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My ref:

Your ref:

13 October 1983

Dear Andrew -

The Prime Minister and my Secretary of State are to meet for lunch on 17 October, with a number of their colleagues to discuss local government and the battles ahead.

The Prime Minister suggested that a short background paper should be prepared for colleagues to read upon their arrival at 12.30pm. A note approved by my Secretary of State is enclosed, to be distributed on Monday. Copies have not been sent at this stage to any of the other Ministers attending.

Yours sincerely

John Ballard

JOHN BALLARD

Private Secretary

Andrew Turnbull Esq

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LOCAL GOVERNMENT: THE NEXT FIVE YEARS

We will have two kinds of battle on the local government front over the next five years. First, we may face some difficulties, perhaps particularly in the Lords, over parts of the legislation, with more pressure we would judge on the rate capping Bill than the abolition Bill. We will in addition be making very heavy demands, in this session and the next, on parliamentary time. Colleagues may wish to hear views on the latest assessment of the parliamentary situation.

Second, victory in Parliament will be followed by major tasks, some of them of a kind not attempted in Britain before, in relation to the control of local government expenditure. These will derive both from rate-capping and from the temporary controls which will be necessary to secure savings in the newly established joint boards. It is important that we should not concentrate only on the period of the parliamentary battle; to secure the real savings we need (and have not yet achieved) in local government expenditure we will need to fight and win a series of battles outside parliament up to the next election and beyond. Some of these will have novel features. For example:

(i) we may need to take, and use, powers to put commissioners in to run some recalcitrant authorities to secure the savings we want. This might be needed either in an abolition authority before abolition, or in an authority selected for rate-capping or conceivably in a joint board which refused to implement realistic manpower and expenditure plans.

(ii) we will of course be involved in setting the rates for perhaps fifteen of the highest spenders under the rate capping powers. This will involve Whitehall civil servants for the first time in detailed executive decisions on spending in particular authorities.

(iii) If we are to get the savings we need, we must both keep up the pressure across the board (which means no easy answers to the grumblings of many Conservative shire counties and others about RSG) and seriously seek savings from amongst the new joint board services (ILEA, fire, police etc).

There will be plenty of room for Murphy's law to operate. Local authority lawyers will seek court challenges, and we face steady opposition from a rival civil service of local authority officials who feel threatened and who will be briefing members of both Houses and the media.

Annex A draws attention to the timing of the legislation and its relationship with the RSG settlement cycle and local government elections. The main point which emerges is that local government is going to be in the forefront of the political stage from this autumn right up to the next election.

Annex B is a summary of some of the arguments. It shows that we should have no difficulty in marshalling a powerful case for our policy. Above all, we cannot let ourselves forget that overall there has been virtually no real cut in local authority current spending.

October 83: Publication of Abolition White Paper

December 83/January 84: RSG Settlement for 84/85 debate in January perhaps in same week as rate capping bill second reading). Likely to be tough across the board and very harsh indeed on high spenders. No escape routes possible for high resource authorities (Surrey) or growth authorities (Buckingham) or authorities with historically low-spend records but new over targets (Somerset).

January 1984: Debates on RSG Settlements

January/July 84: Rate Capping Bill (Commons Second Reading January, Lords Second Reading April (?). Hotly controversial; raises issues of local independence which on previous occasions have proved particularly difficult to handle in the Lords. On the other hand this bill is about money (spending) and taxation (rates).

March/April 84: Rates Set Opportunity for abolition authorities to put forward obstructive financial programmes (especially the GLC who will be expected to rate for full-year support for transport even though it is intended to set up London Regional Transport in mid-year).

April (?) 84: Abolition Paving Bill introduced Could imply changes in political balance in some authorities. Constitutional argument about replacement of directly elected Councils.

April (?) 84 onwards (contingent): Counter-Obstruction Bill (either combined with the Abolition Paving Bill or as separate legislation introduced if and when the need arose). Would provide for dismissing a council and putting in commissioners; probably the most controversial of local government policies.

May 84 Local elections for one-third of the Councillors in Metropolitan Districts.

July 84: Selection of authorities for rate-capping Criteria for selection will be disputed; selected authorities may henceforth adopt obstructive tactics. Possibilities for legal challenges. Possibility of necessity for imposition of Commissioners on some councils, perhaps pretty quickly.

July 84: Announcement of targets for 85/86 (likely to be tough) and implementation of holdback for 84/85

October (?) 84: Setting up of London Regional Transport Possible obstruction by GLC who will be expected to continue subsidising London Regional Transport for the remainder of 84/85.

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November (?) 84: Substantive Abolition Bill Repeat of earlier debates during the passing of the Paving Bill.

December 84/January 85: RSG Settlement for 85/86 (debate in January).

January 85: Setting of rate limits for selected authorities Could be the trigger for major obstruction leading to takeover of some authorities, followed by wide scope for legal challenges and certainty of active obstruction by local government officials in some councils.

May 85: Possible announcement of intention to introduce general rate limitation (if 85/86 budgets are excessive). This would lead on to target setting, and widespread confrontations.

July 85: Formal setting up of new joint boards in metropolitan areas.

November 85/88 - Period of initial precepts and manpower control for joint boards. If savings are to be achieved, control must involve loss of staff in all services, including police, fire, and ILEA. Possibility of need for imposition of commissioners.

OVERALL LOCAL GOVERNMENT FINANCE POLICY

Argument

There is no macro-economic case for imposing controls on local government current expenditure since it affects neither the PSBR nor the money supply.

Response

The size and cost of the local government sector affect

- (a) the balance of the private/public sectors;
- (b) rates - and hence the overall level of taxation especially of business ratepayers;
- (c) rates - and hence the RPI;
- (d) rates - and hence (possibly) savings and interest rates;
- (e) pay outside the local government sector.

SELECTIVE RATE LIMITATIONArgument 1

Direct control of local authority spending is unconstitutional.

Response 1

The relationship between central and local government is set by Parliament, and there is nothing unconstitutional in changing it through Parliamentary procedures (eg Scotland).

Argument 2

The policy represents a fundamental shift in the balance of power between central and local government.

Response 2

We are only seeking to control expenditure in 12-20 of the worst overspending authorities, and within the overall total they will still be able to decide their own expenditure priorities.

Argument 3

The scheme will be unworkable; you cannot run a local authority from Whitehall.

Response 3

We shall not be seeking detailed control, merely setting

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realistic and achievable reductions from existing expenditure and manpower levels. If there are hidden special factors which make these reductions impossible, the authority concerned will be able to seek some relaxation.

GENERAL RATE LIMITATION

The same arguments as those on selective limitation apply, but with more force. In particular, there is no gainsaying that the general scheme would represent a big shift in power towards central government. The answer to this is that such action would be taken only if the selective scheme combined with the normal grant pressures had failed to produce a satisfactory response from local authorities so that the Government was left with no alternative but to knuckle under and abandon its expenditure plans or take general control of rates. It will also be argued that if the general scheme is only a fall-back option, immediate legislation is not needed; powers should be taken only if the selective scheme fails. The answer is that the scheme needs to be on the statute book in order to influence the attitudes to expenditure of all local authorities.

COMMISSIONER LEGISLATION

Argument

This would enable the Government arbitrarily to dismiss councils that legitimately disagreed with its policies.

Response

The power would be used only where the working of local government had clearly broken down, and specific Parliamentary authority would be sought in each case. (The response would be more persuasive if the legislation were introduced after the intention of one or more authorities to behave irresponsibly was firmly evidenced).

RSG/TARGETS/HOLDBACK

Argument 1

Rates have gone up because the Government has cut the grant.

Response 1

They would have gone up much less - on average no more than the RPI - if local authorities had met targets.

Argument 2

Targets are unfair because they take no account of differing spending needs; and they bear harshly on low spenders, especially shire counties.

Response 2

They are admittedly rough and ready. But there is an overriding need to restrain the total. Low spenders therefore have to contribute. Targets can be dropped when total spending comes into line with plans.

ABOLITION

Argument 1

Controlling spending is sufficient; abolition is not necessary.

Response 1

Control of spending is no substitute for getting fundamentally more economical arrangements.

Argument 2

You will be replacing directly elected and therefore accountable bodies with unaccountable joint boards, which have always tended to be extravagant.

Response 2

Borough and district councils will be elected authorities responsible directly for almost all services and much more accessible to local people. Where services have to be provided jointly, local elected members will form the joint boards and will be accountable to their authorities and the electorate. We are taking special measures to reinforce the pressures for economy on joint boards.

Argument 3

There must be an elected authority for the whole of the capital city.

Response 3

Only if there is a real job to be done; representations can just as well be made by the boroughs acting together.