my statutory position, but subject to consultation with the Environment Secretary as to the timing of the letter.

and the Prime Minister, I suggest.

7. I am copying this minute to the other members of MISC 109, the Employment Secretary and Sir Robert Armstrong.

KJ

KJ
Department of Education
and Science
6 November 1985

C O N F I D E N T I A L

DRAFT LETTER TO THE CHIEF EDUCATION OFFICER, LIVERPOOL CITY COUNCIL

I am directed by the Secretary of State to write to the Authority to express his concern about the curtailment of the education services for which the authority is responsible.

It is the Secretary of State's understanding that a number of educational establishments are closed for want of essential supplies. Having regard to the Authority's duty under Section 8 of the Education Act 1944 to secure provision for full-time education for pupils up to age 19, and the provisions of Sections 12 and 16 of the Education Act 1980, I am to ask the Authority what steps it is taking to comply with these duties.

Having regard to the requirements of Regulation 10 of the Education (Schools and Further Education) Regulations 1981, I am also to ask how the Authority proposes to comply with those Regulations as respects both the year ending 31 December 1985 and the year beginning 1 January 1986.

I am to ask for a substantive response to this letter no later [7 calendar days after the issue of the letter].

06. XI. PM 8 5

010

CCBG

2

To note

DCV
6/11

PRIME MINISTER

ABOLITION OF THE GREATER LONDON COUNCIL - THAMESMEAD

After the GLC goes some organisation has to take over the Council's interest at Thamesmead. This mainly consists of some 5,500 tenanted properties and some 470 acres of development land.

Last month we consulted Thamesmead residents and they were asked to choose between a Government proposal to transfer ownership to a private community trust and a Greenwich alternative backed by the GLC for a similar organisation but controlled by Councillors. A ballot was held and by a majority of 600 votes out of 6,600 cast the residents chose to back the Government's option of a Thamesmead Community Trust, whose Chairman-designate is Clive Thornton. Some 45% of the electorate voted.

This is a significant victory for the Government and for Clive Thornton. It shows that people do care about the way their community is run. It also encourages us to extend our plans to involve tenants in housing management rather than rely upon the more conventional local authority method of housing management. It means that 5,500 council homes will now be managed and owned by a private Trust.

Copies of this minute go to Norman Tebbit and John MacGregor.

KB.

MT

K B

5 November 1985

RESTRICTED

CC BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

5 November 1985

N BPM

Dear Quentin,

Thank you for your letter of 31 October.

I am happy to reassure you that people who acquire local authority mortgages are in no danger of having transactions invalidated by retrospective amendment of the transfer of risk provisions. These provisions merely prevent the local authority from counting a capital receipt. They do not invalidate the transfer.

Incidentally, the only retrospective provisions of the Bill are those relating to the borrower's consent. The transfer of risk provisions will operate only from commencement.

I am sending a copy of this letter to Nick Edwards, George Younger, members of E(A), Michael Havers, Sir Robert Armstrong and Sir George Engle.

Yours ever

Kenneth

KENNETH BAKER

LOCAL GOVT: Relations: Pt 28

15 JUL 1976
PRIVY COUNCIL OFFICE

Prime Minister
Broadly content with these conclusions?
Yes
DRN 6/11

2

PRIME MINISTER

This minute is by way of a report on the meeting of E(LF) Committee, which I chaired on your behalf this morning.

2. As you know, the main item on the agenda was local authority capital expenditure control. The choice essentially lay between a system based on control of local authorities' borrowing and one based on control of their expenditure. While no-one disputed the greater intellectual cohesion of a control based on borrowing there was unease over its administrative implications, given the number of local authorities and the variety of their financial circumstances. The Committee were therefore clear that, of the options identified by the Secretary of State for the Environment, the practical one to go for was control over gross capital expenditure. Given the hostile reception which any effective control is likely to meet in the local authority world, the Committee agreed that the Green Paper's presentation of this would be crucially important and that it would be best if the option of imposing an external borrowing limit were also discussed, and dismissed, in the Green Paper itself.

3. The Committee had a useful discussion of the amount of flexibility that could reasonably be allowed on virement, revenue contributions to capital expenditure, and the transitional treatment of accumulated receipts. I asked the Secretary of State for the Environment to discuss these points further with colleagues, particularly the Chief Whip, and to let the Committee have early notice of what he would propose to say about them in the Green Paper. It may be that we shall need to discuss them again before we see the Green Paper as a whole.

4. As for the timing of the new control of local authority capital spending, legislation cannot now be enacted before the 1986/87 Session. Nevertheless, I made it clear, as I know you would have wished, that we must keep open the option of bringing the new controls to bear in 1987.

5. The other matters were fairly straightforward. The Committee agreed in principle that power to cap the new local charges should be included in the reforming legislation right from the start. The suggestion of annual council elections was seen as provoking disproportionate trouble, not least with our own supporters, and the Committee decided that it should not figure in the Green Paper. The proposals for encouraging the fair and transparent presentation of local authority finances, by laying new duties on Treasurers, was approved for further development. And the Committee agreed that local authority fees and charges should be overhauled with a view to encouraging this source of local revenue; the Secretary of State for the Environment proposed a review of the topic under a junior minister, and the Committee were content with that.

6. In short, the meeting was extremely useful in clearing the way for some of the second order issues in the Green Paper and in reaching a clear view on the kind of capital control mechanism to which we should move. I doubt, however, whether we disposed finally of all the issues on capital control, and we shall certainly have to look at the drafting on this very carefully when we consider the Green Paper.

7. I am sending a copy of this minute to Sir Robert Armstrong.

Privy Council Office
4 November 1985

05. XI. AM 85

004/106

CONFIDENTIAL

CCBG

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

1st November 1985

Dear Kenneth,

LOCAL GOVERNMENT BILL: THE SALE OF LA MORTGAGES

Thank you for your letter of 25 October.

Your proposal to exclude local authority guarantees of re-mortgages introduces an inconsistency within our policy that authorities should not score a capital receipt without genuine transfer of risk. But I understand that this is unlikely to be a significant loophole, and that there would be practical problems in bringing this into the legislation. So I will not press this point, and agree to your proposals.

I am glad to see that you will include non-residential mortgages in the Bill. You mention, however possible pressure to exclude such mortgages from these new measures. I see little justification for exclusion and without it hope that you would resist any such suggestion.

I am sending copies of this letter to Nicholas Edwards, George Younger, members of E(A), Quintin Hailsham, Sir Michael Havers and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

CONFIDENTIAL

Local Govt Pt 28

Relations.

04 JUL 1985

per

LORD PRESIDENT 31 October 1985

LOCAL GOVERNMENT FINANCE

Since you will be chairing E(LF) on 4 November, we have taken the liberty of providing you with the brief that we would otherwise have given to the Prime Minister.

The items on the agenda are:

1. Capital Spending Controls
2. Rate-Capping
3. Annual Elections
4. The Budgetary Framework
5. Sales, Fees and Charges

1. Capital Controls

As you well know, capital expenditure is a fiendish topic.

DoE proposes a 'gross expenditure control'. This would limit the amount of capital spending that a council could fund in a given year out of a combination of borrowing and asset sales.

It would not be a spending control in the normal sense of the word since local authorities would be allowed to spend above the limit if they funded this out of normal current revenue (ie local taxes; RSG etc).

This DoE proposal has two major advantages:

i. freedom to spend more on capital projects, so long as the local taxpayers want to bear the burden (since councils will have complete freedom to top up capital spending from their normal revenue);

ii. the opportunity to shift from current to capital spending (since councils will be able to spend more of their revenue on capital projects).

The problem is that the scheme will <u>not work in practice</u>:

- Councils do not like spending equal amounts of revenue on capital projects each year. They will tend instead to hoard revenue over several years, until they have accumulated enough money for a single big project.

- Of course, the hoarded cash will not be kept in Treasurers' piggy banks. It will be lent by the capital account in each authority to other accounts within the authority, temporarily enabling those accounts to reduce their external borrowing.

- When the councils - say in the fifth or sixth year - decide to spend their hoards on capital projects, they will call back their lendings from the other internal accounts which will then have to find the cash by increased external borrowing.

- The effect of such moves will be a sudden surge in net local authority borrowing.

- The Chancellor will be extremely worried by the prospect of such explosions of borrowing. As soon as he sees such hoards piling up, he will step in

and insist on the re-creation of 'prescribed proportions', together with all the other ghastly paraphernalia that has been used to tackle the present problem of 'accumulated receipts'.

In other words, the DoE proposal will gradually lead to a replication of the very mess from which the new system was meant to deliver us.

The Treasury propose to deal with this by turning the gross expenditure limit into a capital spending limit, pure and simple: councils would be allowed to spend only up to their limits, regardless of how they financed such spending.

The Treasury are right. Their system would mean an end to unpredictable overspends and hideously complex quasi-control mechanisms. The Government would be able to forecast, with certainty, how much councils would spend each year on capital projects.

Any looser version of the 'gross expenditure limits' proposal - however ingenious - would lead to a pile of 'accumulated balances' and a replication of the present disaster.

We therefore recommend that you should:

- either stick to a pure 'gross expenditure limit' which actually controls capital spending, and that prevents any build up of dangerous accumulations.

- or ask the DoE to look again at the 'External Borrowing Limits' option, to see whether it could, after all, be made to work.

2. Rate-Capping

Rate-capping has worked, but is widely resented: legislating for a new set of local domestic tax limits would be a Parliamentary nightmare.

A reserve power is also unattractive. This would be regarded as a threat - and, as such, hated and feared even more than the present actual powers.

We recommend that, despite the Chancellor's worries, the new regime should be given a chance to prove itself before resorting, once again, to unpopular top-down controls on local taxes.

3. Annual Elections

The timing of elections is a political hot potato. The DoE paper does not recognise this. It does not even mention the tremendous resentment that would be caused by a shift of the kind proposed.

The DoE scheme would mean:

- preventing all councillors in the Shires, London Boroughs and some Shire Districts from serving out their full four-year terms;

- preventing some councillors in the Metropolitan Districts and the remaining Shire Districts from serving out their terms;

- a massive set of boundary changes, merging wards in all the London Boroughs and many of the Shire Districts.

You will remember the consequences that were brought about when the Government tried to make similar changes to the

GLC/ILEA elections. There were violent outbursts of indignation; the Government was accused of 'rigging' elections; and the proposal was defeated.

We strongly recommend that, whatever the apparent administrative advantages of annual elections, this proposal should be dropped immediately.

4. The Budgetary Framework

The DoE are clearly right to be concerned about improper budgets. Some councils have been cooking the books for years to conceal waste, to produce artificially low rate rises in election years, and to slide past central Government limits. Councillors who are not financial experts find it almost impossible to understand their own budgets or to make any sensible comparisons with practices and funding levels elsewhere.

As DoE say, radical changes in this area are likely to provoke controversy. But public opinion might well be on the government's side, since no-one likes to see councils fudging the facts, still less acting illegally.

We suspect that merely laying a duty on the Treasurer, as the DoE minute suggests, may fail to produce any significant improvement. A stronger stand might be both popular and more effective. But no-one in central Government knows enough to offer proper advice: only the professionals in the field know what will really work.

Wouldn't it be possible to ask some of the excellent professional bodies such as the Audit Commission and CIPEA to offer guidance before the production of a Green Paper, so that the Government could make a firmer proposal?

5. Sales, Fees and Charges

A review of charging and financial performance objectives seems sensible in theory, and cannot do any harm; but, on past experience, it is unlikely to lead to any serious alterations.

However, a general increase in fees and charges is likely to provoke extreme political turmoil - and might give the Opposition grounds for an 'end to free education' scare-story in the next election.

We therefore recommend that, alongside the review of charging, the Green Paper should propose early legislation on competitive tendering. As you know, the DoE already have a draft Bill on this topic, which has been held up by lack of Parliamentary time. If it were introduced in 1986/7 it could do more to improve service-efficiency and consumer-satisfaction than a review of charging and performance objectives. And it would be much more popular than a general increase in charging - because people see the sense in competition, whereas having to pay for library books sounds nasty.

Conclusion

We recommend that you should:

- accept DoE's proposals on capital spending, but argue for fixed rules to be enshrined in primary legislation from the start;

- agree to postpone local tax capping legislation until the new regime has had a chance to prove itself;

- drop the proposed shift to annual elections, and abandon all hope of altering electoral timing;

- ask Kenneth Baker to consult CIPFA and the Audit Commission about the budgetary framework before drafting the Green Paper;

- include proposals to legislate on competitive tendering in the Green Paper, instead of pursuing a general increase in fees and charges.

OLIVER LETWIN

FROM:

RESTRICTED

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

HOUSE OF LORDS,
LONDON SW1A 0PW

31st October 1985

NBPM

My dear Kenneth:

Local Government Bill

Thank you for copying to me your letter to John Macgregor of 25th October.

Only one point in it concerns me, and that is your proposal that the Bill should include a power by subordinate legislation to amend the statutory definition of "transfer of risk".

I recognise the difficulties of producing a watertight definition, and have no objection to this proposal, subject to one point.

The initial definition will, like the remainder of the Act, be retrospective. It would however in my view be quite wrong for any subsequent amendment of this definition also to be retrospective. Quite apart from the general objection to retrospective subordinate legislation, mortgagees would be put in an impossible position if there was a risk that any transaction which they undertook, valid at the time of the transaction because it did not fall within the definition of "transfer of risk" then obtaining, might subsequently be invalidated by an amendment of that definition. I hope therefore that the Bill will make it clear that the power to amend the definition will apply only as to transactions entered into after the coming into force of the relevant statutory instrument.

/...

The Right Honourable
Kenneth Baker MP
Secretary of State for the Environment

I am copying this letter to Nicholas Edwards, George Younger, members of E(A), Michael Havers, Sir Robert Armstrong and, since it seems that the Bill is already being drafted, to First Parliamentary Counsel.

Yrs.

31 11 12 1

NBPM.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
38 Whitehall
London
SW1A 2AT

30 October 1985

Dear Willie,

PROVISION FOR LOCAL AUTHORITY CURRENT EXPENDITURE IN 1987-88 AND 1988-89

WILL REQUEST IF REQUIRED

I have held two meetings this week with Kenneth Baker, Keith Joseph, Douglas Hurd and Barney Hayhoe to discuss the proposals I had put forward in my letter to you of 27 September.

They had all written proposing higher provision for their services which together would have required adding £800 million and £700 million respectively to the overall total of local authority current in the two later years. As I have explained to them, my problem is that I cannot increase provision beyond the amounts I have proposed without either putting the planning total at risk or cutting the level of the Reserve, which would not be credible to financial markets.

Our discussions have narrowed down to two options:-

(a) we could use the numbers I proposed in my letter (£22,455 million for 1987-88 and £22,709 million for 1988-89, with the accompanying service distribution). But we would accompany these with a form of words to the effect that in setting the level of the Reserve account had been taken of the fact that local authorities might spend more on certain services than was provided for in the published plans. We would also make it clear that the service allocation was provisional (based simply on 1986-87 provisions), and that any subsequent addition to provision would not necessarily follow the same pattern.

(b) we could simply roll forward the 1986-87 provision of £22,254 million and its agreed distribution between services. We would then say that no decision had yet been taken on the appropriate increase in provision for those later years, and the numbers would be reconsidered in the 1987-88 RSG settlement in the light of authorities' budgets for 1986-87 and other factors. We would also say that in the meantime account had been taken of potential spending in setting the level of the Reserve. I would have to make sure that this was in fact done.

Douglas Hurd and Barney Hayhoe have both argued strongly that (b) is the only option acceptable to them. They feel that they could not defend a service allocation such as (a) which gave them a provision which was inconsistent with their public commitments - for example on law and order. If we simply rolled forward the 1986-87 provision, they would be able to say that decisions on appropriate provision would be taken later.

Keith Joseph also lent towards (b) for similar reasons, though he would be prepared to go along with (a) provided the accompanying form of words made absolutely clear that the numbers were provisional.

Kenneth Baker argued strongly for (a), on the grounds of the credibility of the signal we should be giving local authorities and the size of the gap that he thinks we would need to fill in 1988-89. He feels that putting in numbers showing some increase, however provisional, would give a signal to local authorities that we had considered spending priorities with continuing downward pressure; rolling forward the 1986-87 provision would, in his view, invite local authorities to argue for as large an increase as possible next year. He also feels that moving some way towards a realistic provision now would prevent us having to concede damagingly large increases in later settlements. But Kenneth indicated that he would, with great reluctance, be prepared to go along with option (b) if all other colleagues preferred it.

I share Kenneth's worries about the signals and the presentation. But we have to recognise that these numbers are inevitably very provisional: Kenneth himself acknowledged that this would be true even if we added the full £¼ billion to each year which he had proposed. My view therefore is that the only way we will get agreement is to settle for option (b) and roll forward the 1986-87 provision, recognising that the real decisions will have to be taken in the negotiations on the 1987-88 RSG settlement.

I am copying this letter to colleagues on MISC 120, to colleagues on E(LA), to Michael Jopling and to Sir RobertArmstrong.

Yours ever,

JM

JOHN MacGREGOR

cc BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

30 October 1985

Dear John,

THE SALE OF LOCAL AUTHORITY MORTGAGES

Thank you for sending me a copy of your letter of 24 October to Michael Ancram.

As I said in my letter of 23 September it will be very difficult to defend any difference between the Scottish and English positions on borrowers' consent. No doubt Scottish Ministers will be willing to justify the apparent anomaly in Standing Committee on the Local Government Bill. But given the need to obtain Royal Assent for the Bill by 24 March 1986 I would much prefer the number of contentious points to be kept to a minimum, and I hope that Michael will consider carefully whether it is really necessary to maintain the distinction.

I am sending a copy of this letter to George Younger, Nick Edwards, Michael Ancram, members of E(A) and to Sir Robert Armstrong.

Yours ever

Kenneth

KENNETH BAKER

The Rt Hon John MacGregor OBE MP

LOCAL GOVT
RELATIONS
PT 28

file

BM

10 DOWNING STREET

From the Private Secretary

28 October 1985

PARISH COUNCILS

The Prime Minister has seen your letter of 22 October to Mark Addison. She has noted that your Secretary of State does not favour introduction of a general limit on parish councils' taxing power.

(David Norgrove)

Robin Young, Esq.,
Department of the Environment

6

RESTRICTED

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

25 October 1985

Dear John,

LOCAL GOVERNMENT BILL

The Sale of Local Authority Mortgages

We now have a clearer idea of the terms in which we might legislate to restrict local authorities' sales of mortgages. I should be glad to have your agreement and that of colleagues to the following proposals, which take account of the modest response to our consultations during the summer. None of the replies which we received make it necessary to reconsider the fundamentals of the policy.

The Transfer of Risk

We agreed, at E(A)(85) 12th meeting on 1 July, that local authorities should not secure a capital receipt from the sale of mortgages unless they transferred the risk to the purchaser, and obtained the consent of the borrower.

Defining the "transfer of risk" in a sufficiently watertight fashion is proving very difficult. We can visualise a number of ways in which local authorities might effectively retain risks relating to a mortgage, even though, on the face of the contract for sale, risk had been transferred. The introduction of this legislation will stimulate a search for ingenious devices which meet the letter, but not the spirit, of the new requirements.

We have therefore concluded that it would be prudent not only to place definitions in main legislation, but also to seek a power to make regulations which distinguish those sales of mortgages which continue to give rise to a capital receipt from those which do not. We should then be able to respond more quickly if there are innovations which we do not believe should give rise to a capital receipt.

Inclusion of Commercial and Industrial Mortgages

The case for including commercial and industrial mortgages is not strong. We are presenting this legislation as being concerned particularly with protection of borrowers. It is debatable whether borrowers buying business premises need consumer protection of the kind which is appropriate for individual home buyers.

Nevertheless, I recognise your concern that we should not tempt local authorities to try to generate capital receipts by selling such

mortgages - even though there seem relatively few of them compared with house mortgages.

I suggest that the legislation should apply to both residential and non-residential mortgages; but that we should be prepared to omit the latter if there is strong pressure for some concession during the passage of the bill.

Secondary Matters

I suggest that the legislation should come into effect on 1 April 1986. This would be one week after the target date for Royal Assent, rather than the customary two months. The only reason for any delay beyond Royal Assent is to avoid the substantial additional drafting which would be needed if the legislation came into force a few days before the Housing Consolidation comes into effect, and before the GLC and metropolitan counties are abolished.

I propose that the legislation should apply to all local authorities, as commonly defined: the counties and districts, London Boroughs, the City and the Isles of Scilly. The requirement to obtain the borrower's consent would also apply to the new permanent bodies which take over in April and to the residuary bodies; and to the Planning Boards in the Peak District and Lake District. The rules on capital receipts and the transfer of risk apply to the same authorities, with the exception of the residuary bodies, since they are not covered by the main legislation on capital expenditure controls. Similar requirements can be applied to them by Direction, however.

I propose that we should require that borrowers be given a certain minimum of information when their consent to the sale of their mortgage is being sought. I also propose that the borrower should be allowed to withdraw his consent by giving notice to the local authority. Consent would in any case lapse automatically if there has not been a sale within six months.

We need to make an exception to the requirement for the borrower's consent in those cases where mortgages are being transferred between public bodies under statute. This would apply, for example, when GLC mortgages are transferred to the residuary bodies; and when the residuary bodies are themselves wound up and remaining mortgages passed to, probably, a "lead borough". But all voluntary sales of mortgages would require the consent of the borrower.

Lastly, we propose that there should be no change in the position on capital receipts or prescribed expenditure where a borrower redeems his council mortgage, and takes out a new mortgage loan from a private lender, even if the local authority gives a guarantee under section 111 of the Housing Act 1980 or section 20 of the Housing and Building Control Act 1984. To change the present position on this would mean that some guarantees were treated differently merely because they related to a property which had once been mortgaged to a local authority. The actual risk position would be no different from any other guarantee under these powers.

Conclusion

Parliamentary Counsel has been asked to draft accordingly. If you or any colleague has points to raise I should be grateful for a very early comment, since I hope to bring the Bill to L Committee in the near future.

Copies of this letter go to Nick Edwards, George Younger, members of E(A), Quintin Hailsham, Sir Michael Havers and to Sir Robert Armstrong.

Yours

Kenneth

KENNETH BAKER

John Macgregor OBE MP

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

012/109

RESTRICTED

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

25th October 1985

Dear Kenneth,

CONTRACT COMPLIANCE AND CONTRACTING OUT

I have seen a copy of your letter of 21 October to Willie Whitelaw and have no objections to your decision on contract compliance legislation (although I understand that the PQ will not now be answered until next week).

But I wonder whether we should dismiss immediately the possibility of legislation on extending competitive tendering, which might be included now that the Local Government Bill will not have to include the contract compliance measures. I accept that the full measures we had in mind earlier in the year would not be possible and I can see some objections to limited measures. Nevertheless I would be grateful if my officials could discuss with yours to see whether some limited initial steps could be taken now.

I am copying this to other members of H Committee and to Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

RESTRICTED

LOCAL GOVT
RELATIONS
PT 28

05. XII
PM 85

024/109

cc gc

NBPM

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Ancram Esq MP
Minister for Local Government and the Environment
Scottish Office
New St Andrew's House
St James Centre
Edinburgh
EH1 3SX

24 October 1985

Dear Michael,

THE SALE OF LOCAL AUTHORITY MORTGAGES

You wrote to Peter Rees on 29 August, and again to me on 16 October, seeking agreement to a different approach in Scotland on the question of borrowers' consent to sale of mortgages. Kenneth Baker has also written to me (23 September) saying that the difference in policy you suggest would not be easy to defend.

I share his misgivings, and must ask you to consider this further, given the possible implications for the legislation for England and Wales. E(A) were not warned that Scotland might wish to adopt a different approach, and I do not see that the relatively small scale of local authority mortgages in Scotland should change our attitude about the principle involved. I understand that, as for England and Wales, legislation would be required for Scotland to prevent mortgages being sold without borrowers' consent, but that this could be included in Kenneth's Local Government Bill. It is, of course, helpful that you do not require legislation to implement the proposals on transfer of risk. But they are only half of the package of measures needed to prevent undesirable deals in England, and we must be careful not to undermine the rationale for the other half.

I am copying this letter to Kenneth Baker and Nick Edwards, to the Prime Minister and other members of E(A) and Sir Robert Armstrong.

Yours ever,

JM

JOHN MacGREGOR

LOCAL GOVT
RELATIONS
PT28

Prime Minister!
Agree to let this rest?
DRN
25/10

AT FLAP
PPS please.

MR ADDISON

23 October 1985

PARISH COUNCILS

We still disagree with DoE. But, if Kenneth Baker has no wish to remedy this anomoly, we reluctantly recommend that the Prime Minister should let the matter rest.

Perhaps the far-left will not discover what a potent weapon is available.

OLIVER LETWIN

LOCAL GOVT
RELATIONS
PT 2 8

DS

CONFIDENTIAL

010

1. TF
2. pa.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

23 October 1985

Dear John,

APPEAL COURT JUDGEMENT:
1985-86 TARGETS

will request if said.

Thank you for your letter of 14 October. As you will know the House of Lords have given leave and the Appeal is to be heard on 28 October.

I am, of course, hoping to win but I entirely agree with you that we must do all we can to seek to minimise the effects of an adverse Lord's judgment, if that is what we get. Everything will depend on the terms of the judgement; potentially there are implications for block grant as well as targets and rate-limitation, and I certainly cannot guarantee that we can put ourselves in a position to carry on exactly as before. We shall need to consider the implications and possible courses open to us very quickly when we have the judgment.

I am copying this letter to the Prime Minister, member of E(LA) and QL and to Sir Robert Armstrong.

Yours

Kenneth

KENNETH BAKER

John MacGregor Esq OBE MP

CONFIDENTIAL

LOCAL GOVT RELATIONS

24. X. 1965

DS

Brief P/Vadine. cc

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/17602/85

Your ref:

22 October 1985

Dear Mark,

Thank you for your letter of 27 September asking whether there should be a general limit on parish councils' taxing power, to prevent them being used as a way of driving a district authority into excessive spending.

Until it was abolished by the Local Government Act in 1972, there was in fact a maximum precept (of 3.3p), which parish councils could not exceed except by order of the Secretary of State. This, however, had a relatively small effect because the limit did not apply to spending on many of the items normally incurred by parishes, such as burials, allotments, libraries and street lighting.

The disadvantages of limiting parish councils' taxing power are, first, that it would be difficult to set a general limit appropriate for all the great variety of local councils - totalling over 8,000 - in the country. Second, it would be difficult to justify the general or selective imposition of absolute limits on precepts of all parishes when many much larger authorities - all those spending up to £10.6 million per year in 1986/87 - are specifically excluded from the selective rate limitation provisions of the Rates Act 1984. Third, as I mentioned in my earlier letter to you of 23 September, a selective approach would add considerably to the Department's administrative burden in order to control directly, expenditure of only some £50m out of the total of local authority current expenditure of some £22 bn.

For these reasons, my Secretary of State does not favour introduction of a general limit on parish councils' taxing power.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

Mark Addison Esq

Local Govt: Relations
PC-28

1

12 MAR 1985

Telephone
01-212 8001

DEPARTMENT OF THE
ENVIRONMENT
2 MARSHAM STREET
SW1P 3EB

cc HB

1. TF - ~~E~~ See
2. file.

With the Compliments of the
Private Secretary to the Secretary of
State for the Environment

RESTRICTED

cc HB

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

21 October 1985

Dear Lord President

N
23/10
TF

CONTRACT COMPLIANCE AND CONTRACTING OUT

You will recall that when our proposals for contract compliance were discussed at H in July H(85)15th it became clear that we faced very real problems in framing a solution that was readily justiciable. Subsequent discussions with Patrick Mayhew have not enabled us to make much progress. Happily, however, the recent House of Lords' decision in the case of Wheeler and Others - v - Leicester City Council has given strong support for the view that authorities which seek to discriminate against contractors on blatant and irrelevant political grounds may well be in breach of the existing law. It has also given us good grounds for reconsidering the Ministerial commitments to legislation given by Patrick Jenkin and William Waldegrave in the House and elsewhere.

In these circumstances, I have decided not to proceed, at least for the present, with fresh legislation on this knotty issue. Instead I propose to encourage the construction industry, whose members are the main victims of these discriminatory practices, to follow the example of the Leicester Rugby Football Club and challenge through the Courts any mischievous attempts at contract compliance by left wing Councils.

My decision was, of course, reached before last Monday's unexpected publicity about the consideration being given by David Waddington to a proposed application of contract compliance techniques to Government's own projects so as to promote the employment of ethnic minorities. There is a clear conflict of objectives here which I believe we should aim to resolve (ideally at an early meeting of H Committee) before any further substantive public anouncements are made affecting this area of policy.

I should, however, point out that I have to answer the following priority written question from John Heddle on 24 October:-

> "To ask the Secretary of State for the Environment if, pursuant to the Answer of 19 November 1984, Official Report, column 3, he will make a further statement on any proposals that he is considering to prevent local authorities from discriminating against private companies for reasons which have nothing to do with the quality of their work".

The Answer which I propose that William Waldegrave should give - which on the legal aspects has been cleared by Patrick Mayhew - is as follows:-

> "The recent decision of the House of Lords in the case of Wheeler and Others - v - Leicester City Council fortifies my rt hon Friend's view that authorities which discriminate against firms on the basis of irrelevant political considerations do so unlawfully. My rt hon Friend has accordingly concluded that the need for fresh legislation on this issue has not been established. The Government appreciates the practical difficulties facing an individual firm which would wish to assert its legal rights in respect of any unjustifiable contract condition which local authorities might seek to impose on them. There is, however, much to be said for legal action being taken by an appropriate trade association in a proper case and I very much hope that this will occur".

I do not believe that we need to defer this statement until such time as we have resolved with the Home Office the wider issue raised above. But you will note that the Answer cannot be read as a commitment never to return to the notion of legislating to ban mischievous use of contract compliance devices by local authorities.

One of my reasons for having delayed a final decision on this problem has been that it relates closely to the wider question of whether we should require authorities to expose more of their services to the test of open competition. We published proposals to this end earlier in the year, but eventually decided that the priority for legislation was not great enough to justify these measures being given a place in the 1985/6 programme. However, in the light of the very considerable backbench pressure just before the summer break - an Early Day Motion was signed by more than 200 of our backbenchers - we were asked to review the case for urgent legislation. There is undoubtedly strong support for introducing such a measure soon. On the other hand, I am clear that we would face another major confrontation with local authorities, Conservatives as well as Labour, if we were to go ahead with the Bill. Moreover, the measure would require some 15-20 clauses and I cannot offer up any compensating reduction in my other legislative propoals. I have looked carefully to see whether it would be practicable to introduce some abbreviated, interim, steps calculated primarily to demonstrate to our supporters the firmness of our commitment to extending competition, but have concluded that this would be unwise. Quite simply, it would produce bad law which would quickly reflect adversely on the Government's competence.

I took soundings at Blackpool to test reaction to a decision not to legislate in the coming session. Our supporters in local government would clearly be relieved by such an outcome. Although our backbenchers will obviously be disappointed by the delay, I think that we might satisfy them by some clear reaffirmation of our long-term commitment to competition, and meanwhile by being seen actively to be refining our proposals to reflect the many sensible points put to us

as a result of the consultation exercise. I am putting in hand action directed to this end.

I am copying this to the other members of H Committee and to Sir Robert Armstrong.

Yours sincerely

AH Davis

for

KENNETH BAKER

Approved by the SofS and signed in his absence

The Rt Hon The Viscount Whitelaw

Local Govt. Relations Pt 28

23 MAY 1972

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cc OK

with MEA

TO:

PS/Secretary of State

FROM:

DAVID JONES
Hd/CA1
Rm 2607 MT
211 4059

cc PS/Prime Minister
PS/Sir Brian Hayes
Mr Liesner
Mr Wright - GP
Mr Whittingdale
Mr Burbridge - CA
Mr Cammell - RP
Mr Pearcey - RP

18 October 1985

PROVISION FOR LOCAL AUTHORITY CURRENT EXPENDITURE IN 1987-88 AND 1988-89

Norman Fowler has replied to the Chief Secretary's proposals for total local authority expenditure in 1987-88 and 1988-89 that if Personal Social Services are to bear the same pressure as that on other local authority services an extra provision of £50m in 1987-88 and £100m in 1988-89 is required.

2. Leon Brittan has already agreed to the Chief Secretary's proposed allocation between services for both years.

3. There is no need for a response to Norman Fowler's letter. But if the Chief Secretary, following Norman Fowler's reply, revises the allocation between services, we shall need to ensure that the provision we have secured for consumer protection/trading standards is not reduced.

David Jones

DAVID JONES

999 80

21. X. PM 5

FROM THE MINISTER FOR Local Government and the Environment

SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon John MacGregor MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

16 October 1985

Dear John.

M 21/10

SALE OF LOCAL AUTHORITY MORTGAGES

I note from Kenneth Baker's letter to you of 23 September that he is content that George Younger should make his own judgement on the question of individual mortgagors' consent to the sale of their mortgages by local authorities. We have had no representations on this point since Patrick Jenkin's announcement on 23 July concerning England and Wales. This is consistent with our view that it is not an issue in Scotland and we are confident that we can cope satisfactorily with the defence of our decision. In the absence of comment from other colleagues, we assume that we have agreement to proceed as we had proposed.

In relation to the other aspect of this issue, which is bound to be of more concern to you because it concerns control of the use of capital receipts, I confirm that my officials are in contact with Kenneth's and that we have the means to impose the restriction once its terms have been defined.

I am copying this letter to Kenneth Baker and Nick Edwards and, as before, to the Prime Minister and other members of E(A).

Yours
Michael

MICHAEL ANCRAM

LOCAL GOVT: Relations: Pt 28

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CONFIDENTIAL

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

FROM THE SECRETARY OF STATE

NBPM.

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

16 October 1985

Dear Ken,

LIVERPOOL: PROVISION OF SOCIAL SERVICES

ATTACHED

I have seen Norman Fowler's letter to you of 11 October.

While I share his concern about the provision of services in Liverpool, I do not agree with his proposal that you should write on behalf of all Departments. If anyone should write about education, it should be I in the exercise of my statutory powers, though we agreed last week that for the present I should not do so.

I have no comments on the other proposal in Norman's letter.

Copies of this letter go to members of MISC 109 and Sir Robert Armstrong.

Yours,

Keith

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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

15 October 1985

NBPM.

Dear Robin,

EDUCATION DEFAULT IN LIVERPOOL

ATTACHED

Thank you for your letter of 10 October.

This is to record that we agreed this morning that, whilst my Secretary of State would not at this time write to the Education Authority, an official of the Department would telephone the Authority on behalf of the Secretary ot State to ask for a formal explanation as to whether it was true that some schools in Liverpool were closed at the end of last week and for an explanation of the current position. The official would not make any more general enquiry.

As you appreciated, action such as this was necessary to safeguard my Secretary of State's position in the light of these reported events.

I am copying this letter to all recipients of yours.

Yours sincerely,

I M HUGHES
Private Secretary

Robin Young Esq
Private Secretary to the
Secretary of State for
the Environment
2 Marsham Street
London SW1P 3EB

CONFIDENTIAL

15 X. PM 85

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

14 October 1985

PWLB LENDING TO LIVERPOOL

The Prime Minister has seen the Chancellor's minute to her of 10 October and your letter to me of 11 October. She has noted that the PWLB decided to defer a decision on whether to resume lending to Liverpool.

I am copying this letter to Robin Young (Department of the Environment), Rob Smith (Department of Education and Science), Leigh Lewis (Department of Employment), Tony Lawrance (Department of Health and Social Security), Henry Steel (Law Officers Department) and Michael Stark (Cabinet Office).

(DAVID NORGROVE)

Mrs. Rachel Lomax,
HM Treasury.

CONFIDENTIAL

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Kenneth Baker MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
London SW1P 3EB

11th October 1985

Dear Secretary of State

LIVERPOOL: PROVISION OF SOCIAL SERVICES

I am seriously concerned by reports that are reaching me from my Social Services Inspectorate about Liverpool City Council's apparent lack of preparedness to keep essential services going for the vulnerable groups who are the responsibility of the authority's social services department. My concern arises from my responsibility under the Local Authority Social Services Act 1970 to give general guidance to the authority's Social Services Committee who are charged under the Act with exercising the numerous statutory functions laid on authorities regarding children in need of care and protection, the physically and mentally handicapped and the elderly. Many of these people are in the authority's residential homes or are entirely dependent on services provided by the authority or by voluntary organisations under the contract to the local authority.

The one-day strike revealed that the Council had made no emergency arrangements at all - not even, for example, to enable food to be delivered to their residential establishments.

The Councillor who had been given the responsibility for planning emergency cover had apparently made no preparations to keep essential services going for the vulnerable people who rely on the social services As the Director of Social Services and his team have been deprived of the powers they formerly had to incur expenditure, there are serious limits to what they may be able to do to maintain a service.

In the circumstances, I feel the least we ought to do is to write to the Council to ask what emergency arrangements they are making to ensure that they discharge their responsibilities towards the children, the elderly and the handicapped in their care. To leave events to take their course would lay me as the Minister responsible for social service

open to the charge that I am neglecting my statutory obligation to provide guidance to the local authority's Social Services Committee. Keith Joseph has also raised similar points about the risk to education services and no doubt other colleagues have much the same concerns about services which fall within their responsibilities. I wonder therefore if you would consider writing to the Council on behalf of the Government generally to ask what emergency arrangements they are making for their services. I also think it important to leave the general public in no doubt about how the Council is falling down on its duties and I would therefore suggest issuing a copy of any letter to the press.

Another matter which is causing me concern is the plight of the voluntary bodies who are either receiving grants or are under contract to provide services for the City Council. One such body, the Catholic Social Services (Liverpool), who have been working in the City since the 1850's, have written to me and all the Liverpool MP's about what they see as their desperate position. They are at present looking after 33 children for the Council and have been told that payment for these children could not continue after 30 September. This agency, which has been providing a wide range of services for many years for children in need and for mentally and physically handicapped people, is facing bankruptcy. It is not alone; a good many others are likely to face extinction unless funds can be found to keep them going until the situation in Liverpool returns to normal. I firmly believe that the Government ought not to stand by and let this essential part of Liverpool's social fabric disappear. The voluntary sector is needed not only to go on providing the services it is already providing but also to supplement the emergency services which Liverpool's social services department should endeavour to keep going.

I understand that the Council for Voluntary Services in Liverpool would be prepared to act as an agent to make payments to voluntary bodies if the Government could make funds available. I would strongly support the creation of such a "trust"; I have powers under Section 64 of the Health Services and Public Health Act 1968 to make grants to voluntary organisations, and would propose to use them to establish such a "trust" to make good any clearly established needs of voluntary organisations suffering from the withdrawal of funds by Liverpool. The funds required seem likely to amount to around £2 million during the remainder of this financial year. It would not be easy to find this, but I should be prepared to cut back on grants and services elsewhere to provide, this, minimum, degree of necessary underpinning to voluntary bodies in Liverpool who are providing essential social services. I believe the need is urgent, not only to help the voluntary bodies but also to show that the Government is showing more concern than Hatton and his gang to help those in need.

I am copying this letter to other members of MISC 109 and to Sir Robert Armstrong in case they wish to comment on what I propose.

Yours sincerely

Giles Dent

NORMAN FOWLER
(approved by the Secretary of State)

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 October 1985

NBPM

Dear Nicholas

NEW BURDENS ON LOCAL GOVERNMENT

I enclose the latest list of Government initiatives arising during the last 6 months which will mean increases in the demands on local authority resources. I am also circulating for the first time a list of measures from which savings are likely to result. Both lists have been cleared by our respective officials.

Unfortunately, the first list (numbering 40) is very much longer than the second (numbering 5) and shows a marginal increase above the total for the last 6-month period. My Permanent Secretary recently circulated to his colleagues in other Departments the procedures which we have evolved here to monitor new initiatives. I gather that this exercise has proved helpful, partly by offering a model which other Departments can adopt or adapt for their own procedures, and partly by alerting my officials to the systems which others are already operating. It may well be that the apparent growth in new "burdens" really reflects the improved effectiveness of our collective monitoring arrangements.

I am pleased to see that, in general, the quantification of the financial or manpower implications of new proposals seems to have been better considered than previously. Even where the figures are 'not yet known' action is known to be in hand in most cases to arrive at realistic estimates.

There is one point which I think needs to be made. This monitoring procedure is designed to pick up new proposals at an early stage so that the potential resource implications are clear to Ministers before commitments are entered into. Generally this works perfectly well. But where such a proposal eventually emerges as major new legislation, for example Nicholas Ridley's Transport Bill or my own Department's recent Local Government Act, this procedure will not pick up the gains and losses inherent in the progressive implementation of the various component parts of that legislation. From the local government viewpoint, however, it is the reality of implementation which will determine local governments' perception of new burdens, a perception

which may prove very different from the indicative estimates shown in our monitoring lists.

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

Yours ever
Kenneth

KENNETH BAKER

The Rt Hon The Viscount Whitelaw CH MC

NEW INITIATIVES AFFECTING LOCAL GOVERNMENT

13 MARCH - 12 SEPTEMBER 1985 : POSSIBLE EXPENDITURE AND MANPOWER [illegible]CATIONS

A. POTENTIAL INCREASES

	PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
1.	Draft circular to LAs and Housing Associations on miscellaneous works and re-improvements; Revised and new procedures.	DOE	Not Yet Quantified; Implications being assessed.	LAAs to be consulted later this year.
2.	Report of the Joint Review Committee - Control of Pollution (Special Waste Regulations).	DOE	After initial costs of setting up the scheme (£100K), very small addition to LA gross expenditure which should be largely offset by charges for registrations.	Consultation concluded; Submission to Ministers imminent.
3.	Landscape Conservation Orders.	DOE	Quantification in progress.	Official level consultation.
4.	Housing Improvement Green Paper.	DOE	increased administrative costs but fees may be levied; other amendments could reduce current expenditure.	Difficult to assess until firm proposals are settled. Consultation period ends 30 September; legislation proposed 1986/87.
5.	Rates Act 1984: Rate demand rules and information.	DOE	£0.5m - £1.0m per annum; also additional one-off cost of £0.4m.	Implementation of Section 14 of the Rates Act 1984.
6.	Clean Air Legislation	DOE	Not Yet Quantified Early Stage.	Clean Air and Waste Bill.
7.	Housing Act 1980: Heating Charges regulations.	DOE	Small costs; could be offsetting savings.	Consultation stage; quantification sought.
8.	De-registration of common land.	DOE	De minimis; less than 12 cases a year; could be offsetting savings.	Consultation with LAAs to take place at the Common Land Forum.
9.	Consultative document on the personal social services: Review of role of LA social services department.	DHSS	Not yet Quantified Very early stage.	Discussion at official level.
10.	Family Credit Scheme	DHSS	Will increase LA costs as employers.	Green paper to be followed by White paper and Bill. Employers, including LAs to be consulted.

PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
11. Data Protection Act: Subject access to social work record - New arrangements.	HO/ DHSS	Additional work but possible to recoup through charges.	DHSS discussions with LAAs in advance of Home Office formulating proposals; LAs affected only as one of a much wider class of bodies.
12. Consumer Safety Act 1978: regulations to control the supply of private spectacles.	DHSS	De minimis; £100,000 for technical costs of testing; PES transfer.	Ministerial submission, followed by consultation.
13. Children's Homes Act 1982: LAs to register and inspect private homes for children - circular to LAs.	DHSS	Resource implications to be agreed with LAs; £100,000 included in RSG.	Planned implementation 1986.
14. Implementation of the reformed Housing Benefit Scheme.	DHSS	DHSS to discuss with LAAs short term costs; long term effects uncertain.	Green Paper being followed by White Paper and Bill; LAAs being consulted.
15. Supplementary Benefit and Residential Care: Short and long term arrangements to reduce exploitation.	DHSS	A number of options available with varying implications.	Joint Central and Local Government Working Party: report produced in May 1985; DHSS Ministers have considered and propose to discuss with the LAAs.
16. Revision of Form BD8 certifying blindness/ partial sight.	DHSS	Likely to be less than £100,000.	Working Group to be established to recommend form of guidance.
17. Phasing out of State Earnings Related Pensions scheme; proposals on personal pensions.	DHSS	Considerable financial and manpower implications; DOE have asked for estimates.	Green Paper to be followed by White Paper and Bill; affects LAs as part of wide class of employers.
18. Child Care Law Review: LA intervention where childrens' welfare would otherwise be at risk.	DHSS	Joint group set up with LAAs to cost the proposals.	"H" Committee approval sought to publish the report of a Working Party.
19. Review of Nurseries and Child-Minders Regulation Act 1948: Registration and oversight of private and voluntary day care arrangements for children under five.	DHSS	Not Yet Quantified.	Discussion document to be issued soon.
20. Home Affairs Committee: Report on Chinese community in Britain.	HO	Possible implications for LAs.	Discussion at official level.

PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
21. Revision of the Cinematograph (Safety) Regulations 1955	HO	HO believe there are no resource implications but LA are being consulted.	Consultation paper.
22. Public Order White Paper - new powers.	HO	Not Yet Quantified.	Chief Secretary to the Treasury sought assurance that the proposals would not lead to extra net demands on LA resources.
23. Report of the Joint Committee on Standard of Fire Cover - Publication of a circular.	HO	Not Yet Quantified. Could be overall savings.	Report issued to LAAs on 22 May 1985 for consideration. Fire service will assist fire authorities to identify any consequential savings.
24. Extension of fixed penalty system to further range of motoring charges.	HO	Some small increase in magistrates' courts costs.	Implementation from April 1986.
25. Tape recording of police interviews of suspects under Section 60 of Police and Criminal Evidence Act 1984.	HO	Capital costs initially at £1.4m a year and current at £0.5m in 1986/87.	Field trials in progress with view to staged implementation beginning 1986/87; LAAs represented on trials steering committee.
26. ECHR: Immigration rules changes.	HO	Possible additional demands on local authorities for information. Minimal.	Official level discussions on handling.
27. Review of Disclosure of Criminal convictions of those with Access to children.	HO	Not Yet Quantified.	First report published; consultation with LAAs and other interested bodies.
28. Advice to police on increased resources to counter drugs misuse.	HO	Up to £3m	Circular issued to Police Authorities on 16 September 1985; Separate letter to LAAs explaining the background.

PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
29. Compulsory purchase relating to road construction schemes; proposed changes in compensation arrangements to reduce delay.	DTp	Not Yet Quantified.	Subject to 'H' paper by DT; full examination of costs likely to ensue; LAAs to be consulted in due course
30. Oppenheim Report: Level crossing safety: draft circular on modernisation of crossings.	DTp	De minimis	Treasury clearance obtained; circular to be issued shortly.
31. Public service vehicle carrying capacity regulations: Three for two rule.	DTp	Possibly minimal; still under discussion.	Regulations now in force.
32. Food and Environment Protection Act 1985: Part I: draft circular.	MAFF	De minimis; implications "negligible".	
33. Review of Food legislation.	MAFF	Not Yet Quantified.	Official level discussions
34. Food and Environment Protection Act 1985: Part III: Pesticides.	MAFF	Not Yet Quantified	Act operative from 5 September 1985; discussion on proposal under way. No evidence to suggest that additional resources will be required to enforce the Act on certain Premises.
35. Fat Content Labelling.	MAFF	Not Yet Quantified; expected to be very limited.	Official level discussions
36. Animal Welfare - Ministers' response to farm animal welfare council report on welfare of livestock (Red meat animals) at time of slaughter. Implementation of council legislation.	MAFF	"Minimal"	Response issued on 20 August 1985 as a consultation document to interested parties.
37. Register of parental objections to corporal punishment to be kept by LEAS.	DES	Not Yet Quantified but will be slight.	Education (Corporal Punishment) Bill may be reintroduced.

PROPOSAL	ORIGINATING DEPARTMENT	FINANCIAL & MANPOWER IMPLICATIONS	CURRENT STATUS WHERE KNOWN AND OVERALL COMMENTS
38. Local Education Authority Advisory Services: policy statement.	DES	Not Yet Quantified. Additional manpower may be required.	Consultation document has been issued.
39. Reform of the law on copyright and performers' protection; reprography and audio visual (off-air) recordings.	DTI	May be some additional administrative costs; costs arising from licence charges unknown.	Draft White Paper; to be discussed at 'H'.
40. Youth Training Scheme; extension of the scheme.	DEM	Maximum £6m; could be minor offsetting savings.	Increase to LA PES provision to be made; LAs affected only as one of a much wider class of bodies.
B. DECREASES			
1. Package of miscellaneous measures to improve the speed and efficiency of the planning system.	DOE	Small financial and manpower savings.	
2. Planning circular: Telecommunications.	DOE	Reduction in workload, as a result of exempting development from the need for making planning applications.	LAAs to be consulted.
3. Enforcement appeals and advertisement appeals: improved procedures.	DOE	Marginal administrative savings.	LAAs to be consulted.
4. Transfer of conduct of police instituted prosecutions to Crown Prosecution Service.	HO/DPP	Reduction of approx. 1580 staff.	Prosecution of Offences Bill: Implementation April 1986 (Met; counties), October 1986 elsewhere.
5. Changes in NI contributions structure.	DHSS	Effect not quantified but savings thought to be likely.	Changes come into operation October 1985.

NEW BURDENS ON LOCAL AUTHORITIES (LG3)

1 In recent months there has been a growing number of complaints about the proliferation of central government initiatives which have the effect of making it more difficult for local authorities to make the economies required by Government's spending plans. In order to try to keep these adverse effects to a minimum, and to quantify better those proposals for which there are nevertheless strong policy justifications, the Secretary of State has agreed with his colleagues that new procedures are needed to draw attention to policy initiatives which are likely to have implications for local authority current expenditure or manpower. This Circular does not address itself to the manpower or other expenditure implications of adjustments to the volume of capital programmes. It does cover, however, potential new burdens on local authorities of the kind listed in Annex A to this Circular, a list which is not exhaustive. All Divisions are requested to follow the procedures detailed below. This Circular supersedes paragraphs 6 to 10 of HOD Circular 13/84.

Departmental Consultation

2 In future the attention of LG3 Division must be drawn to any new initiative which Ministers propose to take that will affect local government current expenditure or manpower. LG3 should be informed before any public consultation takes place, but after such initial estimates of those financial and manpower implications as it is possible to arrive at have been made. This arrangement applies equally to proposals which are intended to produce savings in local authority resources. Those estimates should be made available simultaneously to LG3 and FLE. Subject to their views the estimates should then be sent to Treasury Expenditure Division for approval to proceed with formal consultation. Sufficient time should be allowed for adequate consideration of the projected expenditure and manpower implications by LG3, FLE or the Treasury, as appropriate.

3 The role of LG3 will not be to judge the individual merits of any proposal, nor to arbitrate between them, but to ensure that all new proposals, particularly those likely to demand or imply extra expenditure by local authorities, are costed as fully as is practicable from the outset. Sponsoring Divisions should do their best to improve upon vague statements to the effect that the financial and manpower implications are "unlikely to be significant", "difficult to quantify" etc. Where there is scope for reducing net expenditure implications by increasing fee income, this possibility should also be rehearsed. If Divisions are unable themselves to cost a proposal they should consider whether it is possible informally to seek assistance from the relevant local authority association(s). When making such an approach to the associations, Divisions should make it clear (a) that there was no commitment to proceed with the proposal concerned and (b) that such informal exchanges in no way prejudiced the right of the associations to be consulted formally at a later stage. LG3 and FLE should, however, be consulted before any informal approaches to the associations are made.

4 There will, however, be occasions when, for reasons of confidentiality, or to meet specific Ministerial wishes, it will not be possible for any discussions with the local authority associations to be held. In such circumstances, Divisions should make the most realistic estimates of manpower or financial implications they can. If Ministers decide that such estimates should not be included in the initial published proposals, it will nevertheless be necessary to indicate, wherever appropriate, an awareness of the possibility of additional burdens falling on local authorities, together with a recognition that financial and manpower consequences will be one of the factors to be taken into account in arriving at decisions on the proposals.

5 Any major submission to Ministers on proposals which are likely to affect local government expenditure or manpower should similarly contain properly quantified estimates, and should be copied to LG3.

Formal Consultation with Local Authority Associations

6 Any formal consultation document must contain a paragraph setting out the approved statement of resource implications for local authorities. (The precise form of words will vary from case to case, but model paragraphs are reproduced at Annex B). Wherever possible a minimum of 2 months should be allowed for the associations' response in accordance with Chapter 4 of the Office Instructions.

PES

7 Each new proposal will be considered on its merits against the framework of overall restraint on public expenditure. Ministers have agreed that there will be a general presumption against new burdens except where there are strong policy reasons for proceeding. Where it is agreed that an initiative should proceed, consideration will need to be given to the provision of any necessary resource cover: the sponsoring division must negotiate this with Treasury involving the relevant Finance Division. Where the agreed cost of an individual proposal is less than £100,000 per annum, it may be agreed that the matter will be treated as de minimis for PES purposes.

Housing

8 Proposals relating to housing expenditure should continue to be cleared with FHG in the first instance. Nevertheless, as current expenditure on non-HRA Housing forms part of local authority current expenditure

for purposes, the procedures outlined above will also need to be followed. Moreover, as increased expenditure on the Housing Revenue Account feeds through into Rate Fund Contributions to the Housing Revenue Account which forms part of local authorities' total expenditure for RSG purposes, FLE should be consulted on all such proposals.

Other Government Departments

9 The procedures above relate to DOE proposals. Other Government Departments are being asked to follow similar rules. It would be helpful therefore if Divisions learning of proposed initiatives by other Departments or Governments agencies which might have financial or manpower implications for local authorities would alert LG3 and FLE.

Enquiries

10 General enquiries on this circular should be addressed to:-

Mrs P M Szmigin
LG3
Room No P1/138
Tel No 212 6975

Specific enquiries about financial and PES aspects should be addressed to:-

Mr A J Routh
FLE
Room No N7/07
Tel No 212 4715

Manpower enquiries should be addressed to:-

Mr A Sheckley
FLAS
Room No N4/01A
Tel No 212 3103

T M HEISER
Permanent Secretary

25 July 1985

Distribution: Standard DOE(C)

ANNEX A

[illegible]S OF POTENTIAL NEW BURDENS ON LOCAL AUTHORITIES

1 New powers or duties, or extension of existing powers or duties under primary legislation or regulations (eg licensing and/or enforcement duties).

2 Exhortation to authorities to follow new policies which require increased administrative effort and/or additional expenditure (eg grants/compensation etc) whatever the medium used (formal circular, Ministerial speech, statement or response, informal guidance etc).

3 Transfer of functions from central to local government.

4 Requests for reviews of or changes to local authority procedures.

5 Charging authorities for data or information currently provided free.

6* Proposals for restraints on fee levels charged by local authorities or requests that certain categories of people or applications should be exempted from fees or charges.

7* Proposals for reducing existing levels or rates of government grants or subsidies which are paid directly or <u>indirectly</u> to local authorities.

* As local authority expenditure is planned in net terms, for public expenditure purposes any proposal which would result in reduced income to local authorities is as much a new burden as the imposition of a specific new task or duty.

ANNEX B

MODEL PARAGRAPHS FOR INCLUSION IN FORMAL CONSULTATION DOCUMENTS, CIRCULARS ETC

FINANCIAL AND MANPOWER IMPLICATIONS FOR LOCAL AUTHORITIES

/These proposals are estimated to increase local government manpower requirements by x full-time equivalents, and to add an extra £y per annum to local authority expenditure. These estimates have been /discussed/ agreed with the local authority associations /whose views are ...../.

/These proposals are expected to have nil net cost and manpower implications for local authorities; this estimate has been /discussed/ agreed with the local authority associations /whose views are ...../.

/These proposals are estimated to increase local government expenditure by £x per annum. However, as it is proposed that authorities should be enabled to levy economic charges in respect of these functions, these costs should be offset by fee income. Overall there are expected to be nil net expenditure implications for local authorities although the manpower requirements are expected to increase by x full-time equivalents. These estimates have been /discussed/ agreed with the local authority associations /whose views are ...../.

11.X. PM185

VR89

CONFIDENTIAL

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

11 October 1985

David Norgrove Esq
10 Downing Street
London SW1

Prime Minister 2

DCR
11/10.

Dear David

PWLB LENDING TO LIVERPOOL

The Prime Minister will want to know that, as expected, the PWLB decided this afternoon to defer a decision on whether to resume lending to Liverpool.

This decision was made inevitable when it was learned this morning, from the City Treasurer, that major revisions were being made to Liverpool's proposed scheme for complying with its obligations in respect of this year's budget. The PWLB in the event decided to stick to its normal practice and make no statement following this afternoon's meeting, and has instructed its Secretary to make no comment.

It is now understood that Liverpool have sufficient funds to avoid a default on the market loan that falls due for repayment on Monday.

I am copying this letter to Robin Young (DoE), Rob Smith (DES), Leigh Lewis (D/Emp), Tony Lawrance (DHSS), Henry Steel (PS/Solicitor General) and Michael Stock (Cabinet Office).

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

PM 85

11. X. PM 85

RR7.66

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

PRIME MINISTER

PWLB LENDING TO LIVERPOOL

I attach a note by officials which describes the likely outcome of consideration tomorrow by the Public Works Loan Board of an application from Liverpool City Corporation to borrow from the Board.

The Board is of course an independent body. But if the view they come to is as described in the attached note it will have the effect of bringing further pressure to bear on Liverpool to look again at the other ways open to the Council of solving their financial difficulties for the current year. If Liverpool continue to resist these other options, then there is a significant risk that they will default on a market loan during the course of next week.

I am sending copies to Kenneth Baker, Keith Joseph, David Young, Norman Fowler, the Solicitor General and Sir Robert Armstrong.

NL.

N.L.
10 October 1985

I have discussed this with Kenneth Baker, who agrees this line.
NL.

CONFIDENTIAL

PWLB LENDING TO LIVERPOOL CITY CORPORATION

Liverpool made an application to the Public Works Loan Board (PWLB) on 30 September for a loan of £20 million. The City Treasurer has now indicated that there is a strong risk that Liverpool will be forced to default on a market loan that falls due for repayment on Monday, in the absence of a PWLB decision to resume lending to the Council this week.

2. The Board is therefore meeting tomorrow afternoon (Friday) to consider Liverpool's request. They will have before them various communications from the City Treasurer, and a copy of a letter from the Liverpool City Solicitor stating that in his opinion Liverpool Council is now in law complying with its obligations in respect of its budget for the current year, on the basis of proposals that the Council has adopted.

3. It is understood that the legal advice to the Board tomorrow, on which Counsel's opinion has been taken, will be that the Board would be unwise to make a decision to lend tomorrow, given uncertainties about the security for such lending. The budget adopted by Liverpool depends on a scheme for temporary redundancy of the bulk of the workforce for the first quarter of 1986. This would, it is said, provide savings on staff costs, supplemented by a rebate from the Department of Employment Redundancy Fund.

4. There are the following doubts about this proposal:-

(i) It is under challenge from the National Union of Teachers, in a court case that will be heard on 16 October. The basis of this challenge is that the redundancies are unreasonable, in part because the Council would no longer be able to perform its statutory duties.

(ii) It is understood that Liverpool are intending to defend this action on the basis of proposals that would involve deferring payment of teachers salaries from the beginning of 1986 until 1st April, with school holidays during the

intervening period. It is difficult to see how the cost of this arrangement could be met within the Council's budget, whichever year the 1 April payment was charged to (Liverpool has been selected for rate-capping in 1986-87). The scheme is in any event quite different from the one on which the City Treasurer has been in correspondence with the PWLB, and on which the City Solicitor's letter is based.

(iii) The Department of Employment is uncertain whether the proposed "redundancies", under the existing Liverpool proposal, are valid for the purposes of claiming a rebate from the Redundancy Fund. If they are not valid, the Council would either be obliged to continue to pay normal salaries, or be liable for financial claims for unfair dismissal. The Council's budget proposals do not allow for either contingency.

(iv) An important further aspect of the redundancy proposal is that it reduces Liverpool's 1985-86 expenditure, and increases their entitlement for DOE block grant. This is a key feature of Liverpool's budget proposals. If the scheme fails then there would be grounds for not paying the increased block grant, and this would increase the Council's budget imbalance.

5. The PWLB is an independent body, and must make its own decision. But it seems likely that it will at least decide to delay a decision until after the NUT case is heard next week, on the basis of the factors described above.

6. In that event, the Board may well, exceptionally, wish to issue a press notice on Friday evening on the lines attached, so as to avoid risk of misunderstanding.

7. Deferral of a decision in this way would of course bring a significant risk of a default by Liverpool next week. Contingency planning against such an event has been going on in MISC 109 over recent months.

HM TREASURY
10 October 1985

Statement by Public Works Loan Board

The Board has today considered a loan application from Liverpool City Council. A decision has been deferred. The Council has not yet satisfied the Board that there is a sufficient basis for lending; and the Board noted that there are financial implications in an action by the National Union of Teachers which is to be heard next week.

O/O

CONFIDENTIAL

DN says PM has seen! CCNO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Prime Minister
Your consent to the letter going was given subject to the views of others.*
DRN
11/10.

10 October 1985

Dear Ian,

EDUCATION DEFAULT IN LIVERPOOL ATTACHED

We have spoken a number of times this week about your Secretary of State's minute of 7 October to the Prime Minister.

This is to record that our Secretaries of State discussed this matter twice in Blackpool. My Secretary of State considered that it would not be wise for your Department to take the initiative proposed, principally because silence from Government seemed more likely to increase the pressure on Liverpool to put its own house in order, and any Government initiative might be interpreted as a weakening of resolve. It was agreed that the proposed letter to the Chief Education Officer of Liverpool should not be sent for the time being.

I am sending copies of this letter to David Norgrove at Number 10, to the Private Secretaries of other members of MISC 109 and to Michael Stark in Sir Robert Armstrong's office.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

* Mr Fowler has now written in similar vein to Sir K Joseph (attached). He also wants the Government to help Liverpool voluntary bodies. But to do so would help the Council as well. Mr Baker is likely - rightly - to give a dusty answer.

DRN
11/10.

Ian Hughes Esq

P A 9185

CONFIDENTIAL

PRIME MINISTER

EDUCATION DEFAULT IN LIVERPOOL

1. The holder of my office has a power (not a duty) to direct a local education authority to take steps to remedy a default (Section 99 of the 1944 Education Act) or not to proceed with a proposal to default (Section 68); the power is ultimately enforceable by mandamus. I am being asked to use the section 68 power following the issue by the Liverpool Council of notices to all staff at the schools and colleges it maintains, making them "redundant" on 31 December but offering to reinstate them not later than 1 April 1986, on the grounds that the Council cannot afford to pay them for the remainder of the financial year. Prima facie the Council are proposing to default, as respects the spring term 1986, on their duty to secure the provision of schools and colleges.

2. Although I have been asked by a number of teacher unions to intervene, I do not propose to use the section 68 power, or to act as if I might, at least until the outcome of the judicial review, likely to take place soon after 13 October, of the legality of the notices, which the National Union of Teachers (NUT) has secured. But in order to ensure that I cannot be faulted in the exercise of my legal responsibilities, I propose to write to the Council* to ask whether they intend to fulfil their duties under the Education Acts. This standard procedure does not imply default action on my part, and in nearly all cases does not lead to such action. I propose to justify my position on the grounds that I have by law to satisfy myself that the Council really mean to default on their statutory duties, and that in any case the proposed closure of schools and colleges is not imminent, and there will soon be an authoritative court ruling on its legality. I will be criticised for not discharging my moral duty to the children and students in question. But a direction may be hard to enforce, and its outcome is sufficiently uncertain to make it wise not to give it until the advantages outweigh the disadvantages.

*A copy of the draft letter is attached

3. I also propose to refuse the request I have received from the NUT, and from the Professional Association of Teachers (PAT) who also intend to obtain a judicial review, to join in the review proceedings, on the grounds that the Court is well able without my help to decide the question at issue viz whether the notices are illegal and invalid in education law.

4. After the judicial review, it is possible that circumstances will arise which may make it difficult to refuse to use my default powers, or indeed advantageous to use them. I might wish to propose to my colleagues that, with the help of the Court, I should seek to oblige the Council to take those necessary financial measures which we have all along said they should take in order to discharge their education duties, and be seen to do so. My only power to act is through the default procedure - and if necessary through application to the courts for enforcement. I have no power to take over the education service in Liverpool, or to channel extra money to it.

5. But for the present I seek my colleagues' agreement to the minimalist stance set out in paragraphs 2 and 3 above.

6. I am sending copies of this minute to the other members of MISC 109 and to Sir Robert Armstrong. My letter to the Council ought if at all possible to issue on 8 October because of the impending judicial review. If you or colleagues have comments, therefore, I need to receive them by midday tomorrow.

KJ

KJ

7 October 1985

OLD

C/f

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

My ref:

Your ref:

Sir Geoffrey Finsberg MBE JP MP
House of Commons
LONDON
SW1

10 October 1985

WBA

Dear Geoffrey

I am writing to you and all other Conservative Members in London to let you know that the Government have decided that Dial-a-Ride services for disabled people should, subject to Parliamentary approval, be funded through London Regional Transport after the GLC is abolished. An announcement to this effect is being made today. I attach a copy of the Department's Press Notice.

The Government's decision will come as welcome news to Dial-a-Ride users, many of whom have understandably been worried for the future. Their minds can now be put at rest.

Our decision is in line with the recommendations of the LBA-chaired Working Party which was set up earlier in the year to suggest future arrangements for special transport services for disabled people. Our aim in giving LRT the power to pass grant on to voluntary organisations providing Dial-a-Ride services in London is to disturb as little as possible the existing management arrangements for the Dial-a-Ride schemes consistent with allowing LRT the freedom, in giving grant, to satisfy themselves that the services are being provided in an efficient and cost-effective manner.

I hope you will find this helpful in letting your constituents know the position.

Yours ever

Lynda

LYNDA CHALKER

E.R.

NIGEL

I discussed with you earlier today a possible need to talk to the Prime Minister about Liverpool.

The PWLB have received legal advice which, though not absolutely conclusive, points to the need for them to delay a decision on whether to resume lending to Liverpool.

A draft minute for the Chancellor to send to the Prime Minister is on its way to Blackpool from the Treasury (by car). The minute, assuming the Chancellor agrees to send it in this form, is simply for the Prime Minister's information. There will be no need for her to take any action on it.

DAVID
10/10

010

CONFIDENTIAL

CONO.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Prime Minister
To be aware.
DRN
14/10

8 October 1985

Dear Michael

APPEAL COURT JUDGEMENT: 1985/6 TARGETS

Colleagues will have seen press reports of a judgement in the Court of Appeal last week upholding a challenge brought by Nottinghamshire and Bradford against their expenditure targets for 1985/6. I am writing to report on its implications.

The court held that 1985/6 targets were not framed by reference to principles applicable to all local authorities, as the law requires. Strictly, therefore, all authorities' 1985/6 targets have been found unlawful, and grant cannot lawfully be held-back from authorities overspending target. Equally importantly, since the general applicability rule is central to the law on GREs, grant distribution and rate limitation, the judgement casts doubt on the use of our powers across the whole local government finance field. It therefore puts at risk the RSG Supplementary Report for 1985/6 planned for later this month, and the timetable for the RSG settlement and rate limitation for 1986/7.

I have immediately sought leave to appeal to the Lords and I have asked for the case to be dealt with very urgently. I am advised that we have a fair chance of winning, but we must obviously consider what to do if we lose.

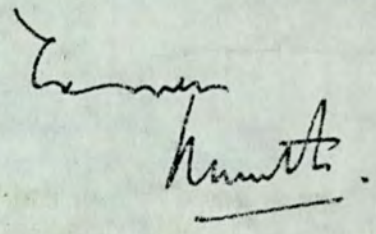
Much will depend on the terms of an adverse judgement. In putting our case in the Lords, we will need to make very clear the importance of the general applicability rule for the operation of all our local government finance policies, and seek thereby to limit the damage of a successful challenge to the 1985/6 target methodology. If the 1985/6 targets are judged unlawful, and if we take no corrective action, we would have to surrender the £550m of grant held-back from overspenders, and we would lose one of our two main deterrents to excessive spending this year. I should therefore propose to frame new targets in the light of the judgement and issue them in a new Supplementary Report. I could not give any authority a lower target, and the new methodology would undoubtedly result in higher targets for some authorities; but I hope we could devise a methodology which did not seriously weaken the pressures for restraint.

If, however, the judgement went wider than targets and jeopardised our interpretation of the general applicability rule for RSG and rate limitation generally, we should have to contemplate primary legislation, possibly with retrospective effect. But I see that as a last resort. For the time being, at any rate,

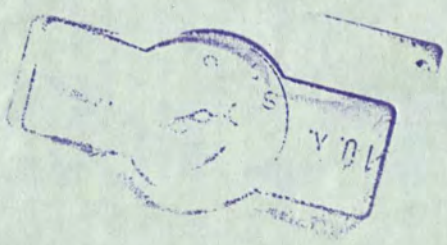
we can only say that I have sought leave to appeal to the Lords and the matter is still sub judice.

At the risk of tedious repetition, I do want to remind colleagues that this is the sort of risk that we run when we try to administer from Whitehall tight detailed control over local authority spending. We must recognise that a system of administrative law is being invented by the courts. The abandonment of targets and penalties for 1986/7 will relieve some of the pressure, but we must expect more skilful legal challenges in the 1986/7 RSG and rate-capping round. In the context of my longer-term studies on local government finance, this case is further evidence of the dangers of a top-down system of tight Whitehall control.

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



KENNETH BAKER



The Rt Hon The Viscount Whitelaw CH MC

010

cc OK

RESTRICTED

P 01714

From: J B UNWIN
8 October 1985

MR NORGROVE - NO 10

cc PS/Sir Robert Armstrong
Mr Langdon
Mr Wiggins

LOCAL AUTHORITIES CURRENT EXPENDITURE

You many like to have a brief note on the disturbing press reports that the DOE lost their case in the Court of Appeal last week against the Bradfordshire and Nottinghamshire Councils on current expenditure controls.

2. If this judgement were upheld, it would almost certainly invalidate the current spending targets imposed on local authorities this year. It might also make the enforcement of the target discipline in earlier years unsustainable, although this seems less likely. The total amount at risk this year - ie grant that would have been repaid by local authorities in the form of penalties - is in the range of £30 to £40 million. Not disastrous, but distinctly unwelcome.

3. The Department have appealed to the House of Lords and the case will be heard quickly under expedited procedure. DOE think that they have good grounds for appealing. If, however, the appeal is lost it would be necessary either to set new targets in a manner that is intra vires the Act, or, presumably, to legislate afresh in the 1985-86 session. This would obviously be a controversial and unattractive option.

4. I understand that Mr Baker intends to circulate a note to colleagues shortly reporting the situation and alerting them to the possible implications. However, until the detail of the House of Lords ruling on the appeal is available, it is not possible to decide what further action, if any, will be necessary.

J B UNWIN

08. X. 1935

PS/10

Pl copy personal to Mr Ingrove, No 10.

COPY FOR

8/x

CONFIDENTIAL

F00243

MR LANGDON

cc Mr Unwin
Mr Wiggins
Brig Budd

pa

MISC 109: Liverpool

1. I attended this morning's meeting on Liverpool, chaired by Chris Brearley in the DoE. Others present included Sorensen, Hobson, Ramsay and Horsman of DoE, Pearcey (DTI), Belfall and Evans (Home Office), Scicluna and Washington (MoD), Talintyre (Employment), Pirie (Treasury), Pelling (Transport), Stuart and Laidlaw (DES) and John Bunce (MTF, according to his nameplate).

2. The main point to emerge was that if the Public Works Loan Board (PWLB) does not decide, at a meeting which it is having this coming Friday, to resume lending to Liverpool City Council, then the City Council could face a serious cash crisis at the start of next week. Liverpool City Council have adopted a revised budget which they claim balances with their likely income, and, on the basis of this, have asked the PWLB to resume lending. The PWLB has responded by asking Liverpool about their financial plans, and are due to consider Liverpool's responses at the PWLB on Friday.

3. This decision could be crucial in deciding whether Liverpool will be able to sustain itself during next week. On Monday, Liverpool face a debt redemption of some £10 million and are £6 million short. If Liverpool fails to re-schedule the debts, they will not have the money to pay their wages bill. It was agreed that Alistair Pirie (Treasury) would consider how best the Treasury might appraise the Ministers most concerned (PM, Secretary of State for the Environment, and Chancellor of the Exchequer) of the implications of the decision (probably a minute to the Prime Minister from the Chancellor).

4. If Liverpool does go bust on Monday, the DoE will be monitoring events closely. The view was that even if Liverpool proved unable to re-schedule its debts, the Council could, if it so chose, maintain its basic services.

Whether Liverpool would choose to do so is another matter.

We ought to see Mr Baker's assessment first.

5. Depending on what happens on Friday, there may be pressure for a meeting of MISC 109, if only to take stock of where we now stand. On the other hand, the Prime Minister may take the view that events are now taking their course, and that there would be no purpose in Ministers meeting . All the same, we shall need to make sure that Mr Baker keeps colleagues closely informed of developments and of prospects, which seem to change almost daily.

6. Several other points emerged at this morning's discussion:

(i) DHSS would need about 3-4 weeks before they would be in a position to handle a massive increase in benefit applications;

(ii) Department of Employment. It was not clear whether the letters being sent out by Liverpool City Council terminating employment from 1 January were actually redundancy notices. On the basis of the wording of the letters seen so far, the Department of Employment would not be paying any rebates. It was entirely possible that if a case was brought before it an industrial tribunal would regard the Liverpool action as an unfair dismissal, and issue an order of re-instatement or, even more damaging to Liverpool's finances, an order of compensation. But the tribunal process could well be fairly lengthy as there is a provision for appeal (the entire process normally takes about three months);

K.J. has minuted the PM

(iii) DES There have been various approaches by teachers' unions to Sir Keith, who is taking a minimalist position (which Sir Keith defines as investigating their complaints, but not, as yet, doing anything further);

(iv) Home Office Last weekend some 5,000 took to the streets in heavy rain in a demonstration against the Militant Council. If Council supporters took to the streets simultaneously with an anti-Militant demonstration, there would be the risk of serious disorder. Toxteth seemed quiet at the moment, but still tense.

7. The representative of the DHSS (whose name I did not catch) suggested there might be a case for the Government to provide some form of assistance towards voluntary organisations in Liverpool, who might well be devastated if Liverpool goes bust. Mr Fowler has not been persuaded that the Government should do this. There was a general feeling in the meeting that this kind of financial assistance would be a departure from the MISC 109 strategy pursued hitherto.

8. The next meeting will take place in two weeks' time. The Group may be convened sooner, if Liverpool falls into real financial difficulties on Monday.

DP Walker

D P Walker

8 October 1985

CONFIDENTIAL

cc MISC 109
JA
(1)

10 DOWNING STREET

From the Private Secretary

8 October 1985

Dear Rob,

EDUCATION DEFAULT IN LIVERPOOL

The Prime Minister has seen your Secretary of State's minute of 7 October. She is content, subject to the views of colleagues, that a letter should be sent to Liverpool Council as proposed by your Secretary of State. She has noted that discussion in a Cabinet Committee would be needed before any decision was taken to use default powers.

I am copying this letter to the Private Secretaries to other members of MISC 109 and Sir Robert Armstrong.

Yours sincerely,

David

(DAVID NORGROVE)

Robert Smith, Esq.,
Department of Education and Science.

JA.

We should need a decision from the relevant cabinet committee upon the powers are used

Prime Minister
This looks fine to me.
N.L.W.

PRIME MINISTER

LIVERPOOL

Draft letter attached

You will want to be aware of this minute below from Sir Keith Joseph. He proposes to ask Liverpool Council in a letter to go out to them tomorrow how they intend to fulfil their obligations under the 1944 Education Act. He asks for the views of colleagues by lunch time tomorrow.

I have not been able to contact the relevant people in DOE to find out their reaction. But subject to anything that they or others may say tomorrow, I suggest that Sir Keith makes a convincing case.

The sending of the letter will become known during the Party Conference. It puts a further turn on the Liverpool situation, and no harm in that.

Content, subject to the views of colleagues, for Sir Keith to proceed as he proposes?

DAVID NORGROVE

7 October, 1985.

PRIME MINISTER

EDUCATION DEFAULT IN LIVERPOOL

1. The holder of my office has a power (not a duty) to direct a local education authority to take steps to remedy a default (Section 99 of the 1944 Education Act) or not to proceed with a proposal to default (Section 68); the power is ultimately enforceable by mandamus. I am being asked to use the section 68 power following the issue by the Liverpool Council of notices to all staff at the schools and colleges it maintains, making them "redundant" on 31 December but offering to reinstate them not later than 1 April 1986, on the grounds that the Council cannot afford to pay them for the remainder of the financial year. Prima facie the Council are proposing to default, as respects the spring term 1986, on their duty to secure the provision of schools and colleges.

2. Although I have been asked by a number of teacher unions to intervene, I do not propose to use the section 68 power, or to act as if I might, at least until the outcome of the judicial review, likely to take place soon after 13 October, of the legality of the notices, which the National Union of Teachers (NUT) has secured. But in order to ensure that I cannot be faulted in the exercise of my legal responsibilities, I propose to write to the Council* to ask whether they intend to fulfil their duties under the Education Acts. This standard procedure does not imply default action on my part, and in nearly all cases does not lead to such action. I propose to justify my position on the grounds that I have by law to satisfy myself that the Council really mean to default on their statutory duties, and that in any case the proposed closure of schools and colleges is not imminent, and there will soon be an authoritative court ruling on its legality. I will be criticised for not discharging my moral duty to the children and students in question. But a direction may be hard to enforce, and its outcome is sufficiently uncertain to make it wise not to give it until the advantages outweigh the disadvantages.

* [illegible] is attached

CONFIDENTIAL

3. I also propose to refuse the request I have received from the NUT, and from the Professional Association of Teachers (PAT) who also intend to obtain a judicial review, to join in the review proceedings, on the grounds that the Court is well able without my help to decide the question at issue viz whether the notices are illegal and invalid in education law.

4. After the judicial review, it is possible that circumstances will arise which may make it difficult to refuse to use my default powers, or indeed advantageous to use them. I might wish to propose to my colleagues that, with the help of the Court, I should seek to oblige the Council to take those necessary financial measures which we have all along said they should take in order to discharge their education duties, and be seen to do so. My only power to act is through the default procedure - and if necessary through application to the courts for enforcement. I have no power to take over the education service in Liverpool, or to channel extra money to it.

5. But for the present I seek my colleagues' agreement to the minimalist stance set out in paragraphs 2 and 3 above.

6. I am sending copies of this minute to the other members of MISC 109 and to Sir Robert Armstrong. My letter to the Council ought if at all possible to issue on 8 October because of the impending judicial review. If you or colleagues have comments, therefore, I need to receive them by midday tomorrow.

KJ

KJ

7 October 1985

DRAFT LETTER TO THE CHIEF EDUCATION OFFICER OF LIVERPOOL

I am directed by the Secretary of State to write to the Authority about the situation in Liverpool as it affects the education service.

The Secretary of State has had drawn to his attention the notice dated 27 September 1985 to all employees of Liverpool City Council. I am to ask the Authority for its comments on how it proposes to perform its duties under the Education Acts if these notices were to take effect.

I am to ask for a substantive response to this letter by no later than Tuesday 15 October.

mfaxed 7/10

PRIME MINISTER

LIVERPOOL

You will want to be aware of this minute below from Sir Keith Joseph. He proposes to ask Liverpool Council in a letter to go out to them tomorrow how they intend to fulfil their obligations under the 1944 Education Act. He asks for the views of colleagues by lunch time tomorrow.

I have not been able to contact the relevant people in DOE to find out their reaction. But subject to anything that they or others may say tomorrow, I suggest that Sir Keith makes a convincing case.

The sending of the letter will become known during the Party Conference. It puts a further turn on the Liverpool situation, and no harm in that.

Content, subject to the views of colleagues, for Sir Keith to proceed as he proposes?

DAVID NORGROVE

7 October, 1985.

cc Mr Letwin
Mrs Lomax

DN

CONFIDENTIAL

K01209

MISS MACNAUGHTON

cc Mr Unwin
Mr Roberts
Mr Norgrove

At E(LF) Committee this morning the Prime Minister mentioned the possibility of the Lord President chairing meetings of the Sub-Committee, if that would help in meeting the very tight time table for the Green Paper.

The outstanding issues are summarised in paragraph 3 of E(LF)(85)7. Basically, there are:

(i) a group of absolutely crucial points on the new and local tax arrangements and effects on households;

(ii) the control of capital expenditure;

and (iii) a miscellaneous collection of subsidiary points.

I think that further discussion of the first group of issues requires the Prime Minister in the chair, but it will be difficult to obtain much of her time over the next few weeks. On the other hand it would be very useful to make some headway on capital expenditure and the other issues, with the Lord President in the chair, if he were agreeable.

Bearing in mind the public expenditure burdens that the Lord President is about to take on, I wonder if you could mention the possibility of chairing an E(LF) meeting to him and let me know how he feels about it. I will not take any further action until I hear from you.

I Lunt

pp. A J LANGDON

3 October 1985

LPO MJ
HO
DES
LPS
DHSS
CS, HMT
LOD
MoS LG, DOE
SO
CO

10 DOWNING STREET

From the Private Secretary

2 October 1985

Dear Robin,

MISC 109: LIVERPOOL

The Prime Minister has seen and noted your Secretary of State's situation report on Liverpool (minute of 1 October).

She has also seen and noted the correspondence about the timing of housing subsidy benefit payments to Liverpool on which the last letter was your Secretary of State's of 30 September to the Secretary of State for Health and Social Security.

I am copying this letter to the Private Secretaries to members of MISC 109 and to John Graham (Scottish Office) and Michael Stark (Cabinet Office).

Yours,

David.

David Norgrove

Robin Young Esq
Department of the Environment

PRIME MINISTER 2 October 1985

REFORM OF LOCAL GOVERNMENT FINANCE

The main purpose of the meeting is to decide two issues that need to be settled before any further progress can be made:

i. Should each spending department control grant for each service, with a large proportion of specific grants, as Keith Joseph suggests?

ii. What method should be adopted for reducing the severity of the regional gains and losses?

Separate Service Grants and Specific Grants

We still believe that it would be wrong to give individual spending departments control over grants:

- It would intensify pressure for higher central government spending, since the Treasury would have to conduct bilaterals with each department, rather than concentrating on a single discussion with DoE.

- It would antagonise local authorities, since they would regard it as 'centralist'.

- It would probably be ineffective in practice, since local authorities could still use grant given by one Minister to fund some other service.

- Insofar as it was effective, it would give more power to DES - who have probably done even more damage to education, over the years, than most local authorities.

DES do not in fact expect E(LF) to approve separate service grants. **They are raising this extreme proposal only as a means of obtaining approval for their second, more moderate, suggestion that specific grants should be increased.**

We are sceptical about this, too:

- It is not clear what DES would spend the money on. Do they really have urgent projects that merit special funding? If so, why have they devoted £1m of the £30m specific grants which they already administer to 'ethnic minority projects'?

- Although specific grants can sometimes be useful as a means of introducing welcome structural changes, they can also be used by subsequent governments to produce not-so-welcome changes: once the power is there, it can easily be abused.

- There was a tremendous fuss when the DES reserved a small amount of money for its Education Support Grants. There would be a much larger fuss if a substantial amount were reserved.

This issue is, in fact, a red-herring. It has no real connection with the reform of local finance, and is a symptom of Keith's understandable frustration at the slow speed of change, combined with the general DES tendency to use any occasion as a means of increasing Elizabeth House's power.

Regional Gains and Losses

At the last meeting of E(LF), Ministers were unhappy about the number and severity of the regional gains and losses. These accounted for over half the losses caused by the entire package.

Ken Baker proposes to remedy this by constructing an explicit 'safety net subsidy' - in effect reinventing domestic rate relief - for those Local Authorities whose domestic taxes would rise sharply as a result of centralising the non-domestic rate.

DoE are asking for an additional £600m p.a. from the Treasury to fund the grant. But this is a try-on, which should be speedily rejected.

The grant could eliminate all the domestic losses due to regional shifts, without any additional funds, merely by transferring money from the South-East to the North-West. (Remaining losses would be due to the change from rates to a new domestic tax - which will be discussed at the next meeting of E(LF).)

If you want to reach a quick agreement, this option - once the extra £600m is removed - looks sensible, and is certainly better than the other two possibilities raised and rejected by DoE.

But we still prefer our original proposal to cap non-domestic rates instead of centralising them, using resource-equalisation and special London arrangements to offset regional disparities.

This possibility is slightly more difficult to set up than the DoE safety net subsidy. But it offers three major advantages:

1. Instead of a centralised non-domestic rate, with heavy losses for small job-creating businesses in the South-East, (and complex transitional arrangements), there would be a simple guarantee that business rates never rose by more than, say, RPI. There would be absolutely no business losers. And local authorities with high business rates could be brought gradually downwards by restricting them to rises of only RPI - 1% or even RPI - 2%. (This is a slightly amended form of Ken Baker's Option 1.)

2. Ken Baker's review after three years would give councils a splendid opportunity to ask for more grant; whereas our proposal would need no such review.

3. Instead of a new grant from DoE, the capping proposal would involve resource-equalisation between authorities. As you have seen, local councillors in Westminster understand that resource-equalisation actually costs them money; whereas a grant is regarded by all councillors as 'somebody else's money', and this generates constant pressure for more 'generous' settlements.

Timetable

We agree with Ken Baker that the Green Paper should not be produced until the turn of the year (to avoid hasty drafting errors), with a preliminary statement before the 2nd Reading of Norman Fowler's Social Security Bill.

But there are two caveats:

1. The terms of the Statement will have to be carefully prepared. Sloppiness might cause almost as much trouble as a hasty Green Paper.

2. The Statement will need to explain, at least in outline, how the E(LF) reforms and the social security proposals reinforce one another.

Conclusion

We recommend that you should:

- reject the DES proposals for individual service grants and increased specific grants;

- press for the capping of the non-domestic rate with resource-equalisation, special London arrangements, and a tougher regime for authorities with high business rates;

- agree to Ken Baker's 'safety net grant' as a second-best if necessary;

- agree to a Green Paper at the turn of the year with a preliminary Statement before the social security Second Reading;

- insist that the Statement should be carefully prepared, and should include an outline of the relation between the two sets of reforms.

DKW

for OLIVER LETWIN

P 01701

PRIME MINISTER

Local Government Finance Studies:
E(LF)(85)3rd Meeting on 3 October

Item 1
Flag B

At its meeting last week, the Sub-Group made good progress in working through the proposals set out by Environment Ministers in the 'Second Specification Report' (E(LF)(85)4). Among other things, it was decided to retain a power to rate cap, and to reject the proposal to link the Government grant to a proportion of the yield of VAT. The use of capital values as a basis for property tax was also ruled out. There was, however, concern about the extent of redistribution of resources from the North to the South of England with a corresponding increase in domestic tax bills in the North, and DOE were asked to examine ways of moderating this. Other issues, such as the Education Secretary's proposal for an education grant, were not examined then.

2. The present meeting provides an opportunity to take forward discussion on three particular issues:

(i) The Education Secretary's proposal that there should be a separate education grant. DOE will need guidance on whether this is to be pursued further. The Sub-Committee may be able to reach a decision on this reasonably quickly;

(ii) DOE have done further work on the distributional effects of their package between authorities, and have identified a number of ways of modifying the more extreme effects. This item is likely to take the greatest amount of time, and indeed it may not be possible to resolve all the issues now. But DOE will require some guidance as to what options should remain in play so that they can carry out more detailed examinations of the distributional effects both between and within areas;

(iii) There is a short paper on the timescale for the remaining stages of reform. You may wish to reserve the last 15 minutes of the meeting to consider this.

Briefs for each item are attached.

3. The question of the "community" or "local" charge is not on the agenda today. DOE have work in hand on various combinations of personal and property elements, and on the best basis for assessing the property elements, and will report back later. But they need a decision on item (ii) above today before they can work out the household effects of the package.

4. DOE have also circulated a paper about the legislative aspects of rate capping and particularly whether this should be part of the initial legislative package, or held in reserve. This is an important tactical and presentational point but need not be discussed at this meeting.

5. At the last meeting you referred to the importance of identifying the combined effects of the Social Security Review and the Local Government Finance package. Work has been commissioned from the Treasury, and the first opportunity of taking stock will be the meeting of MISC 111 on 15 October.

6. Finally, you may wish to close the meeting with a further injunction against reporting the outcome to the press. There have been further extensive leaks of the state of the discussions.

J B UNWIN

Cabinet Office
2 October 1985

Local Government Finance and Education
(E(LF)(85)6)

BACKGROUND

Flag A
Flag B
Discussed at the last E(LF)

The Memorandum by the Secretary of State for Education and Science (E(LF)(85)6) welcomes many of the proposals set out in the Environment Secretary's second specification report (E(LF)(85)4). But he proposes a fundamentally different way of dealing with the Exchequer Grant to local authorities, designed to increase central Government's influence over the priorities and policies of local authorities. His proposal is opposed by Environment Ministers.

MAIN ISSUE

2. The main issue is whether the Exchequer Grant to local authorities should be in the form of a lump sum for all services, leaving local authorities to determine local priorities, or whether there should be separate grants for each service, thus giving Whitehall much greater influence.

The DOE Proposal

3. DOE Ministers have proposed that there should be a single fixed lump sum grant to local authorities, comprising a 'needs' element designed to compensate for different levels of needs, and a standard element, paid at a fixed sum per head across the country. The needs element would be calculated by reference to indicators for particular services - eg the number of children requiring education - but local authorities would determine how to allocate their resources between services.

The Education Secretary's Alternative

4. Sir Keith Joseph contends that such an arrangement would not give him sufficient influence over the education service. He argues that

since education has a national as well as a local dimension, and the Government is held accountable for performance, he should be responsible for educational support to local authorities in the form of an education grant, and that the needs assessment should be more influential in determining appropriate levels of spending on education. Local authorities would have no power to switch resources between education and other services.

5. Sir Keith also argues for greater use of specific grants, which could be allocated at his discretion and would give him greater influence in securing national policy objectives.

Argument

6. Sir Keith's alternative for the Exchequer Grant is compatible with the other elements of the DOE Local Government Finance package. It is therefore a straight choice between the approach suggested by Sir Keith and by DOE Ministers.

7. The key issue is the degree to which local authorities should be free to determine their own priorities and policies. Sir Keith's proposal would represent a considerable centralisation of power on top of the proposed nationalisation of non-domestic rates, giving him, and presumably other Service Ministers, much greater influence than they have had so far. While there are obvious attractions in this to Service Ministers, it would be a fundamental constitutional change, running contrary to the main emphasis of increased local accountability.

8. An alternative would be to fund a greater proportion of education through specific grants. It has already been proposed that there should be a study of specific grants under Treasury chairmanship, and you may think that this would be a more sensible option to explore.

9. You will wish to invite the Education Secretary to introduce his proposal. The Environment Secretary will wish to reply. Other Ministers responsible for local Government services will have views.

CONCLUSION

10. You will wish to reach decisions on:

(i) whether there should be a single lump sum grant paid to local authorities, or alternatively as the Education Secretary proposes a separate education grant;

(ii) whether consideration should be given to putting greater emphasis on specific grants which would enable Service Ministers to have a more direct influence on the achievement of national policies.

Timetable
(E(LF)(85)7)

BACKGROUND

The last meeting of the Sub-Committee agreed that the aim should be to produce a consultative Green Paper on the Local Government Finance Studies before the second reading of the Social Security Bill, so that the House can be aware of the potential impact on household incomes of the rates reform before they debate the social security and housing benefit proposals. The Environment Secretary's memorandum considers what would be required in order to achieve that timetable. He also reviews the various options for implementing the proposals in the longer term.

Flag A

MAIN ISSUES

2. The main issue requiring a decision is whether it is realistic to aim for a Green Paper before the second reading of the Social Security Bill. At this stage the options beyond that need only be noted.

The Immediate Timetable

3. Our best advice remains that, if Mr Fowler's package is to be implemented in April 1987, second reading of the Social Security Bill must be held before Christmas. This is to ensure that Royal Assent will be obtained before the summer recess, which DHSS assure us is a necessary condition of making the arrangements for implementation in April 1987.

4. If, therefore, the local Government Green Paper is to be published by around mid-December, it will be necessary to complete the work, make all remaining decisions, and draft the Green Paper within 9 weeks. The Environment Secretary's paper rehearses the questions that need to be settled and suggests that such a timetable may be unrealistic. He

proposes instead that there should be an announcement of the broad approach of the package before the second reading of the Social Security Bill, with the Green Paper itself being published 'at the turn of the year'. This would be during theCommittee stage of the Social Security Bill.

5. It will clearly be difficult for the Government to explain its social security policies (especially on housing benefit, with the proposal that recipients should pay a minimum of 20 per cent of their rates bill) in the absence of a clear indication of the likely effects of the Local Government Finance package. Local authorities, who will have to change the administrative procedures to implement the housing benefit reforms, will also face further upheaval under the rates reform. It should be noted, however, that not all the outstanding issues that a Green Paper would have to expose are directly relevant to the question of interaction with the social security initiative. Furthermore, the Environment Secretary's safety net proposal would make presentation easier, since it would be possible to say that the Government did not intend the local Government reform to result in major changes between areas.

6. The Sub-Committee will need to balance the risks of encountering difficulty in the second reading of the Social Security Bill against that of pressing ahead with the local government finance proposals more quickly than is prudent. The potential for banana skins on such a complex issue is clearly considerable. My own view is that it would be wise to explore Mr Baker's alternative that a statement (rather than the full Green Paper) should be published in December, setting out the general principles of the proposed changes and giving as much assurance as possible about the effects on household incomes. You may wish, however, to ask him how explicit such a statement could be and what it could cover, and to obtain his assurance that if the Green Paper were postponed from December to the turn of the year DOE would nevertheless continue to work on the Green Paper at full steam ahead.

The Longer Term

7. The Environment Secretary's paper sets out three possibilities for

the introduction of the new regime. You will not wish to reach final decisions at this stage, since the timing of the election is clearly a crucial factor. It may only be possible to make decisions as events unfold. But the key consideration is should a Bill be introduced before the next election. There will be political advantages and disadvantages in doing so. But if it were decided to hold up the Bill until after the election, and if the election did not take place until towards the end of the lifetime of the present Parliament, there could be a two-year gap between the publication of the White Paper and the introduction of the Bill itself.

HANDLING

8. You will wish to invite the Environment Secretary to introduce his paper. The Lord President and the Chancellor of the Duchy of Lancaster will no doubt have views about the Parliamentary handling and the general problems of timing and presentation.

CONCLUSION

9. You will wish to reach decisions:

(i) on whether it is realistic to attempt to produce a Green Paper before the second reading of the Social Security Bill, and if not whether to agree to Mr Baker's proposal of a more limited statement at that time;

(ii) to note the various options for progress thereafter.

Distributional Effects
(E(LF)(85)8)

BACKGROUND

At their last meeting the Sub-Committee were concerned at the extent of the re-distribution from the North to the South of England resulting from the DOE proposals, and DEO were asked to examine ways of moderating these effects, including the possibility (which you floated) of capping non-domestic rates rather than centralising them.

Flag A – 2. The paper by the Environment Secretary (E(LF)(85)8) suggests four possible modifications to the basic proposal which would limit the extent of losses to local authorities in the North and in London. These can be summarised as:

(i) capping the non-domestic rate at current levels, with an equalisation grant and a device to prevent London gaining unduly;

(ii) retaining domestic resource equalisation;

(iii) a compensation system based on average regional incomes;

(iv) a safety net grant to cushion losing authorities against the effects of the package.

MAIN ISSUE

3. The main issue is which, if any, of the proposed modifications should be adopted.

The Re-Distribution Effects

4. The shifts in the average local tax bill between authorities are

caused by the proposals to 'nationalise' the non-domestic rate and to remove resource equalisation in the grant distribution mechanism. (The switch from domestic rates to a "community" or "local" charge affects only the distribution of tax bills within an area, not between areas). Under the basic DOE package, average domestic bills would rise in 111 areas (30 per cent) and fall in 255 areas (70 per cent). But average bills in the northern region and Yorkshire and Humberside would rise by between one-quarter and one-third, and in London by 13 per cent on average. In the South-East and West Midlands average tax bills would fall by up to a third. (The effect on households would depend on their composition and the actual form of the proposed local charge.) This pattern of gains and losses is inherent in the DOE proposals, and represents the removal of the substantial (though largely concealed) inequities and cross subsidy in the present grant arrangements. Nevertheless, as the Committee has identified, considerable public opposition can be expected from the areas which would lose under a fairer system.

5. DOE have identified four possible modifications. These would either covertly or explicitly redistribute resources away from the gainers to the losing authorities, and so would necessarily complicate the proposed arangements and run counter to the fundamental logic of the system.

6. The first three proposals require a modification of the grant mechanism to include an element of resource equalisation. Each can only be targetted very broadly (towards type of authority or region as opposed to individual authorities) and specific arrangements would be needed for London. Each can also be criticised as running against the fundamental principles underlying the DOE basic package, as indeed they must if they are to cancel out many of the distributional changes it introduces.

7. Option (iv), the introduction of a specific 'safety net' grant, in the most explicit device, and the least in conflict with the main DOE package. If the grant were fixed in cash terms, it would wither away in real terms over time, and the marginal pressure of the new

proposals and the spending/taxation link would remain intact. If the principle of such a grant were accepted, it could be found from within the existing exchequer grant. In this case, while the grant would still ensure that Northern and London authorities do not lose, this would be at the cost of authorities in the South East who would otherwise have gained. But you may feel that this is acceptable, since criticism of the Government by the losers of any reform generally far outweighs the thanks of gainers. The alternative is to use new exchequer money, estimated at about £600 million. But such a high PSBR cost - effectively transferring a greater share of the burden of local authority spending from the rate payer to the tax payer - hardly seems justified.

8. A further point is whether such a grant should be transitional or permanent. Mr Baker suggests a fixed cash sum for three years, with a review at the end of that period. Such reviews can only too easily arouse expectations and build up commitments; but it does not seem necessary to take a final decision on this tomorrow and you may fell that this compromise could be accepted provisionally as a basis for further work.

HANDLING

9. You will wish to invite the Environment Secretary to introduce his paper. All Ministers will have views as to whether the proposal goes far enough in ameliorating the distribution effects of the DOE package, and on which of the proposed mechanisms is the most promising for dealing with the problem.

CONCLUSIONS

10. You will wish to reach a decision on which, if any, of the proposed mechanisms should be incorporated into the package. In the event of option (iv) being adopted, you will wish to decide whether this should be financed within existing resources or by new money; and (provisionally) on whether it should be permanent, transitional, or fixed in cash terms subject to a review.

CC OL

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP
Secretary of State
Department of Health and Social Security
Alexander Fleming House
Elephant and Castle
London
SE1 6BY

NBPM

1 October 1985

Dear Norman,

LIVERPOOL: HOUSING BENEFIT SUBSIDY PAYMENTS

Thank you for copying to me your letter to Kenneth Baker of 24 September. I have now also seen Kenneth's reply. Our officials have been in touch about the precise terms of the letter to be sent to Liverpool and the other nine authorities affected and have agreed the text. I am now content that you should make these payments. I am also content with the general briefing line set out in your letter.

I am copying this letter to the Prime Minister and Members of MISC 109.

Yours ever,

JOHN MacGREGOR

LOCAL GOVT
RELATIONS 7728

02 X 9 8 7 6 5 4 3 2 1 12 11 PM 85

Not GR's?
CC OK

Y [redacted]DDFA GYMREIG
GWYDYR HOUSE
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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

1st October 1985

NBPM.

Dear Mark,

Thank you for copying your letter to Robin Young of 28 August to me.

In Wales, as in England, we have no evidence that community councils have misused their powers. However district councils in Wales have, on several occasions, pointed out that their best efforts to comply with expenditure guidance can be upset by high community precepts. While the district councils are not able to directly influence the level of the precepts of their own communities they have generally tried to exert such pressure as they are able, in order to keep expenditure down to a level consistent with the Government's plans. In this, of course, they have been encouraged by my Secretary of State.

/ Copies of this letter go to Robin Young and John Graham.

Yours ever

Colin

R C WILLIAMS

Mark Addison Esq
Private Secretary to
The Prime Minister

LOCAL GOVT RELATIONS

PT 28

SECRETARY OF STATE FOR THE ENVIRONMENT

2. This article is helpful. But the DoE workings (green) are selective and there is also criticism of the government (yellow). DRN 1/10.

PRIME MINISTER

LIVERPOOL

I need not trouble you with a meeting on Liverpool, and I am sending you and MISC 109 members a progress report separately. You should see the attached article which appeared in today's Times, written by Bishop Sheppard and Archbishop Worlock. In this they recognise publicly that the Militants are bad news for Liverpool. When I met them last week David Sheppard called Hatton "wicked". That is quite something from a Bishop.

K.B.

K B

1 OCTOBER 1985

THE TIMES TUESDAY OCTOBER 1 1985

Stand up to Liverpool's Militants

by Derek Worlock and David Sheppard

'or months, people in Liverpool ave felt confused and helpless bout the apparent collision course f the city council and central overnment. We are concerned that ie case for Liverpool and other rban areas does not seem to have een adequately heard by Whitehall; nd we are increasingly anxious bout the council's policy of onfrontation.

With an impossibly low rate aving been set, it appears only a atter of time before the city's nances are exhausted, probably efore the legal process by which the istrict Auditor has surcharged the ty councillors can have its effect.

As a way out of the difficulty, in ly last we called attention to the ssibility of an aggrieved person or dy going to court to have an adequate rate set aside, and the uncil required to set an adequate te for a legal budget. Such a course uld carry the city through until xt year when matters could be ttled at the ballot box. But there ere no takers.

Now the head-on clash has curred, and a very dangerous oment in the life of our city has en reached. Before the eyes of the st of the nation Liverpool is aring itself to pieces. This is the ore tragic in a city which has been nowned for its spirit and solidarity the face of threat and danger.

As bishops, and with the Free urch Moderator, the Revd John illiamson, we wish to make it clear at we deplore the confrontation at has to a great extent been anufactured by the Militant adership of the city council. The recent shower of political invective has tended to focus on personalities, disguising the serious issues of local and national economy which lie behind the present storm.

Strong feelings are inevitable and often justifiable. But Militant's intransigence and unwillingness to engage in serious dialogue creates divisivess and uncertainty in which the most vulnerable elements of the community suffer, usually school-children and elderly people unable to cope with a reduction of services.

There is without question a long-term crisis for people who live in the urban areas of Britain. It has been clear since the very thorough Inner Areas Study was published in 1977 that a substantial injection of government money was needed if the decay of urban areas was to be reversed. But the benefits from such grants have been offset by continual reductions in mainline funding through the rate support grant. Over the last three years the grant to the seven priority partnership areas, of which Liverpool is one, has been reduced in real terms by £143 million – or 22 per cent.

We believe that however much local confrontational tactics may exacerbate the situation, central government must recognize its share of responsibility.

Faced with such difficulties a great city needs to bring together all the resources which people of goodwill can muster. Our Christian teaching is that we are members of one another. The dogmatic, divisive policies of the Militant leadership reject this. Very significant resources are being ignored or damaged.

Housing co-operatives offer a highly significant way for local people to play a part in planning and managing their homes. Money has been made available for this by the government, but the city council has withheld planning permission.

The voluntary movement in Liverpool has great resources to offer. Because of the city council's wish to municipalize or control voluntary bodies, this whole sector of the city's life has been caught up in the crisis. Much has been said about the redundancy threat to the city council's workforce. Little has been heard about the threat to the voluntary bodies which have been told they will receive no more grants. As a result, many of them may well have to close down. Some will never restart.

Perhaps the most dangerous example concerns the black community. The deliberate importation into the city of black members of the Militant tendency from London brings a dangerous threat to the fragile but growing emergence of local black organizations. The appointment of Sam Bond as Principal Race Relations Adviser was a needless affront to the Liverpool black community. The emergence of black members of Militant tendency in local ward politics is in some ways even more sinister.

What is to be done? In the long term we must hope to see people of goodwill joining the local ward party of their own political persuasion and being willing to outwork those who are dividing the city. But in the meantime, must Liverpool be left to sweat it out?

With the Militant leadership feeling unable to balance its budget by using its available capital resource for housing repairs and the Secretary of State for the Environment unwilling to authorize further grants to the city, there seems little room for manoeuvre.

Negotiation will have to be resumed. For too long members of the government, party leaders and senior trade union officials have stood back. The recent meeting of trade union leaders at national level was a welcome demonstration of responsibility.

Locally there is growing impatience with a system whereby a party caucus outside the council determines the policy for the city. Once again one hears ordinary citizens speaking of their powerlessness. With emergence into public view of the Militant-dominated Joint Shop Stewards' Committee there is increasingly a demand to know who is really calling the shots.

The authors are respectively Roman Catholic Archbishop and Anglican Bishop of Liverpool.

010.

1. DW

2 pa.

cc OR

CONFIDENTIAL

Prime Minister
Agree to note? (Mr Baker would I think welcome the reassurance that you are following his efforts on this.)
DLW 1/10

Yes

PRIME MINISTER

MISC 109: LIVERPOOL

I attach a situation report on Liverpool. No decisions are required at present.

The refusal of the workforce to vote for an indefinite strike was a victory for common sense, and a set-back to the planned confrontation by the Council and the Militant Shop Stewards. The Council decided on 27 September to issue redundancy notices. This allows them to borrow more cash, provided someone will lend to them, to meet their obligations and their wages bill up to 31 December.

This device has bought them more time to gather support. Councillor Hamilton, who is, from time to time, in command, talks of 90 days "to build a bridge". After 31 December they could make the redundancies and keep afloat, by keeping vital services running and blaming the Government for other dislocation. Some of the Unions, though not the local shop stewards, are fed up with this, and are instituting court action against the Council.

See Mr Baker's separate minute, behind

Press coverage is widely supporting the line we have been taking - that the mess is of Liverpool's making and they must get out of it without special treatment. Whilst I am refusing to see the Council in their present intransigent posture, I have seen a wide range of people genuinely concerned about Liverpool's future - the Bishops, Trades Union General Secretaries, Liverpool Labour MPs, Conservative Merseyside MPs, David Steel and the Labour front bench spokesman. I am ensuring that the press is comprehensively briefed, and aware of the extent of Government money already available to Liverpool.

I am copying this minute and enclosure to members of MISC 109, George Younger and Sir Robert Armstrong.

K.B.

K B

1 October 1985

CONFIDENTIAL

MISC 109: LIVERPOOL SITUATION REPORT

I GENERAL SITUATION

1. Following the Government's refusal of consent for borrowing of £25m against future revenue, the City Council sought to issue a form of redundancy notice to its employees. However the necessary Council meeting was abandoned following picketing, and instead the Council and unions proposed an indefinite strike from 25 September. Opinion among the workforce on this was deeply divided, chiefly between white collar and manual workers. After a number of ballots it became clear that there was a majority against indefinite strike action, and instead a day of action was held on 25 September. As a result many services were disrupted and demonstrations held.

2. While the collapse of the strike represents a victory for realism, and shows the concern of the unions and the workforce for jobs and pay, it does not solve the financial crisis. At the Council meeting on 27 September it decided (by 46 to 35) to serve 90 day redundancy notices to its 31,000 staff. This could buy time for the Council, since the redundancies would not be effective till the end of December.

II FINANCIAL SITUATION

3. This remains confused. The City Treasurer's last estimate was that around the end of September the Council would reach the maximum net revenue level of financial commitments - around £235m - which it is able to finance. At that stage it would be unlawful for further commitments to be entered into. Lay-offs or redundancy notices would therefore be required. As noted above the Council has decided to issue redundancy notices. It remains to be seen whether lenders will in fact go on lending. If they do not the cash crisis could still occur very quickly.

4. It would seem that the Council have now rejected alternative ways of balancing the books, such as capitalising housing repairs spending, or quashing and raising the rate.

CONFIDENTIAL

III AUDITOR ACTION

5. Although we understand that the 49 Liverpool Councillors concerned will appeal against the certificates of surcharge, they have not yet done so.

IV POSITION OF ACCOUNTING OFFICER

6. This is being kept under review. The Accounting Officer position for grant payments and for scheme approvals would still seem defensible given Liverpool's present financial circumstances.

7. However care is needed about the presentation of approvals which might be represented as the Government approving spending at a time when Liverpool could no longer fund it. This clearly depends on up-to-date analysis of financial developments, and presentation needs careful study in each particular case.

V DHSS HOUSING BENEFIT PAYMENTS

8. The back-payment of £5½m has not yet been made. The Secretary of State for Social Services has written round MISC 109 on this, seeking agreement to making the payment. DOE's view is that, in the absence of propriety arguments against paying, present policy ("letting events take their course") implies that the payment should be made as soon as possible.

VI CONTINGENCY ARRANGEMENTS

9. These have been reviewed by an interdepartmental group of senior officials under DOE chairmanship. A few points were noted on which further work is in hand, in particular the need for further consideration of the demands on DHSS/DEm local offices in the event of large-scale redundancy or strike action. As problems arise they are being handled on the basis of "letting events take their course" - ie treating in as normal a fashion as possible. Ministers will be consulted as necessary.

10. There seems no need at present to formalise emergency arrangements either in London or Liverpool, or to bring in the CCU.

Why not say "so ready"!

11. Commissioner legislation is in an advanced state of readiness.

Department of the Environment

27 September 1985

PM

CONFIDENTIAL

CCOL
BF

Prime Minister
To be aware.
DRS
30/9.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

30 September 1985

Dear Norman,

LIVERPOOL: HOUSING BENEFIT SUBSIDY PAYMENTS

Thank you for your letter of 24 September about the housing benefit subsidy payments which are due to Liverpool and other authorities.

While we are agreed on the need to make these payments at some point, the timing of the payment in relation to Liverpool is critical. There is still great confusion about their precise financial position, and we cannot afford at this crucial stage in the development of the saga to lose any presentational tricks with the City Council. On the other hand I understand your concern in getting the payments out to other authorities quickly, if there are no over-riding grounds of propriety.

We must also bear in mind that the Party Conference season is a time when we can expect political capital to be made of an announcement of this kind. However, I agree with you that there are solid arguments with which we can refute any suggestion that we are bailing Liverpool out; along with the fact that this is money for which they will already have allowed, so that the payment does not represent any change in the underlying position.

My own conclusion is therefore that, on balance, it would be best to let events take their course, and make the payments at the time that you normally would have done, that is, as soon as possible. I understand that our officials are in touch about the precise wording of the letter that accompanies the payment, and about the precise timing of its issue.

I am copying this letter to the Prime Minister, to MISC 109 members and to Sir Robert Armstrong.

Yours

KENNETH BAKER

The Rt Hon Norman Fowler MP

Local Govt Pt 28
Relations

30 IX. PM 85

for

10 DOWNING STREET

From the Private Secretary 27 September 1985

PARISH COUNCILS

Thank you for your letter of 23 September.

The Prime Minister is grateful to your Secretary of State for his reassurance that legislation to prevent excessive discretionary spending will cover parish councils. But she has asked whether there should not be some general limit on parish councils' taxing power, to prevent them being used as a way of driving a district authority into excessive spending.

I am copying this letter to Colin Williams (Welsh Office) and John Graham (Scottish Office).

(MARK ADDISON)

Alan Davis, Esq.,
Department of the Environment.

KB

ccOL

010

P 01689

CONFIDENTIAL

From: J B UNWIN
26 September 1985

MR LANGDON

pa

cc Mr Watson
Mr Roberts
Mr Eland
Mr Norgrove - No 10

COPY FOR

LOCAL GOVERNMENT FINANCES/SOCIAL SECURITY BILL

Thank you for your helpful minute of 25 September.

2. On local government finance, I trust that the DOE general paper at (i) will cover the kind of changes that Ministers were looking for at E(LF) on both non-domesti and domestic rates. On the former, the Prime Minister will expect the Policy Unit idea on capping to be pursued; and on the latter, as we explained to Peter Owen, the idea of a 50:50 split with the property element still related to rental values, should be explored.

3. On social security: it will be extremely helpful to have a timetable as you propose. A crucial element in this will be whether implementation in April 1987 could still be achieved if Royal Assent were not obtained until the spill over period of the forthcoming Session in the Autumn of next year.

4. It is also absolutely crucial that Mr Fowler should produce a full paper for the MISC 111 meeting on 15 October. The rumour yesterday in the Treasury was that he may not do so, and indeed is about to renege on much of the package, and the consequential expenditure savings. I have told Mr Heppell that the paper must be ready, and he has not dissented. But would you please explore this further tomorrow? If need be, we must ask Mr Norgrove to put pressure on DHSS, with the Prime Minister's authority, to produce the necessary paper.

5. The Treasury have started work on the study of inter-actions commissioned in Mr Norgrove's minute of 24 September. I have offered our help and am sending Mr Scholar as general background a copy of the note attached to my minute to you of 20 September. Incidentally, on looking through previous papers I noticed that Mr Fowler's paper to Cabinet of 19 April 1985 (C(85)9) referred (in paragraph 19 in the context of the effects of the housing benefit proposals) to the need "to consider

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its implications further in the light of the outcome of the Review of Local Government Finance". So the need for the analysis now commissioned by Mr Norgrove is not novel, and if there are any further difficulties about the remit this reference could if necessary, be invoked.

6. I am copying this minute and yoursto Mr Norgrove to keep him in touch with developments.

J B UNWIN

PRIME MINISTER

PARISH COUNCILS

You asked the DOE to consider whether the extensive powers of parish councils might not be open to misuse, including for political purposes, and sought their advice on the seriousness of the loophole and on means of closing it.

The DOE response is attached at Flag A and Oliver Letwin's advice is at Flag B.

Oliver recommends that you welcome the reassurance that legislation to prevent excessive discriminatory spending will cover parish councils. But he thinks you should also ask whether there should not be some general limit on parish council taxing power.

Content that I should put these points to DOE on your behalf?

Agreed MT

Mark Addison

MARK ADDISON

26 September 1985

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MR UNWIN

cc Mr Watson
Mr Roberts
Mr Eland

LOCAL GOVERNMENT FINANCES/SOCIAL SECURITY BILL

I have spoken to Peter Owen about the work that he is doing for the next E(LF) meeting. He is working on three papers, as follows:

(i) A general paper on devices to damp down the distributional effects.

(ii) A time table paper that will be in two parts. The first part will analyse where the local government finance proposals sit on a long term time table, with a view forward to possible implementation dates. The second part will focus on what needs to be done to produce a Green Paper before the Social Security Bill second reading. For the purposes of this exercise, I agreed with Peter Owen that he should take "the second half of December" as the second reading date (though see below on this point).

(iii) A paper on what would be needed to preserve some form of rate capping. I suggested, and Peter Owen agreed, that it might be useful if this paper were circulated quickly, but not put on the agenda for next week's meeting which will be very full.

Peter Owen would very much welcome a talk with us about handling the next stages of all this, and I confirmed that we should have a meeting with him, in your room, at 5 pm on Tuesday 1 October.

As for the time table on the Social Security Bill itself, what needs to be done on it between now and the second reading, and what the last feasible date for second reading might be, I have spoken to DHSS. There are, I think, still some points that need

to be clarified on this and I have agreed with DHSS that I should have a meeting with one or more of Mr Heppell, Mrs Bowtell and Mr Montagu on Friday morning. As Mr Fowler is seeing them tomorrow morning, a meeting on Friday will be particularly useful to take stock generally. It may be that we ourselves will be able on Friday to produce a time table that is sufficiently good for the purpose of your meeting on Tuesday, but DHSS may want to come to that meeting in any event. We can leave that point over for the moment.

Everything about DHSS in this note is directed simply to the time table connection between the DHSS and DOE operations, and not to any deeper distributional analysis.

AJL

A J LANGDON

25 September 1985

MR ADDISON 25 September 1985

PARISH COUNCILS

The DoE letter is a curate's egg.

Paragraph 4 constitutes, in effect, a commitment to legislate against undue discretionary spending powers not only for major authorities but also for parish councils. This is splendid: just what is needed.

However, the second sentence of paragraph 5 raises a most unpleasant spectre: it appears that a group of far-left councillors could drive a moderate labour council into high spending and rate-capping, merely by capturing and misusing a parish council.

To remove the possibility of such an evil arising, it would not be necessary to 'control directly the expenditure of more than 8,000 parish and community councils'; one would need only to draft a short clause in some local government Bill limiting the tax imposed by a parish council to a fixed proportion of the overall local taxes levied on its inhabitants by the district authority.

We recommend that the Prime Minister should:

i. thank Kenneth Baker for his reassurance that legislation to prevent excessive discretionary spending will cover parish councils; but

ii. ask whether there should not be some general limit on parish council taxing power, to prevent the councils being used as a means of driving a district authority into excessive spending.

Oliver Letwin.

OLIVER LETWIN

NBPM
cc Bernard Ingham
and pa.
DRN
26/9.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

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

24 September 1985

Dear Kenneth.

LIVERPOOL: HOUSING BENEFIT SUBSIDY PAYMENTS

Now that the rejection of Liverpool's request for borrowing consent has been announced, I should like to release the housing benefit subsidy payments which have been withheld from Liverpool and other authorities who set a late rate. I am, of course, aware of the need to handle this carefully.

file with DN.

Tony Newton's letter of 22 August explained our proposals for dealing with the housing benefit implications of late rate setting by amending the housing benefit regulations and, in the meantime, releasing the subsidy payments withheld from the authorities concerned. This course of action was agreed, but as you know we were asked to hold our hand until the decision on Liverpool's borrowing request had been made public.

I propose that the payments - some £27 million in all, about £5½ million due to Liverpool - should now be made immediately. Until these payments have been made we are vulnerable to legal action by the authorities concerned, and indeed two have threatened this. It would be unfortunate if we were to appear to make these payments - which we are clear should now be made - only in response to a legal challenge.

I do not plan to make a public announcement that these payments are being made. We shall write to the authorities concerned to tell them that the legal position in regard to rate rebates during the pre-rate periods needs to be clarified and that proposals will be referred to the Local Authority Associations shortly. In the

E.R.

meantime, and without prejudice to the need for any final adjustments, subsidy amounts withheld for the period when no rate was set will be paid. We shall copy the letter to the Associations.

If we are asked why this payment is being made to Liverpool and whether this is a baling-out exercise, our response will be that

- we are doing no more than implement a decision which affects nine other authorities;

- other rate related grants have now been paid for the period when no rate was set;

- the fact that no subsidy was payable when no rate was set (the critical factor for the surcharge action against Liverpool and Lambeth councillors) is not affected;

- the size of the payment is not out of the ordinary. Our regular monthly housing benefit subsidy payment to Liverpool is some £6.75 million and this has already been paid for September.

I should be grateful for your and John MacGregor's urgent agreement that we can proceed on this basis.

I am copying this to the Prime Minister and MISC 109 members.

Yours,

NORMAN FOWLER

Relations : LOCAL GOV. Pt28

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Prime minister.
For information.
AP.
24/9

LIVERPOOL STRIKE CANCELLED - REPORT

LIVERPOOL'S ALL-OUT INDEFINITE TOWN HALL STRIKE HAS BEEN CANCELLED AT THE 11TH HOUR, ACCORDING TO COUNCIL SOURCES.

THE CITY COUNCIL'S JOINT SHOP STEWARDS COMMITTEE WAS STILL IN SECRET SESSION TONIGHT AFTER THE WHITE-COLLAR UNION NALGO VOTED TO REJECT THE STRIKE, WHICH WAS SET TO BEGIN TOMORROW.

BUT AS AN OFFICIAL ANNOUNCEMENT WAS AWAITED, COUNCIL SOURCES INDICATED THERE WAS NO PROSPECT OF THE STRIKE GOING AHEAD.

THE LABOUR GROUP IS NOW PLANNING TO REVERT TO ITS ORIGINAL PLAN OF ISSUING 90-DAY NOTICES TO THE 31,000 WORKFORCE ON FRIDAY - A LEGAL DEVICE WHICH WILL ALLOW THEM TO KEEP PAYING THEIR WAGES UNTIL DECEMBER 18.

COUNCIL TRADE UNIONISTS WERE ANGRY TONIGHT AT NALGO'S VOTE AGAINST THE STRIKE.

IT WAS NALGO WHICH FIRST REFUSED TO ACCEPT THE 90-DAY NOTICE PLAN, THEREBY BRINGING THE COUNCIL FINANCIAL CRISIS TO A HEAD.

IF THE 90-DAY NOTICES WERE NOT ISSUED, LEGAL COMPLEXITIES WOULD NOT ALLOW THE COUNCIL TO PAY ITS STAFF BEYOND THE END OF SEPTEMBER.

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Original was of poor quality

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2. pa in Confidential Filing.

P 01684

CONFIDENTIAL

From: J B UNWIN
24 September 1985

MR NORGROVE - No 10

cc Mr Langdon

You may like to know briefly that I have discussed the follow-up to yesterday's E(LF) with DOE, the Treasury and DHSS.

2. I am sure that, given the inherent complexity of the problems, and the very pressing timetable, it would be helpful for Ministers to have a further discussion before the Party Conference. This would help take the main issues further in the light of yesterday's discussion before the related social security proposals are discussed by MISC 111 on 15 October; and it might be possible too to deal with Sir Keith Joseph's proposals which were not addressed at all yesterday.

3. You have kindly earmarked 9 am on Thursday 3 October for another E(LF) meeting. I have asked DOE if they can prepare for discussion then a further paper or papers on the following;-

- the implications of retaining a reserve rate capping power for expenditure control purposes (I understand this would require new legislation);

- possible alternative non-domestic rate scheme(s) which would moderate the North/South effects of the present proposals (Mr Letwin has explained to DOE his capping proposal);

- an alternative approach to the domestic rate proposals, which might involve a "community charge" consisting of eg a 50% residents' charge and a 50% property charge based (as now) on rental values.

4. DOE will confirm quickly whether they can do this. It will almost certainly not be possible in the time available to produce detailed distributional exemplifications; but it should be possible to set out for Ministers the broad elements of a new approach, together with some indication of the effects on the pattern of gainers and losers.

CONFIDENTIAL

5. I have also asked DHSS to let me have as background information their latest assessment of the critical path for the proposed social security legislation. Their present advice is that they must have Second Reading before Christmas. This puts a very tight time constraint on the Local Government Finance Green Paper, if it is to precede the Social Security Second Reading. If slippage of the Second Reading to mid-January were feasible, this could give critical extra time for the preparation of the Green Paper.

6. You are commissioning separately from the Treasury a piece on the overall effects of the local government finance, social security and personal taxation proposals. It seems to me very important that this should be available to the Prime Minister before the MISC 111 meeting on 15 October.

Oliver
Could we have a word about this please?
David

J B UNWIN

Cabinet Office

10 DOWNING STREET

cc Social Services Review Pt 3.
cc OL
UNWIN

From the Private Secretary

24 September 1985

SOCIAL SECURITY AND LOCAL AUTHORITY FINANCE

The Prime Minister at E(LF) yesterday pointed to the need to consider the proposals on social security alongside those for local authority finance.

Could the Treasury please set in hand quickly a study of the inter-actions between the sets of proposals? Clearly there are substantial uncertainties . But the Prime Minister will look to the Chancellor to warn her of any major contradictions and difficulties.

BG
Cleared

The next meeting of MISC 111 is scheduled for 15 October. The Prime Minister will no doubt wish to see the best analysis that can be done before that meeting.

I should be grateful to know quickly if you think it will not be possible to produce a worthwhile analysis in the time available. The Prime Minister will in that case wish to consider how else the work might be done.

The analysis will need later to be extended to include the proposals on personal taxation, before decisions on the reform of local authority finance are taken. But the immediate need is for a study of social security and local authority finance together.

DAVID NORGROVE

Mrs Rachel Lomax
HM Treasury.

PN - you may wish to speak

cc No

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

27 September 1985

Dear Mark

Thank you for your letter of 28 August to Robin Young asking for my Secretary of State's advice on the powers of parish councils.

Parish councils in their present form (or community councils in Wales) derive their powers from the local government reorganisation legislation in 1972. The Government of the day decided that the parish as a traditional but still vital component of the local government system should be given every encouragement. A major element in that decision was the desire to foster local community institutions, particularly in the rural areas, to counterbalance the transfer of many local services to the new and more remote local authorities set up on the reorganisation.

The existing powers of parish and community councils are limited. They relate mainly to the provision of amenities such as bus shelters, playing fields and public conveniences; and the maintenance and signposting of footpaths. But the local government legislation also places these councils on the same basis as other local authorities, again as a matter of deliberate policy, by providing them with the discretionary powers to which you refer in your letter.

We have no evidence to show that parish councils have abused those powers, although the occasional complaint is made that money has been spent which favours disproportionately a particular section of the local community. There is certainly no indication as yet that parish councils have misused their discretionary powers for political purposes. That is not to say, of course, that the possibility might not arise and my Secretary of State is very conscious of the need to safeguard against such an eventuality. The Prime Minister will know that the Widdicombe Committee of Inquiry has been asked to examine local authorities' use of their discretionary spending powers. Local authorities for this purpose include parish and community councils. Any legislative measures which Ministers consider necessary in the light of the Committee's main report next year are likely to apply equally to parish councils, as will our present proposals to introduce legislation on local authorities' information and publicity powers.

As to the implications for controlling local authority expenditure, parish council precepts could not be used as a means of circumventing

expenditure controls since parish spending counts towards a "precepted authority's" (that is, any authority which receives a precept from a parish council) total expenditure both for block grant and for rate limitation purposes. Indeed it is possible that parish spending, over which a precepted authority could have no control, could put the authority's expenditure over Government guidelines and into the frame for rate limitation. If that happened, the rate limit prescribed for the authority will be fixed and the authority will have to live within it. It would be for the authorities concerned, both parish and district, to decide between themselves how to keep within a rate limit.

It would be an impossible administrative burden for the Departments concerned to control directly the expenditure of more than 8,000 parish and community councils. My Secretary of State considers in any event that although there is no direct control over parish council precepts, in practice the controls on other local authorities effectively control the spending of parish and community councils.

I am sending copies of this letter to John Graham, who wrote to you on 10 September about the position in Scotland, and to Colin Williams.

Yours ever

Alan Davis

A H DAVIS
Private Secretary

Mark Addison Esq

Local Govt,
Rels. Pt28.

23 JUN 1976

NBPM.

SECRETARY OF STATE FOR THE ENVIRONMENT

Private Secretaries' Office

PS/Chief Secretary.

The attached letter addressed to the Chief Secretary should have been copied to the PM and E(A) committee to which I have now circulated

I should like to apologise for the inconvenience this has caused.

JP

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: J/PSO/16883/85

Your ref:

23 September 1985

Dear John,

THE SALE OF LOCAL AUTHORITY MORTGAGES

Michael Ancram sent Patrick Jenkin a copy of his letter of 29 August to Peter Rees, about the sale of local authority mortgages.

I understand that George Younger has available to him more direct ways of controlling local authorities' use of capital receipts than are available to Nick Edwards and to me. But the difficult practical question of defining a "genuine transfer of risk" is one with which we shall both have to deal, and my officials will be in touch with their opposite numbers in Scotland.

I entirely accept that it is for George Younger to judge whether local authority mortgagors in Scotland should have to give their consent to any sale of their mortgage, as is now proposed in England and Wales. But if there is to be a difference of policy, I do not think it will be altogether easy to defend. There is a general principle in English law, as well as Scots, that lenders should have the right to transfer their interest in mortgage property without the borrower's consent. We have, nonetheless, concluded that public authorities in England and Wales should not do so. The inconsistency of policy north and south of the border was noted by Jack Straw in his Private Notice Question to Patrick Jenkin on 24 July (Official Report, column 1039). It may be difficult to persuade local authority mortgagors in Scotland that they should not be given similar rights.

Yours ever

Kenneth

KENNETH BAKER

John McGregor Esq OBE MP

Telegraph

LABOUR ADVICE TO REBELS

2

By JOHN GRIGSBY
Local Government Correspondent

THE LABOUR Parliamentary leadership is trying to persuade rebel councillors in Liverpool and Lambeth to pursue their case against disqualification and surcharge through the courts rather than bring their communities to a standstill.

Councillors in both areas will face penalties because they failed to fix legal rates in time.

Mr Jack Cunningham, shadow Environment Secretary, and Mr Jack Straw, the front bench Environment spokesman, believe that the rebels would have an excellent chance of either escaping the penalties or of having the surcharges lessened.

On a small decrease in the surcharge in the case of Liverpool would be enough to save councillors there from disqualification.

The councillors have a right of appeal to the High Court against the district auditor's findings and many expect this to go to the House of Lords. The Labour party will pay their costs.

Real target

The Labour front bench argue that recent judgments show that the courts believe that the fixing of local rates is a matter primarily for local councillors.

There is also a belief, however, among many Labour councillors, ostensibly on the Left-wing of the party, that the real target, particularly Liverpool, of the Militant Tendency is Mr Kinnock, rather than Mr Baker, Environment Secretary, and the Government.

The collapse of services which would happen if a strike went ahead on Wednesday could well damage the Labour leader's position.

On Wednesday, the Labour National Executive will also be discussing the interpretation of resolutions passed at party conferences, including last year's at Blackpool, which appear to indemnify councillors against disqualification and surcharge, if a future Labour Government came to power.

THE TIMES

Flat out

2

One person who will not be too inconvenienced if Liverpool surrenders to chaos from Wednesday thanks to an all-out strike by council employees is Labour councillor William Harper. A ward colleague of deputy leader Derek Hatton, he is one of 27 people whose hopes of council accommodation rest on Friday's meeting of a housing sub-committee. The chances of it going ahead if Labour's strike call is heeded are remote. However, the sub-committee has now decided to hold a special meeting this morning, and there is only one itme on the agenda: Harper's flat. The other 26 items are left to Friday and the mercy of the strike ballot. Favouritism? Quite the reverse, council leader John Hamilton assured me yesterday. To make sure everything is above board, Harper's allocation must be discussed by councillors, come what may. The other cases, if urgent enough, can be decided by chairman's fiat.

Daily Mail

The old one-two

6

NEVER mind the Government for the moment, what should Opposition leader Neil Kinnock do about the deepening crisis in Liverpool?

No problem. He should give the insurrectionary Trots up there the old one-two:

(1) He should make clear that no future Labour Government, which he leads, will retrospectively reimburse Liverpool council rebels who break the law.

(2) He should disown the Militants of Merseyside and use his authority to have them kicked out of the Labour Party.

That would be good for Liverpool. Good for Labour. And good for Neil Kinnock.

THE TIMES

Cabinet to back change on rates

1

By Philip Webster
Political Reporter

Mr Kenneth Baker, the Secretary of State for the Environment, is expected to win backing from Cabinet colleagues today for his plans to deprive town halls of the power to decide business rates.

Under a revolutionary plan to be put to the Cabinet's economic and local government finance committee, chaired by the Prime Minister, commercial rates would be set nationally, paid into a central fund and then redistributed to local authorities.

The proposal, which has general support in the Cabinet, is part of a large-scale reform of the rating system to be put forward by Mr Baker, basing local taxes on the number of people living in a home rather than solely on the rentable value of the property.

In the face of opposition from several influential members of the Cabinet, Mr Baker, who took over from Mr Patrick Jenkin after the recent reshuffle, is likely to propose a new residents' charge which would be levelled on everyone over 18 in every household, excluding the unemployed, students, disabled, elderly and very poor.

It would raise some 70 per cent of the present £5,000 million raised by domestic rates, with the remainder coming from a new property tax, similar to the rates but possibly based on the size of properties.

The proposals flow from the decision at last year's Tory party conference to set up a review of local government finance and from the Chequers summit four months ago which confirmed the Prime Minister's long-held commitment to change the system.

Although Mr Baker hopes that the abolition of the present business rating system will be approved today, it is expected that there will have to be further Cabinet sessions on the domestic reforms before they are ready for presentation in a government document later in the year.

The proposed new system would involve many people facing a new tax for the first time, and some ministers are likely to warn against the political dangers of such a move.

Mr Nigel Lawson, the Chancellor, would much prefer to retain the present system, modified to base the rates on the capital value of properties rather than their notional rental values.

Mr Douglas Hurd, the Home Secretary, is expected to reflect the Home Office's opposition to the residents' charge because it it too similar to a poll tax.

Despite the opposition, Mr Baker is expected to reaffirm at next month's Tory conference in Blackpool the Government's determination to alter the system.

9/6

Daily Telegraph

Monday 23rd September 1985

WIN TAX PLAN FOR RATES CAUSES SPLIT

24

By FRANCES WILLIAMS Economics Correspondent

TWO MILLION households would lose more than £2 a week and a sixth of London families would lose over £5 a week under a shake-up of the rating system proposed by Mr Baker, Environment Secretary.

The scheme, to be outlined at a meeting of senior ministers and Mrs Thatcher today, involves scrapping domestic rates in favour of a flat-rate poll tax or "residents' charge," topped up by a property tax based on home size.

Business rates, which now account for half the £13 billion raised by rates, would have their level set by the Government.

One object of the proposals, to be discussed by the Cabinet committee on local finance, chaired by the Prime Minisster, is to make local councils more accountable to the electorate for their spending.

Following earlier fierce objections from senior ministers, notably Mr Lawson, Chancellor, the Environment Department has backed away from sole reliance on a residents' charge as a substitute for domestic rates. The term poll tax is being avoided since this implies a tax on the right to vote.

The original scheme would have involved steeper and politically unacceptable increases in bills for many poor and middle-inome families.

Vary by area

Instead Mr Baker envisages that 70 per cent of the £6 billion-plus now raised by domestic rates would come from a residents' charge of each adult over 18. This would vary between £100 and £600 a head, depending on the area.

It would be topped up by a new property tax based on floor sace, which would vary widely between areas, with most households paying between £100 and £1,000.

Poor households would be able to claim housing benefit on the whole of the combined levy, but under current proposals for reform of the benefit they would have to pay at least onefifth of the bill.

Electoral pressure

Households with more than two adults will have to pay considerably more than now.

Mr Baker believes these proposals will strengthen eletoral pressure on high spending authorities to keep spending and rates bills down, making it possible to crap the paraphernalia of rate caps and penalties now in force.

But a powerful group within the Cabinet opposes any radical change in the system of local finance. It believes that the rumpus over rate revaluation in Scotland demonstrates that political risks of big shifts in the rates burden.

This view received short shrift from the Prime Minister when put to her by Mr Lawson in May. Mrs Thatcher remains committed to the abolition of rates and officials expect to produce a consultative Green Paper by Christmas with the aim of legislation in the 1986-87 parliamentary session.

The Treasury, alarmed by the implications of a residents' charge and reluctant to give up hard-won powers to restrain excessive local spending, has come up with counter-proposals for today's meeting.

Capital value

Domestic rates would be retained in broadly their present form but based on the capital value of the home rather than, as now, its potential rental value. There would be a special relief for elderly people living alone, a ministers feel they are most unjustly treated at the moment.

There is however no dissension over the replacement of business rates by a national business property tax set by Government, which would be re-allocated to local authorities.

This would deal a severe blow to many urban areas, especially Inner London boroughs, which now rely heavily on non-domestic rates to finance high spending. They would have to jack up domistic bills to compensate.

In addition, ministers are likely to agree an end to "resources equalisation" whereby local authorities with low rateable values and thus a low tax base receive additional Government grant.

These authorities, which include low-income rural areas as well as poorer urban councils, would also have to increase domestic charges to maintain services.

The Environment Department's own calculations suggest that a sixth of London families would face an increase in charges of more than £250 a year if its proposals were adopted. Two million of Britain's 18 million households would pay over £100 a year more. Eleven million households would benefit, but by much less.

Editorial Comment—P16

Daily Telegraph

RATES AGAIN

16

THE DILEMMA OF HOW to pay for local services has dogged the footsteps of the Tory party for the past 11 years. A commitment to abolish the rates, too lightly entered into in the party's autumn 1974 manifesto, has been taken down and used in evidence against it ever since (even though the manifestos of a defeated party's leadership cannot logically bind its successors). The hostility of the Tory grass roots to the rating system has flickered on, to be fanned to flames once more in Scotland by an injudicious revaluation. The Prime Minister is now committed to reform, even though all the alternatives canvassed hitherto have been found to promise further trouble. Today the new Environment Secretary, Mr KENNETH BAKER, unveils his plans in Cabinet.

The reform that Mr BAKER is said to have in mind would respond in part at best to but one of the existing grievances. A poll tax (by whatever name) would substantially increase the proportion of local government electors contributing to the funding of local services, and by the same token do something to placate the elderly and overhoused. But as an adjunct to the rates, it looks politically perverse since it would be calculated to penalise many more than it would satisfy. Indeed, in one respect, it could prove worse than the existing system. By broadening the tax base available to local governments it could encourage still more extravagance. Which is no doubt why the Treasury is so much against it.

A radical reform, involving either a genuine devolution of choice and accountability, or alternatively an open concentration of priorities and the payment for them in the hands of central government, would no doubt constitute a hazardous adventure. But tinkering with the local government tax base without touching the essentially contradictory nature of the local authorities' role and answerability would repeat the errors of all the past attempts to modernise our neighbourhood democracy since the early 1970s. If that is really all that Mr BAKER can come up with, the Cabinet should send him back to think again.

EXPRESS

A rates plan that's fair for everyone

8

THE proposals for rates reform, which senior ministers will hear today from Environment Secretary Kenneth Baker, are bold and far reaching.

But almost anything would be better than the present system.

What makes reform now urgent is the irresponsibility of high-spending - overwhelming left-wing — councils, who squander ratepayers' money knowing only a small proportion of locals pay rates.

While there is representation without taxation the Derek Hattons of the world will make hay.

Mr Baker proposes that 70 per cent of the five billion pounds now raised by domestic rates be raised by a "residents' charge" (a poll tax, in other words) falling on all adults. The balance would be raised by a property tax.

The beauty of this is that it would bring home to those receiving council services and hand-outs just what their cost is. That would concentrate the minds of the Town Hall Trots.

9/7

However, clearly explained and vigorously sold, this well-overdue reform should be widely welcomed.

'Residents' charge' no rating solution

19

"TO TAX and to please, no more than to love and to be wise, is not given to men" said the sagacious Edmund Burke two centuries ago. Which is why Mrs Thatcher may well be deluding herself in assuming that sweeping changes in the rating system will prove a popular vote-winner.

On the contrary, the proposals for reform which Kenneth Baker, the Environment Secretary will be putting to senior ministers today could provoke a political outcry compared with which the rumpus earlier this year over rate revaluation in Scotland will seem the merest whimper.

Mr Baker wants to replace domestic rates, which raise more than £6 billion and finance about a quarter of town hall spending, by a "residents' charge" akin to a poll tax and a new property tax based on floor space rather than estimated rental value as now.

The latest proposals mark a considerable retreat from the Environment Department's earlier suggestion for a poll tax on its own but in searching for a compromise Mr Baker may have come up with the worst of all worlds.

Everyone knows what is wrong with rates. They bear only a limited relation with ability to pay (though hardship is mitigated by the housing benefit scheme). They are based on imputed rental values which are not only more than 10 years out of date (the last revaluation in England and Wales was in 1973) but also virtually meaningless since the private rented housing market has shrivelled to nothing outside the major urban centres.

They vary wildly between areas. And they are levied on only half of Britain's 35 million voters, while of those 18 million householders who are liable for rates 6 million are entitled to housing benefit and so pay little or nothing. This weakens electoral accountability since only a minority of voters, or so he argument runs, has a direct ancial interest in local spend- decisions.

Baker's proposals are ed chiefly to remedy this n of accountability—to through electoral pres- problem of high spend- ils now restrained by of caps and penalties, er had to stump up cost of that spend- vould think twice head, he argues.

eaves open the her a poll tax rge, call it the sensible he tax will

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ECONOMIC COMMENTARY

By Frances Williams

Insurance records, another suggestion. That means a separate list of all adults will be required, to be updated each year. The cost of compiling it was put in 1981 (when the Government last crawled over rates reform) at a minimum £21 million a year.

Then there is the fact that a poll tax is highly regressive: the burden falls most acutely on the poor. It could not, in any event, be levied on people with no means to pay. Mr Baker, having toyed with the idea of a multi-rate residents' charge related to income dismissed it as horendously complex has now decided to plump for a flat-rate charge and leave the housing benefit system to cope with the distributive effects.

This substantially weakens his case for a poll tax as a means to strengthen accountability. Mr Fowler, the Social Services Secretary, has already proposed a change in the housing benefit rules so that everyone has to pay at least 20 p.c. of the rates bill.

All householders will thus pay something and since 86 p.c. of households comprise either a single person or a married couple with dependent children the poll tax would only improve accountability perceptibly for the tiny minority of families with more than two adults at home.

The proposed property tax raises new horrors. Basing valuation on floor space has the virtue of simplicity but not much else. The suggestion that a Mayfair penthouse should be valued the same as a crumbling terraced house in Handsworth (however much the tax rate may vary) is unlikely to go down well with many voters. And there will still have to be a costly and disruptive revaluation which successive governments have dodged for so long.

The distributive vagaries of the combined residents charge and property tax will be superimposed on a more systematic shift in the tax burden arising out of changes proposed for business rates and government grant procedures.

The nationalisation of business rates (a sensible move in itself) will slash the revenues of many inner city authorities, while the ending of "resources equalisation"—under which the Government compensates local councils with low rateable values and hence low taxable capacity—will hit both the rural and the urban poor. The inevitable consequence will be a huge rise in domestic rate bills, falling heavily on those who can least afford to pay.

The Environment Department reckons that a sixth of London households could lose more than £250 a year or £5 a week, even after rebate. Two million households throughout Britain, many of them poor, would lose more than £100 a year.

All of this fills a number of senior ministers, not least Mr Lawson, the Chancellor, with considerable alarm. Short of doing nothing, which he would much prefer, Mr Lawson has proposed more modest reform with a rates revaluation based on the capital values of people's homes and a special relief to ease the burden for elderly single occupiers.

This would remove the worst anomalies of the present system, especially when coupled with Mr Fowler's 20 p.c. plan, and make it easier to understand.

Only two years ago the Government concluded "that rates should remain for the foreseeable future the main source of local revenue for local government." Even with its acknowledged faults a MORI poll published last week showed just over half those questioned favoured keeping rates and very few liked the idea of a poll tax.

The Prime Minister's reluctance to leave well alone may go down as one of the biggest misjudgments of her political reign.

DAILY EXPRESS

Baker plans new tax on over-18s

By JOHN WARDEN
Political Editor

2

PLANS for a local poll tax on every earner over 18 are being put before Mrs Thatcher today by Environment Secretary Kenneth Baker.

It will be the first unveiling to a Cabinet committee of a big rates shake-up ahead. The idea is to introduce a poll tax but keep some rates.

As revealed in the Daily Express on September 14, the future rates bill will be split between a "property tax" and a "residents' charge."

The property element, similar to present-day rates, will provide 30 per cent. The

OPINION : PAGE 8

personal tax will raise 70 per cent of the town hall budget.

The plan, which will build up into a big issue at the next election, was given a fair wind by Tory MPs yesterday.

John Heddle, chairman of the Tory environment committee, said he welcomed the idea and added: "It will ensure that those who receive a council's services understand the cost of providing them."

But the Baker plan will not have an easy ride through Cabinet. It is opposed by Chancellor Nigel Lawson as too complex

BAKER: Compromise

9/8

PRIME MINISTER

E(LF) ON MONDAY

E(LF) is meeting on Monday at 1430. I have arranged a briefing meeting at 1230 with John Redwood, Oliver Letwin and Brian Unwin.

There are three papers, by Mr Baker, the Chancellor and Sir Keith Joseph. In addition Mr Ridley has written to support Mr Baker's proposals, though noting one or two second order points, and Mr King has written to say that he will need to consider the implications for Northern Ireland. I am not including these letters for you.

The Cabinet Office and Policy Unit have prepared briefs (flags A and B), each admirable in its different way.

I would add three points.

First, the Cabinet Office and Policy Unit point to the need for an inter-departmental study of the interactions between the social security proposal, the local authority financial proposals and the Chancellor's tax proposals. I see a case for this. But it is likely to be slow, and risks being used as an excuse for delay as well as creating problems of confidentiality - it will produce some very sensitive material. I suggest that at least as a first stage the Treasury should be asked to carry out a quick and necessarily crude study, to be completed before the next meeting of MISC 111, scheduled for 15 October. If you agree, and subject to the outcome of E(LF) I would commission this on Monday.

Secondly, there are timetable questions. The meeting of MISC 111 is on 15 October, awkwardly between the Party Conference and CHOGM, because Mr Fowler aims to publish their White Paper in 13 November. It looks as though the social security legislation has to have its second reading by Christmas if the

proposals are to be implemented on 1 April 1987. On present plans the local authority finance proposals may not appear until the New Year. In that case the House and interested commentators would say that they had been deprived of important information, necessary to understanding the Bill. An example is that Mr Fowler's proposals take people out of housing benefit, whereas Mr Baker's bring 700,000 people into it. This may not be an overwhelming problem but it needs to be considered if the Government's proposals are to be accepted as having been planned coherently. Can the Green paper on rates be brought forward or should Mr Fowler trail the local authority finance proposals in discussing his own reforms? An earlier Green Paper would obviously be much better.

Thirdly, the transitional proposals will be very important. The three groups of measures will be phased in over as much as five years.

HW

David Norgrove
20 September 1985

MJ2BCR

CONFIDENTIAL

P 01682

From: J B UNWIN
20 September 1985

MR LANGDON

cc Mr Norgrove - No 10

COPY FOR

INTER-ACTION BETWEEN THE GOVERNMENT'S PROPOSALS FOR LOCAL GOVERNMENT FINANCE (LGF), SOCIAL SECURITY (SS), AND PERSONAL TAXATION (PT)

Following our various discussions I attach an aide memoire I have dictated on the main problems that seem to be facing us. I am copying it to Mr Norgrove who may find it useful supplementary material. On most issues it only scratches the surface, but I think it at least signposts the main technical and political issues that will need to be faced.

2. A further constraint I have not explored in this note is that of Ministerial time, especially that of the Prime Minister. We have provisionally booked 9.30 am on 15 October for a meeting of MISC 111 to consider the social security proposals. If we miss this, the Prime Minister is unlikely to be available again before 24 October.

J B UNWIN

INTER-ACTION BETWEEN THE GOVERNMENT'S PROPOSALS FOR LOCAL GOVERNMENT FINANCE (LGF), SOCIAL SECURITY (SS), AND PERSONAL TAXATION (PT)

Though closely related, the problems can perhaps most conveniently be considered under the separate headings of substance and timing.

Substance

2. Although the LG proposals assume implementation of the SS proposals, there has been no opportunity for Ministers to consider their combined macro or micro economic effects. The precise effects will depend on the timing of implementation (duration of transational arrangements etc), but there appear to be some significant conflicts. These include:

(i) Distributional effects: an important aim of the SS proposals is to steer more help to poor families with children and less generous help to pensioners. By contrast, the LGF proposals give more support to all single households, including pensioners, with many losers on supplementary benefit, or equivalent levels of income, including poor families with children;

(ii) Case load: the change from the present rates system to the proposed local charge would substantially increase the housing benefit caseload. This is because some 17 million people who do not at present get a rate bill will get a bill for the proposed residents' charge, and many of them on low incomes will be eligible for a rebate. DOE (Annex 5 of the new Specification Report) estimate the additional case load at some 700,000, with additional benefit cost of about £35 million a year in England. DHSS, however, believe the case load could increase by as much as 1.2 million. By contrast, the SS proposals are designed to reduce the number of households getting rebates by concentrating help on those most in need. The changes in personal taxation likely to be proposed by the Chancellor would have the effect of reducing the case load still further.

(iii) General approach to gainers and losers: the LGF proposals lay stress on transitional arrangements and avoiding losers. The same emphasis is likely to feature in the Chancellor's PT proposals. By contrast, the SS

proposals, by concentrating help where most needed, will produce losers, especially on housing benefit.

Timing

3. On present plans the putative dates for publishing and implementing the main proposals are as follows:-

1985	
30 October	Publication of PT Green Paper
12 November	Publication of SS White Paper
13 November	Introduction of SS Bill
1986	
January/February	Publication of LGF Green Paper
end June	Royal Assent to SS Bill
end July	Approval of SS Regulations
Summer/Autumn	Decisions on LGF followed by White Paper before end of year
1987	
April	Introduce SS changes
May-July	PT changes in Finance Bill.

4. This timetable poses a number of problems, including:-

(i) if adhered to, there could be some embarrassing conflicts. For example, the LGF Green Paper, proposing an increase in the housing benefit case load, would be published in early 1986 during the passage of the (controversial) SS Bill designed to reduce that case load. It would also presage a further package of gains and loses affecting many of those whose position would be changed (in many cases in a different direction) under the SS reform. This would at the least add to the difficulties of carrying the SS Bill through Parliament. It would, for example, strengthen the position of those local authorities and other interests arguing for a longer timetable for the implementation of the SS reforms. The proposals for transitional protection would also increase pressure for similar protection for losers from the SS housing benefit changes;

(ii) there must, however, be doubts about the realism of the timetable for the SS changes above. Even if the inter-action problems were ignored, the complexity of, and controversy surrounding, the SS proposals suggests that it will be extremely difficult to introduce a Bill by as early as mid-November. The consultation on the Green Paper has thrown up some major problems, not least on SERPS, and on present indications Mr Fowler is not likely to be able to circulate a paper to colleagues until after the Party Conference (a MISC 111 is provisionally planned for 15 October). DHSS advise, however, that there is very little scope for slippage if the April 1987 start date is to be met. This requires Royal Assent by end June 1986 at the latest (so that the necessary Affirmative Resolution regulations can be made before the summer recess and staff training etc can begin), which in turn means getting second reading before Christmas this year and introducing the Bill at the latest by the beginning of December. If this timetable is missed, not only will the savings from the SS package be postponed for a year, there could be even further delay. Ministers will need to decide whether it would be politically acceptable to introduce the legislation in the 1986-87 Session in the period leading to the next election. Under such a revised timetable the deferred introduction of the SS Bill would also coincide with the possible date of publication of the LGF White Paper, although there would have been more time to consider and resolve the conflicts referred to above;

(iii) the timetable for the LGF reform will need to be reconsidered in the light of decisions on the other issues above. There is, however, some scope for delay if Ministers are content with publication of specific proposals before the next election (eg the proposed White Paper) and do not wish to enact the reforming legislation. Depending on decisions about the timing of the next election, publication could presumably be delayed well into 1987.

CC BU
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Prime Minister

E(LF) ON 23 SEPTEMBER 1985

I am sorry that I shall be unable to attend E(LF) on 23 September as I shall be in China. I thought it would help if I set down my general reaction to the revised proposals which Kenneth Baker and his team have produced. I have not yet had a chance to see the Chancellor's paper, nor the one which I understand Sir Keith Joseph is going to circulate.

On balance, I think Kenneth Baker is right. We cannot go on with the annual confrontation with local government using mechanisms which combine the worst of both methods. They are crude in their effects, often hitting the good as well as the bad, and yet very complicated to decide upon and present. We must choose, as Layfield said in the mid 1970s, between centralism and localism. I agree with Kenneth that it is administratively impracticable and politically impossible to go for centralisation. There may be a few limited areas where this would be right, but they must be clearly delineated.

I think Kenneth's revised package should be sufficiently simple and tough to provide a really strong self-regulatory mechanism. The simplified GRE system may well be our biggest hurdle and the whole system will depend on it. But we must get the development work done to see if it can be made simple and at the same time sufficiently robust. There are a number of "second-order" issues on which it will be necessary to ensure that the arrangements do not adversely affect transport. In particular, I shall continue to need specific mechanisms to influence local

capital programmes so they are consistent with my own. I must therefore reserve my position on the details. But these should not detract from the main thrust of his package, which I support.

Copies of this minute go to the other members of E(LF).

J. Coulliffe

p.p. NICHOLAS RIDLEY
20 September 1985

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

20. IX. 12 1 2 3 4 5 6 7 8 9 10 11 PM

PRIME MINISTER 20 September 1985

REFORM OF LOCAL AUTHORITY FINANCE

The present system of local authority finance needs reforming because:

- it has made the Government unpopular;
- it has given the far-Left a field day;
- it gets more unfair each year; and
- it is virtually incomprehensible.

The reform package advocated by Ken Baker and William Waldegrave could help to overcome these problems and is certainly the one serious runner, since the changes proposed by the Chancellor and Keith Joseph would be politically suicidal. But we still have doubts about some of the components.

Control of Local Spending

The Chancellor wants to retain both rate-capping and a power to reduce grant for the high-spenders.

If you agree with him that these controls will still be needed, then there is absolutely no point in proceeding with any package of radical reforms. You would merely succeed in upsetting a lot of people, without removing either the complexity or the unpopularity of the present system; and the far-Left would have an even better time of it.

Much the same applies to Keith Joseph's idea that each spending department should control grant for each service, with a large proportion of specific grants. This would transfer power from the local authorities to Elizabeth House: out of the frying pan, into the fire. And a great deal of hostility would be generated in the process.

Reforms make sense only if they create a simple system that checks spending without the need for central intervention. At present, even with the tough block-grant regime, no class of authority has to add as much as £1 to domestic rate bills when an extra £1 is spent; whereas under the new system, the whole of each extra £1 will fall on the domestic tax. And, since domestic taxes will raise only 15% of the total revenue, the outcome will be a 5% or 6% addition to household bills for each additional 1% of spending.

But this intrinsic check would be seriously compromised by the DoE's new proposal to hypothecate a fixed proportion of VAT, instead of leaving central government to fix the overall amount of grant. Since VAT is buoyant, the effect would be to provide local authorities with an ever greater proportion of grant, and ever more incentive to spend.

Gainers and Losers

Many of the DoE's tables deal in averages. These are of little importance. Politically, it is the individual losers that matter.

There are still:

- 100,000 households that lose more than £500 pa; and
- 100,000 households that lose 5-10% of their net income.

The numbers may seem small by comparison with the 17.8 million households in England. But pressure groups and your political opponents can make a lot of fuss on the basis of 100,000 casualties. Take the following example, based on the DoE figures:

> Four young people have set up a new computer-game business, with the help of the Enterprise Allowance Scheme. They share a house in South London, which one of them owns, and have a small workshop in Croydon.

At present, they have a net income of only £8,000 between them, and are struggling to meet a domestic rate bill of £300 and a non-domestic rate bill of £500. They are told that, under the new system, they will be expected to pay £800 in domestic charges and £650 in non-domestic rates - in all, a jump from £800 to £1,450, knocking away almost 8% more of their net income.

Dr Owen and his economists will know what to say about cases like this.

The Chancellor claims that his system of domestic rates, based on capital valuation, would improve matters. But the figures in his Inland Revenue report do not bear this out. As Table 2 of the report shows, a change to capital valuation would tend to produce big gains and losses. And it has other disadvantages:

- there will be large numbers of appeals;

- there will be a great temptation to bribe valuers into classing a house as worth £59,999 rather than £60,001;

- your supporters will regard the scheme as a wealth tax;

- the distributional effects (according to the Chancellor's figures) will hurt large numbers of voters in the middle of the price range, who already resent what they see as the Government's failure to deliver tax cuts;

- the effects on some single occupiers will be horrific.

Even with "occupancy relief" for single pensioners, capital valuation is not a runner.

A Workable Solution

The only way of keeping losers at an acceptable (ie a minimal) level is to adopt the DoE package, but with two important amendments, as well as the abandonment of the VAT hypothecation:

1. Proper transitional arrangements. Chapter 6 of the DoE report, which deals with the transition, needs strengthening. Shouldn't you look at ways to ensure that nobody's local tax bills (domestic or non-domestic) rise by more than, say, 10% per year? R-1

2. Capping of the non-domestic rate, instead of nationalisation. Besides causing at least half of the redistributional swings on the domestic front, nationalisation will be unpopular with many Government supporters on local councils; will damage job-creating small businessmen in hi-tech and service industries in the South East; and will cause heavy losses for rate-payers in London. If the non-domestic rate were capped instead of nationalised - say, a maximum rise of RPI+1% in any given year - and if there were a resource-equalising grant with special arrangements for London, most of the large domestic gains and losses could be avoided and small businesses would be protected, without antagonising your supporters in local government.

Retaining a Property Element in the Residence Charge

We agree that DoE have found the best way of augmenting the residence charge, if it is still felt that the £150 a head personal charge is too high and too regressive. Basing the property element on floor area is a satisfactory compromise, providing the proportion financed by the property tax is kept low so that people can see a large and dramatic decline

in their rates bill as opposed to their total local tax bill.

No Special City Grant

DoE make out a sensible case here. But the Green Paper should not rule out the possibility of giving more money to the inner cities through direct Government programmes, so that you can reduce the amount of Grant wasted.

Relation to Other Reforms

Cabinet Office have rightly asked about the combined impact of the Welfare, Local Government, and Income Tax reforms. We will need more figures on this; but, so far as we can see, the proposals should mesh fairly well.

In general, poor working families come out well - helping to encourage job-seeking; and single pensioners, who are hit hardest by Fowler, recoup from Baker. The main losers are probably working households with large numbers of earners (who have been especially well treated in the past) and married pensioners with incomes near the top of the benefit range (who have previously been exempt from contributing to the cost of local government).

True, there will be an addition of £35 million to Housing Benefit, and another 700,000 people on means-tests. This is obviously unattractive, but it is a necessary consequence of exposing all adults to some local tax.

Subsidiary Issues

The DoE report does not deal with a number of important issues:

1. The precise construction of the needs grant. Will it be comprehensible? And will it produce sensible results?

2. Increasing fees and charges. This admirable proposal was strongly touted in earlier DoE drafts. Why has it now dropped largely from view?

3. Capital controls. These need to be worked out fast, so that they can come into operation next year, regardless of the progress of the rest of the reforms.

4. Annual elections. We still believe that fiddling with elections is politically unappetising - however pure the motive; but DoE are threatening to come back on this.

All these points will need to be settled before a Green Paper can be issued.

Timing

There is no technical obstacle to early legislation. You could have:

Green Paper	December 1985
White Paper	Spring 1986
Bill Introduced	Autumn 1986
Act Passed	Summer 1987
Implementation	April 1988

This would involve controversial legislation in the 1986/87 Session; but there is no other way to have the proposals in force by 1988. If you delay beyond then, the reforms will not have worked through in time to be accepted by the Election after next!

Conclusion

We recommend that you should:

- accept the DoE's package, as the basis of a Green Paper at the end of the year;

but press for:

- no hypothecation of VAT, leaving the Government free to settle the total amount of grant;

- fully worked-out transitional arrangements to prevent all sudden swings for individual households;

- capping of the non-domestic rate, instead of nationalisation, with appropriate resource equalisation and London arrangements, to eliminate the swings for businesses and to minimise losses for domestic taxpayers;

- full details of the new needs grant, with analyses of gainers and losers;

- firm proposals for increasing fees and charges, and for reforming capital spending controls;

- analysis of the relationship between these reforms and the Welfare and Income Tax proposals, without delaying the Fowler White Paper.

OL Lt.

OLIVER LETWIN

pp.

JOHN REDWOOD

CCOK
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Prime Minister

REFORM OF LOCAL GOVERNMENT FINANCE

I understand that the Second Specification Report on the reform of the rating system will be considered by E(LF) on 23 September.

2. I am not a member of E(LF) since the work on this topic was prompted by particular difficulties arising in Great Britain from the arrangements for local government finance and rating. However, my officials have been attending the Steering Group of officials and the various Working Parties in order to keep in touch with developments.

3. Whilst this topic has not attracted within Northern Ireland the interest and concern displayed elsewhere in the United Kingdom, I shall obviously wish to consider what changes may be necessary and appropriate in Northern Ireland in the light of whatever is decided for Great Britain, taking account of differences in circumstances.

4. As you are aware, some 90% of local authority-type expenditure is administered by central government and public bodies in Northern Ireland. Control of expenditure is therefore already assured and the regional rate which relates to this expenditure is struck by Government itself. We have not, therefore, had the experience of exorbitant rate increases of the kind incurred by some local authorities in Great Britain. Whilst there are inevitably complaints about rate levels, the domestic rating system has not come under the same severity of attack as in Great Britain. I shall, therefore, be considering the outcome of the work for Great Britain in the light of these and other relevant factors, including the greater incidence in Northern Ireland of households with three or more adults, with low incomes and with low rateable values because of poor housing quality in Northern Ireland. I would also, of course, wish to consult widely in order to ensure that whatever is done is perceived locally to improve

/.... on existing

on existing arrangements.

5. I am copying this to the members of E(LF) and to Sir Robert Armstrong.

Brian Porter

20 September 1985

TK

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

KL

20.IX. 1965

P 01680

PRIME MINISTER

Local Government Finance Studies
E(LF)(85)4, 5 and 6

BACKGROUND

At the last meeting of the Committee in May, Environment Ministers explained why the existing system of local government finance could not continue, and outlined a possible new one. This was designed to require less central Government involvement in local government affairs, and to be simpler and more transparent and automatic in its operation. In particular, DOE Ministers proposed a national non-domestic rate and pooled receipts, a simplified grant distribution mechanism, and the replacement of domestic rates with a resident's charge.

2. The Committee saw attractions in the DOE package, but asked to see further exemplifications of the effects of possible changes before reaching firm decisions. They also did not rule out other possibilities than those suggested by Environment Ministers. In particular, the Chancellor advocated the retention of a property tax, and was invited to circulate proposals.

FLAG A

3. The paper by the Secretary of State for the Environment (E(LF)(85) 4), together with the attached 'Specification Report', sets out the results of further work. The basic proposals remains unchanged, but some important refinements have been made. In essence Mr Baker now proposes:-

- retention of the proposal for a uniform national non-domestic rate, but with increases index-linked and discretion to local authorities to set a local non-domestic rate of up to 5% of the national rate;

- instead of a new residents' charge alone in place of domestic rates, a combination of a flat-rate residents' charge (payable by all adults) to raise 70% of local revenue; and a property charge on householders, based on floorspace, to raise 30%;

- the new grant regime as proposed before, except that the standard grant element would be calculated as a guaranteed share of a national tax (probably VAT).

FLAG B

4. The paper by the Chancellor of the Exchequer (E(LF)(85)5) argues that local accountability alone will not restrain high spending authorities, and that under the DOE proposals the hard won gains of recent years achieved through rate capping will be lost. He also proposes that a modified property tax should be the domestic local tax.

FLAG C

5. The paper by the Secretary of State for Education and Science (E(LF)(85)6) again argues for greater Government influence over local authorities in order to secure the achievement of national policies. He argues for a system based on the central Government grant being hypothecated to individual services, supplemented by specific grants.

MAIN ISSUES

6. There are major issues of procedure as well as substance. Although you will wish to reach agreement on as much of the reform package as possible now, so that the Department can proceed to the preparation of a Green Paper envisaged for the turn of the year, further work and discussion will be necessary on important aspects. You will also need to relate the effect and timing of these changes to the reforms planned for social security and personal taxation.

7. Messrs Baker and Waldegrave will open the meeting with a further slide presentation. It will be clear that virtually all their proposals are informed by the thrust towards disengaging central government and

establishing automatic systems instead, and towards putting the control of local expenditure on the local elector. In considering the balance of the package the Committee will need to come to a view on the relative importance of the proposals, and whether they are all cumulatively necessary to achieve the radical reform that is being sought. With that in mind, you may wish to structure the subsequent discussion to cover:

AGENDA.

(i) Whether the 'local accountability' thrust of the DOE proposals will provide effective control over Local Government expenditure;

(ii) On non-domestic rates: — Ind. / Commercial.

- whether a national non-domestic rate, with a pooled yield, is acceptable;

- whether it should be indexed linked or index capped;

- whether there should be local discretion to levy 5 per cent of the rate;

(iii) On the central government grant:

- whether it should be paid to authorities as a fixed (lump) sum;

- whether the standard grant should be calculated as a guaranteed share of a national tax (eg VAT);

- whether there should be hypothecation to particular services;

(iv) On alternatives to domestic rates:

- whether a residents' charge is an acceptable local tax;

- if so, whether a combination of this and a floor-space based property charge is acceptable;

- or whether a modified property tax based on capital value (as proposed by the Chancellor) would be preferable.

(v) the effect of the package as a whole on households, according to area, size and financial circumstances, taken in conjunction with the social security and taxation reforms that are also planned.

Subsidiary matters, including capital control, fees and charges, annual elections and the budgeting framework, can be held over for a future meeting.

Control over Local Government Expenditure

7. The Committee were concerned that any new system should not allow local government spending to increase. The present Rate Support Grant (RSG) distribution system imposes pressure to moderate spending by progressively withdrawing exchequer grant as expenditure rises. This has been largely ineffective in the case of the notorious high spenders, and rate capping was introduced to restrain them.

8. Under the DOE proposals the main pressure towards moderation would come from greater accountability to the local electorate. The Government grant would be fixed, irrespective of spending levels. Consequently the cost of spending above (or the benefits of spending below) a standard level would fall locally. Hitherto much of the burden has been born by non-domestic ratepayers, but a vital part of the DOE package is that local authorities would no longer be able to raise revenue from business without limit. Domestic taxpayers would therefore bear the bulk of any additional cost. Furthermore, if rates were replaced or supplemented by a residents' charge, all electors would have a direct financial interest. (Under the Social Security Reform proposals, even

those receiving Supplementary Benefit would still pay a proportion of the charge.) Since domestic taxpayers contribute 15 per cent of local revenue, a 5 per cent increase in spending would on average produce a 30-35 per cent increase in the residents' charge. This is, however, less than the highest rate of grant withdrawal under the target system used until recently.

9. Ministers will need to consider whether they can prudently rely on this mechanism. The Chancellor of the Exchequer is strongly opposed. He suggests that Government should retain the power to withhold grant from high-spending authorities, and to cap individual authorities expenditure. This would give greater control, but would continue two of the difficulties of the present system: Government would remain involved in conflict with local government, and local councillors would continue to try to attribute at least part of the blame for rate rises or service cuts to the Government.

10. The Committee will need to reach a view on the extent to which the advantages of disengagement and simplicity are sufficient to outweigh the risk that greater local accountability will not restrain high spending authorities.

Non-domestic rate

11. DOE propose that the Government should establish a single national non-domestic rate poundage, with the yield pooled and re-distributed on a per-capita basis. In previous discussion the Committee were concerned that a national rate poundage at the current average would involve many businesses paying more than at present, even though many others would pay less. DOE's figures suggest that, although many businesses would pay more, the amounts are much less than the significant reductions that the small proportion of businesses in very highly rated areas would secure. They therefore stick to their original concept. On the other hand, under the proposal the losers will outnumber gainers.

12. I understand the CBI are likely to accept the proposal in principle. They shared the concern expressed by some members of the Committee that a future Government might use the national rate to increase significantly taxation on business and suggested that this risk could be minimised by a statutory provision indexing the annual increase in the rate poundage to the forecast growth in GDP. To amend such a provision would require primary legislation. Treasury Ministers will wish to comment on the principle of statutory indexation of taxes.

13. DOE also now propose that the national rate should be set 5 per cent below the present average, and that local authorities should have power to raise a 5 per cent levy locally. The objective is to maintain a direct link between business and the local authority. It would also soften the effect of national policy on the authorities with high non-domestic rateable values - essentially the cities. The Committee will wish to consider whether this token link between business and the local authority, and mitigation of the cities problem, is worth the slight complexity it would add to the regime.

The Exchequer Grant

14. DOE retain their recommendation for a new lump sum block grant. This would compromise two parts: a needs related element, so that the same standard of service would result in the same local tax bill in all parts of the country; and a standard per capita grant. Under this scheme, the 'resource equalisation' element of the existing RSG would be removed. Resource equalisation keeps down rate bills in areas with low rateable values; effectively the north of England benefits at the expense of the South. The removal of this cross-subsidy, together with the pooling of the non-domestic rate, is responsible for the pattern of gains and loses between areas. Table 11 of the DOE specification report (following page 25) shows that the South East, South West, West Midlands and East Anglia gain at the expense of the North and Yorkshire and Humberside. The extent of the present cross-subsidy is not transparent and not therefore widely appreciated; but proposals for its removal, accentuating the perceived North-South divide, would obviously be

controversial once the point is exposed for fuller discussion.

15. The following technical point should also be borne in mind. If domestic rates are replaced by a residents' charge, resource equalisation would necessarily end because no one adult has any inherent greater taxable capacity than any other. If a property tax based on variable values were retained, resource equalisation could be kept, dropped or adjusted as the Government wished.

16. At the last meeting, DOE Ministers envisaged that in addition to the basic grant there might need to be an additional grant for city areas, on the grounds that they face exceptional needs, which are not adequately reflected in the basic methodology. They now believe, however, that the needs assessments could be made sufficiently robust to reflect the particular circumstances of inner city areas in the basic system. Moreover, if authorities are allowed to retain up to 5 per cent of the yield of non-domestic rates this will favour cities and so reduce the need for an exceptional grant.

17. There is an important new proposal in this area. DOE suggest that the per capita grant in support of local spending should be a prescribed proportion of a national tax (eg VAT). This would establish the grant each year by automatic formula rather than political decision, and explicitly link the resources available to local government with economic prosperity. There are, however, fundamental objections to the hypothecation of any tax to particular services. Treasury Ministers will no doubt emphasise the need for Government to be able to take decisions annually in the light of competing priorities for public expenditure: it is unlikely to be acceptable to them that a significant proportion of central Government expenditure should be pre-determined. Moreover, there are particular problems about the selection of VAT in the revenue source. VAT is buoyant and Treasury Ministers will argue that it should be no part of the Government message that local authorities will be allowed to increase expenditure in line with any growth in consumer spending.

Hypothication of Grant to Services

18. The Education Secretary argues for greater influence in securing national policy objectives by hypothicating the education element of the exchequer grant on the basis of a separate needs assessment for education. He would set the grant and be accountable to Parliament. This would be a significant step towards centralisation (on top of the "nationalisation" of non domestic rates), and would make local authorities closer to being agents of central Government. The Committee will wish to consider the principles involved which apply to services other than education.

The Local Domestic Tax

19. All the proposals for replacing domestic rates are compatible with the other elements in the DOE package and, to that extent, the issue is free standing. It is however crucial in determining the gainers and losers within local authority areas (the point now at issue with the abandoment of resource equalisation). At its last meeting the Committee saw attractions in the proposal to replace domestic rates by a residents' tax. This would widen the tax base to all adults, and go as far as possible in emphasising to the electorate the link between services and the cost of providing them. There were, however, concerns that such a tax would be too regressive. A graduated residents' tax, which would be less regressive, was rejected as coming too close to a local income tax and involving the same objections.

20. Some Ministers saw attraction in combining a residents' charge with some other source of local revenue so that the whole burden would not fall on the former. DOE now propose that there should be a combination of personal and property taxes, with 70 per cent of revenue being raised by a residents' charge and 30 per cent from a reformed property tax based on floor space. A dual arrangement of this kind would be less regressive than a residents' charge alone and would also enable a phased introduction over a period. However, these advantages

might be bought at the cost of incurring the long term administrative burden (and, perhaps, the unpopularity) of both taxing systems rather than one alone, as well as the administrative and political turbulence of the actual period of introduction. Although DOE soundings so far indicate that a residents' charge could be administered without too much difficulty, this is by no means certain and there could be serious problems of enforcement and evasion.

21. The Chancellor of the Exchequer opposes the DOE proposal. He fears that there would still be too many losers under the DOE scheme and that local authority spending would go up during the introductory period. He favours a property tax as the sole domestic tax, based on capital rather than rental valuations, and with other modifications to meet criticisms of the present system. One of these is a suggested occupancy relief for eg single occupiers aged over 60. A system of this kind (explored in detail in the Revenue study) seems administratively feasible. But you will wish to consider wiether it would appear sufficiently different from the present discredited rating system, and the fact that it would not significantly widen the tax base to involve more local electors.

22. Clearly any option chosen will require much more work on the details. But if the target of a Green Paper at the turn of the year is to be met, it is important for the Committee at this stage to focus on the basic underlying issues, and, if possible, reach strategic decisions on which the necessary further work can be based. I suggest, therefore, that you try to get the Committee to indicate a view whether the new tax should be:

(i) property based

(ii) people based, or

(iii) a combination of the two in some proportion.

The main considerations that bear on this are:

(a) Should there be a link with ability to pay?

(b) The width of the tax base

(c) The number of gainers and losers, and the sums involved

(d) The complexity and cost of long term administration and enforcement

(e) The administrative and political turbulence of introduction.

The last three points represent just those detailed questions on which further work would be needed before a Green Paper; but the broad picture should be clear enough for decisions in principle now.

The Effects of the Package as a Whole: Relationship with other Policy Developments

23. Table 10 of the DOE Report (following page 24) shows the number of gainers and losers of the DOE package according to Region. These show that there are more gainers than losers (although this reflects in part the achievements of rate capping which the proposed reforms will abolish). A majority of the changes are less than £2 per household per week (some £100 a year). Some regions suffer disportionately, for reasons explained above: over a quarter of the households in the Northern region will lose between £100 and £260 a year (although transitional arrangements will phase this over three years). Some households - 2 per cent of these with three or more adults - will lose over £520 a year. The Committee will wish to judge the political acceptability of such changes. The Treasury believe a package based on a modified property tax would reduce the number of extreme gains and loses.

24. However, before any final judgements are made on the local authority changes, their effects need to be considered together with those for major changes in social security and personal taxation. The figures in the DOE report assume that the social security changes have

already been implemented. But, so far as I understand, there has been no assessment of the combined effects of the three changes on particular households or on the economy generally. On the face of it, there are a number of proposals pulling in conflicting directions. For example:

- the low income gainers under the DOE proposals will tend to be single person households, whereas the Social Security Green Paper makes the case for directing more help to families with children;

- the DOE proposals will significantly increase the housing benefit caseload, whereas the Social Security proposals are designed to reduce the scope of the housing benefit scheme.

25. There is therefore a risk that when the details are exposed the Government will appear to be presenting conflicting proposals, particularly as (on present plans) the local authority Green Paper would emerge at the turn of the year when the Social Security legislation is being processed through the House. I understand that Mr Fowler is unlikely to be able to circulate a paper for discussion on the outcome of the Social Security Green Paper consultations until immediately after the Party Conference. This will make the timing very tight indeed if legislation is to be introduced in time to make an April 1987 start possible. But in view of the interlocking problems of substance and presentation referred to above, you may think it prudent to ensure that Ministers have an opportunity to consider the combined effects of these important reforms in local and national domestic taxation and income support before final decisions are taken. The Treasury might be asked to arrange for this to be done in consultation with DOE and DHSS.

Next Steps on Local Authority Finance

26. Environment Ministers envisage publication of a Green Paper at the turn of the year. This would allow time for the remaining elements (eg capital controls) to be examined at a future meeting of the Committee, and also for further work on the domestic local tax. Decisions

could then be made by the end of 1986. On this basis, legislation would not seem feasible before the next election, although it would be possible to give a full description of the Government's proposals, perhaps supported by a Bill in draft. You may wish to have a preliminary discussion of these issues now, bearing in mind the "read across" to the social security and personal taxation proposals discussed above. But it does not seem necessary to take firm decisions now, except on the approximate timing of the Green Paper.

HANDLING

MEETING

27. You will wish to invite the Environment Secretary and Mr Waldegrave to introduce their proposals with a slide presentation. (They have been asked not to exceed 45 minutes=. You may wish to structure the subsequent discussion:

(i) local accountability vs central control

(ii) elements of the DOE package

(a) non-domestic rates

(b) central Government grant

(c) domestic local tax

(iii) relationship to related proposals and next steps.

All Ministers will wish to contribute, especially the Chancellor of the Exchequer on the control of public expenditure and on the modified property tax and the Education Secretary on the central Government grant. The Chancellor of the Duchy of Lancaster will wish to comment on the presentational aspects, and particularly on the acceptability on the redistribution effects. The Scottish Secretary and Mr Wyn Roberts (deputising for the Welsh Secretary) will have views on the implications for their territories.

CONCLUSIONS

28. Subject to the need to be able to assess the combined effects on the economy and on households of the local authority, social security and personal taxation proposals, and to consider the timing and presentation of changes in the light of this, you will wish to reach decisions at this stage on the following local authority finance points:

(a) General

(i) whether the Government should retain direct controls over individual local authorities' spending through grant control and rate capping;

(ii) whether the DOE package taken as a whole strikes the right balance between local accountability and centralisation;

(b) Non-domestic Rates

(iii) whether non-domestic rates should be set nationally, with yield pooled and distributed per-capita;

(iv) whether the annual increase in non-domestic rate should be linked to (or alternatively constrained by) the GDP deflator;

(v) whether local authorities should be empowered to raise up to an additional 5% of the non-domestic rate and retain the yield;

(c) Government Grant

(vi) whether the proposed regime of needs and standard grant, with the abandonment of resource equalisation, is acceptable;

(vii) whether the quantum of the standard grant should be determined by hypothecating a proportion of the yield of a national tax eg VAT;

(viii) whether any further consideration should be given to the hypothecation of the grant to individual services;

(d) The domestic local tax

(ix) what options for the domestic local tax should be considered further ie whether there should be a single or dual tax and whether it should be property based.

(e) Next steps

(x) to invite DOE, the Treasury, and other Departments to review specific grants;

(xi) to invite DOE to present proposals on capital controls and other outstanding issues (eg annual elections) during the autumn, and

(xii) to confirm the intention to publish a Green Paper about the turn of the year.

J B UNWIN

19 September 1985
Cabinet Office

CONFIDENTIAL

CC NO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

17 September 1985

1. DN - to see
2. p.c.

Dear Tony,

LIVERPOOL: HOUSING BENEFIT PAYMENTS

Your Secretary of State will have seen a copy of my Secretary of State's minute of 13 September to the Prime Minister and MISC 109 members about Liverpool issues. I am writing with regard to section iv of annex F about housing benefit payments.

The short point is that the rejection of Liverpool's borrowing consent request is now agreed, and so there is (as I understand it) policy approval to your Department paying £27 million of the rate rebate element of housing benefit, hitherto withheld from 10 authorities, including Liverpool, who set their rates late. Liverpool are owed £5½ million on this account.

Our Department's officials are in touch about the timing of these payments, since it is agreed that it is important that the payment to Liverpool in particular should not be seen as any sort of concession by the Government in the face of their continued failure apparently to set a legal rate. I should be grateful if your Secretary of State could consult mine on the timing, and means of announcement, of these payments.

I am copying this to David Norgrove at No 10, to the Private Secretaries of other members of MISC 109, and to Sir Robert Armstrong.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

Tony Laurance Esq

17. IX. PM 8 5

CONFIDENTIAL file BM

cc: MISC 109
LPO
HO
DES
LPSO
DHSS
CH SEC HMT
ATT GEN
Min for Loc Gov

+ CO
SO

10 DOWNING STREET

From the Private Secretary

16 September 1985

Liverpool

The Prime Minister has seen your Secretary of State's minute of 13 September. She agrees that it would be wrong to approve Liverpool's request to borrow to cover the shortfall between their planned revenue expenditure this year and the amount which they will raise from their illegal rate.

She has commented in relation to the final paragraph of your Secretary of State's minute that if Liverpool breaks down financially later this year, the cause will be the Council's profligacy rather than the Government's refusal to grant permission for the loan.

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

(David Norgrove)

Robin Young, Esq.,
Department of the Environment

CONFIDENTIAL

BM

File

10 DOWNING STREET

From the Private Secretary

16 September 1985

Dear Robin,

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986-87

The Prime Minister has seen your Secretary of State's minute of 4 September, and the later minutes from the Secretaries of State for Transport and for Wales, and the Chief Secretary.

She accepts, reluctantly, that it is now too late in the financial year to impose a new capital spending regime that would involve such marked gains and losses for individual local authorities.

The Prime Minister is very conscious that if the present regime remains in place there is likely to be a further considerable addition to 'accumulated receipts' in 1986-87. She believes that this will be tolerable only if continuing overspends are prevented by:

i. ensuring that a sound new system of local authority capital spending controls is in place for 1987-88, regardless of the progress of the other local finance reforms;

ii. basing allocations for 1986-87 on realistic estimates of local authorities' use of their spending power, so that the Government can be confident of delivering a cash limit compatible with the net provision agreed in the survey.

6

The Prime Minister understands that your department and the Treasury have agreed that it would be prudent to assume that authorities will use 85 per cent of their spending power. The Prime Minister believes allocations should be calculated on the basis of this prudent assumption. She further believes it would be wrong to raise the expenditure baseline simply in order to offset reductions in allocations which would occur because authorities will be able to spend from larger accumulated receipts.

The Prime Minister has also asked for consideration to be given to the possibility of linking provision for capital spending by local authorities to their success or failure in containing current spending. She recognises that the scope for this may be different as between 1986-87 and later years.

I am sending copies of this letter to the Private Secretaries to members of E(A), to Tony Laurance (Department of Health and Social Security), Rob Smith (Department of Education and Science), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and to Richard Hatfield (Cabinet Office).

Yours sincerely,

David Norgrove

Robin Young, Esq.,
Department of the Environment.

CONFIDENTIAL

CC OL

NBPM (not in fact copied to her formally))

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 September 1985

Dear Chief Secretary,

1985 SURVEY: LOCAL AUTHORITY CAPITAL EXPENDITURE

Thank you for with DW2 your letter of 11 September. I have also seen your minute of 10 September to the Prime Minister. I am glad that you accept that we shall for 1986/87 have to live with the present capital control system.

I in turn accept the need to operate the system with the aim of delivering expenditure in line with the cash limit. It is also vital as you indicate to establish the total of allocations for each service in the course of the PES round so as to avoid the difficulties that arose from our 2-stage process last year.

In principle, I agree with you also that it would be desirable to establish a methodology for relating the total of allocations for each service to provision in advance of the bilateral so as to simplify discussion. There are of course a number of ways of doing this. They affect both the total for allocations and the distribution of allocations between services.

The illustrative basis used in the paper by officials cautiously assumed that authorities will use 85% of their spending power. This is a higher figure than in any past year. Even in 1985/86 our projection of first quarter returns gives spending of only 80% of the potential spending power available. If anything, I would have expected that in later discussions we might have shaved the 85% figure down a little and so produced a larger total for allocations.

But I did think that the paper offered a possible compromise which we might all have signed up to between the conflicting considerations on distribution of the total. The assumption that allocations would be split on the basis of the mid-point between net and gross provision would go some way towards recognising that account must be taken both of net provision and of in-year receipts. It is not ideal; I should have thought it reasonable to weight the balance further towards gross provision. But for the sake of agreement, I would have been prepared to accept the mid-point and to defend such a basis to local government.

I am afraid that your new proposal will however have destroyed the chances of our reaching early agreement on the methodology either for setting the total of allocation that goes with each level of provision or for distributing it between services.

You propose to assume that authorities will use more than 85% of their spending power. You suggest that they will use in full the marginal spending power arising from any increase to the baseline. I regard this as an implausible and unnecessary assumption. I would think it more reasonable to make the opposite assumption - namely that as provision and allocations are increased above baseline local authorities are likely to use less rather than more of their total spending power.

More significantly, you have proposed a new, completely arbitrary and unacceptable basis for dividing the total of allocations between services. This would land us in just the same difficulties of justifying ourselves to local government and to Parliament as we experienced last year, which I am anxious to avoid. For the first four years of the capital control system, allocations were derived by a simple arithmetical process from net PESC provision, plus the non-prescribed proportion of estimated capital receipts in the year (that is, the proportion which individual authorities were themselves prohibited from using), minus an allowance on appropriate services for non-prescribed expenditure. That basis was known and generally accepted by local government. I agree that we must now allow also an element for the use of accumulated capital receipts. But it is all the more important that we should maintain a logical and objective basis which we can defend in public. Allocations must give adequate weight to in-year receipts for those services which make the greatest contribution to our policy on the sale of surplus assets, that is, on the Housing and Other Services blocks. Your proposal, to take net provision and give the "left overs" to Housing, pays insufficient attention to receipts in relation to that block and no attention at all to the Other Services block, where receipts are proportionately as significant. These two blocks are fully as important to our policies as the other services covered by the cash limit. Your methodology would be particularly resented by housing authorities. Our friends in the shire districts (the ADC is the only local authority association now Conservative controlled) have in general no responsibility other than for Housing and Other Services.

I appreciate of course that your proposal may look attractive to colleagues in DES, DTp and DHSS. I have no desire to become embroiled in a wrangle with them about methodology, especially when I know that they too have strong claims for additional provision and allocations for their services. If you and they cannot see your way to reverting to the methodology set out in the paper to the Prime Minister I can only suggest that we abandon the quest for a single methodology applying to all services, and simply discuss the total of allocations for each of our services individually with you in the course of our bilaterals. This would be a pity, because at the end of the day we would not have an

overall justification for the split. But at least within each block there would be an agreed method of converting the provision figure to the allocation figure which could be announced and defended. That would not be the case with your proposal.

The justification will of course be less important if we offer realistic allocations. I have already explained to you in my letter of 12 September that I regard it as politically essential to have allocations for 1986/87 of £1790m for Housing and £410m for Other Services. These could have been achieved within my overall PES bids on the methodology used in the officials' paper. But if your methodology is accepted I am afraid I have no alternative but to increase my PES bids by £125m for Housing and Local Environmental Services (the bulk of the Other Services block) simply in order to get to the same level of allocation and hence the same level of likely outturn expenditure in the real world.

I am copying this letter to those who received yours.

Yours sincerely,

KENNETH BAKER

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

The Rt Hon John MacGregor OBE MP

Local Govt Pt 28

Relating

15 IX 1969
3 APR 1969

Bernard Ingrams (o/1)

With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

Two evenings the Chancellor

Treasury Chambers,
Parliament Street,
S.W.1.

Next morning.
RL 1619

Handsworth: the aftermath

Baker gets set for new clash over cuts in urban aid

by Anne Jacobs
Local Government Correspondent

THE Treasury is seeking to cut the cash it gives local councils for urban aid and housing, a move that will embarrass the government since it follows recent boasts by ministers that they have given £20m in urban programme money to Handsworth, Birmingham, the scene of last week's riots.

Kenneth Baker, the environment secretary, will resist the cuts at a meeting on Wednesday with John MacGregor, the new treasury minister.

The meeting forms part of the annual battle between the Treasury and ministers of spending departments that gets under way in Whitehall this week.

The Treasury is faced with plans from departments which add up to about £4 billion more than the £139 billion target for next year agreed by the cabinet earlier this summer. Local government spending, social security and defence are the Treasury's main targets for cuts.

The urban programme aims to ease inner city deprivation by giving grants to local authority projects and voluntary bodies. MacGregor wants to cut the present £335m programme by £35m. He is also seeking to axe local authority leisure and public health programmes by £65m, making total cuts of £100m.

Baker is expected to argue that cuts in the urban programme so soon after the riots would be politically unwise. He will also resist Treasury pressure for further cuts in housing and argue instead that it is essential to spend more on repairing Britain's rapidly deteriorating housing stock. Baker wants to spend an extra £600m on housing next year; the Treasury is seeking a reduction of £200m.

Baker MacGregor

The decline in the condition of housing was highlighted in a recent report of a committee chaired by the Duke of Edinburgh. That said the poorest council tenants and ethnic minority groups were often in the worst accommodation.

An unpublished Department of the Environment report on the state of housing will give Baker further ammunition in his talks this week. The report, based on returns from local authorities, is expected to estimate that £20 billion should be spent over 10 years to bring housing up to standard. At present £1.2 billion a year is spent on council house repairs.

Baker may be reluctant to publish the report while he is negotiating with the Treasury; he would be seen to be attacking government housing policies in the middle of sensitive discussions and so soon after his elevation to the cabinet. The Department of the Environment said the report would be published "within the next two months".

MacGregor may adopt a softer line on housing cuts this week if Baker agrees to cut back further on the number of new council houses built, which is now down to 40,000 a year. Baker is not expected to agree to such a request.

Housing will be the focus of an intense battle between the Treasury and Department of the Environment for the second year running. Last year Patrick Jenkin, the former environmental secretary, was largely successful in defending his housing programme from the Treasury axe.

Riot could damage Olympic prospects

by Anne Spackman

THE Handsworth riots have tarnished Birmingham's international image at a crucial stage in its campaign to host the 1992 Olympic Games. This week at a conference in Spain, the city makes the first public presentation of its bid to members of the International Olympic Committee (IOC).

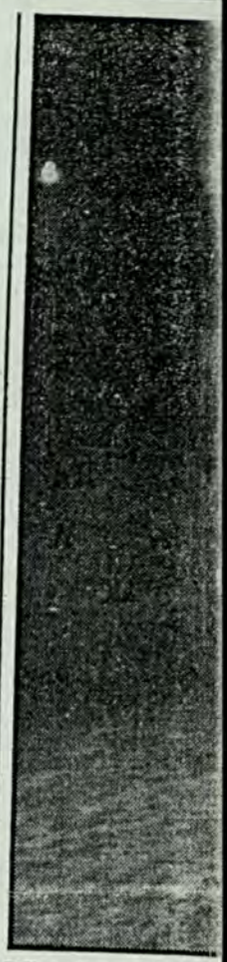
That it now has to do so against a background of the Handsworth violence and looting is an obvious setback – and it's one which comes just when Birmingham had gained ground on its chief rivals Barcelona and Paris, following last month's [illegible]

Howell: We're not alone

confrontation of the heavyweights. We are going with our full roadshow and so are all the others", a Birmingham spokesman commented.

He said that the original theme of the conference, "Past, present and future: the Olympic movment", would be lost as the bidding teams spoke directly to the IOC delegates.

At the conference in Spain, and during a subsequent tour of Europe, culminating in Birmingham's formal submission to the IOC executive committee in Lisbon next month, Howell will focus attention on the city's



Missed cue: Hakee

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But tomorrow there
added meaning to the
lines of the play, "Th
night – That either mak

David – it looks as if we shall have heavy overspend on current account – in view of the pay negotiations with local auth. unions. Is there no way of linking or calculating the capital spend to the success in Jackie M's L.A.'s in containing current spend? Otherwise after numbers prof.

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986-87

Departments have considered the Policy Unit's proposal for controlling local authority capital expenditure in 1986-87. The results are summarised in the letter to you from the Secretary of State for the Environment at Flag A. (There is no need for you to read the inter-departmental report attached to it.) Other Ministers have also written, below. There is no need for you to read the letters.

The report concludes that the Policy Unit's scheme cannot be put in place for 1986-87. The Policy Unit accept this and explain why in Oliver Letwin's minute at Flag B. They then rightly look for you to push the discussions along in other ways, and they make two proposals, set out in the minute.

The first is that a new system of local authority capital spending control needs to be in place for 1987-88, regardless of the progress of the other local finance reforms.

The second is that allocations for 1986-87 should be based on realistic estimates of local authorities' use of their spending power, so that the Government can be confident of delivering a cash limit compatible with the net provision agreed in the Survey.

This second proposal is important to this year's Survey. The present base line for 1986-87 would imply a 13 per cent real terms fall in capital spending by the English local authorities by comparison with the expected out-turn for 1985-86. This is to compare out-turn with plans. But if allocations are this time calculated realistically the plans for next year should be much closer to the out-turn than they have been.

The result would be to remove the fudge whereby everyone expects the local authorities to be able to overspend on

capital. It would also mean smaller allocations (see para 2 of the Chief Secretary's minute, flag C). Spending Ministers will therefore feel under even greater pressure to win concessions in the Survey. As a result the plans may turn out higher than otherwise, but they would be less likely to be exceeded.

An intervention by you, at this stage of the Survey, would be unusual, but it would make for better control of public spending. The letter I would sign on your behalf if you agree is immediately below.

Agree to write as drafted?

DEN

DAVID NORGROVE

13 September 1985

CONFIDENTIAL

CC NO

Prime Minister
For information.
MER 13/9

PRIME MINISTER

LIVERPOOL

I have received a request from the City of Liverpool to allow them to borrow £25m to cover the shortfall between their planned revenue expenditure this year and the amount which they will raise from their illegal rate.

I do not intend to approve this for the following reasons:

i. Approval would be seen and certainly represented by Councillor Hatton as a major defeat for the Government and a triumph for their illegal action.

ii. Local authorities are rightly not allowed to borrow without consent against future years' income for revenue purposes.

iii. Liverpool would be making much worse the financial crisis which they face next year.

iv. It would set a most dangerous precedent for other local authorities who budget and rate irresponsibly.

This is a crucially important decision in the developing Liverpool saga and I think that you and our colleagues should be aware that it could lead to financial breakdown some time later this year. I attach a fuller report.

Mr Liverpool's profligacy

I am copying this to other members of MISC 109, George Younger and to Sir Robert Armstrong.

K.B.

K B

13 September 1985

CONFIDENTIAL

MISC 109: LIVERPOOL SITUATION REPORT

Background

1. On 14 June Liverpool Council increased its rate by 9%. That would raise only £229m against their budget of £265m. On 31 July they reduced their budget to £255m simply by reducing the contingency provision. On 25 July Liverpool were designated for rate-capping next year. Their expenditure level for 1986/7 was set at £245m (excluding expenditure to be inherited from Merseyside City Council).

2. On 5 September the Council announced, on the capital side a deferred payment deal which would provide £25m of capital funds this year and effectively safeguard the financing of the present programme of £112m. On the revenue side, there was no mention of quashing the rate. Instead they said that they would not be able to pay their way beyond 31 December unless they could borrow more money, and would shortly be sending out protective redundancy notices to their staff. This was subsequently altered after shop steward pressure to an announced intention to lay off staff, re-engage those needed to run emergency services and reinstate all staff by April 1986.

Borrowing Consent Request

3. On 11 September Liverpool's Treasurer wrote a letter requesting my consent to borrowing, copy at Annex A. Our best interpretation of the letter is that consent is sought for revenue borrowing against revenues to be received in a future year. We must now decide quickly on our response to this very unusual request. I see this as a key decision in our handling of the Liverpool saga this year.

Consideration of Request

4. I propose to reject the request for borrowing consent. Although I have the power to consent to borrowing for any purpose, it would be most unusual to permit borrowing for revenue purposes against the revenue expected in future years, and no authority could or should expect such permission. The proper approach is for an authority to balance its income and expenditure within the year. This is a cornerstone of the financial rectitude of local government, and plays a key role in maintaining the confidence of the financial markets. We can find no precedents for granting borrowing approval of this kind. Furthermore we would be setting a most dangerous contemporary precedent. We would have no control over the money we had enabled Liverpool to raise. We could be seen as underwriting their creditworthiness in the market, whilst at the same time generating concern in the market about a drift towards revenue borrowing. We could effectively increase Liverpool's spending power this year, if they have further accounting devices up their sleeve. Lastly and most importantly, a consent to borrow would certainly be seen as a humiliating climb-down by the Government, and as condoning Liverpool's illegal deficit budgeting.

5. We presently believe that there probably are financial devices still available to the Council, even without quashing and raising their rate, which could enable them to get through 1985-6, if they had the political will to do so. In particular, the Treasurer's latest report to the Council indicates the availability of some £27m of capital receipts at the end of 1985-6. If these receipts were used to capitalise maintenance and repairs spending this year, then it should be possible for Liverpool to get through the year. But the price of that would be to remove a substantial part of the financing of the 1986/7 capital programme, much of which is housing. A more detailed note of our understanding of the Council's financial position is at Annex B.

Consequences of Rejection

6. I must, however, tell colleagues that the consequences of rejection could be very significant. There are two courses of action open to Liverpool, given a continuing unwillingness to quash their rate:-

i. They could adopt the capitalisation device described in the preceding paragraph, possibly with other adjustments and accounting devices, which would get them through 1985-6, but would bring their capital programme to a very early halt. They would seek to blame the Government for the abrupt halting of their housebuilding programme in the run-up to the elections next May. A note on Liverpool's housing programme is at Annex C.

ii. They could reject all such financial devices as being politically unacceptable, and thus make the City bankrupt. This would lead quickly to lay-offs, emergency cover only for service provision and eventually to the need to appoint Commissioners.

7. Under either course of action, the Council would be in trouble with their trade unions, particularly the manual unions who have hitherto been supporting them. The press cuttings at Annex D illustrate the tensions that exist between the Council and the trade unions.

8. All this is happening against the background of the quite separate proceedings under which the auditor has issued notices of surcharge and disqualification to councillors. On the likely assumption that the councillors appeal to the courts, the legal process could last well into 1986.

Terms of rejection letter

9. If colleagues agree with my recommendation in favour of rejection, we must get the terms of the rejection letter right. The main ground for rejection must be the fundamental importance of the principle of an authority balancing its books within the year. I do not intend to make any reference to the various alternative options available to the Council, since that might be taken to open the door to negotiations to explore possibilities. I propose to refer only to the fact that the Treasurer indicated in a recent council paper that alternative options

are open to the Council, and that he stated his opinion that it "should take urgent action to reduce its net expenditure and to balance its budget."

10. A draft response on these lines is at Annex E. It will be important not to be drawn beyond the contents of such a letter.

Other matters

11. Short notes on other issues are at Annex F. Colleagues will note that:

a. Surcharge and disqualification action is proceeding against Lambeth and Liverpool Councillors, who have said they will appeal against the auditor's decision.

b. I am presently advised that there is not yet firm evidence for stopping payments of Government grants to Liverpool, though we need continuously to review the propriety of such payments as the Council's financial position deteriorates.

c. Until a decision on the borrowing consent has been announced, we should not make the £5½m backdated payment to Liverpool in respect of the rate rebate element of Housing Benefit. The presentation of this payment will need vary careful handling.

K B

13 September 1985

City of Liverpool

C.M. Reddington, B.Com., I.P.F.A., M.B.C.S.
City Treasurer
P.O. Box No. 1
Municipal Buildings
Liverpool
L69 2DQ
Telephone: 051-227 3911 Ext: 400

A

Your ref
Our ref CT/AL
Date 11th September, 1985

Dear Secretary of State,

I am instructed by the City Council to seek your consent under Schedule 13 of the Local Government Act 1972 to the City Council raising loans in 1985/86 for the purpose of meeting payments which exceed the revenues receivable in the year and for which borrowing powers would not otherwise be available under Schedule 13 of the Act.

The amount of the borrowing for which the consent is requested is £25 million and the City Council also requests that the expenditure so financed be disregarded for grant holdback purposes.

The specific justification for disregards was argued in the joint report prepared last year by officials of your Department and of the City Council and I enclose a statement which updates the schedule included in that report with the relevant figures for the current year. This shows the particular items upon which the City Council considers disregards should be applied not only in 1985/86 but also for previous years. Over the years the amounts concerned substantially exceed £25 million.

The City Council seeks this borrowing approval and disregard because it considers that otherwise it will be unable to maintain its services and the contracts of its employees through to the end of the financial year.

Yours faithfully,

City Treasurer

The Secretary of State.
for the Environment,
2 Marsham St.,
London,
SW1P 3EB.

When calling or telephoning please ask for

PROPOSALS FOR EXEMPTION FROM RATE SUPPORT GRANT PENALTY
UNDER THE DISREGARD ARRANGEMENTS

ADDITIONAL SCHEDULE

			£ thousand BUDGET 1985/86
A.	INCREASES IN EXPENDITURE OVER THE BUDGET PROVISION 1981/82		
1.	Advanced Further Education Pool - deficiency		2,000
2.	City Council's 10% proportion of housing benefits		839
3.	Temporary accommodation for the homeless		578
4.	Contribution under joint financing arrangements with the Health Authority (excluding increase between 1984/85 and 1985/86 which is already disregarded)		613
5.	Grants to pupils - maintenance, clothing and footwear		1,000
6.	Magistrates Courts - Council borne expenditure		87
7.	Partnership expenditure not already disregarded - increase between 1982/83 and 1983/84	1,284	
	1983/84 and 1984/85	1,145	2,429
8.	Education - additional expenditure on transfer of former direct grant schools into maintained sector under Education Act 1980		345
9.	Unallocated reductions made in past budgets		1,789
10.	Net expenditure on agency courses at Colleges of Further Education		755
B.	LOSS OF INCOME FROM THAT IN BUDGET 1981/82		
1.	Rent income lost for reasons other than sales		5,500
2.	Social Services - income from other local authorities		658
3.	Education - loss of income on granting of free school meals		1,349
4.	Housing subsidy - loss on demolished dwellings		600
5.	Vacation of St. George's Hall by Crown Court		123
			18,665

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ANNEX B

LIVERPOOL FINANCIAL POSITION

Revenue Budget 1985/86

1. Following a meeting of the City Council's Finance and Strategy Committee on 31 July, Liverpool have reduced their budget of £265m to £255.1m by, we believe, a reduction of £9.9m in the planned contingency provision. The Council's rate could support a budget of £229.4m so that a gap of some £25m (around £75m after grant holdback) remains.

2. In reports to the Council the City Treasurer has identified a number of options for further reducing the budget.

(a) by use of remaining balances, rescheduling debt and other technical changes the budget could be reduced by a further £9.5m to £245.6m; these changes would create problems for the future but are now painless;

(b) by capitalising £12.7m housing repairs the budget could be reduced to some £233m; this would be much more difficult for the Council as it would reduce the scope for capital in 1986/87; (this spending - mainly on new houses - is a high political priority for the Council, and even without this reduction in resources Liverpool may be in difficulties on capital in 1986/87 given their already high level of commitments); and it might involve a contribution from the Housing revenue account to the rate fund, which would be legal but politically awkward for Liverpool.

The Treasurer has also mentioned that some small benefit would be gained by optimising the use of special funds between 1984/85 and 1985/86 and that the deficit in 1984/85 (now estimated at £6m) could be further reduced by capitalising repairs expenditure in that year (this change can still be made as the 1984/85 accounts are not closed). The overall result of the Council adopting all these options would be to allow them to live within their present rate (9% increase on 1984/85) but at the cost of still more impossible problems for 1986/87.

3. On 6 September the Finance and Strategy Committee agreed to seek approval from the Secretary of State to borrow £25m for revenue purposes and to request that expenditure financed by this borrowing would be disregarded for grant penalties. This device - if approval were given - would enable the Council to balance their books for 1985/86 without resorting to the options identified by the City Treasurer which, of course, would still be open to them allowing them further to increase spending. And in any event this borrowing device would not solve Liverpool's problems, simply postpone them until 1986/87.

.../2

Possible Collapse

4. If the City Council do not take steps to balance their books the question of collapse arises. There are two threads to this issue. First, there is the question of when should the Council cease purchasing goods and services including contracts with their staff. The City Treasurer has reported that it would be potentially unlawful for the Council to enter into further commitments when they are aware that they have no means of meeting them. The Treasurer now estimates that this point may be reached towards the end of September. And it is to avoid potential overcommitment that the Council are considering "laying off", or issuing redundancy notices to their staff.

5. Secondly, there is the question of when the Council might actually run out of cash. Providing the Council can exercise their currently available borrowing powers and raise loans - as they appear to be able to do so at present - this is unlikely to occur until early 1986 even if the Council were to continue to spend at their present budget and over commit themselves. But if the Council cannot find willing lenders, financial collapse is likely to follow very quickly irrespective of decisions about entering into commitments.

Capital Budget 1985/86

6. On the basis of the expenditure/resource position in February the Secretary of State decided not to issue a section 78 Direction to limit the Council's expected spending. The current position shows forecast outturn around £94m (including partnerships expenditure of perhaps some £7m) with a further £25m to be financed by a deferred purchase scheme (which is a legal arrangement if certain conditions are fulfilled, under which the expenditure would count against the City's capital allocation in the year to which it was deferred). Overall in 1985/86 it looks as if Liverpool will keep within their "ceiling" for capital expenditure. Hence, there would appear to be no need at present for a section 78 direction.

7. Liverpool estimate that they already have capital commitments for 1986/87 of £35.2m. On the assumption that capital allocations in 1986/87 are of the same broad order as in 1985/86, Liverpool might be expected to have resources available of some £55m. Given the scale of their on-going capital programme this points to difficulties in 1986/87, which would be exacerbated if capital receipts were used for capitalising repairs expenditure in 1985/86 rather than being carried forward for use in 1986/87.

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ANNEX C.

LIVERPOOL CITY COUNCIL CAPITAL PROGRAMME - HOUSING.

The Treasurer reports that the estimated expenditure on capital works in 1985/86 (excluding Inner Area Partnership Allocation) is £112.5m, of which the Housing Investment Programme (HIP) comprises some £100m.

The proposed HIP expenditure will be covered by the allocation (£31m), prescribed proportion of capital receipts (£27m), a deferred purchase deal with Peat Marwick (£25m), tolerance £4.4m, with an expectation of somo 10% slippage in the progress of works - which would be carried into 1986/87.

The City is reported to be already committed to HIP expenditure in 1986/87 totalling £37.2m - (of which £2m would be covered by the deferred purchase deal). That is if no new contracts and no new works are undertaken for the remainder of this financial year. Almost all this commitment will be in respect of new build or major conversion schemes. There is reason to suspect that this is an underestimate of the true commitment figure.

If all accumulated capital receipts are spent this year - to cover capitalised expenditure normally carried on the revenue account - the Treasurer estimates that the City would be able to sustain a capital programme in 1986/87 of between £40m and £48m (depending on whether it receives allocations at the same level as this year or at 80% of this years allocation). Even an immediate moratorium on all new work would, therefore, leave very little in 1986/87 for repairs and improvements to existing stock normally charged to the capital account, (about £20m in previous years), renovation grants to older private sector stock (£12m) or support for Housing Associations (£4m).

The likely effect of pulling the capital programme down to £40/48m would be that where new build schemes have been phased there would be incomplete development, there would be severe curtailment of works to existing stock - much of it already in a poor condition - and little renovation work to the older private sector stock. There would be a rapid run down of the building industry, affecting as many as 5,000 jobs

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as schemes are completed.

This would be a severe disappointment to many of the people of Liverpool. The Council has mounted a series of publicity campaigns promising improvement to housing conditions. New houses have been springing up all over the City - there are 140 new build sites in the process of development. Those still waiting in neglected, poorly managed, unsuitable accommodation could react strongly to having their hopes dashed. Most believe now that it is impossible to satisfactorall rescue high rise, maisonette, high density housing stock. The Council' latest exhibition, which opens to the general public on Monday, places greater emphasis on a commitment to renovating the older private sector stock. This has always been the most successful aspect of the City's housing programme, from well before the present Leadership took power. The Council recently announced a programme of a further 25 Housing Acti Areas and the exhibition contains detailed plans of the Council's proposals for each area.

The Council's capital programme has been the major visible benefit of th Militant Leadership - new houses, new sports centres, new parks. A powerful section of the Labour members will wish to do everything possible to preserve the programme, at least until the elections in May 1986.

Line to take

- Liverpool Council has been spending money it knew it did not have. Sooner or later they knew this would have to stop.

- No one denies that ~~the~~ ~~a~~ housing conditions in Liverpool are desperately in need of improvement, but this is true all over the country and there is a limit to what we as a nation can afford.

  In these circumstances the responsible course is to seek to make the best use of existing stock through sensible and efficient repair, maintenance and letting services; to seek the most cost effective solutions to problems and to use to the full all available resources including those of the private sector. This is what other Council's are doing,

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on Merseyside and all over the Country. It is a hard job, but in the longer term it is infinitely better than the trading in false promises and broken hopes that Liverpool Councillors have indulged in.

2 OF 2

ANNEX D

Liverpool Echo, Wednesday, September 11, 1985 27

Council in war of words with unions

By Colin Wright and Barbara Metcalfe

UNION shop stewards and Labour leaders on Liverpool Council were engaged in a "war of words" today.

At the heart of the battle is the wording of a resolution to be considered by emergency meetings of a number of committees and a special meeting of the City Council on Monday.

The Finance and Strategy Committee, which is masterminding the council's campaign against Government financial penalties, is recommending that "steps be taken to terminate the contracts of all council employees."

Sensitive

But some union leaders fear this is merely another way of spelling "redundancy" and, if accepted, would cost the council the support of its 30,000 workforce.

Deputy council leader Derek Hatton, chairman of the Industrial Relations Committee, was buttonholed by shop stewards today on this highly sensitive issue.

He said later he would be reviewing the wording of the resolution and a new form of words would be put before the Industrial Relations Committee tomorrow.

Councillor Hatton said the wording which sparked the problem had been merely a "framework."

He said: "Those words were just a framework drawn up by Tony Byrne and the meetings have been called to discuss it.

Split

"The wording may be amended in some way but whatever happens I am absolutely certain there will be a recommendation going forward to the full council which will have the agreement of all parties concerned.

"There is no split whatsoever between the council and the unions. In fact this morning's meeting was mainly taken up with talk about the campaign."

As Councillor Hatton acted as a shuttle-diplomat between the unions and the council's legal officers, convenor Ian Lowes was adamant that any talk of redundancies, sackings or lay-offs would lead to a strike against the council.

GUARDIAN 13 SEPTEMBER 1985

Liverpool council unions get ready to resist plan for 30,000 redundancies

By Alan Dunn

Labour-run Liverpool City Council was at odds with its unions last night over plans to tell the 30,000 staff next week that their contracts will cease from December 18, when the money runs out.

Although the word redundancy was not used in the plan for winding down services, the city solicitor, Mr Bill Murray, said under Tory questioning, that staff would be entitled under the 1978 Employment Protection Act to redundancy money because an offer of re-engagement in the letter to staff will not take effect for more than a month.

Mr Ian Lowes, secretary of the joint shop stewards committee, said that unions would be taking legal advice. "If our solicitors' interpretation is the same then we would not accept the notices, which would be sent straight back with a demand that they be officially withdrawn."

His committee is pledged to take strike action if any staff are dismissed, made redundant or laid off. After two days of talks to find a legally and politically acceptable formula Labour believed it had union support for a resolution approved yesterday by the industrial and public relations committee.

"The form of words was less objectionable than others, but in reality we could not accept the sacking of anyone", said Mr Lowes.

The resolution said all employees would be notified that from December 18, "the council will be unable to honour its contracts of employment and that accordingly the contracts will cease to exist".

Mr Derek Hatton, the committee chairman, said the letters would explain the situation and include a copy of the resolution. There would be a promise to re-engage everyone on April 1 or "such earlier time as the finances of the city makes possible".

He regretted the move, but blamed the Government for denying sufficient money to the council, which wants to borrow £25 million to see out the financial year.

The council set an inadequate rate of 9 per cent and faces a £80 million deficit, while 49 Labour councillors have been surcharged £106,000 by the district auditor after making a late rate.

Stop stewards have called a 24-hour strike for September 25 to show solidarity with the 49 councillors. Joint action is planned with Lambeth shop stewards, where 32 Labour councillors face a £126,000 debt. National strike action is expected to be announced in Liverpool on Monday.

Liverpool Tory and Liberal spokesmen condemned Labour moves yesterday. Mr Chris Hallows, the Tory leader, demanded a ballot of employees to test support for council policies.

He said Labour deliberately chose Christmas to create chaos in the city "showing a lack of care that is inhuman."

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ANNEX E

DRAFT LETTER TO C M REDDINGTON ESQ BCom IPFA MBCS, CITY TREASURER, CITY OF LIVERPOOL, PO BOX 1, MUNICIPAL BUILDINGS, LIVERPOOL L69 2DQ

The Secretary of State has considered your letter of 11 September seeking his consent under Schedule 13 of the Local Government Act 1972 to borrow £25m in 1985/86 in order to meet the shortfall between the City Council's proposed expenditure and revenues receivable in the year. It is the Secretary of State's general policy not to consent to such applications. He has nevertheless considered the City Council's application carefully, but has concluded that he should not give the consent you seek. It follows that the request in your letter that expenditure financed from such borrowing should be disregarded for grant holdback purposes does not arise.

The Secretary of State believes that one of the fundamental safeguards to the financial integrity of local government is the statutory requirement that each authority should make a rate sufficient to provide for such part of its total estimated expenditure in the year as is not to be met by other means. To have permitted the authority to borrow in this way to meet a budget deficit would have placed the City Council in even greater difficulty when the loans became repayable.

Moreover, the Secretary of State notes that in your report to a meeting of the Council's Finance and Strategy Committee on 6 September, you indicate that alternative options are open to the Council and state your opinion that it "should take urgent action to reduce its net expenditure and to balance its budget".

Ministers have repeatedly warned the City Council about the harmful effect which its policies are having on the people of Liverpool and on its own employees. It is for the Council to exercise its functions responsibly and to resolve the problems which it has itself created.

CONFIDENTIAL ANNEX F

LIVERPOOL SITUATION REPORT - ISSUES OTHER THAN THE BUDGET

I AUDITOR ACTION

1. The District Auditor issued certificates of surcharge to 49 Labour Councillors in Liverpool (and 32 in Lambeth) on 6 September. The total amount certified in respect of Liverpool is £106,103. Since the amount for each Councillor exceeds £2,000 they also face disqualification from office as a Councillor for five years. Public statements by the Councillors indicate that they intend to appeal against the auditor's decision (as they are statutorily entitled to do); they have 28 days in which to do so, and legal proceedings could well be prolonged into next year.

II POSITION OF THE ACCOUNTING OFFICER

2. Paragraph 2 of the situation report circulated on 29 July indicated the concern felt about the position of Accounting Officers in circumstances where the auditor could not gain access, and described the legal advice then obtained. That particular issue has not re-emerged; but analogous issues in respect of the position of the Accounting Officer begin to arise as the financial position of the Council appears to deteriorate. At present the view is that there is no firm evidence - such as was suggested to be necessary by Counsel - for stopping payments (eg of grants) to the Council or stopping approvals of schemes carried out by the Council but requiring some form of Government approval. The situation is being kept under review.

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III CREDIT

3. The Council is still unable to borrow from the PWLB, but it was rumoured in mid-August to have raised some £10m in the market (from a number of building societies) at slightly above the normal interest rate. We understand that the major debt redemption due at the end of August (some £25m) has been successfully financed with the money the City received from Knowsley to pay off debt associated with Council housing transferred in 1974.

IV HOUSING BENEFIT PAYMENTS

4. Earlier this year DHSS decided on legal advice that no payments of the rate rebate element of housing benefit could be made to authorities before they had set their rates. Payments amounting to £27m were therefore withheld from a total of 10-authorities, including Liverpool (£5½m). The loss of interest on this amount forms part of the auditor's case for surcharge.

5. DHSS are considering how the position should be regularised now that rates have been set, and have consulted other Departments. DHSS' conclusion is that to avoid legal challenge, gains and losses for individual claimants, and administrative problems for authorities, the only safe course is now to allow payment to be made as if rates had been made at the start of the year. In due course the relevant regulations will need to be amended to put the position beyond doubt.

6. The presentation of making these back-payments to 10 authorities will need careful handling. We can counter suggestions that we are "bailing out" Liverpool; not only will the change benefit individuals rather than the Council, but 9 other authorities are receiving the

same treatment. Furthermore the fact that no subsidy was paid to authorities during the period when they had no rate (the critical factor for audit surcharge purposes) is not affected. DHSS and DOE are in close touch on this matter.

V LIVERPOOL'S RATE SUPPORT GRANT POSITION

7. As a result of the reduction in their budget from £265m to £255m, and their subsequent completion of the relevant block grant form (RER 86), Liverpool are entitled to an additional £20m of block grant. 11 other authorities are in the same position of having submitted their form late, and it is proposed to make a Supplementary RSG Report for 1985/86 (probably in October) to get the books straight. Again we can counter suggestions of "bailing out" Liverpool; this is simply a matter of sorting out their grant position (along with that of other authorities) now that full information is available, and ensuring that they are getting neither more nor less than their entitlement. Grant would then come back into payment on 6 December - always assuming the continuation of Liverpool's financial standing to that time (see paragraph 2 above).

VI RATE LIMITATION

8. Liverpool have been selected for rate limitation in 1986/87. The Chief Executive has drawn to our attention a Finance and Strategy Committee resolution of 31 July that the Secretary of State should "withdraw the threat of rate capping". In reply it was noted that the Council had been designated and that they had the opportunity to apply for a redetermination of their expenditure level if they wished. The change in the Council's budget for this year does not affect the selection decision, which was taken on the best information available at the time.

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9. If Liverpool did apply for a redetermination, it would be necessary to consider carefully how to handle that application in the light of the present policy of no negotiation with Liverpool over their 1985/86 budget position. It would be necessary to distinguish very clearly between their expenditure level (which affects 1986/87) and their financial position in the current year. It could well be however that Liverpool will not in the event apply.

Department of the Environment

12 September 1985

End

13 JAN PM P C

PRIME MINISTER

H COMMITTEE:LOCAL GOVERNMENT ADVERTISING

H Committee took a paper on Wednesday by the Environment Secretary containing proposals for legislation to take forward the recommendations of the interim Widdicombe Report.

The proposals included restricting the authority for expenditure on information and publicity to Section 142 of the Local Government Act, and preventing 137 being used for this. There would also be a specific prohibition of references in advertising and publicity to particular political parties and individuals associated with them, or which were designed to affect public support for political causes.

Hartley Booth's note (Flag A) and the H Committee minutes (Flag B) show that, while the Committee accepted many of the proposals in the paper, the Chancellor of the Duchy of Lancaster effectively registered his concern that the definitions of political advertising would be by no means water-tight. It was decided that the Lord Chancellor's idea - to enshrine developing caselaw into statute - might offer a better way forward, and further thought is being given to this.

The legislation would form part of the Local Government Bill, which already has a place in the 1985/86 programme. The Royal Assent would have to be secured by 31 March, 1986. Once Parliamentary Counsel have prepared the draft Bill, L Committee will take a decision on whether it should be introduced.

Mark Addison

MS

(Mark Addison)
13 September, 1985

PRIME MINISTER

12 September 1985

LOCAL GOVERNMENT ADVERTISING
H COMMITTEE, 11 SEPTEMBER

H was impressed by Norman Tebbit's bundle of examples of local government political advertising. N.T. illustrated why the proposal of Kenneth Baker and the Attorney General would not stop much of the worst advertising, for example advertising aimed directly against the Government or particular Ministers. Instead, the proposal of the Lord Chancellor led H to sanction more research. This will be for DoE to explore the proposition that the law should expand case law to the effect that any local authority advertising which appears calculated or is intended to affect the conduct of future elections should be banned. We approve of this new line.

HB.

HARTLEY BOOTH

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

Prime Minister
Do you find presentation by slides helpful?

DRN 13/9

12 September 1985

Yes pls

Dear David,

E(LF) MEETING 23 SEPTEMBER

We spoke briefly about the arrangements for this meeting yesterday afternoon.

This is to confirm that, subject to the Prime Minister's views, my Secretary of State would very much like to give a slide presentation, lasting not more than 45 minutes, at this meeting. The presentation would follow on from the similar presentations given at previous meetings on the Local Government Finance Studies, and in Mr Baker's view, a pictorial presentation is by far the best way of making this necessarily complex subject as comprehensible as possible.

I should be grateful for your confirmation that this arrangement is acceptable. I am copying this letter to Richard Hatfield at the Cabinet Office.

Yours sincerely,

Robin.

R U YOUNG
Private Secretary

David Norgrove Esq

13. IX. AM 8 5

010/ 339

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CC ✓

pa (sent to PM in error)

Treasury Chambers, Parliament Street, SW1P 3AG

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

11 September 1985

Dear Kenneth,

1985 SURVEY: LOCAL AUTHORITY CAPITAL EXPENDITURE

In your minute of ~~4~~ 11 September to the Prime Minister, you proposed that we should live with the present control system for 1986-87, and I have reluctantly endorsed this.

You and other recipients may find it helpful to know how I propose that we should deal with local authority capital expenditure in the Survey, in the light of that conclusion.

We shall need to consider how much public expenditure can be afforded for local authority capital, programme by programme, within the planning total, in the light of the relative priority of different needs within the public sector. The control system must then be geared to deliver those public expenditure decisions. Allocations will need to be set at the level at which the aggregate of net spending is likely to be equal to the PES provision made for it, given the amount of independent spending power available to local authorities, for example from capital receipts.

But the level of allocations corresponding to a particular level of provision is of course a matter of concern to Departments. The following paragraphs therefore set out the arrangements I propose for relating allocations to provision in 1986-87. I hope they will be helpful to you and other colleagues, and simplify our negotiations.

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The total of allocations available at baseline net provision is £2,351m. This figure:-

a) assumes that 85% of total spending power is used; and

b) uses DOE's estimates of independent spending power from receipts and non-prescribed expenditure,

in determining the level of allocations which can be afforded. This allocation figure is lower than that for 1985-86, despite the higher net provision, because of the increasing size of spending power from accumulated receipts and increasing use of non-prescribed expenditure. To contain these pressures of extra spending within total provision at baseline, the level of allocations corresponding to baseline has to be reduced.

Choosing the method of dividing up this total is not easy. As a basis for Survey discussions I propose to assume that allocations will be equal to net provision, except that the residual amount available - £161 million - would be added to the amount for housing. This gives relatively generous allocations to those services carried out by the shire counties which have fewer receipts on which to draw, and gives housing the benefit of the residual in recognition of the non-prescribed proportion of housing receipts.

In these proposals the aim has been to simplify what could otherwise be excessively complicated discussions. To the same end, I propose that changes to "baseline" allocations should only be made if changes in provision of the same amount were to be agreed in the Survey discussions. This is both simple and reasonable, since the calculations described above already have a generous margin of excess spending power built into them, because of the assumption that local authorities are likely to use only 85% of their total spending power in any one year. We would simply be assuming that extra allocations at the margin would be fully spent.

For the later Survey years, we simply need to settle provision (as in previous years).

I am copying this letter to Douglas Hurd, Nicholas Ridley, Keith Joseph, Norman Fowler, Leon Brittan, David Young, Michael Jopling, Richard Luce, and Sir Robert Armstrong.

Yours ever,

JOHN MacGREGOR

ANNEX

1986-87 £m England	Housing	Education	PSS	Transport	OS*	Total
Baseline net provision in DOE/LA1 cash limit	968	269	73	629	251	2190
Allocations	1129	269	73	629	251	2351

* Other Services Block, including £11m education provision.

11.IX PM 85

MW

CONFIDENTIAL

cc OL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/37359/85

Your ref:

10 September 1985

Dear Tony,

HOUSING BENEFIT AND LOCAL AUTHORITIES WHO FAIL TO SET A RATE

Thank you for your letter of 22 August about payments of rate rebates to late rating authorities.

I am content with your proposals both to adjust the housing benefit regulations to allow rate rebate payments to be made as from the start of the financial year, and to make no retrospective change to Liverpool City Council's 1984/85 entitlement.

As you say, our two Departments will need to co-ordinate closely on handling. No doubt your officials will be in touch with mine both about defensive briefing on the back payments of subsidy and on the announcement of the regulations change which, as you say, might coincide with our announcement of legislation fixing a date for rate making, though we have yet to decide exactly when that will be.

I am copying this to John Moore, other members of MISC 109 and Sir Robert Armstrong.

Yours

Kenneth

KENNETH BAKER

Tony Newton Esq MP

CONFIDENTIAL

Relations: Local
Govt.
PL-28

10.IX. PM 6 5

10 DOWNING STREET

2

Prime Minister

To be aware of this correspondence. You already know of the £5·5 million of rate rebate payments to be made to Liverpool from the time they had no rate.

The important point here is that Liverpool is not being treated specially. The Govt. has not looked round for ways of help them out of the problems they created.

DHS
10/9

cc OK

NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

MEA

Mark Addison Esq
Private Secretary
10 Downing Street
LONDON

10 September 1985

Dear Mark,

Thank you for sending me a copy of your letter of 28 August to Robin Young about the powers of parish councils.

I am writing to confirm, perhaps unnecessarily, that we do not have parish councils in Scotland. Our community councils are not local authorities in the statutory sense: they have no statutory powers, and are given only such financial assistance as the appropriate District or Islands Council thinks fit - usually a small grant to cover administrative expenses.

The possibilities about which the Prime Minister is concerned do not therefore arise in Scotland.

I have sent copies of this letter to Robin Young and Colin Williams.

Yours sincerely,

John S. Graham

J S GRAHAM
Private Secretary

LOCAL GOVT: Relations: Pt 28

010/108

010

CONFIDENTIAL

cc 9c.

FROM: CHIEF SECRETARY
DATE: 10 September 1985

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986-87

I have seen Kenneth Baker's minute to you dated 4 September and agree that the Policy Unit's proposal will not, after all, improve matters. I therefore reluctantly agree with Kenneth's conclusion that we should now settle for living with the present system for 1986-87.

2 But since agreement on ways of curbing local authorities' spending power from receipts has not proved possible, we must also live with the lower level of allocations which becomes necessary to avoid overspending of baseline provision. We should not under estimate the difficulties of this course. But it would be wrong to increase provision when the reason for lower allocations is that local authorities have so much spending power from other sources.

3 I also agree with Kenneth that we must make early progress on proposals for longer term reform of the capital control system. The radical options based on control of borrowing have attractions if they can be made to work in practice and deliver effective control. But we shall need to be sure that this can in fact be done.

4 I am copying this to the other members of E(A) and to Norman Fowler, Keith Joseph, John Biffen, John Wakeham and Sir Robert Armstrong.

Jm

JOHN MacGREGOR

CONFIDENTIAL

LOCAL GOVT: Relations. A 28

10 JUN 1976

010

cuol

Prime Minister

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/87

with DN? TPM.

I have seen Kenneth Baker's minute of ~~4~~ September and the note by officials attached to it. I strongly agree with his views.

The overwhelming defect of the Policy Unit's proposal, from my point of view, is the drastic cut required in the total for capital allocations. Transport authorities rely very heavily on these allocations. Not only do transport receipts account for a much lower proportion of gross spending than in any of the other service blocks (less than 10% compared to over 50% for housing in 1984/85) but authorities with transport responsibilities have much less access to receipts from other services than do other authorities. Moreover, transport expenditure is needed primarily to support the business community and has remained consistently within our spending plans. I will therefore be pressing not only for an increase in provision for local transport capital, but also for an allocation total which reflects that provision. For transport, in particular, it would be quite inconsistent not to increase allocations in line with provision.

I am copying this to the other members of E(A), to Norman Fowler, Keith Joseph, John Wakeham, and to Sir Robert Armstrong.

NR

NR

10 September 1985

LOCAL GOVT : Relations iPE28

010

CONFIDENTIAL

CC OK

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/87

I am writing to register firm support for the general line adopted in Kenneth Baker's letter to you of 4 September on the control of local authority capital spending. with DN

The note prepared by officials clearly highlights the very real technical and presentational problems associated with attempting to implement the Policy Unit's ideas in 1986/87, either through primary legislation or novel use of existing provisions. Kenneth is surely right to argue for maintaining the status quo in terms of control, at least for 1986/87.

In any event, whatever is decided for England, there are no reasons which justify any material change in the control arrangements for Wales prior to the introduction of a well thought out long-term alternative. Capital spending in Wales in the present year is forecast as being within the 10 per cent tolerance around the cash limit agreed with Treasury. Spending is under control. Furthermore, the latest information strongly indicates that far from growing, the level of accumulated receipts held by Welsh councils could now be falling.

As for resources I can well understand the concern of colleagues in English spending Departments at the extremely sharp fall in the allocation total associated with any of the control systems linked to the present level of provision. Such a fall (however it was presented) would be seen by many, including a good number of our supporters, as a sign that we no longer favour capital against current spending. Our policy in this respect has not changed and we must therefore be careful not to provide our opponents with any opportunity to suggest that it has. The case for an adjustment to the existing local authority capital baselines to reinforce our policies and reflect reality will therefore need to be fully aired in the bilaterals.

As for the reform of the entire framework for controlling local authority capital spending I also am attracted to the idea of focussing attention primarily on borrowing, and am exploring the possibilities with the Welsh associations. I am sure none of us under-rate the difficulty of introducing a fully fledged EFL system for the local authority sector, but the rewards for finding a sound and workable system consistent with our radical ideas for the revenue side are worth striving for.

/ I am copying this to other members of E(A), to Norman Fowler, Keith Joseph, John Biffen, John Wakeham and Sir Robert Armstrong.

RE

9 September 1985

R N E

010/ 339

Personal

CONFIDENTIAL

David

We spoke.

Treasury Chambers, Parliament Street, SW1P 3AG

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

September 1985

1985 SURVEY: LOCAL AUTHORITY CAPITAL EXPENDITURE

In your minute of 4 September to the Prime Minister, you proposed that we should live with the present control system for 1986-87, and I have reluctantly endorsed this.

You and other recipients may find it helpful to know how I propose that we should deal with local authority capital expenditure in the Survey, in the light of that conclusion.

We shall need to consider how much public expenditure can be afforded for local authority capital, programme by programme, within the planning total, in the light of the relative priority of different needs within the public sector. The control system must then be geared to deliver those public expenditure decisions. Allocations will need to be set at the level at which the aggregate of net spending is likely to be equal to the PES provision made for it, given the amount of independent spending power available to local authorities, for example from capital receipts.

But the level of allocations corresponding to a particular level of provision is of course a matter of concern to Departments. The following paragraphs therefore set out the arrangements I propose for relating allocations to provision in 1986-87. I hope they will be helpful to you and other colleagues, and simplify our negotiations.

CONFIDENTIAL

The total of allocations available at baseline net provision is £2,351m. This figure:-

a) assumes that 85% of total spending power is used; and

b) uses DOE's estimates of independent spending power from receipts and non-prescribed expenditure,

in determining the level of allocations which can be afforded. This allocation figure is lower than that for 1985-86, despite the higher net provision, because of the increasing size of spending power from accumulated receipts and increasing use of non-prescribed expenditure. To contain these pressures of extra spending within total provision at baseline, the level of allocations corresponding to baseline has to be reduced.

Choosing the method of dividing up this total is not easy. As a basis for Survey discussions I propose to assume that allocations will be equal to net provision, except that the residual amount available - £161 million - would be added to the amount for housing. This gives relatively generous allocations to those services carried out by the shire counties which have fewer receipts on which to draw, and gives housing the benefit of the residual in recognition of the non-prescribed proportion of housing receipts.

In these proposals the aim has been to simplify what could otherwise be excessively complicated discussions. To the same end, I propose that changes to "baseline" allocations should only be made if changes in provision of the same amount were to be agreed in the Survey discussions. This is both simple and reasonable, since the calculations described above already have a generous margin of excess spending power built into them, because of the assumption that local authorities are likely to use only 85% of their total spending power in any one year. We would simply be assuming that extra allocations at the margin would be fully spent.

For the later Survey years, we simply need to settle provision (as in previous years).

I am copying this letter to Douglas Hurd, Nicholas Ridley, Keith Joseph, Norman Fowler, Leon Brittan, David Young, Michael Jopling, Richard Luce, and Sir Robert Armstrong.

JOHN MacGREGOR

ANNEX

1986-87 £m England	Housing	Education	PSS	Transport	OS*	Total
Baseline net provision in DOE/LA1 cash limit	968	269	73	629	251	2190
Allocations	1129	269	73	629	251	2351

* Other Services Block, including £11m education provision.

2

PRIME MINISTER

6 September 1985

LIVERPOOL

Liverpool City Council has announced that it will now be putting its staff on three months notice.

This is not a sign of imminent disaster. On the contrary, it indicates that the Council expects to survive at least until December. One of the main points of the move is to apply pressure on the Government: the war of nerves has begun in earnest.

The District Auditor is also beginning to take more visible action. Unbeknownst to the Council, he will be issuing surcharge notices on Saturday: these should reach Councillors on Monday, at which stage some of them may, for the first time, realise that this is not a game. (We understand that the initial surcharge will be about £2,000 per Councillor).

In the meanwhile, the Council have apparently decided to ask Ken Baker for permission to borrow £25 million against next year's rates. Ken has a statutory duty to 'consider' any such request if it is formally made. But he would be misguided to give permission, since that would be represented as a massive climb-down.

See his forthright statement attached DRN

As before, the correct policy for the Government is to remain calm and do absolutely nothing, since there is still a good chance that the Council will find its own ways of rescuing the position. Two encouraging developments are in the wind:

- the Council will be getting a bonus of £5.5 million in unpaid housing benefit subsidy from the DHSS before 15 September;

- the Liverpool Echo and other sources have reported attempts to sell off some major city-centre sites worth £20 million or so.

You should be receiving another official MISC 109 report within a few weeks: until then, there is no need for you to take any action.

Oliver Letwin.

OLIVER LETWIN

PRIME MINISTER 5 September 1985

LOCAL AUTHORITY CAPITAL SPENDING 1986/7

The official analysis shows that our proposed method of ending the build-up of 'accumulated receipts' is technically feasible and could probably be introduced without primary legislation. But spending Departments are extremely unhappy about the effect on borrowing allocations.

There is no way of squaring this circle.

The present system allows authorities to spend only 25% of their receipts in the year in which they are received. The remaining 75% of the money received counts as negative public spending, and borrowing allocations can be increased pro rata, without overshooting the PESC baseline. The problem is that the 75% crops up again in the form of 'accumulated receipts' (ie accumulated spending permissions) in later years.

Our proposal would allow authorities to spend the full 100% of their receipts in the year in which they are received. As a result, there would be no accumulation of spending permissions in later years. But in contrast to the present system, the bonus of negative public spending equal to 75% of in-year receipts would disappear; borrowing allocations could not, therefore, be increased without overshooting the PESC baseline.

From the point of view of local authorities as a whole, the effects of the two systems in 1986/7 would be nearly identical: they would be able to spend roughly the same amount either way. But a change to our system would produce big gains and losses for individual authorities.

a. those with large in-year receipts would gain;

b. those with small in-year receipts would lose.

The spending departments argue that:

i. Some of the Government's supporters in the shires and districts would be furious because they have already sold off everything in sight and consequently now have small in-year receipts.

ii. This is too late in the financial year to introduce such gains and losses.

iii. Spending Ministers should be able to control local capital spending by fine-tuning borrowing allocations: any system which leaves so much to local initiative is objectionable.

Argument iii. can be dismissed. Central control of local capital spending has never worked: it would be better to let local authorties earn more of their spending by selling off surplus property.

But arguements i. and ii. have some force. Many of the Government's supporters do feel that they have already sold off enough property; and it is late in the year for such a big change in the system.

Given these problems, the Treasury do not seem willing to push for the proposed changes. And they have given up on their own legislative proposals, because the Whips have convinced them there would be a massive rebellion in both Houses.

<u>We reluctantly conclude</u> that it will not be possible to get either our system or any other equivalent changes into

operation for 1986/7. The result of this failure will be another big addition to 'accumulated receipts' - probably in the region of £500 million - £700 million.

Such a disappointing outcome will be tolerable only if the Government moves rapidly towards more honest accounting practices. This means:

i. getting a proper new system in place for 1987/8, regardless of the progress of the other local finance reforms;

ii. ensuring that, in 1986/7, the net provision announced in the Public Expenditure White Paper is not overspent.

Last year, the Government fudged its estimates of local spending to produce larger allocations than were compatible with the net provision; as a result, a £600 million overspend is predicted for 1985/6. To avoid a repetition in 1986/7, Departments will have to be told that allocations must this time be based on realistic estimates of local spending. True, this will increase the pressure for higher net provision, but it will ensure that the figure agreed in the Survey is actually delivered.

We recommend that you should reply to Ken Baker, making these points explicitly and strongly. A draft reply is attached.

I have changed this somewhat. The draft is attached to my minute.

OL Let.

OLIVER LETWIN

Prime Minister 2

DBS 6/9.

438 5 September 1985

KENNETH BAKER NOT CONVINCED

Kenneth Baker immediately responded this afternoon to Liverpool City Council's announcement that they intend to make 30,000 employees redundant and to ask him for permission to borrow £20m for revenue purposes.

The new Secretary of State for the Environment said:

"The City Council have brought this situation upon themselves. Their responsibilities for properly managing the City's affairs are clear. They have chosen to abrogate those responsibilities and the city as a whole will suffer in consequence.

"I urge them to face up to their duties as Councillors and to begin to set their house in order in ways that will do the least damage to the services they provide and cause the least suffering to the people of Liverpool and their own employees. For their own political ends they seem bent on a course that will cause the greatest possible harm. Such irresponsibility can only be utterly condemned.

"I will of course consider the application which I understand Liverpool are making for consent to borrow £20m for revenue purposes. Any such borrowing would have to be repaid out of revenues in future years. No other local authority has so mismanaged its affairs as to make such an application necessary. I am far from convinced that Liverpool have fully explored all the options available to them".

Press Enquiries: 01-212 4682/3/5/6
(out of hours: 01-212 7132)
Public Enquiries: 01-212 3434
(ask for Public Enquiries Unit)

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CCOL

PRIME MINISTER

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/87 Flup PE27

At the meeting which you chaired on 31 July, it was agreed that further consideration should be given to a proposal by the Policy Unit.

I attach a note prepared by officials in this Department, in all the local authority spending departments and in the Treasury, analysing the proposal. The conclusion, with which I am bound to say I very much agree, is that the attractions which we saw in this at your meeting do not stand up to closer examination. There are a number of difficulties, but the overriding one is that on any realistic assumption about planned levels of expenditure basic allocations would fall to a level which would be highly damaging, politically and practically. Local Government, and their supporters in Parliament, would be up in arms; and we would find it quite impossible either to provide adequately for authorities with genuine spending needs or to exercise any real influence over local spending decisions.

Reluctantly, I believe that we should now settle for living with the present system for next year. We have failed to come up with any change for 1986/87 which does not create greater problems than it solves. The imediate difficulty about retaining the present system is that, if we wanted to be reasonably sure of delivering a cash limit derived from the present PESC baseline, then allocations would be demonstrably inadequate. In total, they would amount to some 77% in cash terms of the level for 1985/86 - and that level is already well below, even in cash terms, what we had given in previous years. Accordingly, in common with my colleagues in other spending departments, I shall have to continue to press in the bilaterals the case which we have already made for raising provision to more realistic levels.

I recognise that the failure to find an interim system which stops the accumulation of receipts leaves a longer term problem. It makes it all the more important to introduce long-term changes without further delay. Of the options we have been considering I am very attracted by the more radical borrowing systems, either EFLS or a control of net external borrowing for capital purposes. We are exploring various ways of approaching these options with local authority associations, including one which is based on similar principles to the Policy Unit proposal.

I am determined that we should devise an effective system, which those who have to operate it believe will work at national and local level. I will make firm proposals shortly.

I am copying this to the other members of E(A), to Norman Fowler, Keith Joseph, John Biffen, John Wakeham and Sir Robert Armstrong.

KB
4 September 1985.

K.B.

CONFIDENTIAL

LOCAL AUTHORITY CAPITAL EXPENDITURE 1986/87: ANALYSIS OF NO 10 POLICY UNIT PROPOSAL

1. This note has been prepared by officials following the Prime Minister's meeting on 31 July, at which it was agreed that the ideas put forward by the Policy Unit should be developed further. Paragraphs 2-13, containing a factual description of the proposal and its effects, have been agreed between the major spending departments, Treasury and the Policy Unit. The assessment in paragraphs 14 to 26 represents the views of the spending departments and, where mentioned Treasury, but not necessarily those of the Policy Unit. This agreement by officials in no way implies the commitment of Ministers.

Details of the proposal

2. The details of the Policy Unit proposal, as originally envisaged, are as follows:

a. Each authority would be given a borrowing approval (not, as now, an expenditure allocation).

b. In addition, it would be able to spend:

i. a proportion, say 10%, of its receipts accumulated up to 31 March 1986;

ii. its in-year receipts in full; and

iii. contributions from revenue to capital, limited only by the constraints on revenue spending created by block grant mechanisms and, where appropriate, by rate limitation.

c. At national level, there would be no change in public expenditure definitions. But the only controlled elements would be new borrowing and the use of accumulated receipts. A control total covering these two elements would be set in the PESC round. Borrowing approvals would be equal to the control total less the assumed use of accumulated receipts. The use of in-year receipts and revenue contributions would be uncontrolled.

Giving effect to the proposal

3. The Policy Unit envisaged that the new regime would be introduced for 1986/87 by means of urgent primary legislation. The Secretary of State indicated in discussion that it might be possible to introduce it without such legislation.

4. The following features of the proposal need primary legislation if they are to be carried through exactly as envisaged:

a. Changing from expenditure allocations to borrowing approvals as the basis for control. Under present legislation, the Secretary of State has a duty to set an allocation for each authority.

b. Prescribing different proportions in respect of accumulated and in-year receipts. Under present legislation, different proportions may only apply to different classes of receipt.

c. Providing for the spending power from in-year receipts, and from the permitted 10% of accumulated receipts, to disappear at each year end if unused. Under present legislation, the cascade rule applies.

5. A further piece of legislation would be helpful to the system. If the spending power from receipts is to disappear at each year end, it must not be possible for the cash from such receipts to be channelled into capital expenditure in the guise of revenue contributions in a subsequent year. The most certain way to achieve this would be to define "borrowing" for the purposes of the annual borrowing approval as external borrowing for capital. The drawing down of cash from earlier years' receipts would then count against the borrowing approval. Legal advice suggests that a slip in consolidating legislation may mean that borrowing is correctly so defined under present legislation. But within local government, borrowing approvals are universally taken to apply to new borrowing for capital by service departments from the authorities' own loans funds, ie internal borrowing. (External borrowing, as such, is not therefore controlled.) DOE officials believe that the more restrictive interpretation would be so controversial as to be quite impossible to impose in practice without amending legislation. Besides, finding a means of operating a control over external borrowing for capital would be difficult; no satisfactory method has been found to date in the longer term review.

6. QL reserved one clause in the Local Government Bill for capital. Space problems apart, there are political difficulties about interim primary legislation. A close proxy for the Policy Unit proposal which would require only secondary legislation might operate as follows:

a. Each authority would be asked to provide information as to the level of its accumulated receipts.

b. It would be given a capital allocation, which would contain basic elements reflecting spending departments' assessments of relative need as now, plus an amount equal to 10% of its accumulated receipts (either as part of service allocations or as a single separate block).

c. It would be given a borrowing approval equal to the basic elements (plus or minus marginal adjustments, as now)

d. A regulation would be made to the effect that receipts arising prior to 1 April 1986 would not count as receipts. (This would need to be rolled forward each year.)

e. All prescribed proportions for receipts would be revoked, with the effect that in-year receipts could be spent in full in addition to allocations.

f. Expenditure financed from revenue would be exempted by regulations from being prescribed expenditure, so that authorities could finance as much spending that way as they could afford.

7. Three legal issues are being checked:

a. The Solicitor General advises that allocations to individual authorities may not take account of those authorities' individual levels of receipts. Under the proxy system described above, allocations would include an allowance for accumulated receipts.

It may still be regarded as acceptable to take account of sums which have been deemed by regulations no longer to be receipts. If not, the proxy system founders without legislation.

b. Is the cutting off of all accumulated receipts a reasonable use of the relevant regulation-making power? Again, this is crucial to the proxy system.

c. "Revenue contribution" would have to be defined tightly enough to exclude cash from accumulated receipts. An alternative approach would be to make revenue contributions allowable as a supplement to allocations only up to a certain limit. This would make the source of the revenue contributions very much less relevant. It has other attractions, but also substantial drawbacks. It is further discussed in paragraph 11 below.

The numbers

8. The Chancellor indicated at the 31 July meeting that he was prepared to consider agreeing to uncontrolled use of revenue contributions, and to accept that overall levels of local authority expenditure might rise above present provision as a result, provided that the system led to a worthwhile switch from current to capital expenditure. The likely effects of the proposal have been analysed with this in mind.

9. The results are set out in Table 1. Two scenarios have been used. Column 1 is based on the assumptions that, as the Policy Unit originally envisaged, the control total would be equal to the basic elements in allocations plus the assumed level of use of accumulated receipts; and that it would be set around the level of baseline net provision, £2150m*. Given further assumptions, described in the footnotes to the table, gross outturn would be around £4750m, which happens to be broadly the level implied by departments' bids in the present PESC round. Column 2 is based on the assumption that gross expenditure is intended to be at the level of baseline gross provision, £4150m.

10. We assume that the pressures for capital expenditure will lead to some switching from current to capital if revenue contributions are unconstrained. But the pressures for current spending are themselves considerable. We have therefore assumed that at least 20% and no more than 50% of the increase in revenue contributions will be in substitution for current spending, and that the rest will be an absolute addition to public expenditure. But these estimates are necessarily extremely uncertain. The figures are given in the Table.

---

* This and certain other numbers used in the analysis are those familiar from earlier Ministerial discussions. Latest figures vary slightly, but not enough to affect the argument.

11. We have also examined the option referred to above of limiting the amount of supplementation from revenue contributions. Such a limit might be selected not only to get round any definitional problem but also because it would enable basic allocations to be greater. It would have the disadvantage of offering authorities less flexibility, and in particular preventing them from saving from revenue over a number of years for a major project, and would make the presentation of the system as offering new freedom harder to substantiate. Realistically, the extreme case of such a limit would be where it was set to deliver present levels of revenue contribution, ie around £500m excluding the GLC. The effects of such a limit, on the same two scenarios as before, are shown in Columns 3 and 4 of the Table.

12. Columns 5 and 6 show the effects of the status quo, again on the same two assumptions as to intended gross outturn. This assumes no changes in either primary or secondary legislation. Use of capital receipts would be subject to the same prescribed proportion as now. The amounts available for allocation service by service would be derived from net provision and the non-prescribed proportion of estimated in-year receipts. For 1985/86 they were modified by adjustments having regard to the planned gross expenditure figure. The figures in the table assume that a similar adjustment would be made for 1986/87 designed to deliver spending within the cash limit. The calculation is shown in more detail in Table 2. Column 7 shows for comparison the allocation figure this year.

13. The results may be summarised as follows:

ie the level implied by departmental bids.

a. To achieve gross outturn of £4750m, basic allocations would be in the region £1450m to £1700m with no limit on revenue contributions, and around £1950m with the lowest feasible limit, compared with £3075m under the status quo and £3045m this year. Capital expenditure would exceed baseline by some £600m. With no limit on revenue contributions, up to £250m of that might be a switch from current; the rest would be an addition to public expenditure.
With the limit on revenue contributions, it would all be additional.

ie baseline gross provision

b. To achieve gross outturn of £4150m, basic allocations would be in the region £850m to £1100m with no limit on revenue contributions, and around £1350m with the lowest feasible limit, compared with £2350m under the status quo and £3045m this year. Capital expenditure would be at baseline. With no limit on revenue contributions, and hence a switch from current, there could be a reduction in public expenditure of up to £250m.

Assessment

14. As stated above, the assessment in the remainder of this note represents the views of the spending departments and, where mentioned, Treasury, but not necessarily those of the Policy Unit.

15. Table 1 demonstrates that, for a given level of intended gross expenditure, the Policy Unit proposal - with or without a constraint on the supplementing of allocations from revenue - will always give lower allocations, and permit greater additions on top of allocations, than the status quo.

16. Authorities would welcome the unconstrained use of in-year receipts and the scope for additional revenue contributions. (Their enthusiasm for the latter would be tempered if the scope were subject to a fixed limit. In that case, the total of allocations plus additions from revenue would be fixed and it would be hard to stop authorities thinking of that fixed total as merely equivalent to old-style allocations but with a reduced rate of borrowing approval.) On the downside, the proportion of accumulated receipts which could be spent would be reduced, as would allocations.

17. There are thus in presentational terms both advantages and disadvantages to the Policy Unit proposal as compared with the status quo. The factor which, in the view of officials in the spending departments, tips the balance of advantage heavily against the new proposal is the scale of the reduction in allocations - only about 60% of those available under the status quo, even with limited revenue contributions. Such a reduction, coupled with the cut in the use of accumulated receipts, and notwithstanding the added flexibilities, would create uproar with local authorities and with their supporters in Parliament.

18. There are severe practical implications too. Possible levels of allocation for each service block are illustrated in Table 3. Table 4 shows the consequential levels of spending power for each class of authority. The areas of greatest spending need tend to be those least able to generate receipts and most tighly constrained on the revenue side. Spending departments regard it as essential to be able to adjust relative levels of allocation year by year to reflect changing need; but with such low levels of allocation the scope for this would be severely damaged. The scope for the expression of central government policies for individual services through the allocations given for each service block would also be reduced.

19. For Housing, the Housing Investment Programme system in its present form would probably have to be scrapped. Allocations would have to be heavily concentrated on urban authorities, many of which have very little scope for selling assets to raise receipts. Other authorities would receive little or no allocation. Even with such a drastic change, inner city authorities' allocations would still be very sharply reduced (to less than half their 1985/86 level on the most restrictive version of the proposal). Many autorities would be unable to meet their contractual and statutory commitments.

20. For Other Services, local authorities' spending choices indicate that provision and allocations for this block are already seriously inadequate. Again, the Policy Unit proposal would bear very hard on those authorities unable to generate their own spending power. The local authority associations would almost certainly refuse to make recommendations on the distribution of the tiny residual allocations.

21. For Transport, DTp say that they require a high level of allocations in relation to PES provision, as a means of influencing local authority spending on transport. Local authority roads complement the national network and therefore the Secretary of State needs to be able to indicate his priorities. Similar considerations apply to airports, where the Government are committed to supporting financially worthwhile

investment with capital allocations. Transport authorities rely heavily on allocations because the proportion of receipts in relation to gross spending on transport is lower than for other services, and because the authorities concerned have relatively little access to receipts from other services.

22. For Education, where local authorities are under statutory duties to make a sufficient level of provision, to carry out approved proposals and to meet prescribed standards, similar considerations apply. DES believe that the lack of scope for distributing spending power to reflect need would leave many local education authorities unable to meet contractual commitments and statutory obligations which are dependent for their fulfilment on capital expenditure. They believe that the levels of allocation would be seen as derisory.

23. For Personal Social Services, authorities are being encouraged to develop community care for clients in line with Government guidance. DHSS point out that social services departments have relatively small capital programmes and only limited possibilities for generating receipts. They consider that the proposed restriction on the use of receipts after the year in which they are generated is likely to prove fatal to modernisation programmes which rely on sales of existing capital stock to allow new development to take place.

24. The Audit Commission report on capital said that local authority capital programmes need to be planned at least three years ahead if waste and inefficiency are to be avoided. Substantial staff and financial resources will already be committed to 1986/87 projects. In the absence of any guidance, local authorities will be assuming that the regime next year will be substantially the same as this, with unchanged prescribed proportions and allocations running at least at 70% of 1984/85 levels for Housing and Other Services. Discussions with local authorities about provision for 1986/87 are already under way: for example, DOE regional offices are in the middle of their round of meetings with all housing authorities, while transport authorities have made their programme bids for capital allocations and TSG and DTp regional offices are at an advanced stage in preparing advice on these bids. The effect of the Policy Unit proposals would be a considerable shift of resources (which are in any case in aggregate well below recent years' outturn) towards those authorities with the prospect of substantial in-year receipts at the expense of the rest. DOE estimate that if the system had operated for 1985/86, some authorities' resources from receipts and allocations would have been more than halved, others' very substantially increased, compared with the actual position. Some authorities would have been unable even to meet their commitments. The disadvantaged would include not only authorities which are unwilling to sell assets but also those with few assets to sell and - crucially, from the point of view of equity - those which most enthusiastically adopted Government policy in earlier years and have already disposed of their readily saleable assets. The scope to make revenue contributions would give such authorities theoretical flexibility, but in practice the RSG regime for 1986/87 is designed to maintain a strong disincentive to revenue spending.

25. The proposals would only be announced in September or more likely October, very late indeed for what would represent a radical shift in the Government's approach to the control of capital spending. The Government would be criticised for acting directly contrary to the recommendations of the Audit Commission and causing waste and inefficiency. Treasury share the concern of spending departments about the disruption which switching to the new system for 1986/87 at such a late stage would cause.

26. Such an announcement would also complicate at a very late stage the rate support grant settlement for 1986/87. The likelihood that the new arrangement would lead to higher revenue contributions than hitherto assumed would necessitate reconsideration of the aggregates of relevant expenditure and grant. GRE methodology would need to be recast to take account of the new capital control system, inevitably in a rough and ready way: this would add to the distributional upsets already expected from the decision to increase block grant pressures on expenditure, and from the abolition of the GLC and metropolitan county councils.

Conclusion

27. The raison d'etre of the Policy Unit proposal is to stop capital spending power from accumulated receipts mounting up. The spending departments believe that it would achieve that only at a very considerable political and practical price. Politically, there would be an outcry at the low level of allocations, despite the offset of greater freedom to add to them; at the further reduction in the prescribed proportion for accumulated receipts; at the unfairness of penalising those which have responded to Government policy by selling assets; and at the lateness of the change. Practically, the lateness would be highly disruptive. The ending of redistribution would leave many needy authorities short of resources; would destroy an important means of influencing local government policies in the direction of achieving greater value for money; and would run counter to the Audit Commission plea for greater stability to promote sensible long-term planning. The change in the system would be seen as very substantial and would be hard to present as a reasonable short-term measure pending the outcome of the present review.

28. The status quo has none of these disadvantages. It avoids the need to put any proposals to Parliament. At baseline, it gives higher allocations than any other proposal which has been under discussion, except the Treasury version of ending the cascade, which would have secured higher allocations only at the price of the virtual elimination of receipts as a spending power. Even with the status quo, if baseline provision were not increased allocations would be very much reduced from this year; but the level of provision can be debated further in the PESC round. The split between services will also need further discussion. All solutions for 1986/87 are far from perfect, because the position we start from is the product of an imperfect system. But maintaining the status quo looks the least unattractive.

TABLE 1

1986/87 DOE/LA1 ALLOCATIONS AND EXPENDITURE ASSUMPTIONS

£m

	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7
	POLICY UNIT PROPOSAL (with unconstrained revenue contributions)		POLICY UNIT PROPOSAL (with contrained revenue contributions)		STATUS QUO		1985/86 ALLOCATIONS
1. Gross capital expenditure assumption[1]	4750	4150	4750	4150	4750	4150	
2. Assumed use of in-year receipts[2]	1500	1500	1500	1500			
3. Assumed use of revenue contributions[3]	750 to 1000	750 to 1000	500	500			
4. Assumed level of notional non-prescribed expenditure[4]	250	250	250	250	SEE TABLE 2		
5. Allowance for accumulated receipts[5]	550	550	550	550			
6. Total for basic allocations (1-2-3-4-5)	1450 to 1700	850 to 1100	1950	1350	3075	2350	3045[8]
7. Reduction in revenue expenditure[6]	100 to 250	100 to 250	nil	nil	nil	nil	
8. Increase (+)/decrease (-) in public expenditure over present baseline	350 to 500	-250 to -100	600	nil	600	nil	
9. "Capital contr ibution" to LABR[7]	1500 to 1750	900 to 1150	2000	1400	2000	1400	

FOR FOOTNOTES PLEASE SEE OVERLEAF

NOTES:

1. Calculations are shown for gross capital expenditure assumptions of £4750m and of £4150m (PESC baseline).

2. It is assumed that 75% of the baseline level of receipts (£2000m) would be used.

3. Revenue contributions (including transfers from special funds) were about £700m a year between 1980/81 and 1983/84 (the latest available year). The GLC accounted for about £200m of this. It is assumed that there would be a rise in such contributions but revenue constraints would prevent their exceeding £1000m. It is assumed that in the constrained version of the Policy Unit proposal they could not be reduced below their historic level (excluding GLC).

4. Non prescribed expenditure includes both real expenditure (eg on de minimis items) and notional expenditure on leasing. The latter would still be an addition to public expenditure. The former would have to be met from borrowing allocations or revenue contributions and is omitted from the above figure.

5. It is assumed that 85% of the £630m available would be used.

6. For assumptions, see text.

7. This is not equivalent to a true capital borrowing requirement since it ignores grants, repayment of debt etc. However comparison between columns provides an indication of the relative effects of the various options on the LABR.

8. Including up to £100m in supplementary allocations for compliance within the request for restraint in 1984/85 and for Housing defects.

1986/87 DOE/LA1 ALLOCATIONS UNDER THE PRESENT SYSTEM WITH GROSS PROVISION OF £4150m (BASELINE) AND £4750m

£m

Gross capital provision	4150	4750
Spending power compatible with provision (assuming 85% use)	4875	5600
less spending power from:		
in-year receipts (25% of 2000)	500	500
accumulated receipts (25% of 6300)	1575	1575
non-prescribed expenditure	450	450
	----	----
Available for allocation	2350	3075

TABLE 3

1986/87 DOE/LA1 ALLOCATIONS BY SERVICE BLOCK (SPLIT PRO RATA TO THE MID POINT BETWEEN NET AND GROSS PROVISION[1])

£m

	POLICY UNIT PROPOSAL (with unconstrained revenue contributions)		POLICY UNIT PROPOSAL (with constrained revenue contributions)		STATUS QUO		1985/86 ALLOCATIONS
Gross capital expenditure assumption	4750	4150	4750	4150	4750	4150	
Allocations:							
Education	160	100	200	140	315	240	315
PSS	45	25	55	35	85	65	70
Transport	360	225	445	310	705	540	640
Housing	800	495	990	685	1560	1190	1600
Other Services	210	130	260	180	410	315	320
TOTAL	1575	975	1950	1350	3075	2350	3045[2]

1. This split is for illustrative purposes only. It does not necessarily represent what the actual distribution between services would be.

2. Including up to £100m in supplementary allocations for compliers with the 1984/85 request for restraint and for housing defects, not included in service totals.

1986/87 SPENDING POWER FROM RECEIPTS AND ALLOCATIONS

NB Excludes spending power from notional non-prescribed expenditure and revenue contributions. See cols (8) and (9) for levels of those in earlier years

	POLICY UNIT PROPOSAL (with unconstrained revenue contributions)		POLICY UNIT PROPOSAL (with constrained revenue contributions)		STATUS QUO		1985/86 SPENDING POWER	1984/85 NOTIONAL NON-PRES. EXPENDITURE	1983/84 REVENUE CONTRIBUTION
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Gross capital expenditure assumptions	4750	4150	4750	4150	4750	4150	-	-	-
SPENDING POWER[1]									
Shire Counties	620	480	700	565	955	790	865	35	210
Shire Districts	1710	1540	1820	1645	1840	1630	1780	60	145
Metropolitan areas	810	655	910	755	1110	925	1065	105	100
London	1065	930	1150	1015	1245	1080	1185	50	245[2]
TOTAL	4205	3605	4580	3980	5150	4425	4995[3]	250	700
of which:									
Allocations	1575	975	1950	1350	3075	2350	3045[3]	-	-
In-year receipts	2000	2000	2000	2000	500	500	500	-	-
Accumulated receipts	630	630	630	630	1575	1575	1450	-	-

1. Assumes allocations are split to classes by service departments pro rata to 1985/86 split.
2. Of which GLC accounts for £200m.
3. Including up to £100m for supplementary allocations for compliers with the 1984/85 request for restraint and for housing defects, not included in class totals.

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cc OK

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

30 August 1985

Prime Minister

To note that Sir Keith is cautious about the possibility of getting the ILEA out of County Hall by April 1987, and about the cost.

DRN 2/9.

Dear Ken.

GLC COUNTY HALL

Thank you for your letter of 21 August, which was not received here until a week later.

I am glad to know that Sir Godfrey Taylor is keen to get to grips with the task of attempting to clear the riverside block of County Hall for disposal. I am sure that it is right that he should have an early discussion with Mrs Morrell.

No doubt putting the worst possible face on it.

Planning a relocation from their present quarters will obviously be a major task for the ILEA; I enclose, in case you have not seen it, a copy of their paper outlining the work and the costs involved. New accommodation would have to be adapted to provide a council chamber; planning and completing that in time for them to move in within a year of abolition would be a tall order. In the same period the ILEA will be preoccupied with shaking down their new support services established to replace those at present bought in from the GLC; there must be some doubt about their capacity to plan and execute a relocation in addition. I would not want them to be able to say that they were so preoccupied with dealing with the effects of abolition that they could not attend to other matters on which we are pressing them to concentrate, such as educational standards and high spending. I sympathise with Sir Godfrey's desire to set himself a tight deadline and I want to suggest no discouragement, but he will need to discuss with Mrs Morrell what would be practicable.

/We shall

Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment
2 Marsham Street
London SW1

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We shall also have to consider in due course the financial terms of the relocation. You say that the London Residuary Body may offer some compensation to the ILEA to offset their relocation costs to some extent at least. Any relocation costs not so offset would of course fall on the education budget. I should be most reluctant to be forced to increase the ILEA's capital or recurrent budget to pay for alternative office accommodation; and I cannot imagine that you would be keen to give them the opportunity to say that abolition had increased their costs. I hope that this can be borne in mind.

I should be grateful if you would keep me closely in touch with the development of Sir Godfrey's thinking as to what solutions are feasible for County Hall.

I am sending copies of this to the Prime Minister and John Biffen and, in view of what I have said about the financial terms of the relocation, to Peter Rees.

Yours ever,

Ken.

INNER LONDON EDUCATION AUTHORITY

EDUCATION COMMITTEE

Extract from the agenda paper for the meeting of the Education Committee held on 5 February 1985.

Report No. 1 of the Development Sub-Committee

16 January 1985

THE AUTHORITY'S CENTRAL OFFICE ACCOMMODATION

1* The Committee on 18 September 1984 instructed us to report on the provision of suitable premises for the Authority should County Hall in future be no longer available.

At a meeting with Sir Keith Joseph, Secretary of State for Education and Science, on 19 November 1984, the Leader of the Authority sought an assurance about the Authority's security of tenure in its present headquarters. The Secretary of State was unable to give such an assurance although, as reported to the Committee on 20 November 1984, he did deny the existence of any plans to require the Authority to leave County Hall. If the Local Government Bill is enacted, the County Hall complex could be transferred to the London Residuary Body in accordance with clause 59 or to the Authority in accordance with clause 92.

The administrative headquarters of the Education Committee of the London County Council and of its successor, ILEA, has been in the main County Hall building since it opened in 1922. The premises are at present almost debt free and in consequence the major capital cost or rental equivalent of alternative premises would be a new and heavy burden on the education service unless the Authority were offered equivalent payment. An inner London education service needs for effective and efficient operation a central location accessible to its members, staff and users and the suitability of the present building, specifically designed for a public authority, is highlighted by consideration of the difficulties which would confront the Authority if it is compelled to find alternative accommodation.

The usable floor area of the County Hall complex is 807,000 sq. ft. (75,000m^2) of which the main building represents more than 462,000 sq. ft. (43,000m^2). The present Authority's members are also GLC or borough council members. It can be assumed that many of the 58 members at present proposed for the new directly-elected authority will not have bases elsewhere, so there would need to be sufficient accommodation for all members and their support staff. Moreover, facilities which are currently shared, such as the council chamber, restaurants, and committee and conference rooms would need to be provided, leading to a substantial increase in the amount of space allocated solely to the activities of the new authority.

The Authority's headquarters staff total 1,334 and occupy accommodation in different parts of County Hall (main building), Addington Street annexe, Weston Street and shortly City House. These staff and members now occupy office space of 137,000 sq. ft. (12,800m^2). Nearly 1,000 staff supporting the Authority's work (architects, valuers, engineers, committee clerks, etc.) currently occupy approximately 98,000 sq. ft. (9,100m^2) of usable office space. Services which the Authority obtains from the GLC, such as computing, typing and reprographics, catering, libraries, cleaning, deliveries, garage, telephones and heating would also require accommodation. If the Authority is to be self-sufficient in accommodation and staffing terms the space needed increases substantially above the area currently occupied, and the total accommodation requirement, including a meeting room, conference hall, library, canteen, etc. would be in the region of 345,000 sq. ft. (32,000m^2). The options may be summarized as follows—

(a) If the new authority were to be accommodated in the County Hall main building an area of about 345,600 sq. ft. (32,000 m^2), almost three-quarters of the building's floor space, would be required.

(b) If the new authority were required to take accommodation in the north, south and island blocks, where total usable space is approximately 323,000 sq. ft. (30,000m^2) it would be faced not only with a deficiency in space needed but also with a formidable number of technical problems. These include complex changes to the electricity, heating, gas and water services currently supplied from the main building and the provision of separate telephones, computer

services, fire alarm and security systems. There would be a need to provide additional facilities including plant rooms, switchrooms, workshops etc. and committee and conference accommodation. Problems relating to access and delivery facilities would have to be overcome. Work to provide separate services and the additional facilities would cost in excess of £9,000,000 and, assuming no delays in availability of buildings, would take up to four years to complete, including the briefing and planning time. Additionally there is an outstanding debt amounting to about £3,800,000 on the island block.

(c) If the new authority were forced to move from the County Hall complex it would be difficult if not impossible to find a single building which would meet requirements of size and location. It has been assumed that sufficient space could be found in not more than three separate buildings. In such circumstances the accommodation requirements have been calculated at 382,000 sq. ft. (35,500m^2). Adaptations would be needed to provide some services and specialist areas, e.g., telephones, reprographic and, computing facilities, conference rooms, catering facilities. If these buildings are not located in close proximity some facilities would need to be duplicated or triplicated, further increasing costs. If purchased, such accommodation would cost in excess of £60,000,000; if leased the annual rent of the building would cost in excess of £4,000,000. Adaptations, assuming the buildings were designed and properly serviced for office use, would cost from £6,000,000 to £9,000,000.

Any proposal to re-accommodate the Authority would need to ensure that disruption to inner London's education service is kept to a minimum. It is uncertain whether the Authority would receive a clear indication of its future in County Hall in time to plan the series of accommodation moves within the County Hall complex or elsewhere. If interim arrangements had to be made, such as decanting groups of staff elsewhere while accommodation is acquired or prepared costs would increase sharply.

Any relocation of the Authority's headquarters would be a complex, lengthy and expensive operation which could involve staff being moved two or three times before they were in permanent accommodation.

We are appalled at the prospect of the disruption and costs which would result from the removal of the Authority from its present headquarters accommodation. We feel strongly that the position should be made clear to the Government and that they should resolve present uncertainty without delay by acknowledging the Authority's unrivalled claim to remain in accommodation in the County Hall which they and their predecessors have held in continuous occupation for over sixty years.

We recommend—

1 That the attention of the Secretaries of State for the Environment and for Education and Science and of Members of Parliament for constituencies in inner London be drawn to the severe disruption to the education service and the high costs that would result if the Authority is compelled to vacate its administrative headquarters in the County Hall.

MARGARET MORGAN, *Chair*

LOCAL GOVT: Rels: Pt 28

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10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M5/85

30.8.85.

SECRETARY OF STATE FOR SCOTLAND

MISC 109: EDINBURGH

I was delighted to see your minute of 22 August, with its news about the Edinburgh budget. This success is due in no small way to your efforts and those of your staff - my congratulations to all concerned.

Margaret Thatcher

FROM THE MINISTER FOR HOME AFFAIRS AND THE ENVIRONMENT

CC PL

SCOTTISH OFFICE
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

NBPT

DGR 30/8.

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

29 August 1985

Dear Peter,

SALE OF LOCAL AUTHORITY MORTGAGES

I am writing in George Younger's absence to seek your agreement to the approach which we propose to adopt in Scotland to the sale of mortgages by local authorities, following the discussion in E(A) on 1 July.

We see no difficulty in principle about prohibiting the use of capital receipts as a basis for additional public expenditure where they arise from the sale of mortgages without the transfer of risk. George Younger has power to achieve this under existing legislation. We shall take action once Patrick Jenkin has completed his consultations on and further consideration of the proposal, so that we may be clear about the timing and details of the restrictions to be applied in England and Wales.

It would be extremely difficult for us to follow Patrick in respect of the prohibition on sales of mortgages without the borrower's consent. This would directly conflict with a general principle of Scots law that lenders should enjoy the right to transfer their interest in mortgaged property without such consent. In our view it would be undesirable to make any exceptions to that principle unless there are overriding reasons for doing so. We do not think that the justification for anomalous treatment of loans by local authorities and other public sector housing authorities which are to be employed in relation to England and Wales would be sufficient in Scottish circumstances. Turning from the rights of the individual to the effect on capital expenditure, we think there is less ground for concern in Scotland anyway. Housing authorities have not lent on anywhere near the same proportion of council house sales as in England and Wales. At present they lend on less than 10% of sales. Consequently, there is much less of a mortgage holding which might be sold off. Certainly, we do not think that there is any evidence that we will experience a significant surge in the level of capital spending in the absence of this obstacle to mortgage sales, particularly since we are to take steps to prohibit the use of receipts from mortgages where the risk has not been transferred.

04D04001.085

I am copying this letter to Patrick Jenkin and Nick Edwards, and to the Prime Minister and other members of E(A).

Yours
Michael

MICHAEL ANCRAM

04D04001.085

30. MAI AM.

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10 DOWNING STREET

From the Private Secretary

28 August 1985

Dear Robin

The Prime Minister understands that there may be a rather curious gap in local government legislation, concerning parish councils.

It seems that such councils have very wide powers. For instance, they can appoint staff; acquire land inside or outside their area; provide recreational facilities; publish 'information' on matters relating to local government; do anything calculated to facilitate the discharge of any of their functions; and use the product of a 2p rate for discretionary spending.

To fund these activities, parish councils may levy a precept on their district council. The district council is obliged to pay this precept and to add a corresponding sum to the parishioners' rates. There seem to be no limit either to the level of spending or to the precept, and it is not clear what would happen if someone tried to employ a parish council as a weapon for defeating rate-capping.

The Prime Minister is concerned that powers as extensive as these might be misused, including for political purposes. She would be grateful for your Secretary of State's advice on the seriousness of this loophole and, if appropriate, means of closing it.

BF

I am sending copies of this letter to John Graham (Scottish Office) and Colin Williams (Welsh Office).

Yours ever

Mark Addison

(Mark Addison)

Robin Young, Esq.,
Department of the Environment.

OLO

PRIVY COUNCIL OFFICE
WHITEHALL. LONDON SW1A 2AT

28 August 1985

MBPM

Dear Minister

will request if required

Thank you for your letter of 21 August.

Neither the House of Commons Services Committee nor the House of Commons Commission have any plans to acquire County Hall to provide extra accommodation for MPs. However, I should point out that as the House of Commons does not have a Vote that would enable it to make such an acquisition, any such transaction would probably be initiated through the PSA, with whom I believe you are also in touch.

I am copying this letter to the Prime Minister and the Secretary of State for Education and Science.

Yours sincerely

M A P HILL

JOHN BIFFEN
[Agreed by the Lord Privy Seal and signed in his absence].

Rt Hon Kenneth Baker MP
Minister for Local Government
Department of the Environment

28. VIII
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File

MISC 109

LPO
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DES
DOE
LPSO
Att-Gen

M/S, HMT (Hayhoe)
M/S, DOE (Baker)
M/S, DHSS (Clarke)
+ Ld Advoc.
CO

DSG

10 DOWNING STREET

From the Private Secretary

28 August 1985

MISC 109: EDINBURGH

The Prime Minister has seen your Secretary of State's minute of 22 August reporting the reduction in Edinburgh's rate and that the Council have decided to prepare a legal budget. She has commented that this is excellent news.

I am copying this letter to the Private Secretaries of the other members of MISC 109, to Iain Jack (Lord Advocate's Department) and to Richard Hatfield (Cabinet Office).

David Norgrove

John Graham, Esq.,
Scottish Office.

DSG

Prime Minister. ①
Agree that DoE should be asked to consider ways of closing this apparent loophole? MEA 27/8

PRIME MINISTER

27 August 1985

Yes

PARISH COUNCILS

We have unearthed a rather curious gap in local government legislation.

It seems that parish councils have very wide powers. They can:

i. appoint staff;

ii. acquire land inside or outside their area;

iii. provide recreational facilities;

iv. publish 'information' on matters relating to local government;

v. do anything calculated to facilitate the discharge of any of their functions;

vi. use the product of a 2p rate for discretionary spending.

To fund these activities, parish councils can levy a precept on their district council. The district council is obliged to pay this precept and to add a corresponding sum to the parishioners' rates. There is no limit either on the level of spending or on the precept, and it is not clear what would happen if someone tried to employ a parish council as a weapon for defeating rate-capping.

If the far-Left discovered the extent of these powers, they might well start to make use of parish councils in quite a big way. The present amateur councillors would prove no match for professionals, and a nasty little cancer might

start to spread.

As usual, self-parody precedes serious moves. The Suffolk parish of Cornard recently declared itself a 'nuclear free zone'.

We recommend that you should ask the DoE to find some means of closing this loophole without making it a major issue. Perhaps an innocuous clause or two could be slipped into a relevant Bill either next session or in 1986/7?

OLIVER LETWIN

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file

CC NO

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

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

THE RT HON NICHOLAS EDWARDS MP

27th August 1985

Dear Nicholas

COMPENSATION ARRANGEMENTS

will request if req

Thank you for copying to me your letter of 16 July to Patrick Jenkin about improving compensation arrangements.

I have no objection in principle to your proposals and, indeed, I welcome any measures which would reduce the number of objections to CPOs and the resultant delays in the CPO process.

On the question of costs, the effect of your proposal for a 'restitution' payment to residential occupiers at 20% of the market value of their interest is difficult to estimate but it would perhaps cost my Department some £100,000 for trunk roads. Other than for this purpose, my Department makes very few compulsory purchase orders, so the costs should be negligible. My best estimate of the cost for local authority roads is £750,000. I am afraid I have no figures to offer for the cost to local authorities arising from compulsory purchase for other purposes. The enhancement of home loss payments in the manner you describe would cost some £25,000. All in all, these are relatively low costs when set against the potentially significant savings we can reasonably expect.

On your fifth proposal, I should prefer to see both suggestions implemented so that the more appropriate remedy could be selected according to the circumstances of the particular case.

Whilst, as I have said, I am generally content with your proposals, there are some minor points of detail which my officials could perhaps take up with yours in due course.

I am copying this letter to the recipients of yours.

Yours ever

Nick

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1P 3EB

28 VIII 1985
PMBS

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DG

FILE

10 DOWNING STREET

From the Private Secretary

27 August 1985

Dear Mike

The Prime Minister has seen your Minister's letter of 21 August to the Secretary of State for Education and Science. She is content with his proposals for the disposal of County Hall.

I am copying this letter to Robin Young (Secretary of State's Office, Department of the Environment).

Yours ever

Mark Addison

Mark Addison

Mike Bailey, Esq.,
Office of the Minister for Local Government,
Department of the Environment.

CONFIDENTIAL

cc DW
David Norgrove (O/C)
To see.
MEA 28/8

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

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

22 AUG 1985

Dear Ken,

HOUSING BENEFIT AND LOCAL AUTHORITIES WHO FAIL TO SET A RATE

I am writing to explain how we propose to deal with the implications for the housing benefit scheme of the actions of those local authorities who failed to set a rate on time. I would welcome confirmation that you see no difficulty with what is proposed. Assuming you agree, we will seek to co-ordinate the timing of our action with the announcement you have yet to make about the Government's decision to introduce legislation, early in the next session, which will require LAs to set a rate on time as from next year.

Our legal advice is that the housing benefits legislation does not permit rate rebates to be awarded, or benefit subsidy paid, during a period when there is no rate set. We wrote to the local authority associations last February advising them of this, warning that rate rebate subsidy would not be paid if a rate had not been made. Subsequently, subsidy payments from April were withheld from 10 authorities who failed to set their rate on time; the amount withheld is about £27 million. Payments were resumed to each authority as their rate was set, but only from the date from which it was set.

We have now to decide what advice to give to those LAs concerned about calculating entitlement to rate rebates taking into account the pre-rate period, and what action to take about their subsidy claims. We believe that they have continued to award rate rebates from April on the basis of last year's rate intending to adjust awards after the rate was set. Their expectation is that the rebates (and subsidy payments) will be payable over the 52 weeks of the year as normal. We are being pressed to release the withheld payments and two authorities have threatened legal action. An early response is essential.

We are advised that the way to proceed under the existing regulations is to authorise the award of rebates only from the date the legal rate was set, on the basis that the full rate liability should be apportioned over the remaining weeks of the financial year. This has two serious consequences. First, the

E.R.

effect on claimants is quite capricious. Some would receive less rebate over the year as a whole, measured against their rate liability and their "normal" entitlement had the rate giving rise to that liability been made on time. In the worst case, the loss would be over £2 a week. Others, on the other hand, would gain - in terms of amounts or of acquiring entitlement to a rate rebate they would not otherwise have had. Secondly, we believe that, overall, there should be a small saving in benefit subsidy payments and that there could be administrative difficulties for the authorities concerned in sorting the position out. The risk is that we would be challenged on our interpretation of the present regulation either by an aggrieved claimant or by an authority. I am reluctant to face such a risk, especially since the legal advice is that we cannot be sure of winning; the regulations were not framed with this situation in mind. Our position is weakened, and isolated, because other rate-related payments have, I understand, been paid in respect of the pre-rate period. Moreover, it would be most unwise to precipitate legal action, unless it is essential, at a time when we have other difficult and high profile court cases on our hands - the recent board and lodging judgement (on which we are appealing) and the housing benefit subsidy case involving Sheffield (in which they have lodged an appeal).

Our conclusion, in the light of discussion between our officials and the Treasury, is that we should adopt a different course. This would mean making (negative) amending regulations to make it clear that, when a rate is made late, local authorities should award housing benefit in all cases in the same way as they would have done had the rate been set on time. This will avoid gainers and losers, and will ensure that both benefit entitlement and subsidy payments are not altered by the late rate. What will not change is that there will be no entitlement to rate rebate or to subsidy payments during the actual period where there is not a current legal rate.

It is intended to amend the HB regulations as soon as possible after the required consultation with the local authority associations. In the meantime, we propose to release the withheld subsidy payments - these are payments "on account" of the final formal subsidy claim at the year end and are not dependent on making the regulations. We would advise authorities that the legal position needs to be clarified, that proposals will be put to the LAAs shortly, and that, without prejudice to any final adjustments which might be necessary, the outstanding payments will be made with the next routine payment for all LAs. This is due on 15 September and I would hope we can clear the proposals in good time for then. I should mention that the amount payable to Liverpool will be about £5.5 million. This may attract attention as a "baling out" type payment. It is not, of course; we will be doing no more than implement a decision which affects nine other authorities also.

There is a further issue affecting Liverpool which I should also mention at this point. Although Liverpool failed to set a rate on time in 1984, their rate rebate subsidy payments were made in the normal way throughout the period last year when there was no legal rate (about £7.5 million). The implications for housing benefit (and other rate-related grants) were not recognised at the time. Liverpool's final subsidy claim for 1984/5 has yet to be invited and it will still be subject to audit. It remains open to us, therefore, to ask Liverpool to re-assess their rate rebate cases for last year and to adjust their final subsidy claim accordingly. That could only be justified if we adopted the line we have decided not to pursue for 1985/6. If we pursue the preferred course, as proposed above, such an approach to Liverpool for last year would be inconsistent and difficult to defend. Moreover, it would create new difficulties for Liverpool and could well precipitate a challenge in the

E.R.

courts. We propose, therefore, to invite Liverpool - as we have done in the case of all other authorities - to submit their final subsidy claim for 1984/5 in the normal way and without, in their case, raising the late rate issue. It will be necessary to clear the basis of the payments concerned with the Treasury and for audit purposes; this will be pursued at official level as agreed in the recent discussions between officials.

Finally, there is the question of timing. It is important that we clarify the position soon for the authorities concerned and release the amounts of subsidy withheld. I suggest the sequence might be:

i. we should tell those authorities now that the legal position in regard to rate rebates and subsidy during the pre-rate period needs to be clarified and that proposals will be referred to the LAAs shortly. In the meantime, and without prejudice to the need for any final adjustments later on, subsidy amounts withheld will be paid on 15 September with the next due payment. This would not indicate the proposed remedy;

ii. the withheld payments would be released on 15 September;

iii. the decision would be announced to introduce legislation next Session requiring authorities to set a rate on time as from 1985;

iv. immediately after iii., the draft amending HB regulations would be referred to the LAAs. At the same time we would make it clear that:

* the regulations are designed to make clear what the rebate and subsidy position is for the pre-rate period arising from the actions of certain authorities in failing to set a rate this year;

* the regulations do not alter the position that rate rebate and rate subsidy are not payable during the period when a rate is not set.

(If it were suggested that the new regulations appeared to provide a remedy for future illegal acts (failure to set a rate on time in 1986 or succeeding years) the response would be that the regulations were needed to deal with 1985/6 and should not need to be applied in future years).

I would be grateful for early confirmation that you are content with the way we intend to proceed, and for an indication of how soon you expect to announce the decision to legislate on rate setting.

A copy of this letter goes to John Moore and to other members of MISC 109.

Yours ever,
Tony.

TONY NEWTON

Prime Minister.

Encouraging news.

MEW 23/8

NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

O/L + ?

Excellent – letter please for me to sign

mt

congratulate SJS.

mt

CONFIDENTIAL-CMO

22 August 1985

Prime Minister

MISC 109: EDINBURGH

I am minuting to report on the present position on my action against Edinburgh District. I last minuted to you on this subject on 31 July. At that time Edinburgh had decided to comply with my action over their housing budget (a reduction of £5.6m in their rate fund contributions and a reduction of 1.8p in their rate), but were still considering their response to my selective action against the remainder of their budget (a reduction of £16.1m in their budget and 5.2p in their rate).

2. Following a meeting on 1 August the Council proposed a compromise. This involved a cut of about £8m in their planned overspending, a number of "creative accounting" devices likely to amount to about £6m, and a concession from me. This concession was to be either (a) an increase of £2.2m in their guideline and an easing of the rate reduction to 5.0p or (b) a larger reduction in the rate reduction to 3.8p. I rejected this on the basis that I could not increase one authority's guideline without affecting all other authorities and that the alternative of a rate reduction of 3.8p was significantly below the 5.2p approved by Parliament. Since Edinburgh took no further action by 14 August, the 5.2p rate reduction was then deemed to have been made.

3. Edinburgh's rate was therefore reduced by a total of 7p, 31% of their original district rate of 22.7p. The rating authority will shortly issue revised rate bills to all ratepayers which will show a reduction of about 10% from the previous combined region/district bill.

4. On 19 August Edinburgh held a meeting of their Policy and Resources Committee to consider how to modify their expenditure plans to take account of their reduced rate income. They decided to prepare a legal budget for consideration by the full Council on 5 September. This is similar to the proposals they put to me earlier this month except that they have substituted the sale of a major capital asset for the resources they had hoped to get from me. (This asset will probably be an empty city centre site currently used as a car park.)

5. I think we can be very satisfied that my initiatives have led to such a considerable climb-down by Edinburgh Labour Group. They gave up the battle on housing when faced with the order of specific performance which was secured from the Court of Session. They withdrew from any suggestion of an unlawful budget for the rest of their services, and in so doing abandonded roughly half of their plans for growth.

6. There will be a lot of scope still for argument within the District Council about the precise form that their revised budget is to take, and about the precise significance of various items that may be proposed for inclusion. These will not raise questions for me, but I am sure that Paul Martin will see to it that the arguments for prudence and reasonableness which we have all had in mind are effectively put across.

7. These developments distinguish the Edinburgh position pretty sharply from the Liverpool one. Edinburgh is not involved in illegality, and there seems to be no prospect here now of anything like financial collapse. I shall continue to keep a close eye on the situation but I do not now, as things stand, think that I would want to be involved in any commissioner legislation that Patrick Jenkin may want to propose.

8. Copies of this minute go to members of MISC 109, Sir Robert Armstrong and Kenny Cameron.

G.Y.

G.Y.

Relations : Local Govt :

PE 28

OID.

CONFIDENTIAL

CC OK

Minister for Local Government

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 3434

21 August 1985

Dear Secretary of State,

Prime Minister,
Content with these arrangements for the disposal of County Hall?
Yes MET 23/8

GLC COUNTY HALL

Now that the London Residuary Body (LRB) has been established we need to return to the question of the future of County Hall. I am writing in Patrick Jenkin's absence.

The position reached in our earlier exchanges was, I think, that disposal to the private sector, at least of the River Block, should be our aim, but that no final decision could be reached until the LRB had had an opportunity to assess the position. We agreed, also, that this need not imply any immediate disturbance of ILEA staff on abolition day, and that it would be reasonable to assume that the LRB would make some compensation payment to ILEA, which would offset, to some extent at least, their relocation costs.

If they are to make a proper assessment of the prospects, the LRB need to know that we shall not put obstacles in their way, and, if disposal is to be achieved, it must be pursued vigorously and quickly. Sir Godfrey Taylor, the Chairman of the LRB, has therefore decided that he should set a target date of 31 March 1987 for clearing the River Block. This may not be easy to achieve; but setting tight deadlines for vacating the building must be the right approach. We understand that certain private sector interests will not be willing to enter into negotiations until any danger of political disputes is out of the way.

The primary responsibility for the future of County Hall must rest with the LRB as prospective owners of the building. Sir Godfrey will, therefore, be pursuing his own discussions on this. These discussions will include a meeting with Mrs Morrell, which is to take place early in September. Sir Godfrey intends then to outline his approach to the future of County Hall, including the target date for clearing the River Block.

I am anxious not to do anything to cramp Sir Godfrey's enthusiasm for early disposal. I have, however, told him that I must put you in the picture before he speaks to Mrs Morrell - hence this letter. My own view - with which I hope you will agree - is that Sir Godfrey's approach will be useful in concentrating minds in ILEA, and should help us in bringing out into the open an issue that must be resolved - and better sooner than later.

Sir Godfrey is also anxious to establish that plans for disposal will not be upset by emergence of a demand for some continued public sector use. I certainly would not favour that - even if funds were available to acquire the building from the LRB - and I have told Sir Godfrey that there is no intention of trying to acquire it for Government

offices. Sir Godfrey has specifically asked for confirmation that there is no plan to acquire County Hall to provide extra accommodation for MPs - as has been suggested in some Press comment. I am copying this letter to John Biffen, and shall be grateful for any comments that he may wish to offer.

Unless I hear to the contrary by Friday 30 August, I intend to tell Sir Godfrey that we are keen that he should pursue his disposal plans, and that we have no objection to his floating with Mrs Morrell the question of early action to clear the River Block.

In view of her involvement in the earlier exchanges I am copying this letter to the Prime Minister.

Yours sincerely,

Alan Downey

KENNETH BAKER
[Agreed by the Minister and signed
in his absence by the Private Secretary]

The Rt Hon Sir Keith Joseph Bt MP

COMMITTEE OF INQUIRY INTO THE CONDUCT OF LOCAL AUTHORITY BUSINESS

Church House, Great Smith Street, London SW1P 3BW

(Telephone 01-212 3461/3465)

Chairman: David Widdicombe, QC
Secretary: R S Dudding

P R E S S N O T I C E 7 August 1985

LOCAL GOVERNMENT PUBLICITY

WIDDICOMBE INQUIRY REPORT PUBLISHED

1. The Widdicombe Committee's Interim Report on local government publicity is published today. It proposes:

- a statutory ban on local authority publicity of a party political nature. It is generally accepted that such material is already unlawful. An express statutory prohibition would make this ban more effective;

- clarification of the law so that section 137 of the Local Government Act 1972 may not be used for publicity purposes. Section 137 (the so-called 'free tuppence') is widely used for grant aiding industry and voluntary bodies. It is an important power, which should be freed from involvement with the publicity question;

- a statutory requirement that local authorities keep a separate public account of their publicity expenditure. Making ratepayers and voters aware of their council's publicity expenditure should strengthen accountability.

2. Speaking about the Report, David Widdicombe QC, Chairman of the Committee, said:

"Some recent local government advertising campaigns, and the issues which underlie them, have provoked strong reactions. We have tried to stand back from the political debate, and look objectively at the question of local government publicity.

"Local authorities must continue to provide public information. That is a vital part of the democratic process. They must be free to publish material on the services they provide and on proposals which affect them; that includes abolition and rate-capping.

"As a Committee we are, however, concerned about some of the publicity material we have seen. In dealing with complex and controversial issues, a small but influential number of authorities have produced material which in our view is too strident, contains little information and relies too heavily on slogans and personalities. Given the scale of some campaigns, and their political context, such material can assume a party political character.

"Publicity is powerful. Where it is issued at public expense, it should not be used for party political advantage. The legal limits should be clear, and the extent of expenditure should be visible to the public. That is what our proposals seek to achieve. Our Report also stresses the importance of tone and presentation, and we shall look further at this aspect in our future work."

3. Sir Lawrence Boyle has submitted a memorandum of dissent, in which he recommends that no change should be made at present to local authorities' publicity powers. He argues that there should first be a complete re-appraisal of the role, purpose, and nature of local government - including finance - as the 'problem' raised by local government publicity is but a symptom of more fundamental disagreements about these wider questions.

4. Referring to the memorandum of dissent, David Widdicombe said

"I would of course have preferred our Report to be unanimous, but we have had to tackle a complex and controversial question over a period of only four months.

"I do not regard it as surprising that there is a minority report. We are a Committee of 5 independently-minded people. We look forward now to working together on the wider and very important issues which confront us for our Main Report - building on the different perspectives and different experiences which each of us can bring to bear."

NOTES TO EDITORS

The Report is available from HMSO price £5.50

TERMS OF REFERENCE

The terms of reference for the Inquiry are as follows:

'To inquire into practices and procedures governing the conduct of local authority business in Great Britain, with particular reference to:

a) the rights and responsibilities of elected members;

b) the respective roles of elected members and officers; and

c) the need to clarify the limits and conditions governing discretionary spending by local authorities;

and to make any necessary recommendations for strengthening the democratic process.'

MEMBERSHIP

The Chairman of the Committee is Mr David Widdicombe QC, a barrister specialising in local government and planning law. The other members are:

Sir Lawrence Boyle, JP
formerly Chief Executive of Strathclyde Regional Council

Mrs Diana Eccles
Vice Chairman of The National Council for Voluntary Organisations

Mr Peter Newsam
Chairman of the Commission for Racial Equality

Mr George Russell, CBE
Chairman and Managing Director of British Alcan Aluminium Ltd.

APPOINTMENT

The Committee was appointed by the Secretaries of State for the Environment, Scotland and Wales. The terms of reference, and the appointment of the Chairman, were announced in the House of Commons on 6 February 1985. The appointment of the other members was announced on 8 March, with the exception of Mrs Eccles, whose appointment was announced on 16 April.

TIMESCALE

The Committee was asked to report within a year of its appointment and to produce by the end of July an interim report on the use made by local authorities of their discretionary powers to engage in advertising and other forms of publicity. The interim report was submitted on 31 July.

QUERIES

Enquiries on this notice may be addressed to the Committee Secretariat on 01-212 3461/3464/3465.

DOE Department of the Environment

2 Marsham Street
London SW1P 3EB
Telephone 01-212 3434

Press Notice

File

399

7 August 1985

PATRICK JENKIN WELCOMES WIDDICOMBE REPORT

Patrick Jenkin, Secretary of State for the Environment, has welcomed the Widdicombe Inquiry's interim report on local authority publicity, published today.

Commenting on the report, Mr Jenkin said:

"The Committee recognise that rate-financed publicity campaigns by some local authorities raise serious issues of propriety. They have concluded that this is an abuse that needs to be dealt with; and they have proposed changes in the law.

"The Government accepts the Committee's view that there should be an express prohibition on publicity of a party political nature; and that the law must not allow the misuse of public funds by local councillors.

"We shall be giving careful and urgent consideration to the report with a view to early legislation.

"The Government is very grateful to the Committee of Inquiry for producing its interim report on this difficult matter within a short timescale."

Press Enquiries: 01-212-4682/3/5/90/5113
(out of hours: 01-212-7132)
Public Enquiries: 01-212-3434

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DOE Department of the Environment
2 Marsham Street
London SW1P 3EB
Telephone 01-212 3434

Press Notice

400

7 August 1985

LOCAL AUTHORITY PUBLICITY - WIDDICOMBE COMMITTEE REPORTS

Some local authority advertising oversteps the high standards of tone and presentation on which local authorities should insist.

And although it is not possible to say exactly how much public money has been spent in this way, the sums are not insignificant, says an interim report* from the Committee of Inquiry into the Conduct of Local Authority Business, published today.

But it is right for local authorities to be able to explain their views on controversial matters affecting them. And in the recent context that includes issuing information about abolition and ratecapping. The report says: "It is important... that our political system should accommodate the free expression of opposing views..."

The report, which looks at local authority publicity, concludes that there is a problem which needs to be dealt with. It says that public funds should not be used for party political gain, although it emphasises that most local authorities have used their publicity powers properly.

The Committee, chaired by David Widdicombe QC, says that its task is to establish a proper and workable framework in which local authorities can issue publicity without any question of the mis-use of public funds.

Any framework for the future should strengthen local democracy and provide a secure basis for local authorities to continue to play a full part in debate on matters affecting them.

"We do not think this can be achieved by the laying down of conventions or guidelines. They are too easily ignored or broken. The framework of powers must be provided by the law. Furthermore the law must be made as clear as possible. The aim must be to end the present situation of uncertainty," the report says.

*Interim Report on Local Authority Publicity; from the Committee of Inquiry into the Conduct of Local Authority Business. Presented to the Secretaries of State for the Environment, Scotland and Wales. Available from HMSO: £5.50.

In preparing its report the Committee worked on five general principles:

- local government is more than the sum of the particular services provided.
- local government should act within the law
- the relationship between central and local government should be an open one, and changes affecting local government should be the subject of consultation.
- local government has a duty to inform the public within its areas as to the exercise of its functions and on local government matters generally.
- local government publicity should not be used to promote the interests of a particular party.

The report has 11 sections, and during its work the Committee examined, amongst other things, the underlying issues of principle, the present law, the case for and against new controls, political developments, Central Government advertising, and the case for action. It includes a note of reservation from one member, Mr Peter Newsam, and Part Two of the report forms a memorandum of dissent from Sir Lawrence Boyle, in which he recommends that no change should be made at present to local authorities' publicity powers. He argues that there should first be a complete re-appraisal of the role, purpose, and nature of local government, including finance, as the 'problem' raised by local government publicity is but a symptom of more fundamental disagreements about those wider questions.

The report proposes:

- An express statutory prohibition on party political publicity. The Committee wants to see ruled out practices like: using party political names in local authority publicity; publicity which makes its point by reference to well known

politicans; publicity campaigns which may have the effect of advancing the interests of a particular party even through the subject matter is not overtly party political.

- The existing section of the Local Government Act 1972 (section 142) governing local authority publicity should remain unchanged. But local authorities should not be able to use section 137 as a fall-back power for publicity not authorised by section 142. (Section 142 allows local authorities to issue information on local government matters. Section 137 allows them to spend up to the product of a 2p rate in the interests of their area.

- Local authorities should be required by law to keep a separate account of their advertising and information expenditure to improve accountability to ratepayers and voters.

The report says that much of the controversy that has arisen about publicity stems from tone and presentation inappropriate to subject matter. And in matters of political dispute and sensitivity it is wrong for public funds to be spent on material that is strident, sloganised or partisan in style.

The Committee also looked at the case for setting a financial ceiling on publicity spending but felt that this could be over-rigid. On balance, the committee feels that it is not necessary to consider a ceiling now, but that the possibility should be kept in mind.

The Committee plans to consult further with the local authority associations on how tone and presentation in publicity can be controlled and believe that this would best be done by self-regulation within local government or through the agency of the local authority associations.

In doing so they will be considering whether further means of challenge should be available to the citizen where a local authority is thought to have exceeded its publicity powers. This will be dealt with in the Main Report, expected early next year.

NOTES TO EDITORS

The Committee of Inquiry into the Conduct of Local Authority Business was appointed by the Secretaries of State for the Environment, for Scotland, and for Wales, with the following terms of reference:

a. the rights and responsibilities of elected members;

b. the respective roles of elected members and officers; and

c. the need to clarify the limits and conditions governing discretionary spending by local authorities;

and to make any necessary recommendations for strengthening the democratic process.

The terms of reference and the appointment of Mr David Widdicombe QC as Chairman, were announced in the House of Commons by the Secretary of State for the Environment Mr Patrick Jenkin, on 6 February 1985 (Press Notice No 53).

In announcing the terms of reference Mr Jenkin listed certain items to which he invited the Committee to pay special attention. The last of these was:

"Clarifying the limits and conditions governing discretionary spending including the use of sections 137 and 142 of the Local Government Act 1972 (and sections 83 and 88 of the Local Government (Scotland) Act 1973) for political purposes in local government, or in relation to bodies set up, and largely financed by, local authorities."

Mr Jenkin said that in view of growing public concern about the use made by some local authorities of their discretionary powers to engage in overt political advertising, he was asking the Committee to submit an early interim report on this question.

Press Enquiries: 01-212-4682/5/6/90/5113
(out of hours:: 01-212-7132)
Public Enquiries: 01-212-3434
(ask for Public Enquiries Unit)

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file 53 ECL

MISC 109
Ld Pres
Home Sec
Ch Sec
DES
Env
M/S DOE (L.Gov)
LPS
DHSS A Gen

10 DOWNING STREET

From the Private Secretary

bc OK
fw

5 August 1985

MISC 109: EDINBURGH

The Prime Minister has seen your Secretary of State's minute of 31 July. She has commented that if Edinburgh District Council decide to come into line, any adjustment to the financial conditions set for them must be genuinely marginal and should not be capable of being represented by Edinburgh as a concession.

On Commissioner legislation, the Prime Minister has commented that a general Bill for the UK would give the wrong signals to other councils. She would prefer a specific Edinburgh-only Bill along the lines of the Liverpool-only Bill which the Department of the Environment are preparing.

I am copying this letter to Private Secretaries to members of MISC 109, Richard Hatfield (Cabinet Office) and Iain Jack (Lord Advocate's Department).

(Andrew Turnbull)

John Graham, Esq.,
Scottish Office.

BM

CONFIDENTIAL - CMO

Prime Minister: 2

Patrick Jenkins two points echo your own concerns

mt 5/8

PRIME MINISTER

MISC 109: EDINBURGH DISTRICT COUNCIL

I have seen George Younger's letter to you of 31 July about Edinburgh District Council. He raises two main questions.

On the possibility of discussions with Edinburgh about the requirement that their rate be reduced by 5.2p, I am happy to go along with the line he proposes; namely that he should be able to agree a somewhat smaller reduction to ensure that the City is capable of living within its means. Although the Scottish rate limitation system is rather different to the one in the Rates Act, such action by the Scots would effectively parallel our own redetermination process and the procedure of making representations on the proposed rate limit. Changes of the kind which George Younger has in mind have been made before in Scotland. But I need hardly stress the damage to our position if such a move were misrepresented as the granting of major concessions to Edinburgh. Current Press comments about possible moves by Edinburgh in return for concessions by the Government indicate the risks.

As to Commissioner legislation, I would greatly prefer to avoid the very major step in constitutional terms of introducing a general Bill, whether to cover just England, or Scotland as well - that is, a Great Britain Bill. If Liverpool is the only Council remaining in the frame for Commissioners I assume we would decide to rely on the specific Bill we have already drafted. But even if Edinburgh remains a problem as well, I do not think we should automatically dismiss the option of introducing separate Bills for each City. The two are unlikely to collapse simultaneously and the background is very different. I do not believe that either would be given the wrong signal if a general Bill was not introduced in the first instance. We could make perfectly clear that we were prepared to act similarly towards any other Council which deliberately brought about its own collapse, but without the same time taking general powers which would be widely opposed.

We cannot completely dismiss the idea of a general Bill at this stage, and I agree that it would be useful for the Scottish Office to prepare the necessary Clauses to cover their interest, for inclusion in our existing draft. Given that the Bill would be subject to an emergency timetable it is however vital to avoid unnecessary complication.

At the same time I suggest they might put in hand drafting of an Edinburgh-only Bill using the analogy of the Liverpool-only Bill. This would leave us with a full range of options to consider as events develop. My Department would be happy to help the Scottish Office in any way necessary, and indeed officials are already in touch.

I am copying this minute to members of MISC 109, George Younger, Sir Robert Armstrong and Kenny Cameron.

for P J

5 August 1985

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

Loc. Govt : Relations : Pt 27

DEC 12 PM 6 9

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SECRET

NBPM
AT
5/8

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1

3rd August 1985

Dear Prime Minister,

MISC 109: EDINBURGH

— with AT?

In the Chief Secretary's absence I have seen a copy of George Younger's minute to you of 31 July on the subject of Edinburgh District Council.

I do not think that the granting of exceptional borrowing powers would be an adequate response to the consequences of gross financial mis-management should Edinburgh choose that course. To do so would be to signal to other authorities that irresponsibility will not be allowed to hurt and that rate limits can be avoided by explicit deficit budgeting. Therefore it seems to me to be sensible to prepare draft commissioner legislation for Scotland - though I have no strong views on whether this should stand alone or be part of a UK bill.

George also seeks approval for discretion to negotiate a marginal softening of the 5.2p rate reduction proposed for Edinburgh provided they co-operate. Edinburgh's budget for this year was so extreme, 40 per cent on last year's outturn and nearly 50 per cent over guideline, that I would be most reluctant to see any softening of our line. And I am particularly concerned that anything which could be represented as a significant concession would lead to similar expectations from English rate-capped authorities or from Liverpool.

Copies of this letter go to George Younger, other members of MISC 109, Sir Robert Armstrong and Kenny Cameron.

Yours ever

Ian

IAN STEWART

05. VIII 1985

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

2 August 1985

Dear Michael,

When H Committee discussed the question of legislation to combat political conditions in local authority contracts, both Quintin and you expressed doubts as to the justiciability of the issues likely to arise. My attention has now been drawn to the Law Lords' judgement delivered on 25 July in the case of Wheeler and Others - v - Leicester City Council, which seems to me to question whether we need to legislate at all. I attach a copy of the House of Lords judgement.

As I understand it the test of Wednesbury unreasonableness which their Lordships' considered, would apply equally to any decision made by a local authority in exercise of its powers to contract for goods and services. If the local authority "punishes" a contractor (by excluding him from the opportunity of competing for any of their work) because, for example, he works at a Cruise missile site, or refuses to sign an undertaking not to do so, then such a decision would be unlawful. I would be very grateful to have your views on this.

If you agree with my analysis then I think that we need to take steps to bring the judgement to the attention of local authorities, particularly those who are known to impose such conditions, and to contractors. I have it in mind, therefore, to write directly to those authorities about which we have received complaints, (eg Peterborough and Southwark) and also to the local authority associations, to secure more general awareness of the judgement and its wider implications for local government. The attached draft letters illustrate the approach which I would like to take.

However, it is possible that some recalcitrant authorities may choose to ignore the clear implications of the judgement and adhere to their present practices. I do not believe that we can rely on individual contractors to bring legal proceedings for obvious reasons. In my view, therefore, we must act in this matter. Legislation remains a possibility but if you agree that the judgement has clarified the legal position in the way in which I suggest, then it is unnecessary and, for that reason undesirable. I would therefore be grateful if you would indicate whether, as a matter of principle, you would be prepared in a suitable case to bring proceedings in the public interest against such an authority.

I am enclosing for your information copies of resolutions and of contract conditions where local authorities are clearly taking irrelevant considerations into account.

Copies of this letter go to the Prime Minister, to members of H and to Sir Robert Armstrong.

Yours ever
Pat

PATRICK JENKIN

The Rt Hon Sir Michael Havers QC MP

IN RE WHEELER AND OTHERS (ENGLAND)

Lord Roskill
Lord Bridge of Harwich
Lord Brightman
Lord Templeman
Lord Griffiths

LORD ROSKILL

My Lords,

This is an appeal by members of the Leicester Football Club ("the club") suing on their own behalf and on behalf of all other members of the club. In reality it is an appeal by the club and I shall so treat it. It is brought by leave of the Court of Appeal (Ackner and Browne-Wilkinson L.JJ. and Sir George Waller) [1985] 2 All E.R. 151. That court on 14 March 1985, by a majority, Browne-Wilkinson L.J. dissenting, dismissed an appeal by the club against the refusal of Forbes J. on 27 September 1984 to grant the club judicial review of a decision by the respondents, Leicester City Council ("the council"), on 21 August 1984. That decision is recorded in minute 46 of the council's Policy and Resources Committee in the following terms:

> "RESOLVED: that the Leicester Football Club be suspended from using the Welford Road recreation ground for a period of 12 months and that the situation be reviewed at the end of that period in the light of the club's attitude to sporting links with South Africa."

As a result of the passing of that resolution, the club applied for a judicial review of the decision for the purpose of quashing it, for a declaration that it was of no effect and for an injunction preventing (inter alia) the implementation of the resolution. On 10 September 1984 Otton J. gave the club leave to move for judicial review and, pending the hearing of the motion, granted the injunction sought. As already stated, Forbes J. refused the relief sought and since the appeal to the Court of Appeal failed, the club has remained banned from the use of the Welford Road recreation ground save for training purposes, this last by virtue of a concession later made by the council in circumstances to which I will refer in due course.

My Lords, the background to this unfortunate dispute between a rugby football club of renown, now over a century old, and the council is fully stated in the judgments below. I gratefully adopt those statements for in truth the relevant facts are not in dispute. But some reference to the facts is essential for the proper understanding of the issues involved.

The story starts with the announcement by the Rugby Football Union ("R.F.U.") on 30 March 1984 that they had accepted and invitation to take a touring side to South Africa. On 19 April 1984, the membership of this side was announced. The membership included three well known members of the club. All

three were regular England players. It should be mentioned that the club does not have any direct representation on the R.F.U. It has one representative on the Leicestershire Rugby Union and the latter body has one representative on the main committee of the R.F.U.

On 11 April 1984 Mr. John Allen, the secretary and a former captain of the club, was telephoned by the assistant chief executive of the council and asked if representatives of the club would attend a meeting with Mr. Soulsby, the leader of the council in connection with the projected tour and the participation in it of the club's three members.

That meeting took place on 12 April 1984. Mr. Soulsby read out four questions. These four question had been recorded in writing but no copies were given to the club representatives at the meeting. Since I attach importance to the content of these four questions, both individually and collectively, I record them in full:

> "1. Does the Leicester Football Club support the Government opposition to the tour?
>
> "2. Does the Leicester Football Club agree that the tour is an insult to the large proportion of the Leicester population?
>
> "3. Will the Leicester Football Club press the Rugby Football Union to call off the tour?
>
> "4. Will the Leicester Football Club press the players to pull out of the tour?"

Mr. Allen told Mr. Soulsby he would take the questions back to the committee of the club and would return for a further meeting on 8 May 1984. At that latter meeting it was made plain by Mr. Soulsby - Mr. Allen's affidavit was not contradicted on this matter - that "the club's response would only be acceptable if in effect all four questions were answered in the affirmative."

On 14 May 1984 Mr. Allen again wrote to Mr. Soulsby and handed him a written statement of the club's response. I set this out in full:

> "Leicester Football Club have always enjoyed cordial relations with Leicester City Council on a strictly non-political basis and seek to continue that relationship. The club join with the council in condemning apartheid but recognise that there are differences of opinion over the way in which the barriers of apartheid can be broken down. The government have not declared sporting contacts illegal or even applied sanctions against those involved in tours. Their opposition is on an advisory basis, similar to the advice to athletes at the time of the Moscow Olympics, leaving the decision to the individuals concerned. The decision by the Rugby Football Union to approve the tour was taken by a large majority of their committee, but the club had forwarded to the Leicestershire Rugby Union, the club's constituent body, the anti-apartheid case against the tour, which merits serious consideration. Rugby Union players as

amateur sportsmen have individual choice as to when and where they play, subject only to the constraints of R.F.U. rules and club loyalty. However, the club, having read the memorandum to the R.F.U., prepared by the anti-apartheid movement, and accepting the serious nature of its contents, have supplied copies to the tour players and asked them to seriously consider the contents before finally reaching a decision whether to tour. The club are and always have been multi-racial and will continue that principle for the benefit of Leicester and rugby football."

Mr. Soulsby said he noted the club's response but added that he did not think "it would have gone far enough to satisfy the membership of the controlling Labour group on the council."

This meeting was followed by various statements through the media and elsewhere that the council were considering sanctions against the club for what the council regarded as the club's failure to discourage its members from taking part in the South African tour.

No solution was found during the ensuing weeks. On 21 August 1984, the resolution banning the club from the use of the Welford Road recreation ground was passed in the terms which I have already mentioned. This resolution was subsequently notified to the club. Mr. Small, the club's solicitor and also one of its members, wrote on 30 August 1984 to ask whether the ban included a ban on using the recreation ground for training. A brief reply, dated 31 August 1984, indicated that the ban was intended to be total. The letter, over the signature of the assistant chief executive, included these sentences:

> "It was and is the council's intention to prevent members of the Tigers training on the recreation ground in the evenings as well as banning the use of the rugby pitch for club matches. For the ban on training the council would seek to rely on Byelaw 16 of the Parks Byelaws and would maintain that the use of the recreation ground by the Tigers would per se interfere with other use of the recreation ground."

Mr. Small, whose evidence on this matter was not contradicted, was subsequently told by Mr. Stephenson that if the club tried to train on the ground the floodlighting would be disconnected and this would be effective to prevent training.

By the time the matter was before Forbes J. it was recognised that this reliance on Byelaw 16 was indefensible. I say no more about it save to express regret that the contention should ever have been advanced. Any defence of the council's action based on the Race Relations Act 1976, however well founded, could not possibly have extended to justify a ban on training, as Forbes J. pointed out.

The reasons for the imposition of the ban are clearly set out in paragraph 13 of Mr. Soulsby's affidavit. I quote that paragraph in full:

> "I refute any suggestion that the purported sanction against the club was imposed in response to the actions of their

players. I wish to make it clear that the action taken by the council was in response to the attitude taken by the club in failing to condemn the tour and to discourage its members from playing. The council has taken its steps therefore because of what the club did or did not do. It was always recognised that the club were not in the position of employers and could not instruct their players. However, the club is, as the applicants' evidence shows, a premier rugby football club and an influential member of the Rugby Football Union. At no time was the club asked to do anything by the city council which was beyond their powers to do. The steps taken by the city council have not been taken in order to penalise the club for having members who went to South Africa, still less, to penalise the club in order to penalise the players."

It is important to emphasise that there was nothing illegal in the action of the three members in joining the tour. The Government policy recorded in the well known Gleneagles agreement has never been given the force of law at the instance of any Government, whatever its political complexion, and a person who acts otherwise than in accordance with the principles of that agreement, commits no offence even though he may by his action earn the moral disapprobation of large numbers of his fellow citizens. That the club condemns apartheid, as does the council, admits of no doubt. But the council's actions against the club were not taken, as already pointed out, because the club took no action against its three members. ~~It was~~ They were taken, according to Mr. Soulsby, because the club failed to condemn the tour and to discourage its members from playing. The same point was put more succinctly by Mr. Sullivan Q.C., who appeared for the council - "The club failed to align themselves whole-heartedly with the council on a controversial issue." The club did not condemn the tour. They did not give specific affirmative answers to the first two questions. Thus, so the argument ran, the council, legitimately bitterly hostile to the policy of apartheid, were justified in exercising their statutory discretion to determine by whom the recreation ground should be used so as to exclude those, such as the club, who would not support the council's policy on the council's terms. The club had, however, circulated to those involved the powerfully reasoned and impressive memorandum which had been sent to the R.F.U. on 12 March 1984 by the anti-apartheid movement. Of the club's own opposition to apartheid as expressed in its memorandum which was given to Mr. Soulsby, there is no doubt. But the club recognised that those views, like those of the council, however passionately held by some, were by no means universally held, especally by those who sincerely believed that the evils of apartheid were enhanced rather than diminished by a total prohibition of all sporting links with South Africa.

The council's main defence rested on section 71 of the Race Relations Act 1976. That section appears as the first section in Part X of the Act under the cross-heading "supplemental." For ease of reference I will set out the section in full:

"71. Without prejudice to their obligation to comply with any other provision of this Act, it shall be the duty of every local authority to make appropriate arrangements with

a view to securing that their various functions are carried out with due regard to the need - (a) to eliminate unlawful racial discrimination; and (b) to promote equality of opportunity, and good relations, between persons of different racial groups."

My Lords, it was strenuously argued on behalf of the club that this section should be given what was called a "narrow" construction. It was suggested that the section was only concerned with the actions of the council as regards its own internal behaviour and was what was described as "inward looking." The section had no relevance to the general exercise by the council or indeed of any local authority of their statutory functions, as for example in relation to the control of open spaces or in determining who should be entitled to use a recreation ground and on what terms. It was said that the section was expressed in terms of a "duty." But it did not impose any duty so as to compel the exercise by a local authority of other statutory functions in order to achieve the objectives of the Act of 1976.

My Lords, in respectful agreement with both courts below, I unhesitatingly reject this argument. I think the whole purpose of this section is to see that in relation to matters other than those specifically dealt with, for example, in Part II, employment, and in Part III, education, local authorities must in relation to "their various functions" make "appropriate arrangements" to secure that those functions are carried out "with due regard to the need" mentioned in the section.

It follows that I do not doubt that the council were fully entitled in exercising their statutory discretion under, for example, the Open Spaces Act 1906 and the various Public Health Acts, which are all referred to in the judgments below, to pay regard to what they thought was in the best interests of race relations.

The only question is, therefore, whether the action of the council of which the club complains is susceptible of attack by way of judicial review. It was forcibly argued by Mr. Sullivan Q.C. for the council, that once it was accepted, as I do accept, that section 71 bears the construction for which the council contended, the matter became one of political judgment only, and that by interfering the courts would be trespassing across that line which divides a proper exercise of a statutory discretion based on a political judgment, in relation to which the courts must not and will not interfere, from an improper exercise of such a discretion in relation to which the courts will interfere.

My Lords, the House recently had to consider problems of this nature in Council of Civil Service Unions v. Minister for the Civil Service [1984] 3 W.L.R. 1174. In his speech at p. 1196 of the report, my noble and learned friend Lord Diplock classified three already well established heads or sets of circumstances in which the court will interfere. First, illegality, second, irrationality and third, procedural impropriety. If I may be forgiven for referring to my own speech in the case, a similar analysis appears on p. 1200 of the report. Those three heads are not exhaustive, and as Lord Diplock pointed out, further grounds may hereafter require to be added. Nor are they necessarily mutually exclusive.

To my mind the crucial question is whether the conduct of the council in trying by their four questions, whether taken individually or collectively, to force acceptance by the club of their own policy (however proper that policy may be) on their own terms, as for example, by forcing them to lend their considerable prestige to a public condemnation of the tour, can be said either to be so "unreasonable" as to give rise to "Wednesbury unreasonableness" (Associated Provincial Picture Houses Ltd. v. Wednesbury Corporation [1948] 1 K.B. 223) or to be so fundamental a breach of the duty to act fairly which rests upon every local authority in matters of this kind and thus justify interference by the courts.

I do not for one moment doubt the great importance which the council attach to the presence in their midst of a 25 per cent. population of persons who are either Asian or of Afro-Caribbean origin. Nor do I doubt for one moment the sincerity of the view expressed in Mr. Soulsby's affidavit regarding the need for the council to distance itself from bodies who hold important positions and who do not actively discourage sporting contacts with South Africa. Persuasion, even powerful persuasion, is always a permissible way of seeking to obtain an objective. But in a field where other views can equally legitimately be held, persuasion, however powerful, must not be allowed to cross that line where it moves into the field of illegitimate pressure coupled with the threat of sanctions. The four questions, coupled with the insistence that only affirmative answers to all four would be acceptable, are suggestive of more than powerful persuasion. The second question is to my mind open to particular criticism. What, in the context, is meant by "the club?" The committee? 90 playing members? 4,300 non-playing members? It by no means follows that the committee would all have agreed on an affirmative answer to the question and still less that a majority of their members, playing or non-playing, would have done so. Nor would any of these groups of members necessarily have known whether "the large proportion," whatever that phrase may mean in the context, of the Leicester population would have regarded the tour as "an insult" to them.

None of the learned judges in the courts below have felt able to hold that the action of the club was unreasonable or perverse in the Wednesbury sense. They do not appear to have been invited to consider whether those actions, even if not unreasonable on Wednesbury principles, were assailable on the grounds of procedural impropriety or unfairness by the Council in the manner in which, in the light of the facts which I have outlined, they took their decision to suspend for 12 months the use by the club of the Welford Road recreation ground.

I greatly hesitate to differ from four learned judges on the Wednesbury issue but for myself I would have been disposed respectfully to do this and to say that the actions of the Council were unreasonable in the Wednesbury sense. But even if I am wrong in this view, I am clearly of the opinion that the manner in which the Council took that decision was in all the circumstances unfair within the third of the principles stated in the case of Council of Civil Service Unions v. Minister for the Civil Service [1984] 3 W.L.R. 1174. The Council formulated those four questions in the manner of which I have spoken and indicated that only such

affirmative answers would be acceptable. They received reasoned and reasonable answers which went a long way in support of the policy which the Council had accepted and desired to see accepted. The views expressed in these reasoned and reasonable answers were lawful views and the views which, as the evidence shows, many people sincerely hold and believe to be correct. If the club had adopted a different and hostile attitude, different considerations might well have arisen. But the club did not adopt any such attitude.

In my view, therefore, this is a case in which the court should interfere because of the unfair manner in which the Council set about obtaining its objective. I would not, with profound respect, rest my decision upon the somewhat wider ground which appealed to Browne-Wilkinson L.J. in his dissenting judgment.

Since preparing this speech I have had the advantage of reading in draft the speech of my noble and learned friend Lord Templeman with which I find myself in complete agreement.

I would, therefore, allow the appeal and order certiorari to issue to quash the decision of 21 August 1984, the terms of which I have already set out. I do not think that the declaration or the injunction sought is necessary at this juncture, but lest they become so, I would remit the matter to the High Court with liberty to the club to apply for such further relief as may be thought necessary to protect their rights. The Council must pay the costs in this House and both courts below.

LORD BRIDGE OF HARWICH

My Lords,

For the reasons given in the speeches of my noble and learned friends, Lord Roskill and Lord Templeman, with which I agree, I would allow this appeal.

LORD BRIGHTMAN

My Lords,

I agree that this appeal should be allowed for the reasons given in the speeches of my noble and learned friends, Lord Roskill and Lord Templeman.

LORD TEMPLEMAN

My Lords,

In my opinion the Leicester City Council were not entitled to withdraw from the Leicester Football Club the facilities for training and playing enjoyed by the club for many years on the council's recreation ground for one simple and good reason. The club could not be punished because the club had done nothing wrong.

The 1984 Rugby Tour of South Africa was organised by the Rugby Football Union which invited individuals, including three members of the club to join the tour. There were two views about the tour amongst the opponents of apartheid. The view taken by the council, a view which I share, was that the tour would endorse the racist policies of the South African Government. The opposite view was expressed by Mr. Dodge, who was one of the three members of the club who participated in the tour and who gave sworn evidence in these proceedings as follows:

> "I personally deplore apartheid as being morally wrong. It is nevertheless my genuine belief that maintaining sporting links with South Africa does help break down the evil social barriers of apartheid, a personal belief which has been strengthened by observing in 1984 the improvement since 1980."

The council agree that this belief was sincerely held not only by Mr. Dodge but by other opponents of apartheid. The Government had subscribed to the Gleneagles agreement but did not take steps to ban the tour, leaving the decision to each individual invited to take part. The club does not practice racial discrimination, does not support apartheid, has not been guilty of any infringement of the Race Relations Act 1976, did not support the decision of the three members to join the tour and sought to discourage them from joining the tour by sending them copies of the reasoned memorandum published by the opponents of the tour. The council does not contend that the club should have threatened or punished the three club members who participated in the tour or that the club could properly have done so. Nevertheless, the club has been punished by the council according Mr. Soulsby for "failing to condemn the tour and to discourage its members from playing." My Lords, the laws of this country are not like the laws of Nazi Germany. A private individual or a private organisation cannot be obliged to display zeal in the pursuit of an object sought by a public authority and cannot be obliged to publish views dictated by a public authority.

The club having committed no wrong, the council could not use their statutory powers in the management of their property or any other statutory powers in order to punish the club. There is no doubt that the council intended to punish and have punished the club. When the club were presented by the council with four questions it was made clear that the club's response would only be acceptable if, in effect, all four questions were answered in the affirmative. When the club committee made their dignified and responsible response to these questions, a response which the council find unsatisfactory to the council, the council commissioned

a report on possible sanctions that might be taken against the club. That report suggested that delaying tactics could be used to hold up the grant of a lease then being negotiated by the club. It suggested that land could be excluded from the new lease as it was "thought that this could embarrass the club because it had apparently granted sub-leases . . ." It was suggested that the council's consent, which had already been given for advertisements by the club's sponsors, could be withdrawn although according to the report "the actual effect of this measure on the club is difficult to assess." It was suggested that "a further course is to insist upon strict observance of the tenant's covenants in the lease. However, the City Estate's Surveyor, having inspected the premises, is of the opinion that the tenant's convenants are all being complied with." Finally, it was suggested that "the council could terminate the club's use of the recreation ground." This might cause some financial loss to the council and might "form the basis of a legal challenge to the council's decision. The club may contend that the council has taken an unreasonable action against the club in response to personal decisions of members of its team over which it had no control." Notwithstanding this warning the council accepted the last suggestion and terminated the club's use of the recreation ground. In my opinion, this use by the council of its statutory powers was a misuse of power. The council could not properly seek to use its statutory powers of management or any other statutory powers for the purposes of punishing the club when the club had done no wrong.

In Congreve v. Home Office [1976] 1 Q.B. 629, the Home Secretary had a statutory power to revoke television licences. In exercise of that statutory power he revoked the television licences of individuals who had lawfully surrendered an existing licence and taken out a new licence before an increase in the licence fee was due to take effect. Lord Denning M.R. said at p. 651:

> "If the licence is to be revoked - and his money forfeited - the Minister would have to give good reasons to justify it. Of course, if the licensee had done anything wrong - if he had given a cheque for £12 which was dishonoured, or if he had broken the conditions of the licence - the Minister could revoke it. But when the licensee has done nothing wrong at all, I do not think the Minister can lawfully revoke the licence, at any rate, not without offering him his money back, and not even then except for good cause. If he should revoke it without giving reasons, or for no good reason, the courts can set aside his revocation and restore the licence. It would be a misuse of the power conferred on him by Parliament: and these courts have the authority - and, I would add, the duty - to correct a misuse of power by a Minister or his department, no matter how much he may resent it or warn us of the consequences if we do."

Similar considerations apply, in my opinion, to the present case. Of course this does not mean that the council is bound to allow its property to be used by a racist organisation or by any organisation which, by its actions or its words, infringes the letter or the spirit of the Race Relations Act 1976. But the attitude of the club and of the Committee of the club was a perfectly proper attitude, caught as they were in a political controversy which was not of their making.

For these reasons and the reasons given by my noble and learned friend Lord Roskill, I would allow the appeal.

LORD GRIFFITHS

My Lords,

For the reasons given in the speeches of my noble and learned friends, Lord Roskill and Lord Templeman, I would allow this appeal.

DRAFT LETTER SECRETARY OF STATE TO CHAIRMAN, ACC, AMA, ADC, ALA, LBA

The Government has already made clear, in its consultation paper on Competition in the Provision of Local Authority Services, its determination to take action to prevent local authorities imposing irrelevant or unreasonable conditions in local authority contracts. One issue of particular concern has been the exclusion of contractors who, for example, have trading links with South Africa, have undertaken work at nuclear missile sites, or refused to sign an undertaking not to do so, or who carried miners or delivered supplies through picket lines during the recent miners' strike.

It has always been our view that actions of this sort were open to challenge by an individual contractor on the basis that they represented an unreasonable exercise of local authority powers. The decision of the House of Lords on 25 July in the case of Wheeler and Others - v - Leicester City Council indicates that conditions of this sort are improper.

In the light of the judgment and its wider implications I have instructed officials to write to authorities known to impose conditions of the sort referred to above and I enclose a copy of the Department's letter. This seems to me, however, to be a matter which should be brought clearly to the attention of all local authorities and I would welcome your views on how this might best be achieved.

I am writing in similar terms to the Chairmen of the other Associations.

DRAFT LETTER TO INDIVIDUAL AUTHORITIES KNOWN TO IMPOSE POLITICAL CONDITIONS

In the consultation paper on Competition in the Provision of Local Authority Services the Government made clear its intention to take action to prevent authorities imposing on contractors conditions which have no relevance to the performance due under the contract. In the Government's view such conditions include, for example, requirements that the contractor shall not have trading links with South Africa, be involved at nuclear missile sites or have taken a particular stance in the recent miners strike.

It is understood that some or all of these conditions, or others of a similar nature, are applied by your Council. I am therefore directed by the Secretary of State to draw to your attention the judgment of the House of Lords on 25 July in the case of Wheeler and Others - v - Leicester City Council. In the view of the Secretary of State the implications of this judgment are clearly that such conditions are improper. I am therefore further directed to ask your Council to reconsider the legality of its present policy in the light of this judgment.

I would be grateful if you would advise me of your Council's decision not later than .

NEWHAM (PROPOSED CONDITIONS)

SECTION 7 OTHER POLICY ISSUES

7.1 The London Borough of Newham has an anti-apartheid policy and under its Standing Orders requires that contractors should have no trading links with, should not have investments in and, wherever practicable, goods and materials used by them should not have been produced in South Africa and/or Namibia

Please indicate below whether or not your firm complies with this requirement. If necessary give details of difficulties with compliance.

Does your firm comply with the above policy regarding South Africa and Namibia?	YES	
	NO	
Details of non-compliance.		

7.2	Newham is a nuclear-free zone. Please declare whether your firm has been involved in any way in the construction of installations for nuclear weapons	YES	
		NO	

7.3	Please indicate whether or not your firm was involved in the transportation of coal during the recent miners' strike.	YES	
		NO	

MIDDLESBROUGH BOROUGH COUNCIL

SPECIAL CONTRACT CONDITIONS

Contractors who supply goods or plant and machinery of the kind specified below warrant that:

1) they will not establish or maintain subsidiary contractual arrangements with other contractors in South Africa or contractors based in the U.K. and having connections with others located in South Africa

2) no significant (in the opinion of the Council) part of any material or product is produced by persons, firms, or companies based in South Africa or by persons etc., having connections with others located in South Africa

Petrol, diesel, or other mechanically propelled vehicles
Grass cutting or tree felling or other agricultural equipment
Road repair or reinstatement equipment or plant
Cranes and other lifting devices.

I/We certify that I/We comply with the Special Contract Conditions as above.

Signed .....

Name of Firm.....

Address: .....

.....

.....

5795

City of Liverpool

Director,
PURCHASING & SUPPLIES DEPARTMENT,
Kent Street, Liverpool L1 5AN
Telephone: 051-709 5001 Ext 49

Your ref.

Our ref. DS/PR.AK/JNE

Date 25th June 1984.

8 AUG 1984

Dear Sir,

The City Council recently passed a resolution which instructs me not to deal with any company whose vehicles have passed through a miners picket line during the present industrial dispute between the National Union of Mineworkers and the National Coal Board.

This letter is being sent to all companies currently on the council's approved list of contractors for haulage, van hire and coach hire, to inform you of the council's decision and to make you aware of the council's policy on this matter.

Yours faithfully,

Acting Director

When calling or telephoning please ask for Mr. P. Robinson

All correspondence should be addressed to The Director.

~~ABSTENTIONS 0~~

The amendment was declared to be lost.

On the motion being put to the vote it was declared to be carried.

(Councillors Mrs. Clough, Clough, Eckersley, Hoskins, Miss Jackson, Meakin and Spilberg asked for their votes against the motion to be recorded.)

It was then moved by Councillor Tony Ritchie and duly seconded that Standing Order 24 be suspended in order to debate the following motion.

Upon being put to the vote a division was called in accordance with Standing Order 28. The result of the division was as follows:-

FOR THE MOTION 27

Councillors Les Alden, Elizabeth Bendall, David Brasier, Alex Coveney, Alan Davis, Ron Doyle, Tevor Ely, John R.M. Fowler, Mike Geater, Mabel Goldwin, Sue Goss, Tony Goss, Elsie Headley, John Johnson, Madan Kalia, Sam King, Sandy Macpherson, David Main, Anne Matthews, Paula Moore, Tony Ritchie, Bob Smyth, Nick Snow, Andrew Troke, Jessica Wanamaker, John Wentworth and Geoff Williams.

AGAINST THE MOTION 7

Councillors Mrs. Clough, Clough, Eckersley, Hoskins, Miss Jackson, Meakin and Spilberg.

ABSTENTIONS 0

~~The motion was declared to be carried.~~

5. It was moved by Councillor Paula Moore and seconded by Councillor Sue Goss:-

"(1) This Council supports the action of the Greenham Common Women's Peace Camp in opposing the siting of U.S. Cruise missiles in Britain, and affirms its opposition to all nuclear weapons.

(2) This Council notes that construction of silos and support facilities is already being undertaken by British companies sub-contracted by Tarmac, who have been awarded the contract for all work on the missile site.

(3) Therefore, in line with this Council's nuclear-free policy it is resolved not to employ, in any future capacity, Tarmac, or any of the companies so engaged.

(4) This Council also undertakes to encourage other Councils to adopt this resolution, and to support them in doing so."

The following amendment was moved by Councillor Eckersley and seconded by Councillor Clough:-

"Delete all after 'Council' and insert, 'recognises that Members may have sincere personal convictions about nuclear weapons, and urges them to ensure that such convictions do not harm the proper performance of their duties as local government Councillors.' "

Councillor Meakin spoke to the amendment.

It was moved by Councillor Sandy Macpherson seconded by David Main and agreed that, 'the question be now put.'

Councillor Paula Moore then replied.

Upon being put to the vote the amendment was declared to be lost.

Upon the motion being put to the vote a division was called in accordance with Standing Order 28. The result of the division was as follows:-

FOR THE MOTION 27

Councillors Les Alden, Elizabeth Bendall, David Brasier, Alex Coveney, Alan Davis, Ron Doyle, Tevor Ely, John R.M. Fowler, Mike Geater, Mabel Goldwin, Sue Goss, Tony Goss, Elsie Headley, John Johnson, Madan Kalia, Sam King, Sandy Macpherson, David Main, Anne Matthews, Paula Moore, Tony Ritchie, Bob Smyth, Nick Snow, Andrew Troke, Jessica Wanamaker, John Wentworth and Geoff Williams.

AGAINST THE MOTION 7

Councillors Mrs. Clough, Clough, Eckersley, Hoskins, Miss Jackson, Meakin and Spilberg.

ABSTENTIONS o

The motion was declared to be carried.

6. ~~It was moved by Councillor Tony Goss and seconded by~~ Councillor Elizabeth Bendall that:-

"(i) The Council resolves that Schedule 3 to the Local Government (Miscellaneous Provisions) Act 1982 shall apply to the area of the London Borough of Southwark as from 8th February 1983.

(ii) The terms of reference of the Public Services Committee be extended to include:

'All matters relating to the grant, renewal, transfer and revocation of Licences for sex establishments.'"

The following amendment was then moved by Councillor Miss Jackson ~~and seconded by Councillor Eckersley~~:-

All correspondence to be addressed to City Engineer and not to individuals

Your Ref:
Our Ref:- RBT/SM
Date: 20 March 1985

AM No. 0

O.C. Anderson
C. Eng. FICE FIHT
City Engineer & Controller of Works

Department of Engineering & Works
CITY OF PETERBOROUGH
Town Hall,
PETERBOROUGH. PE1 1HQ
MDX 12310 Peterborough
Telephone (0733) 63141

New Haden Pumps Ltd
Draycott Cross Road
Cheadle
Stoke on Trent ST10 2NW

City of Peterborough

Dear Sirs,

Approved Lists of Contractors

Anti-Nuclear Resolution

The Peterborough City Council, at its meeting on Wednesday, 6 March 1985, passed a resolution, the operative parts of which are as follows:-

(i) to write to every firm at present on our approved contractors' list informing them of these resolutions and asking them whether they are involved, or intend to be involved, in preparatory or other work for the deployment of cruise missiles at Molesworth

(ii) to amend Standing Orders forthwith with respect to Contracts to permit the Council:

(a) to delete from the approved list of contractors any firm which is so involved provided that the list hereafter includes a sufficient number of firms willing and able to carry out the type of work required by that section of the list

(b) not to add to the approved contractors' list any company known to be so involved

(c) to give immediate consideration to restoring or admitting to the approved contractors' list any firm which applies to be added to the list which has ceased to be so involved.

I would be most grateful if you would confirm whether your company is currently involved, or intends to be involved, in any works concerned with the deployment of cruise missiles at Molesworth.

Yours faithfully,

RECEIVED
22 MAR 1985
REPLY REF.
DATE

City Engineer

When telephoning please ask for Mr/M's

LONDON BOROUGH OF GREENWICH

PART IV — INVOLVEMENT WITH CRUISE OR TRIDENT MISSILES

It is the Council's policy to seek to ensure that nuclear weapons are not manufactured, transported, stored or deployed in the Borough and the Council has further resolved that the only way that the public will be safe from the threat of nuclear weapons is by disarmament. In view of this policy, the Council wishes to know of any involvement of its suppliers in connection with the deployment of ground launched Cruise Missiles or Trident.

Firm or Company making Application:
(Please write in)

	(Business Name)
	(Business Address)

Are you involved or do you intend to be involved in the supply of materials for the deployment of ground launched Cruise Missiles or Trident?	Yes	No

(Please tick)

15. VIII AM 6 Г

Prime Minister (1)

Policy Unit have raised an additional point. No decision has been taken on whether to introduce a general English Bill or a Liverpool-only Bill. If the latter looks preferable, Mr Younger needs to be ready with an Edinburgh-only Bill. Agree?

AT 1/8

PRIME MINISTER 1 August 1985

I do not like the prospect of a general bill. It would give the wrong signals. There is quite enough spending bills.

MISC 109: EDINBURGH

George Younger wants to nurse Edinburgh into solvency by giving them a 'marginal' amount of extra spending power.

It is not clear what 'marginal' means: in Scotland, the bills are usually rather larger than they at first appear.

In England, Patrick Jenkin has waged an extremely successful campaign by giving nothing away. Why shouldn't George Younger do the same in Scotland?

We are also extremely sceptical about a general UK Commissioners Bill. All Commissioners Bills are bad; a general Bill for England is worse yet; and a general UK Bill is the worst of all. There is no need to have such a Bill: if Patrick Jenkin can produce a Liverpool-only draft, George Younger can surely produce an Edinburgh-only version.

Commissioners should not be needed in Edinburgh anyway: all the signs are that, if George Younger's nerves don't fail, the council will give way before a crisis occurs.

We recommend that you should:

- ask George Younger to give nothing away; and
- remind him that general Commissioners legislation is to be avoided at all costs.

Oliver Letwin

OLIVER LETWIN

PART 27 ends:-

AT to DOE (Mtg Record) 31.7.85

PART 28 begins:-

O letter to PM 1.8.85

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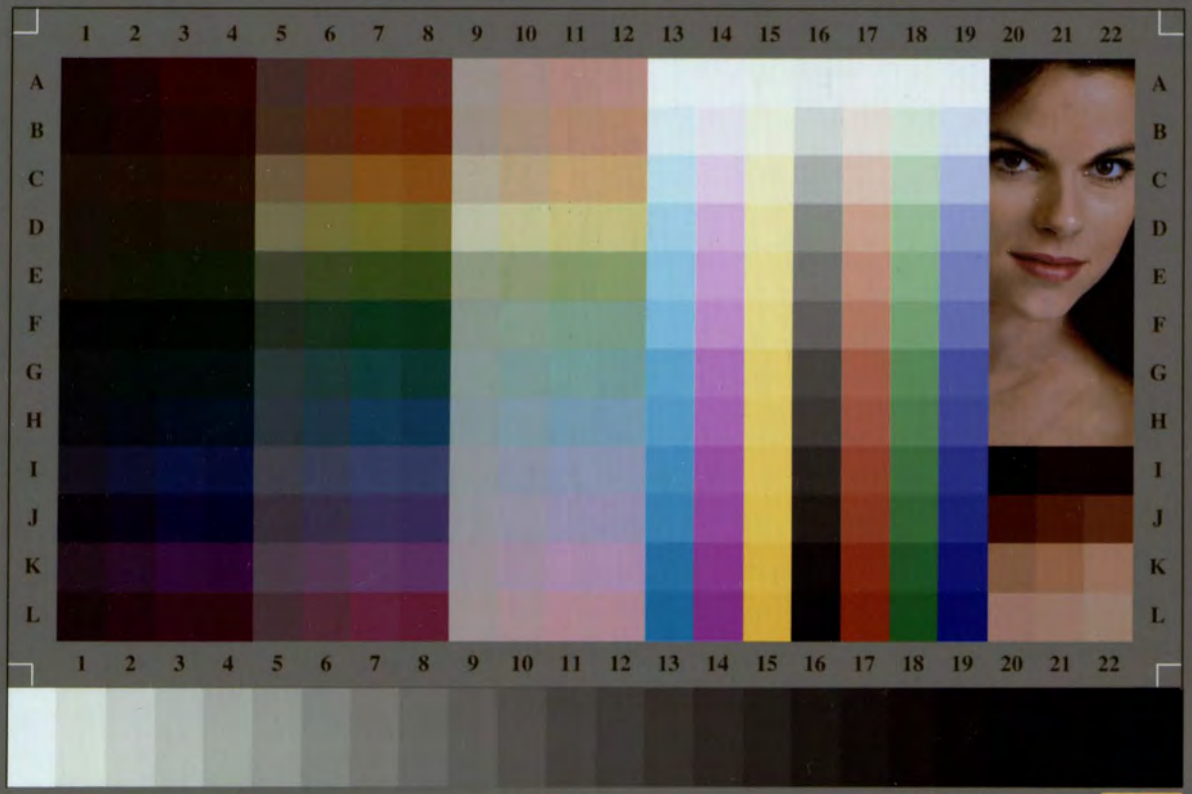

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