

TPM

RATES - COUNCILLORS

I mentioned this morning that this was your most important meeting of the day.

Stephen Sherbourne has produced separate background briefing which, notwithstanding this being a party political occasion, No 10 Press Office could use unattributably.

The meeting is attracting a great deal of media interest. It would be unreasonable and counter-productive to deny them access to the street - that would merely serve to generate stories of embarrassment - but we are putting them behind barriers.

We shall let you know during the meeting whether anything was said to the media by the councillors on their way in and we shall monitor their departure.

But the meeting is supposed to be private and the Government's purpose would best be served if nothing was said on the record by central or local government afterwards.

If however it is clear that councillors have accepted or are likely to accept invitations to appear on programmes or be interviewed afterwards you will need to decide whether:

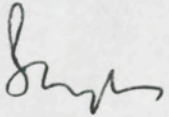
1. Mr Jenkin should give an interview on leaving; and whether
2. Mr Jenkin should respond to specific requests - eg. from BBC TV Newsnight for interviews.

The objective of the media will be to set Conservative Government against Conservative councillors. And they are bound to succeed if anything is said on the record.

Set against that is the need to put over the Government's case.

The media would most certainly seek to exploit division if Mr Jenkin and a councillors' representative spoke about the meeting together afterwards.

The best of a bad job, if agreement cannot be reached to say nothing on the record after the meeting, would be for Mr Jenkin to give short separate news interviews as soon as possible afterwards.



B. INGHAM

9 January 1984

Local authority file

PRIME MINISTER

1. I have drafted a note (attached) for the No. 10 Press Office for use as guidance in answering press enquiries after the meeting. The objective is to allow you to use the opportunity to get the Government's policy across.
2. Bernard Ingham's separate note deals with the likelihood of public comments by the Conservative local authority leaders and how we might respond.

Steve

Stephen Sherbourne

9th January 1984

Press Briefing for No. 10 Press Office after meeting between
the Prime Minister and some Conservative local authority leaders

1. This was not a formal meeting. It was arranged some time ago to give local Conservative leaders an opportunity to meet the Prime Minister informally over a drink and discuss a range of matters.
2. There was general agreement that:
 - (a) the Government has the right to reduce the burden of public expenditure and the burden of taxation, which includes rates.
 - (b) the need for Government action on rates in particular is exemplified by the fact that, this year local councils are spending £2½ million over and above the level originally planned - an excess equivalent to £140 for every household.
 - (c) rates are now the heaviest tax paid by industry.
 - (d) three-quarters of this excess spending is caused by the extravagance of just sixteen local authorities.
3. The Prime Minister explained that, for these reasons, under the proposed selective scheme on rates, the Government would limit the rates of only a few, perhaps between 12 and 20, councils.
4. The Prime Minister also explained that the Government hoped that the selective scheme, together with the operation of the block grant system, would do the trick, so that the general scheme would never be needed. She explained that the general powers would be held in reserve only: even after the Bill has been passed, the general scheme would still require the specific approval of both Houses of Parliament, after consultation with representatives of local authorities.

Press Briefing cont.

5. The Prime Minister stressed that there was much room for greater efficiency in the provision of services. So far, only 36 councils out of 400 in England and Wales have put services out to competitive bidding by private contractors. The Prime Minister also pointed out the variations between local authorities which indicated the scope available for savings. eg.

- (i) in Manchester, the net cost of providing all services last year was £547 per head, compared with £390 in Birmingham.
- (ii) ILEA expenditure per pupil is about 60% higher than in the Metropolitan District Councils, some of which have similar educational problems.



10 DOWNING STREET

PRIME MINISTER

Also attached is a brief
on local government policies.

You have already seen a
speaking note for Ministers
prepared by Patrick Jenkin.

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PRIME MINISTER

Meeting with Conservative Local Authority
Leaders on Monday 9 January

1. You will recall that Lord Bellwin asked to bring in about a dozen Conservative local authority leaders. The list is attached. Also present will be Patrick Jenkin, William Waldegrave, John Gummer (together with Michael Alison and myself).
2. The meeting takes place at 5.45 pm. At 5.30, there will be a short briefing meeting between yourself and Ministers only.
3. One question you will want to raise at the meeting beforehand is what we say afterwards to the press who are now interested in this meeting. I understand that the ACC are advising their members who are present at the meeting to say to the press: "Had a useful exchange of views. As Conservative councillors, fully support Government's general objectives on local government expenditure. But believe Government has chosen wrong instrument on vote capping. Will continue to oppose." I believe we should ask all those present to say nothing to the press on the grounds that this is a private and informal meeting, with an exchange of views on a variety of subjects; and that all press enquiries will be dealt with by the No.10 Press Office. If it is agreed that the councillors should be given this advice, I suggest it is done in your presence rather than by Lord Bellwin with them privately.
4. One final separate point, I understand Lady Porter is setting up a committee to provide good publicity for the Government's decision to abolish the GLC. (William Waldegrave is also on the committee.) It is in the business of fund-raising and there are fears that it may create friction with Alister McAlpine for obvious reasons. She may ask you to host or promote a fund-raising reception. I would advise a non-committal reply at this stage and ask her perhaps to write in.

Steve

6 January 1984

Councillor J Lovill	- Chairman, ACC (East <u>Sussex</u> CC)
Councillor L D Moss	- Vice-Chairman ACC (<u>Berkshire</u> CC)
Councillor J L Morgan OBE	011 - Chairman, ADC (Leader, Test Valley BC)
Councillor K R Thomason	- Vice-Chairman, ADC (<u>Bournemouth</u> BC)
✓ Councillor P S Bowness CBE DL	- Leader, LBA (Leader, LB <u>Croydon</u>)
Councillor N Bosworth CBE	- Leader, <u>Birmingham</u> City
✓ Councillor R W Wall OBE	- Leader <u>Bristol</u>
Councillor R Parker-Jervis	- Leader, <u>Buckinghamshire</u> CC
- Councillor J A H Edmonds OBE -	- Leader, <u>Dudley</u> MBC
✓ Councillor M Spungin OBE	- Conservative Group Leader, Nottingham County Council
✓ Councillor I Patnick OBE	- Conservative Group Leader, South Yorkshire MCC
✓ Lady Porter	- Leader, <u>Westminster</u>
- Councillor C A Prendergast CBE	- <u>Westminster</u> City Council

BRIEF FOR MINISTERS ON LOCAL GOVERNMENT POLICIES

CONTENTS

A. RATE LIMITATION

A1. Speaking Notes

Page reference

- financial background A1/1
- the constitutional argument A1/2
- why the Government is concerned with local government spending A1/2
- why new measures are needed A1/3
- rate limitation: the new proposals A1/4

A2. Question and Answer Notes

- economic background A2/2
- the constitutional case A2/4
- why new measures are needed A2/4
- rate limitation: the new proposals A2/6

B. RATING REFORMS

B1. Speaking Notes

B1

B2. Question and Answer Notes

- revaluation B2
- help to business ratepayers B2
- empty commercial property B2

C. RSG SETTLEMENT 1984/85

C1. Speaking Notes

C1/1

C2. Proposals Already Announced

C2

C3. Question and Answer Notes

- toughness of the settlement C3/2
- impact on rates C3/3
- effects on marginal overspenders C3/3

D. ABOLITION OF GLC AND MCCs

D1. Speaking Notes

- the case for change D1/1
- the proposals D1/1
- savings and transitional costs D1/2
- implementation D1/3
- misconceptions about the Government's proposals D1/3

D2. Summary of Proposals on the Reallocation of GLC and MCC Functions D2/1

D3. Question and Answer Notes

- general D3/2
- proposals D3/3
- joint boards D3/4
- constitution of joint boards D3/5
- transfer of staff and property D3/6
- financial arrangements D3/8
- costs and savings D3/9
- implementation D3/10

E. TIMETABLE OF LEGISLATION E/1

F. INCOME OF LOCAL AUTHORITIES IN ENGLAND F1

EXPENDITURE OF LOCAL AUTHORITIES IN ENGLAND F2

RATE LIMITATION: SPEAKING NOTES

FINANCIAL BACKGROUND

1. Local authorities in the United Kingdom are responsible in their current and capital spending for a quarter of all public expenditure.

25% p.e.

2. Back in the early 60's their current spending amounted to about 5% of all domestic expenditure. That proportion was around 9% by 1982. The national Exchequer makes a very substantial contribution towards this: 52% of rate fund revenue in 1982/83 in England and Wales. However within the total of local government expenditure, the dramatic increase in current spending has been masked by an even steeper fall in capital spending - over 50% in 'volume' - between 1978/79 and 1982/83.

3. In fact, between 1978/79 and 1983/84 when this Government was looking for real savings, current expenditure actually rose. Budgetted expenditure this year in England is no less than 12% higher in real terms than planned for in the 1980 Public Expenditure White Paper. Had local government conformed to the Government's plans, considerable savings would have been achieved. Only the collapse in capital spending has produced any reduction overall.

4. On manpower, we have had some success. Local authorities in England and Wales employ nearly 2½m full-time and part-time staff. Between June 1979 and March 1983, with encouragement from us, they reduced the total by 4%. But that trend is now turning against us, with a rise of 0.3% in the year to June.

How much of that reduction is due to teaching staff.

5. As to the rates, between April 1979 (when the Government came into power) and April 1983 domestic rates in England rose by 91% compared with a 55% increase in the RPI. The average increase in domestic rates was 72p in the £, with a range from 40p to a staggering 160p.

How does Gov. limit wages.

6. The Government have reduced the rate support grant percentage, since we want to reduce the cost of local government to the taxpayer and ratepayer, and to signal the need for expenditure reductions. But some authorities did not respond and reduce their expenditure as they were expected to. If they had done so (and that was our overall strategy) then rate increases would on average have been below the general rate of inflation. By refusing to cut their expenditure they put an additional burden on their ratepayers.

THE CONSTITUTIONAL ARGUMENT

7. For almost all the post-war period there has been a clear consensus about the relationship between central and local government. Local authorities have accepted that they should live within the overall policies of central government. Of course it was easier to operate that consensus in times of expectation of growth. But it has broken down now that the need is for retrenchment. The blame for this rests squarely with a minority of high spending local authorities who have chosen to disregard the economic policies of national Government.

8. We live in a unitary state. Parliament is sovereign and has granted local government its powers. Local mandates cannot override national policy. At a time when the Government is striving to implement a programme for national economic recovery it has a right to expect local authorities to respond. Where that response is not forthcoming the Government has no alternative but to act through Parliament to safeguard the policies on which it was elected. That is what we are doing. The Government cannot control aggregate spending except through the individual amounts which make up a total, and some restraints on individual authorities are inevitable.

WHY THE GOVERNMENT IS CONCERNED WITH LOCAL GOVERNMENT SPENDING

9. Some people question whether Government has a role at all in respect of local government. They are wrong to do so. High local government spending and taxing threaten the Government's economic strategy. They increase the burden of taxation which we are committed to reducing. Our tight control of public expenditure can be undermined by overspending in so substantial a sector of the economy. High rates feed into costs, fuel wage demands, and put our anti-inflation policy at risk. The local government overspend (£770m this year) pre-empts resources that could have been better used; it is a large figure in terms of the management of public sector expenditure.

Non-domestic rates

10. High rates threaten the health of our industry and commerce. Non-domestic ratepayers contribute nearly 60% of the rates - much more in some individual authorities. They have no direct voting influence. Non-domestic rates total some £6bn in England this year and are the largest single tax on business. They are

RATE LIMITATION: THE NEW PROPOSALS

15. The scheme we are now proposing for selective rate limitation is practicable and reasonable. Three quarters of this year's total budgeted local government overspend of £770m is accounted for by just 16 authorities. Under the selective rate limitation scheme we will be looking only at the highest spenders - probably no more than a dozen or 20 authorities altogether. The criteria by which we select them will have particular regard to authorities' recent levels of spending, and how they vary from the objective measure of need represented by the Grant Related Expenditure (GRE).

16. Authorities spending below their GRE will be expressly excluded, as our White Paper makes clear. So will smaller authorities, by means of the setting of an expenditure level (the White Paper illustrated the effects of a £10m limit) below which no authority will be liable for selection.

17. The proposed general rate limitation scheme would provide a general control over the rates or expenditure of all local authorities. It would work in a similar way to the selective scheme in that expenditure levels would be set from which rate limits could be determined in the light of the authority's grant entitlement. There would be a power to exclude small authorities.

18. We hope that the selective scheme, along with the pressures already being exerted on authorities through the grant system, targets and holdback, will curb high spending councils and bring local government spending in aggregate into line with the Government's planning totals. If there is acceptable progress towards that objective we will never need to activate the general rate limitation scheme. We have no wish to do so, but our experience over the last four years leads us to conclude that we must be ready for all eventualities. Whether we are forced to move to general rate limitation lies entirely in the hands of local government itself.

unavoidable. Increases in rates raise costs, stifle growth, damage competitiveness, and destroy jobs.

Domestic rates

11. The Government have a responsibility to domestic ratepayers. There is a general feeling in the country that something must be done about rates - the do nothing option is not open. The Government cannot stand back and watch as some authorities heap heavier and heavier burdens on their backs. If locally elected councillors will not protect the ratepayer, then we must do so. The least we can do is to protect those who have the heavier burdens.

WHY NEW MEASURES ARE NEEDED

12. The Government have not rushed into proposals for rate limitation. We have moved step by step in an attempt to carry local government with us. We have reformed the grant system and sought to work through it to keep expenditure down. We have used targets and holdback, and this approach has had some success: in the current year 80% of authorities have budgeted to spend at or close to their target level. A significant minority however continue to spend with no regard to national policies or the burden on their ratepayers.

13. We have also considered the scope for getting rid of rates altogether. We have carried out a most thorough and searching review of the rating system. We have put forward some improvements in the rating system; for instance that representatives of business should be consulted before the rate is set. We have reluctantly concluded that rates must remain for the foreseeable future the main source of local revenue. Changes such as new taxes would take years to implement and would not restrain expenditure now; indeed buoyant new taxes would encourage it. And changes in functions (such as transferring or financing of education to central government) would raise major constitutional issues.

14. The changes we propose do not "spell the end of local government". Selected authorities will remain free to decide their own spending priorities within the rate limit set. They will be free to spend lower, and to rate lower, than the limit if they wish. All we are seeking is to curb overspending.

RATE LIMITATION: QUESTION AND ANSWER NOTES**Page**

- | | | |
|----|--------------------------------|------|
| 1. | Economic Background | A2/2 |
| 2. | The Constitutional Case | A2/4 |
| 3. | Why New Measures are Needed | A2/4 |
| 4. | Rate Limitation: the Proposals | A2/6 |

ECONOMIC BACKGROUND

Q1. Why does the Government want to cut local government spending?

A1. The Government has overall responsibility for public expenditure. Public spending must be reduced if we are to cut borrowing and taxation, reduce interest rates and leave people with more of their own money to spend. Local government still accounts for more than a quarter of all public expenditure. Because it is the Government's priority to protect the health service, pensions, defence expenditure and law and order services, other public spending by central government, local authorities and some nationalised industries have to take a larger share of the cuts.

Q2. Is local authority expenditure public expenditure?

A2. Certainly. It is expenditure for public purposes. Whether financed through the rates, borrowing or grant - and over half is financed from central government grant - local authority spending denies the use of funds to private industry and private individuals.

Q3. Isn't local authority overspending only a small proportion of total public expenditure?

A3. It is precisely these marginal amounts which cause so much difficulty in terms of economic management. We have had to increase provision for 1984/85 by £500m in view of overspending in England in 1983/84. Since the Government intend to stay on course, this £500m has to be found from somewhere. Other programmes risk suffering because of local government overspending.

Q4. Aren't rates only a small proportion of industry's costs?

A4. Rates may be only a small proportion of industry's costs, but in terms of profits rates can make all the difference. The CBI estimate that rates on industry and commerce in the UK, excluding North Sea operations, will amount to 50% or more of gross trading profits adjusted for inflation in the current financial year.

Q5. Haven't rates gone up simply because the Government has reduced grant?

A5. Of course we have reduced our grant, as a signal of expected expenditure reductions, since we want to reduce the cost of local government to the taxpayer and ratepayer. But some authorities did not respond and reduce their expenditure as they were expected to. If they had done so (and that was our overall strategy) then rate increases would on average have been below the general rate of inflation. However some authorities have simply carried on spending and put the resulting burden on the ratepayer.

Q6. Haven't the Government's attempts to control local government spending from the centre failed so far?

A6. Between 1979/80 and 1981/82, the volume of local authority current expenditure fell by about 2%. However local authorities' estimates of expenditure in 1982/83, and their budgets for 1983/84, show that this initial success has been followed by a return to growth - 2½% in 1982/83 and 1½% in 1983/84. The result is that the volume of local authority expenditure is now somewhat higher than it was in 1978/79. Compare this with the 7½% volume reduction between 1978/79 and 1983/84 which we were looking for in 1980.

Q7. Are all local authorities responsible for overspending or just a few authorities?

A7. The 1983/84 budgets of English local authorities are 12% higher in volume terms than the figure proposed for this year in the Government's Public Expenditure White Paper in 1980. More economies are required from all authorities. However, in 1983/84, 75% of the budgeted overspend of £771m on the aggregate of targets was due to only 16 authorities. It is that irresponsible minority who must be brought into line.

Q8. Hasn't local authority spending fallen as a percentage of GDP/total public expenditure and in real terms?

A8. Yes, but this is entirely because of the collapse in capital spending which nearly halved in cost terms between 1978/79 and 1982/83. In terms of current expenditure it increased by 10% in cost terms (cash expenditure adjusted for general inflation) over the same period.

THE CONSTITUTIONAL CASE

Q9. Don't the Government's rate limitation proposals attack the autonomy of local government?

A9. Local authorities are responsible to local people through the ballot box for the way they carry out their statutory responsibilities. But ours is a unitary and not a federal state. All the powers of local authorities, including the power to raise rates, are derived from Parliament. Local mandates cannot set aside national policies.

Q10. Why not let local electors decide if they are prepared to pay the rates?

A10. There are major limitations to authorities' accountability to their ratepayers. In 1982/83 52% of authorities' net revenue expenditure was met by the national taxpayer. Only 22% of net rate fund revenue expenditure is financed by domestic rates (before rebates). Only about 35% of those eligible to vote in local elections pay full rates. 30% of domestic ratepayers are eligible for full or partial rebates.

WHY NEW MEASURES ARE NEEDED

Q11. Why move to rate limitation anyway?

A11. We have sought to achieve our spending plans over the last four years by persuasion, exhortation, and financial pressure through the grant system. That is the approach we prefer. But it has not worked, as the expenditure outturns show. That is why we have reluctantly had to move to stronger measures.

Q12. Why not just abolish the rates?

A12. We have looked exhaustively into all the possible alternatives to rates. None of them meets the criteria we set out in our Green Paper any better than rates. All have considerable drawbacks and none has any consensus of public support.

Q13. Aren't there better forms of local tax than rates?

A13. We have looked at all the alternatives. None would help in terms of controlling expenditure in the short term, and all would take years to introduce. Indeed if they produced a buoyant income they would simply encourage the overspenders.

A14. Why not a local sales tax?

A14. Local sales tax was the least favoured by people responding to the Green Paper. Together with VAT it would produce a very high rate of tax on goods and services. It would be much less perceptible than rates and the burden of taxes could drift up with increasing prices without any need to change the rate of tax.

Q15. Why not a poll tax?

A15. A poll tax would certainly be perceptible and spread the burden more widely. But it would be hard to enforce. If the Electoral Register were used as the base, it could be seen as a tax on the right to vote. If a new register were used the tax would be expensive and complicated particularly if a system of rebates were needed. Without rebates it would bear harshly on those with low incomes.

Q16. Why not local income tax?

A16. Those who support local income tax want to spread the burden wider and relate tax liability more closely to ability to pay. But the Government is committed to reducing the burden of tax on incomes; a local income tax would increase the public sector staffing requirements and create extra work for employers; and such a tax deducted at source by the Inland Revenue and paid over to local authorities would confuse the link between tax demand and spending and would reduce accountability.

RATE LIMITATION: THE PROPOSALS

The selective scheme

Q17. What is the purpose of the scheme?

A17. Selective rate limitation will limit the rates and expenditure of a small minority - probably no more than 12 to 20 - of high spending local authorities. It will thus protect their ratepayers. It will also ease the pressure on the authorities who are spending sensibly.

Q18. Will there be any exclusions?

A18. Yes. All authorities spending below an amount (we have suggested £10m which would exclude 275 of the 296 non-metropolitan districts in England) specified annually by the Secretary of State will be excluded, as will authorities spending below their Grant Related Expenditure (GRE).

Q19. What is to stop unreasonable rate increases in 1984/85?

A19. We cannot implement the scheme earlier than 1985/86. But there are three reasons why authorities should not be tempted to rate up in 1984/85 to forestall rate limitation. Expenditure and rating behaviour in 1984/85 will be major factors in deciding who will be selected for control. The Secretary of State will have power to take account of authorities's reserve funds in setting rate limits for 1985/86. And new commitments entered into in 1984/85 would result in bigger cuts being required from other services to meet the rate limit in 1985/86.

Q20. Will authorities which fail to meet their RSG expenditure targets and are subject to holdback automatically be selected for rate limitation?

A20. No. Authorities with small budgets or which are spending below their GRE will automatically be excluded from selection whatever their "holdback" position. The selection criteria themselves will be designed to identify only the minority of highest spending authorities - perhaps 12 to 20 at most. Prudent authorities need not worry.

Q21. **How will the selective rate limitation scheme protect ratepayers in the selected authorities?**

A21. Simply by setting a maximum rate for individual councils. Once the RSG settlement is announced each year it will be possible to calculate the rate increase needed to cover the difference between expenditure and grant.

Q22. **Why have rate limitation as well as abolishing the GLC and Metropolitan County Councils?**

A22. Although the authorities to be abolished account for a substantial part of the overspend they do not account for all of it. And they are not the only high spending and rating authorities. We need selective limitation to bring down spending and to protect ratepayers in high spending areas that are not subject to abolition.

Q23. **Will the selective scheme enable pressure to be lifted off low spenders?**

A23. Not fully. Selective limitation will put a curb on the small minority of really high spenders. But there still needs to be restraint in spending by local government generally if aggregate expenditure plans are to be realised. That is one of the aims of a target/holdback system.

The general scheme

Q24. **What is the purpose of the scheme for general rate limitation?**

A24. The power to limit rates generally will be held in reserve. We do not want to use it, but cannot risk being left without further powers if selective limitation does not have the desired effect. The general scheme will only be used if the selective scheme, and the continuing operation of the existing grant system, fail to bring local spending more closely in line with our overall public expenditure plans. General control would only be introduced by means of a Parliamentary Order under the Affirmative Resolution procedure.

RATE REFORMS: SPEAKING NOTES

1. We propose several changes to the rating system to improve accountability and to bring relief to hard pressed business ratepayers.

- 2.. We are suspending local authorities' powers to levy rates on empty industrial property and extending the right to pay rates by instalments to a greater number of business ratepayers. We intend to place a duty on local authorities to consult their industrial and commercial ratepayers, who provide a significant proportion of rate income, before deciding upon expenditure levels and fixing rates and precepts.

3. All ratepayers will, in addition, be given a clearer statement of their rate liability to their precepting and rating authorities.

RATING REFORMS: QUESTION AND ANSWER NOTES

Q1. Why no revaluation?

A1. We have announced that we intend to hold a non-domestic revaluation to correct the distortions which have developed due to changed relative values of business property. We are urgently considering the case for domestic revaluation.

Q2. Why not more help to business ratepayers?

A2. We have had to set priorities - the costs of rate relief to one category of ratepayers must be met by other ratepayers or by taxpayers. But we believe that the measures we propose, to give business ratepayers a greater say in their local authorities' policies, as well as to provide direct help and to up-date the rate base, will be of significant benefit.

Q3. Why not abolish rates on empty commercial property as well as empty industrial property?

A3. We must set priorities since losses in rate income have to be made up by other ratepayers or by taxpayers. Local authorities have discretion to take account of local circumstances in deciding whether to levy empty property rates. Where there is still a market for empty property, as there is in many areas for empty commercial property, it must be right to encourage the full use of such property.

RSG SETTLEMENT 1984/85: SPEAKING NOTES

1. In the current year, 1983/84, English local authorities are budgeting to overspend target by £770 million, or 3.8%. That was despite the fact that the 1983/84 public expenditure provision had already been increased by over £1 billion to take account of local authorities' overspend in 1982/83.
2. Each year we have been forced to increase the following year's provision in the light of authorities' budgeting to overspend. We have again increased provision, this time by some £500 million.
3. Even that big an increase, however, does not allow us to set easy targets for authorities next year. Far from it: we have not disguised the fact that real terms reductions are required from all authorities, including those which have tried to meet targets in the past.
4. We have given all authorities provisional targets for 1984/85. The highest spenders are being asked to make cuts of up to 6% in cash from budget this year. That is a very tough target indeed in real terms and we could not reasonably ask for more.
5. Most low-spenders have targets which allow a 3% cash increase from budget this year. That too is tough, because the lowest-spenders have already found some of the obvious economies. But many low-spenders have not reduced the volume of their spending in the last 5 years. Unless we restrict cash increases even for the lowest spenders we risk undoing what progress there has been.
6. Three other points on targets. If there is shortfall between budget and outturn, to that extent the maximum cash increase over actual expenditure will be more than 3%.
7. Second, local government themselves can influence what that 3% will buy; on average, about two-thirds of their current expenditure is on staff costs; the lower the wage settlements this year, the less the real terms effect of our targets.
8. Third, many local authorities simply take the % cash increase allowed, subtract it from a forecast inflation figure, and allege that the resulting % is the real terms cut on service levels. That leaves out of account any scope for

economies, eg through privatising. I cannot believe that in even the low-spending authorities there is not still some scope for further economies.

9. We have also announced proposals for grant and holdback. The grant percentage is close to this year's - about 52% compared with 52.8% this year. But the holdback scheme is more severe: this year in rate poundage terms the penalties in lost grant are 1, 1, 5, 5, 5, for percentage points of overspending; next year we are proposing 2, 4, 8, 9, 9. Unless we make it more severe, we do not increase the grant pressure on the highest overspenders: they have already rated to meet this year's level of holdback, and we need to put **more** pressure on them to deter them from further overspending.

10. Many authorities would prefer a gentler lead-in, ie a repeat of the 1, 1 that we had this year. But that concession this year in fact meant that many authorities did not take their target seriously and budgeted up to 2% above it - because the penalty for doing that was negligible. For next year the penalty for overspending by up to 1% is not too painful, ie up to 2p in lost grant. But beyond that, rightly, it gets more so.

11. It is the time of year for scare-stories on rate increases, even from Conservative authorities. The fact is that by keeping the grant percentage at about the same level as this year we have ensured that if authorities spend at target, rate increases will on average be very low. There will always be some exceptions, because of grant distribution changes. But the message is that authorities must plan to hit target. If they do their ratepayers will see the benefit.

RSG SETTLEMENT 1984/85: PROPOSALS ALREADY ANNOUNCED

1. The main proposals for 1984/85 so far announced are:
 - a. **Individual spending targets** for all authorities: most low-spenders to get a 3% cash increase over budget 1983/84; and most high-spenders to get cash cuts from budget 1983/84 of up to 6%.
 - b. **Current expenditure** to be £20,345 million, ie £850 million more than in the 1983/84 RSG settlement, £550 million more than in the Public Expenditure White Paper for 1984/85, and about the same in cash as local authorities are budgeting to spend in 1983/84.
 - c. **Exchequer grant** to be £11,870m or about 52% of relevant expenditure, compared with £11,780m or 52.8% in the 1983/84 settlement.
 - d. **Grant holdback** for authorities overspending target in 1984/85 to be much tougher than under the 1983/84 scheme: in rate poundage terms the 1984/85 penalty in lost grant to be 2, 4, 8, 9, 9 for percentage points of overspending, compared with 1, 1, 5, 5, 5 for 1983/84.

RSG SETTLEMENT: QUESTION AND ANSWER NOTES

	Page
1. Toughness of the Settlement	C3/2
2. Impact on Rates	C3/3
3. Effects on marginal overspenders	C3/3

TOUGHNESS OF THE SETTLEMENT

- Q1. **Isn't the RSG settlement going to force rates up in 1984/85 even for responsible authorities, and thus make them liable to be selected for rate limitation?**
- A1. No. We have kept the grant rate at about 52%, very close to the grant rate in 1983/84. That means that if authorities spend at target rate increases on average should be very low. In many cases there could be rate reductions. But anyway we have made it clear in proposing selective rate limitation that we will be looking only at the very highest spenders, probably only 12-20 authorities altogether; and that authorities below GRE or spending below £10 million will be excluded.
- Q2. **Isn't the true grant reduction much bigger because of the penal holdback scheme proposed?**
- A2. Holdback only applies if an authority exceeds its target. We have given them early notice of targets to enable them to plan to avoid doing that. For authorities which plan to overspend, it is right that they should be entitled to less grant. We have proposed a tougher holdback scheme than this year's to increase the pressure on overspending authorities to make the necessary expenditure reductions.
- Q3. **Aren't the targets so tough that most authorities are bound to incur holdback?**
- A3. Targets are rightly toughest for the highest spenders: those who spend most have most scope for economies. The lowest spenders get a 3% cash increase over their budgets this year. If, as is usual, they spend less than they budget, the increase over actual expenditure will be more than 3%. The severity of that target depends on how fast local government costs go up: if low wage settlements are achieved it becomes that much easier. I hope that all authorities will make every effort to meet their target next year. Where they do not do so, their ratepayers will pay the price.

Q4. Why reduce the grant rate again?

A4. First, because reducing the proportion of local government spending supported by the Exchequer increases local accountability. Second, because it maintains pressure on local government across the board to find the economies necessary if their expenditure is to be in line with the Government's plans. Any way the Government is proposing to slow down the rate of reduction in the percentage in recognition of the pressure already exerted by earlier reductions.

IMPACT ON RATES

Q5. What is the Government's forecast of the average rate increase next year? How much grant holdback is expected?

A5. That depends entirely on the spending decisions of 413 elected local authorities. We never forecast the average rate increase, because it is not in our control. All I can say is that if authorities spend at target, rate increases should be very low.

EFFECTS ON MARGINAL OVERSPENDERS

Q6. Why not have a gentler lead-in to holdback for authorities which try but narrowly fail to hit target?

A6. We had that for 1983/84, when this holdback penalty was only 1p in poundage terms for each of the first 2 percentage points of overspending. The evidence is clear that because of that concession many authorities judged the penalty to be negligible and budgeted to spend up to 2% above target. We must persuade all authorities to take the targets seriously. Moreover, overspending authorities have already rated for holdback at this year's scale, so if we want to deter them from overspending again next year with the threat of high rate increases, we must make the holdback scheme more severe.

ABOLITION OF GLC AND MCCs - SPEAKING NOTES**THE CASE FOR CHANGE**

1. Experience in the first term of office convinced the Government that the GLC and the Metropolitan County Councils (MCCs) are a superfluous tier of government. These "upper tier" councils are the junior partners in the provision of services, responsible for only one quarter (in London only one sixth) of spending on local services in their areas.

2. Contrast this with the shire countries; there the county councils are responsible for over 80% of spending, but the highly accessible district councils are still valuable in providing important local services. No change is proposed in the shire areas.

3. The GLC and MCCs have sought an outlet for their energies by developing a general strategic role. This leads to conflict with the lower tier authorities (eg on land use planning) and to duplication (eg on economic development). There has also been conflict with central government as authorities have assumed a "mandate" on such issues as defence and foreign policy. With their large rate base and relative remoteness from the ratepayers, they have pursued unrealistic spending policies.

4. Abolition is not motivated by political prejudice; it is the obvious response to the need to eliminate the overheads associated with a superfluous tier of government, and to remove a source of conflict and duplication. The result will be more economical and effective local government.

THE PROPOSALS

5. The White Paper "Streamlining the Cities" (published on 7 October) set out detailed proposals for the reorganisation of services. A note showing what will happen to each service is attached. Most will go to the borough or district councils for them to exercise directly, in some cases co-operating informally. For a few services there is a need to have a formal mechanism for the boroughs and districts to operate services jointly. So there will be joint boards for fire, police and public transport in each metropolitan county; for fire in London and for education in inner London.

6. These boards have been referred to as quangos. They are not. A quango is a body whose members are appointed by Ministers. In contrast, the joint boards will be local bodies composed of local councillors appointed by their locally elected authorities. Nor will they be charging ratepayers separately; their precepts will form a clearly identified part of the single bill that will be sent, as now by the borough and district councils.

7. The block grant system will be adjusted to reflect the new division of responsibilities; arrangements will be made for the debt to be serviced in a secure way and for continuing liabilities to be discharged. No unfair burden will fall on particular borough or district councils.

SAVINGS AND TRANSITIONAL COSTS

8. There must be potential savings when a whole tier of local government is eliminated. There are inevitable overheads in the operation of a fully-fledged council; and there are a few services in which duplication occurs. Moreover the GLC and MCCs are responsible for over half the overspending of local government. Shifting more spending to the boroughs and districts, which are less remote from ratepayers, will strengthen restraint on spending.

9. We are determined that savings should be made to the benefit of the ratepayer. Boroughs and districts will be subject to the pressures for economy of the block grant system, supplemented by rate limitation, and the Government will monitor changes in staff for the services transferred. The joint boards will be accountable to the boroughs and districts; in addition, to ensure that the boards are being set up economically, the precepts they issue will be subject to approval by the appropriate Secretary of State for the first three years. There will also be powers to specify the boards' levels of manpower or manpower expenditure in this period.

10. Of course there will be some transitional costs - as in all reorganisations. But costs will very soon, perhaps even in the first year, be outweighed by the accumulating savings. Since the 1972-74 reorganisation, which was costly, there has been a major change in the economic climate, and the Government have developed new instruments of control. During the election, Tom King indicated that there could be scope for saving at least £120 million a year (including 9,000 jobs); since then initial indications from a few boroughs and districts suggest that this may, if anything, be an underestimate.

IMPLEMENTATION

11. The Government are firmly committed to the principle of abolition but are ready to listen to views on detailed implementation. The main legislation will be introduced in the 1984/85 session and will provide for the change to take effect on 1 April 1986.

12. There will also be a Bill this session to deal with the local elections that would otherwise take place for these authorities in May 1985. This Bill will provide that, for their last eleven months, these councils will consist of members nominated by the borough and district councils. The existing GLC and MCC councillors will retire in May 1985 at the end of their term of office - ie when the electoral mandate which they were given in 1981 expires.

MISCONCEPTIONS ABOUT THE GOVERNMENT'S PROPOSALS

13. Some critics have suggested that there are **very large numbers** of bodies replacing these authorities. In fact there will be three joint boards in each metropolitan county (police, fire and public transport) and two in London (fire and a new ILEA). There are only two proposals for other permanent bodies, an advisory commission on planning in London and a technical body to take charge of managing London's debt, superannuation and legal liabilities. The Government's proposals for London Transport also include a new body; but these proposals are a separate matter not directly related to abolition.

14. It has also been said that it is naive and optimistic to expect local authorities to **work together informally**. It is extraordinary that people in local government should adopt such a negative attitude. There may need to be some new ways of working established but there is much more chance of cooperation between councils that are on an equal footing than there is in the present system where upper-tier authorities have sometimes acted as if they were superior to the boroughs and districts.

15. It has been suggested that **joint boards lack accountability**. But this is not the case. They will be controlled by the councils in each area through their power to appoint the members. The temporary powers that Ministers will have to approve precepts will be of a general nature; to suggest that this amounts to central take-over of local services is misconceived.

16. Some have argued that the proposals **undermine local democracy**. But people will still be able to vote for a local council, and there will be enhanced local accountability as the more accessible borough and districts councils will be responsible for the full range of services. There is no principle that requires there to be two separate local authorities as a safeguard of democracy; single tier local government existed in our major cities (except London) up to 1974.

17. We have been challenged to have a **formal inquiry**, of a wideranging kind. But this could only mean delay when the case for change is overwhelming. There are still many matters of implementation on which the Government will listen to views.

SUMMARY OF PROPOSALS ON THE REALLOCATION OF GLC AND MCC FUNCTIONS

A. FUNCTIONS TO BE TRANSFERRED TO BOROUGH AND DISTRICT COUNCILS

Functions already shared or carried out concurrently with the lower tier

Planning (including minerals planning and derelict land reclamation)
 Highways and traffic management
 Housing*
 Support for the arts
 Historic buildings
 Civil defence and emergencies
 Tourism
 Entertainments licensing*
 Archives and Libraries
 Recreation, parks, and Green Belt land

Functions solely the responsibility of the upper tier

Waste regulation and disposal
 Trading standards and related functions⁺
 Support and funding for the magistrates' courts service* and the probation services
 Coroners
 School crossing patrols⁺
 Building control*
 Safety of sports grounds
 Registration of common land and town or village greens
 Maps etc in relation to rights of way
 Gypsy sites⁺

B. FUNCTIONS REQUIRING STATUTORY JOINT ARRANGEMENTS

Police in the Metropolitan Counties
 Fire
 Education in inner London
 Public Transport in the Metropolitan Counties

*London only

⁺metropolitan counties only

C. FUNCTIONS REQUIRING OTHER ARRANGEMENTS

Land drainage and flood protection in London will become the responsibility of the Thames Water Authority.

Certain arts sponsorship will be taken over by the Trustees of national museums and galleries.

ABOLITION OF GLC/MCCs: QUESTION AND ANSWER NOTES

	Page
1. General	D3/2
2. Proposals	D3/3
3. Joint Boards	D3/4
4. Constitution of Joint Boards	D3/5
5. Transfer of Staff and Property	D3/6
6. Financial Arrangements	D3/8
7. Costs and Savings	D3/9
8. Implementation	D3/10

D3. ABOLITION OF GLC/MCCs: QUESTION AND ANSWER NOTES

GENERAL

Q1 Is abolition a political device to get rid of Labour councils?

A1 No. The origin of the policy is our perception of the absence of a real role for these councils. Most of these councils have been and could be Conservative controlled. We are handing power to boroughs and districts with various political control.

Q2 Why abolish authorities as well as capping the rates?

A2 Restraining expenditure is no substitute for having a fundamentally more economical framework.

Q3 Why no full investigation? Will the Government cooperate with MCC-commissioned Coopers and Lybrand study of costs?

A3 No need for full inquiry; it is evident that districts and boroughs provide a good basis for most services. The MCCs and their consultants have access to the White Paper and associated documents.

Q4 Is there not a case for a strategic non-executive assembly?

A4 No sufficient task for it, especially as Government is directly involved in major strategic issues (eg Thames Barrier). Difficult to see how a non-executive assembly would operate, except by interference in executive bodies' business.

Q5 How can you leave the capital city without a voice?

A5 The Boroughs collectively can speak for London. Besides it is doubtful whether the GLC has "spoken for London".

Q6 Why have new arrangements that reduce rather than increase accountability?

A6 Accountability will be improved because the boroughs and districts, which are closer to the people and are readily accessible, will be responsible for most services.

Q7 How can you claim that these proposals are "streamlining"?

A7 One authority will become responsible for all services, in its area, directly or indirectly. There will be less overlap, friction and duplication.

PROPOSALS

Q8 How will informal cooperation be arranged?

A8 This is for the local authorities to decide. They have plenty of experience of working together.

Q9 Won't formal and informal cooperation mean complex arrangements with 50, 60 or 70 new bodies (boards, committees, quangos)?

A9 Nothing like that many formal new structures; only 20 joint boards are proposed with no more than three in any area. Look at the complexity of organisational structure that exists now; there are over 80 committees altogether within the GLC and the MCCs.

Q10 These proposals mean take over by central government?

A10 No, only a very few specific minor functions will pass to central government, namely:

- 70 miles of roads in London taken over by Secretary of State for Transport;
- listed building consent in London to Secretary of State for the Environment (he already has this responsibility outside London);
- certain arts sponsorship.

Also the following changes involving non local government bodies:

- London Planning Commission to advise on planning in London;
- Royal Commission on Historic Monuments to take over Survey of London;
- Thames Water Authority to take over flood protection and land drainage in London.

Q11 What about London Transport?

A11 The Government are proposing, for public transport reasons that the London Buses and Underground should be taken over by the proposed new "London Regional Transport". That is, in many respects, a return to the situation that existed before 1968.

Q12 Won't these proposals reduce support for the arts?

A12 The Government are confident that the boroughs and districts will provide an appropriate level of support for local institutions. For a small number of institutions of national importance the Government have proposed special arrangements involving central funding as described in the consultation document.

Q13 Won't these proposals make it difficult for voluntary bodies to get funding?

A13 The Government have indicated that they will consider the need for any special action in the light of the response to consultation.

JOINT BOARDS

Q14 How many joint boards proposed?

A14 Three in each of the six Metropolitan counties (fire, police and public transport), two in London (fire and ILEA), 20 in all. Some districts might take on public transport themselves.

Q15 Joint boards are quangos?

A15 No. A quango is a body appointed by Ministers. The joint boards will be local bodies composed of elected members of the borough and district councils appointed by those councils.

Q16 Joint boards are unaccountable?

A16 No. The boroughs and districts will be the channel of communication to joint boards and the responsibility for joint boards will rest on their councillors. With a more intelligible system there will be greater real accountability.

Q17 Would the Government consider having joint boards for more than one function (eg police and fire)?

A17 We shall listen to suggestions of all kinds, but we do not intend to recreate bodies indistinguishable from those we are abolishing.

Q18 Why not break up ILEA?

A18 There are some attractions in such an option. It would have the advantage of bringing the service closer to the ratepayer and improving accountability. The Government consider, however, that this advantage is likely to be outweighed by the problems inherent in breaking up a long-standing and well-understood pattern of provision, and that the disruption involved could not be justified. The White Paper makes it clear that the new arrangement will be kept under review, and that the Government are open to ideas for greater involvement by the borough councils.

CONSTITUTION OF JOINT BOARDS

Q19 Why have political balance requirement?

A19 To get a wide spread of interests involved in joint boards. We are giving statutory effect to what is already best practice in forming committees in many authorities.

Q20 How will political balance be enforced?

A20 It will be a statutory requirement. Obviously it won't be possible to reflect political balance **exactly** in nominations. Individual authorities will have to work out their own method of complying with the statutory requirement. In case of dispute the matter would have to go to the courts.

Q21 What will be political complexion of joint boards?

A21 Can't say - this will depend on the political composition of the nominating authorities at the time and the way in which political balance requirement operates.

Q22 Term of office of joint board members?

A22 They will have no specified term, but will be recalled at any time by the nominating authority.

Q23 Why not direct elections to Joint Boards (especially ILEA)?

A23 Attractions in this, but broad aim of Government proposals is to ensure that responsibility for running services rests with boroughs and districts. In case of joint board services this is achieved through collective borough/district responsibility for the joint board. A directly elected authority would be apart from the boroughs/districts; we believe that this would remove any incentive for joint board members to consider the **total** burden being placed on ratepayers.

STAFF AND PROPERTY

Q24 How will staff be transferred?

A24 This will be decided in the light of consultations. In 1972 many staff were transferred in groups. It might be feasible to do this for readily identifiable staff engaged on services going to joint boards. But most services will be divided amongst boroughs and districts; they will recruit directly the staff they need.

Q25 Will staff be protected?

A25 A staff Commission will be established and there may be arrangements, where appropriate, to give staff affected first refusal for posts with successor authorities. There will be full consultations with staff representatives on all matters affecting their interests; TUC Local Government Committee have been told this.

Q26 What will the Staff Commission do?

A26 It will be charged with looking after the interests of all staff affected by the proposals. It will be independent of the receiving bodies.

Q27 What will happen to existing pensions and similar payments?

A27 No-one receiving a pension or other continuing payment from the GLC or a Metropolitan County need worry. Such payments will continue, and all such rights are safeguarded.

Q28 Will there be redundancies?

A28 Yes. Voluntary redundancy could achieve substantial reductions, but some compulsory redundancies cannot be ruled out. The level of redundancies will be reduced if authorities take a responsible attitude to recruitment in the interim.

Q29 What about recruitment between now and abolition?

A29 The Government hope that authorities will act responsibly towards their ratepayers and towards their staff. They should fill only essential vacancies.

Q30 Won't there be duplication through the breaking up of specialist teams (eg MCC derelict land services)?

A30 We expect the successor authorities to set up effective co-operative arrangements for the use of specialist staff and equipment, where this is the most economical thing to do.

Q31 What will happen to property?

A31 In general property will be transferred to the authority or Board taking responsibility for the function for which it is required.

Q32 What about County Hall?

A32 Any genuinely surplus property will be disposed of at some stage, to the benefit of the ratepayers concerned.

FINANCIAL ARRANGEMENTS

Q33 What will be the effect of abolition on rates?

A33 One of the purposes of abolition is to enable services to be provided more effectively and more efficiently. This should mean that rates will be lower than they would have been if the GLC/MCCs had continued to exist.

Q34 Won't the removal of the GLC precept mean a windfall gain for ratepayers in central London, at the expense of ratepayers elsewhere?

A34 No. The existing balance between ratepayers in different parts of London is intended to be maintained. This will require an extension of the London Rates Equalisation Scheme. This is explained in the consultation document on "The Disappearance of the GLC Precept".

Q35 Won't there be a disproportionate burden on some boroughs/districts where GLC/MCC obligations are concentrated in particular areas (eg the Crystal Palace sports centre, ex GLC housing already transferred to the boroughs)?

A35 The general aim is to ensure that there should be no undue financial advantages or disadvantages for ratepayers of individual authorities as a result of abolition. Special arrangements may be necessary to achieve this in some cases. This is the subject of a separate consultation document.

Q36 Won't boroughs and districts have to put up their rates?

A36 Yes, of course, they will be paying directly for some of the services now funded out of the upper tier precept. But it is the size of the final bill to the ratepayer that matters and there will be savings there.

Q37 How will the arrangements for the selective control of rates be affected by abolition?

A37 The selective rate limitation scheme will of course apply to the borough and district councils taking on new functions and to joint boards in exactly the same way as to other local authorities - ie there will be Government control only if an authority "overspends". The arrangements will make allowance for the new responsibilities they have taken on. In addition the precepts of each joint board will be subject to approval by the appropriate Secretary of State for the first three financial years.

Q38 Won't abolition prejudice the credit-worthiness of the GLC/MCC's?

A38 No. After abolition the existing debt of each authority will continue to be managed by a single body with all the necessary expertise. The debt will be funded by all the successor bodies; it will therefore continue to be backed by the rateable resources of the whole area.

Q39 How many precepts will ratepayers face?

A39 In the metropolitan counties there will be three main new ones (police, fire and public transport) in place of the one from the county. Over London as a whole there will be two **new main** precepts (fire and London Regional Transport). There will also continue to be one for the Metropolitan Police. In inner London there will continue to be a precept for education. There will still, as now, be one single rate demand covering the borough or district rate and any precepts. Rate demands will show how much will go to each rating and precepting authority.

COSTS AND SAVINGS

Q40 What savings in costs/staff do Government expect? Why no estimate in White Paper?

A40 Precise savings will depend on detailed decisions by the successor authorities and bodies. But the change takes place in a general financial and economic climate which encourages savings. The Government are convinced that substantial savings can be made, and will take steps to ensure that they are achieved. Too soon to give an accurate estimate but there is scope for saving at least £120 million a year (including 9,000 jobs).

IMPLEMENTATION

Q41 Why not do it by April/May 1985, avoid transitional councils?

A41 Not possible, need for reasonable consultation period precludes main legislation this session.

Q42 Why have transitional councils?

A42 Present councillors have no legitimate role beyond May 1985, when their electoral mandate expires. Appropriate to involve boroughs and districts who will take over fully in 1986.

Q43 Why not introduce the transitional councils in May 1984?

A43 The term of office of the elected members of the GLC and MCCs lasts until May 1985. It would not be appropriate to cut short the electoral mandate they were given in 1981.

Q44 How big will the transitional councils be?

A44 We will discuss this, possible range is from present size, to avoid disturbance to structures in the council, to sizes proposed for joint boards.

Q45 What will be the political composition of transitional councils?

A45 Not clear, depends on the size and the nominations made by the authorities, to reflect the political balance in the constituent authorities at the time (ie after the local elections due in May 1984).

Q46 Will there be adequate consultation?

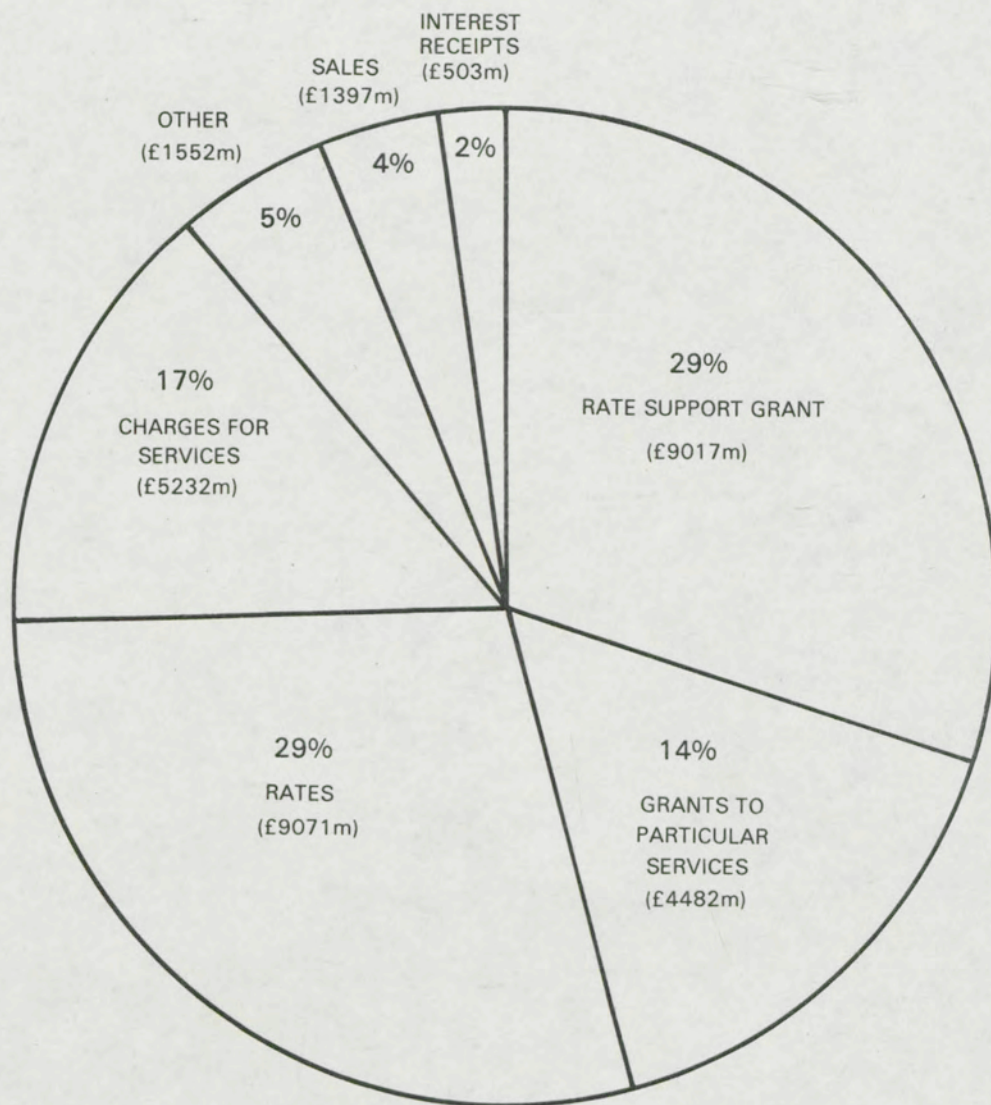
A46 The first main period of consultation runs until 31 January and the Government welcome comments on the White Paper and the supplementary documents that have been issued. After that there will continue to be extensive consultation on detailed preparations for the change.

E. RATE LIMITATION, ABOLITION OF GLC AND MCCs, AND RSG SETTLEMENTS: TIMETABLE OF MAIN EVENTS

December 1983	Rate Support Grant Order published. Rate Limitation Bill introduced.
January 1984	Second Reading of Rate Limitation Bill. Rate Support Grant Order debated.
Spring 1984	Paving Abolition Bill introduced.
July 1984	Royal Assent for Paving Abolition Bill. Royal Assent for Rate Limitation Bill. Selection of authorities for rate limitation.
November 1984	Main Abolition Bill introduced. Second Reading of Main Abolition Bill.
December 1984	Rate Support Grant Order published.
January 1985	Rate Support Grant Order debated Proposed rate limits for 1985/86 published.
April 1985	Rate limits for 1985/86 for selected authorities come into force. Substitute councils appointed for GLC & MCCs.
July 1985	Royal Assent for main Abolition Bill.

LOCAL AUTHORITIES (ENGLAND) 1981-82

Chart 1 : All income by source.

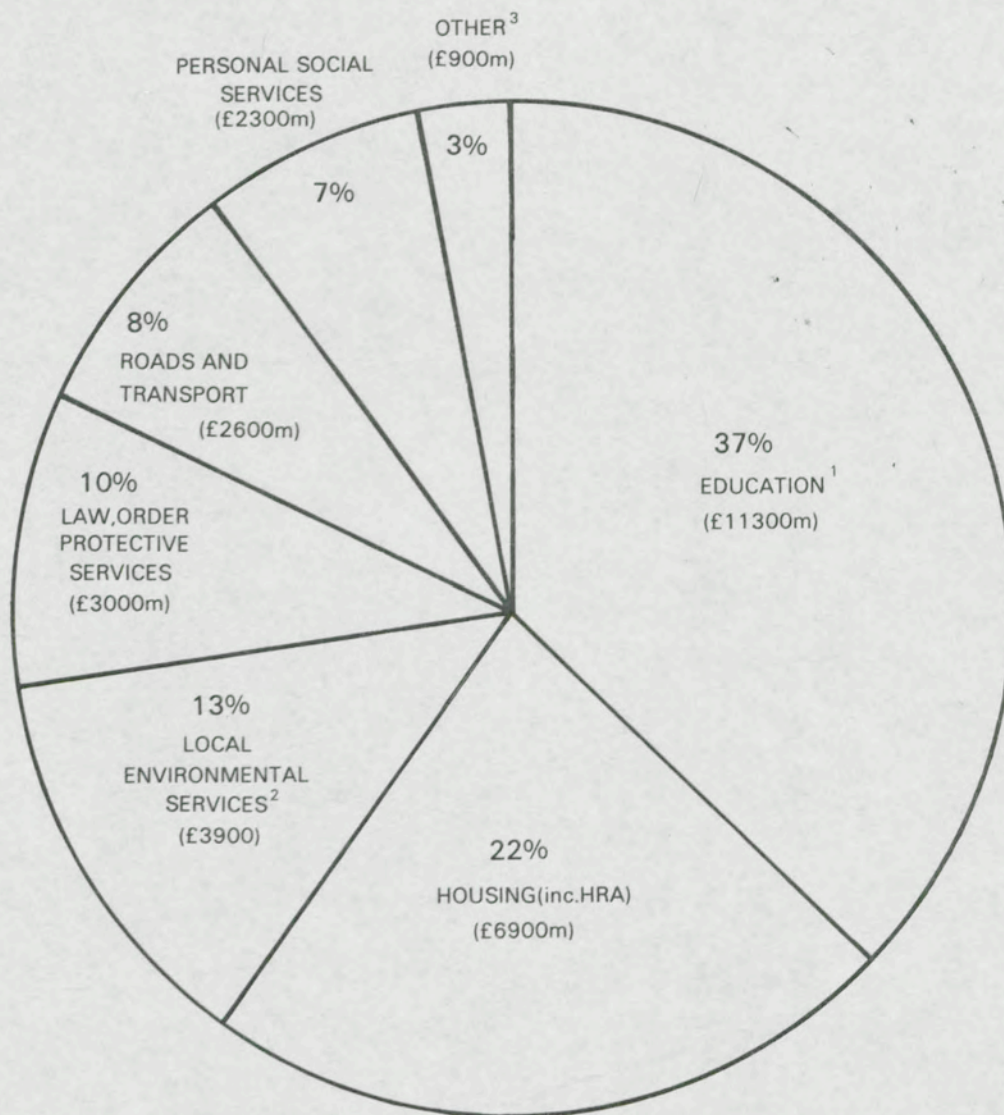


Note: this chart analyses gross income to all accounts,
adjusted (as far as possible) to exclude payments between accounts.

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LOCAL AUTHORITIES (ENGLAND) 1981-82

Chart 2: All expenditure by service



1. Including Libraries, Museums and Art Galleries.

2. Excluding general administration re-charged to services.

3. Including trading services and employment services.

Cartographic Services MS
Department of the Environment
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Note: this chart covers gross expenditure by all accounts, adjusted(as far as possible) to exclude payments between accounts.

From: THE PRIVATE SECRETARY

cc BI

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

4 January 1984



Dear John,

I attach, for your information, a copy of a public speech on the subject of rate limitation which the Home Secretary intends to make to the Dereham Conservative Club in Norfolk on Friday, 6 January. (The text has already been cleared with Mr Waldegrave's office).

I am copying this letter and enclosure to David Barclay (No 10) and John Gieve (Chief Secretary's Office).

Yours sincerely
H. H. Taylor

H. H. TAYLOR

J Ballard, Esq.

→ CR

Thanks in store for
the boroughs of
Dereham 222222.

A.

so

local Govt
relations

EXTRACT FROM A SPEECH BY THE RT HON LEON BRITTAN, QC., MP., HOME SECRETARY,
TO THE DEREHAM CONSERVATIVE CLUB, NORFOLK, ON FRIDAY, 6 JANUARY 1984 (ON
THE OCCASION OF HIS OPENING A NEW EXTENSION TO THE CLUB)

RELEASE TIME: 8 P.M., FRIDAY, 6 JANUARY 1984

RATES - THE CASE FOR A GOVERNMENT CURB

Nobody can doubt that one of the most hotly contested political battles in 1984 will be over the implementation of the Government's plans to curb excessive rates.

These plans have been caricatured as a constitutional outrage which deprive local authorities of their traditional independence. They are, in fact, a wholly legitimate response on the part of the elected Government to the heartfelt pleas of long-suffering ratepayers. They constitute the Government's entirely justified reaction to the behaviour of a limited number of local authorities, which puts at risk our central aim of economic renewal through stable prices and a revival of enterprise. It is the ordinary citizen, as well as commerce and industry, who stands to gain from putting our plans into action.

No-one can challenge the crucial importance of controlling the total level of public spending if we are to achieve sustainable non-inflationary growth. And nobody can contest the part played by council spending in public spending as a whole; for a quarter of all public spending consists of local authority expenditure. It has long been recognised by Governments of all political

/complexions that in

complexions that in running a modern economy it is quite unacceptable to allow that spending to go ahead unchecked. Indeed, until comparatively recently there was a consensus whereby the local authorities themselves accepted the right of central Government to determine the total level of public spending, including the local authority component in it.

But a small number of local authorities have deliberately broken that consensus and insisted on excessive levels of spending financed by crippling rate burdens imposed on those unfortunate enough to live or carry on business in the areas under their control. No Government could stand idly by and allow that to continue. To do so would not be to defer to the constitutional rights of local authorities, but to abandon our responsibility to large numbers of our fellow citizens who are finding the rate burden increasingly intolerable. It would mean turning our backs on businesses which cannot expand and can often barely survive because of the crippling burden of the rates they have to pay.

For a while it was hoped that the problem could be eased by exerting indirect pressure on recalcitrant local authorities through reducing the grant paid to them by central Government. In many cases the threat of this happening had a good effect and local authorities complied with the Government's spending targets. But in a limited number of cases Councils remained determined to press on with their excessive spending plans. It is significant that three quarters of this year's total budgeted local government overspending of £770M is accounted for by just 16 authorities. For those paying rates to these authorities the use of the only weapon hitherto available to the Government was of no avail. Indeed, paradoxically, reducing or withdrawing grant meant that an utterly intransigent authority would impose still higher rates to finance the excessive spending which central Government was rightly no longer prepared to help finance itself.

Nor would finding an alternative to rates have solved the problem. Many of the alternatives that have been suggested would have been even more damaging to business, especially small businesses, and in any event any change would have taken years to implement and could not conceivably stop overspending now. Indeed, equipping local authorities with a more flexible means of revenue raising would have enabled the more extreme heavy spenders to carry on with their damaging policies all the more readily.

But, it is asked, if excessive spending is so damaging, and leads to such high rates, why do not the local electors simply throw out their extravagant councillors and elect more prudent ones? Sometimes they do, but it is not really so surprising that this does not happen more often. After all, over 75 per cent of local government expenditure is financed by people who do not have votes in local elections - the taxpayer and commercial and industrial ratepayers. Of the rate income itself, nearly 60 per cent is provided by non-domestic ratepayers. And if one considers those who do have the vote, and takes into account non-ratepayers and those enjoying rate rebates, one finds that only about 35 per cent of those eligible to vote actually pay full rates.

It is for these reasons that we have concluded that it is essential to take effective powers to curb excessive local authority spending, by limiting the rates imposed by the most flagrantly profligate authorities. If we are successful in curbing spending in this way, we will not need to give effect to the general rate limitation scheme. Prudent local authorities have everything to gain, and nothing to fear from what we are doing.

But the need for action is urgent. For many ordinary people the burden of excessive rates is now causing real hardship. The impact on business is even more serious. Non-domestic rates total some £6 billion in England this year and are the largest single tax on business. The CBI estimate that rates on industry and commerce in the United Kingdom, excluding North Sea operations, will amount to 50 per cent or more of gross trading profits adjusted for inflation in the current financial year.

In doing something to alleviate this burden, the Government is taking action to improve competitiveness and help job prospects. It is discharging a national responsibility which it alone has the power and the duty to fulfil, and it deserves the full support of the country as a whole.

54 JAN 1984

