



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

20 January 1984

Dear John

SPEAKING NOTE ON RATES BILL

with TF

JS  
zpr

I would be grateful if you would substitute the attached letter for that sent to you on 17 January. There is no change of substance. We inadvertently included too many words in the second paragraph of my earlier letter.

Copies of this letter go to recipients of your letter of 11 January.

Yours sincerely

John Ballard

J F BALLARD  
Private Secretary





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Dear John

SPEAKING NOTE ON RATES BILL

Thank you for your letter of 11 January.

It may be helpful if I set out our understanding of the agreement reached by officials about the treatment of expenditure deflated to different types of constant prices. Expenditure plans are to be shown only in cash or in cost terms (deflated by the GDP deflator); outturn and budgets can be shown in cash, cost terms or volume (deflated by the index of local authorities' pay and price changes). When we use volume we say we are using volume; we try to avoid the rather ambiguous term "real terms". I am afraid that in the speaking notes recently sent to the Chief Secretary and other Ministers we inadvertently used "real terms" rather than "volume". We will put this right.

My Secretary of State is of course, a firm supporter of cash planning, and in general our figures are presented in cash terms only. But like the Treasury, this Department sometimes finds it useful to express certain figures in constant price terms. On some occasions we use cost term comparisons; we recognise the importance of these in demonstrating the changing burden of local authority expenditure on the economy as a whole. In this context, you will have noticed our use of cost terms in paragraph 1.19 and Graph 3 of the Rates White Paper. We also use volume comparisons. This largely reflects the fact that we have to talk to and negotiate with local authority bodies. They recognise volume; but cost terms is not a concept they yet fully understand. Moreover, volume is a meaningful concept; it shows the changing amount of inputs being used by local authorities.

My Secretary of State and this Department therefore propose to continue to use volume comparisons where we consider them appropriate. For example, they are particularly appropriate in the comparison between what the Government's early (volume) plans had expected for 1983-84 and what local authorities have actually achieved. This analysis has been successfully presented in both volume and cash terms. A number of volume figures have now become well known. We will of course continue to give cash and cost terms figures too.



Two final points. First, large differences between cost and volume are largely the result of Clegg and other comparability awards during 1979/80 and 1980/81. Since 1981-82, local authority costs have been moving roughly in line with other prices in the economy. Second, "real terms" is an ambiguous term. To those in the Treasury it clearly means cost terms. To those in local government it means volume. We think that confusion can best be avoided if we refer to volume when we use volume, and refer to cost terms when we use cost terms.

I am copying this letter to those who received copies of yours.

*Yours truly*

*John Ballard*

J F BALLARD  
Private Secretary

local Govt. Pt 19

Relating



## RSG SETTLEMENT DEBATE OPENING SPEECH

1. I BEG TO MOVE THAT THE RATE SUPPORT GRANT REPORT (ENGLAND) 1984/85 WHICH WAS LAID BEFORE THIS HOUSE ON 14 DECEMBER BE APPROVED.

2. BEFORE I DEAL WITH RSG SETTLEMENT, I WANT TO MAKE ONE OR TWO GENERAL POINTS TO THE HOUSE.

3. THE SYSTEM FOR SETTLING THE RATE SUPPORT GRANT, COMES IN FOR A LOT OF CRITICISM. IT IS CERTAINLY COMPLICATED LARGELY BECAUSE IT TRIES TO TAKE ACCOUNT OF THE VARYING CIRCUMSTANCES OF INDIVIDUAL AUTHORITIES. AS I HAVE SAID ON A PREVIOUS OCCASION IT CAN RESULT IN ROUGH JUSTICE. BUT LET US NOT FORGET WHAT WENT BEFORE. I WELL REMEMBER HOW, YEAR AFTER YEAR, WE ALL COMPLAINED HOW THE OLD SYSTEM OF RSG WORKED SO THAT IT REWARDED OVERSPENDING: THE MORE A COUNCIL INCREASED ITS SPENDING THE MORE RATE SUPPORT GRANT IT GOT.

4. WE NOW HAVE A SYSTEM WHERE BOTH UNDER THE BLOCK GRANT AND TAPER AND, MORE SHARPLY UNDER THE TARGETS AND HOLDBACK, AN INCREASING PROPORTION OF HIGHER SPENDING COMES FROM THE RATEPAYER AND A REDUCING PROPORTION COMES FROM THE TAXPAYER. QUITE RIGHTLY, THE SYSTEM NOW PENALISES OVERSPENDING.



5. BUT I AM VERY WELL AWARE OF THE CONTINUING SENSE OF UNFAIRNESS FELT BY THOSE COUNCILS WHICH HAVE MADE GREAT EFFORTS TO MAKE SAVINGS AND CUT STAFF COSTS, BUT STILL FIND THEMSELVES FACED WITH VERY DEMANDING TARGETS. OUR CENTRAL PROBLEM IS THAT BETWEEN 1978/79 AND 1983/84 CURRENT EXPENDITURE BY LOCAL COUNCILS IN ENGLAND [AND WALES] WILL HAVE DOUBLED - FROM £11.8 BILLION TO AROUND £23 BILLION. ALLOWING FOR INFLATION THAT IS AN INCREASE IN COST TERMS OF 9%. I PAY A WARM TRIBUTE TO THOSE COUNCILS (AND THEY INCLUDE MOST CONSERVATIVE-CONTROLLED COUNCILS) THAT HAVE DONE THEIR BEST TO MAKE SAVINGS, CUT COSTS AND LIVE WITHIN THEIR TARGETS. I UNDERSTAND THE VERY REAL DIFFICULTIES WHICH THEY HAVE BEEN FACING. THEY KNOW THAT KEEPING PUBLIC SPENDING DOWN IS CENTRAL TO THE ECONOMIC POLICY APPROVED BY THE ELECTORATE AND ENDORSED BY PARLIAMENT.

6. I CANNOT SAY THE SAME FOR THOSE COUNCILS (AND THE WORST OFFENDERS ARE ALL LABOUR-CONTROLLED) WHO HAVE SUBSTANTIALLY INCREASED THEIR SPENDING. THEY ARE THE ROGUE ELEPHANTS IN THE SYSTEM, MAKING LIFE EXTREMELY DIFFICULT FOR THE REST; GOVERNMENTS HAVE TO BE CONCERNED WITH THE TOTALITY OF LOCAL GOVERNMENT SPENDING. IF SOME INSIST ON OVERSPENDING, THE TARGETS OF THE RESPONSIBLE MAJORITY MUST BE CORRESPONDINGLY TOUGHER. IT IS THIS WHICH HAS DRIVEN US TO PROPOSE MORE DRASTIC, DIRECT ACTION TO CURB THE HIGHEST SPENDERS; LAST WEEK THE HOUSE PASSED BY A MAJORITY OF 101 THE 2ND READING OF THE RATES BILL WHICH IF THE HOUSE SO WILLS, WILL GIVE US POWER TO DEAL WITH THE FECKLESS FEW.

7. AS EVIDENCE OF THE RESPONSIBILITY OF THE MANY, LET ME CITE THE OUTCOME OF LAST YEAR'S RSG SETTLEMENT, WHEN MY RT HON FRIEND THE MEMBER FOR HENLEY ANNOUNCED THE SETTLEMENT FOR THIS YEAR 1983/84, HE CUT THE PERCENTAGE OF SPENDING MET BY GRANT FROM 56% TO 53%. MANY TARGETS WERE AGAIN SET WELL BELOW GRE. HE WAS MET BY A BARRAGE OF PROTEST. FOREMOST AMONG THE PROTESTERS WAS THAT PROPHET OF DOOM THE RT HON MEMBER FOR MANCHESTER, GORTON. HERE IS WHAT HE SAID:

..... WILL IT NOT CONTINUE TO MEAN, RECORD HIGH RATES, WORSE SERVICES AND OVER 100,000 JOB LOSSES TO ADD TO THE PRESENT TOTAL OF 3¼ MILLION?"

/RHM FOR MANCHESTER GORTON (MR KAUFMAN) 27 JULY 1982 (HANSARD COL 924).

8. WELL, WHAT HAPPENED? 4 OUT OF 5 AUTHORITIES BUDGETTED TO SPEND AT OR WITHIN 2% ABOVE THEIR TARGETS. IN OTHER WORDS, THE GREAT MAJORITY OF RESPONSIBLE COUNCILS BUCKLED TO AND DID THEIR BEST.



9. AND WHAT ABOUT THE LEVEL OF SERVICES? OF COURSE, WE'VE ALL HEARD THE USUAL SCARE STORIES, BUT I HAVE SEEN NO EVIDENCE THAT SERVICES ARE UNACCEPTABLY LOW, AND WHERE ARE THE FORECAST REDUNDANCIES? ON THE CONTRARY, I HAVE TO REPORT TO THE HOUSE DURING THE YEAR THE LATEST MANPOWER FIGURES SHOW NO REDUCTION AT ALL IN THE LEVEL OF LOCAL GOVERNMENT MANPOWER IN ENGLAND.

10. WHAT ABOUT RATES? ON 16 DECEMBER 1982 THE RT HON MEMBER FOR GORTON WENT EVEN FURTHER IN HIS ATTACK ON MY RT HON FRIEND FOR HENLEY.

"IS NOT HIS PHONEY AND MISLEADING TALK ABOUT NIL OR LOW SINGLE FIGURES A SICK JOKE?" (HANSARD COL. 490)

IN THE EVENT THE AVERAGE GENERAL RATE INCREASE IN 1983 WAS 6½% THE LOWEST FOR 5 YEARS.

11. SO MUCH FOR LABOUR'S PROPHECIES. OF COURSE, HAD ALL COUNCILS BEHAVED LIKE THE SOCIALIST REPUBLICS SO ADMIRER BY THE PARTY OPPOSITE, NO DOUBT THERE WOULD HAVE BEEN RECORD RATE INCREASES. RATES IN ISLINGTON, SHEFFIELD AND LAMBETH DID RISE TO RECORD LEVELS. [AVERAGE FIGURE]. BUT THE GREAT MAJORITY OF COUNCILS DID THEIR BEST. SOME ACTUALLY CUT. BIRMINGHAM, WITH INNER CITY PROBLEMS NO LESS SERIOUS THAN ISLINGTON'S OR SHEFFIELD'S OR LAMBETH'S, CUT THEIR RATE BY 15 PENCE LAST YEAR, AND HAVE JUST ANNOUNCED A FURTHER 5 PENCE CUT. THAT SHOWS WHAT A SENSIBLE, VIGOROUS CITY COUNCIL CAN DO IF IT SETS ITS MIND TO IT.



11a. So I will leave the Rt Hon Member for Gorton with just one more false prophecy - a year ago - almost to the day - he said:

"THE NEXT REPORT WILL BE PRESENTED BY A LABOUR GOVERNMENT",  
(MR KAUFMAN, 20.1.83, HANSARD COL 527).7

12. LET ME NOW TURN TO THE SETTLEMENT FOR 1984/85. FACED WITH A BUDGETTED OVERSPEND IN THE CURRENT YEAR OF £ $\frac{3}{4}$  BILLION -  $\frac{3}{4}$ 'S OF IT DUE TO THE EXTRAVAGANCE OF JUST 16 LABOUR AUTHORITIES - I HAVE HAD TO INCREASE THE PROVISION FOR NEXT YEAR BY £540 MILLION TO £20.4 BILLION. THIS INCREASE HAS OF COURSE PUT PRESSURE ON OTHER SPENDING PROGRAMMES INCLUDING CAPITAL SPENDING. THE TARGETS I HAVE SET ARE CONSISTENT WITH THAT FIGURE OF £20.4 BILLION. IN SETTING TARGETS I HAVE TRIED TO TAKE ACCOUNT OF THE MANY REPRESENTATIONS MADE TO ME BY LOCAL AUTHORITIES. THE BIG CHANGE THIS YEAR IS THAT I HAVE MADE A BIGGER DISTINCTION THAN EVER BEFORE BETWEEN THE MAJORITY OF AUTHORITIES WHO HAVE TRIED TO FIND SAVINGS AND THE HIGH SPENDING MINORITY WHO HAVE NOT. BUT I DO NOT QUESTION THAT THE TARGETS ONCE AGAIN IMPLY REAL ECONOMIES ACROSS THE BOARD EVEN FOR RESPONSIBLE LOW SPENDING COUNCILS.

13. THE TARGETS FOR MOST LOW SPENDING AUTHORITIES - 233 AUTHORITIES IN ALL - ARE A CASH INCREASE OF 3% OVER THE ADJUSTED BUDGET FOR THIS YEAR. MOST HIGH SPENDING AUTHORITIES BY CONTRAST HAVE TARGETS REPRESENTING CASH CUTS OF UP TO 6%.

13A. ADJUSTMENTS HAVE BEEN MADE TO THE BASELINE (THE 1983/84 BUDGET FIGURES) FOLLOWING REPRESENTATIONS MADE SINCE I ISSUED THE PROVISIONAL FIGURES. THREE KINDS OF AUTHORITY ARE HELPED - COUNCILS WHO BUDGETTED THIS YEAR TO MAKE TRANSFERS FROM THE HOUSING REVENUE ACCOUNT; COUNCILS WHO BUDGETTED TO RECEIVE INTEREST RECEIPTS REPRESENTING MORE THAN 10% OF THEIR SPENDING; AND COUNCILS WHO UNDERSHOOT THEIR TARGET THIS YEAR BY MORE THAN 2%.7

14. WHAT THESE TARGETS WILL BUY WILL DEPEND CRITICALLY ON THE RATE OF INCREASE IN LOCAL GOVERNMENT COSTS AND TWO THIRDS OF THOSE COSTS ARE WAGES. A CLEAR MESSAGE OF THIS SETTLEMENT IS THAT RESTRAINT IN MANPOWER COSTS IS NEEDED MORE THAN EVER THIS YEAR. IF THE LOCAL GOVERNMENT EMPLOYERS CONCEDE HIGH PAY SETTLEMENTS THIS YEAR, THEN OF COURSE EVEN THE MAXIMUM 3% INCREASE FROM BUDGETS WILL MEAN EVEN GREATER CUTS ELSEWHERE. THE DOWNWARD TREND OF MANPOWER NUMBERS MUST BE RESUMED. COUNCILS SIMPLY CANNOT EXPECT TO KEEP THEIR SPENDING BELOW TARGET IF THEY ALLOW THEIR MANPOWER NUMBERS TO RISE.



15. AGGREGATE EXCHEQUER GRANT FOR NEXT YEAR WILL BE £11.9 BILLION - £90 MILLION MORE THAN THIS YEAR'S SETTLEMENT, AND £370 MILLION MORE THAN IS ACTUALLY BEING PAID THIS YEAR WHEN HOLDBACK IS DEDUCTED. £11.9 BILLION IS 51.9% OF RELEVANT EXPENDITURE, ONLY marginally LESS THAN 52.8% IN THIS YEAR'S SETTLEMENT. MANY COUNCILS FEARED A REALLY LARGE CUT; IN THE EVENT THIS IS A MUCH SMALLER REDUCTION IN THE PERCENTAGE OF GRANT THAN IN THE RECENT YEARS. I WOULD REMIND THE PARTY OPPOSITE THAT IT IS NOT ONLY THIS GOVERNMENT WHICH HAS REDUCED GRANT PERCENTAGE. OUR PREDECESSORS THOUGHT IT RIGHT TO REDUCE THE PERCENTAGE OF GRANT FROM 66% TO 61, AND WE HAVE SIMPLY CONTINUED THAT TREND.

[15A. THE DISTRIBUTION OF GRANT IS LARGELY UNCHANGED FROM THIS YEAR. AFTER CONSULTATION WITH THE LOCAL AUTHORITY ASSOCIATIONS I AM MAKING A NUMBER OF CHANGES TO THE GRE ASSESSMENT; THE MOST SIGNIFICANT CONCERNS THE TREATMENT OF INTEREST RECEIPTS WHERE THE NEW METHOD TAKES ACCOUNT OF THE DIFFERENT LEVELS OF ACTUAL INTEREST RECEIPTS AS BETWEEN CLASSES OF AUTHORITY IN RECENT YEARS].

16. I COME NOW TO HOLDBACK. AS I DISCUSSED WITH LOCAL GOVERNMENT IN OCTOBER I AM PROPOSING A MORE SEVERE SCHEME OF GRANT HOLDBACK FOR AUTHORITIES WHICH EXCEED THEIR TARGETS NEXT YEAR. THE HOLDBACK ARRANGEMENTS ARE SET OUT IN PARAGRAPHS 28-32 OF THE REPORT. TO SUMMARISE, AT RATEPAYER LEVEL HOLDBACK WILL BE AT THE RATE OF 2P IN POUNDAGE TERMS FOR THE FIRST PERCENTAGE POINT OF OVERSPEND, 4P FOR THE SECOND, 8P FOR THE THIRD AND 9P FOR EACH PERCENTAGE POINT ABOVE THAT.

17. QUITE UNDERSTANDABLY, THIS HAS AROUSED MUCH CONCERN EVEN AMONG RESPONSIBLE AUTHORITIES AND I SHOULD LIKE TO EXPLAIN WHY WE HAVE HAD TO DO THIS.

18. THE PURPOSE OF HOLDBACK IS TO DETER OVERSPENDING BY INCREASING THE COST TO RATEPAYERS OF SPENDING ABOVE TARGET. BECAUSE AUTHORITIES EXCEEDING THEIR TARGETS THIS YEAR WILL HAVE ALREADY RATED UP FOR THAT EXCESS, WE MUST STEEPEN THE HOLDBACK TARIFF IF DETERRENCE IS TO WORK NEXT YEAR. MANY COUNCILS ASKED FOR A GENTLER LEAD IN SO THAT THE PENALTY FOR THOSE WHO TRY BUT NARROWLY FAIL TO HIT THEIR TARGETS IS LESS SEVERE THAN HIGHER UP THE SCALE. I UNDERSTAND THAT ARGUMENT AND THE PENALTIES FOR THE FIRST 2 PERCENTAGE POINTS OF OVERSPEND ARE THEREFORE MUCH LOWER THAN FOR THE HIGHER LEVELS OF OVERSPEND. BUT IF THE FIRST STEP WERE EVEN SMALLER, I DOUBT IF IT WOULD HAVE MUCH IMPACT.



19. . . WHY CAN THERE NOT BE AN EXEMPTION FOR SPENDING ABOVE TARGET BUT BELOW GRE? I AM WELL AWARE THAT THE MOST TRENCHANT CRITICISMS OF THE SETTLEMENT COME FROM THOSE COUNCILS WHOSE TARGETS ARE SET BELOW GRE AND WHO CAN THEREFORE COME INTO PENALTY WHILE STILL NOT SPENDING UP TO THEIR GRE LEVEL.

20. THE MAIN REASON IS THAT A GRE EXEMPTION FOR NEXT YEAR WOULD PROVIDE HEADROOM FOR ADDITIONAL SPENDING WITHOUT PENALTY OF SOME £500M. WHEN WE HAD GRE EXEMPTIONS IN 1981/82 AND 1982/83 WELL OVER HALF THAT HEADROOM WAS TAKEN UP BY THE AUTHORITIES CONCERNED. I AM SURE THE HOUSE UNDERSTANDS WHY IT SIMPLY WOULD NOT BE RESPONSIBLE TO CONTEMPLATE ALLOWING EXTRA EXPENDITURE OF THAT ORDER OF MAGNITUDE NEXT YEAR.

21. SOME EXPENDITURE IS DISREGARDED FOR THE PURPOSE OF HOLDBACK, AND TO THE 2 EXISTING DISREGARDS - INCREASED URBAN PROGRAMME EXPENDITURE BY PARTNERSHIP AND PROGRAMME AUTHORITIES, AND INCREASED EXPENDITURE ON CIVIL DEFENCE, WE HAVE ADDED A THIRD. I PROPOSE TO DISREGARD INCREASED EXPENDITURE ON THOSE COMMUNITY CARE SCHEMES WHICH ARE JOINTLY FINANCED WITH HEALTH AUTHORITIES. THE AMOUNT EARMARKED BY DHSS FOR JOINT FUNDING HAS TREBLED SINCE 1978/79. THIS NEW DISREGARD IS THEREFORE AN IMPORTANT CHANGE FOR SOCIAL SERVICE AUTHORITIES, AND HAS BEEN WIDELY WELCOMED BY THEM.

22. THOSE THEN ARE THE MAIN FEATURES OF THE SETTLEMENT. IF AUTHORITIES BUDGET TO SPEND WITHIN THE TARGETS THAT HAVE BEEN SET, THE AVERAGE RATE INCREASE SHOULD BE QUITE LOW.

23. MANY AUTHORITIES, WHILE CRITICISING THIS SETTLEMENT, HAVE EXPRESSED TO ME THEIR VERY GRAVE ANXIETIES NOT SO MUCH ABOUT 1984/85 BUT ABOUT THE FOLLOWING YEAR 1985/86. I WOULD LIKE TO GIVE THIS ASSURANCE TO THE HOUSE.

24. I HAVE BEEN MADE VERY WELL AWARE THAT A NUMBER OF LOW SPENDING AUTHORITIES REGARD THE TARGETS THAT HAVE BEEN SET IN 1984/85 AS AN UNFAIR USE OF A SYSTEM WHICH SHOULD IN THEIR EYES BE INTENDED TO BRING PRESSURE PRIMARILY ON THOSE SPENDING WELL ABOVE GRE. I HAVE ALREADY SAID THAT IN THE ABSENCE OF ANY EFFECTIVE WAY OF CURBING THE EXTRAVAGANCE OF THE HIGH SPENDERS, THE GOVERNMENT HAS BEEN FORCED TO SEEK SAVINGS FROM EVERYONE - HIGH AND LOW SPENDERS - IN ORDER TO MEET THE CHANCELLOR'S SPENDING GUIDELINES. THE RATES BILL IS NOW BEFORE THE HOUSE. ONE OF ITS PRIMARY PURPOSES IS TO HELP RESTRAIN THE TOTAL OF LOCAL AUTHORITY EXPENDITURE. AFTER ENACTMENT - AND THAT IS A MATTER FOR PARLIAMENT - WE SHALL, FOR THE FIRST TIME, HAVE POWER TO RESTRAIN THE WORST EXCESSES OF THE HIGHEST SPENDERS. THIS POWER WILL NOT CHANGE THE PICTURE OVERNIGHT, BUT AS IT BEGINS TO TAKE EFFECT, I WOULD EXPECT IN 1985/86 AND THEREAFTER TO BE ABLE TO SET TARGETS WHICH TAKE GREATER ACCOUNT OF GREs AND THUS RECOGNISE THE EFFORTS WHICH LOW SPENDING AUTHORITIES HAVE MADE.



25. BEFORE I SIT DOWN I WANT TO SAY SOMETHING ABOUT A NEW FACTOR IN THE EQUATION - THE AUDIT COMMISSION. SET UP UNDER THE 1982 LOCAL GOVERNMENT FINANCE ACT, THE COMMISSION WAS GIVEN A SPECIFIC REMIT TO LOOK AT VALUE FOR MONEY IN LOCAL AUTHORITY SPENDING. THE COMMISSION REALLY GOT UNDER WAY IN APRIL OF LAST YEAR, AND IT HAS ALREADY PRODUCED AN IMPRESSIVE HANDBOOK ENTITLED, "ECONOMY, EFFICIENCY, AND EFFECTIVENESS" EXPLAINING HOW IT PROPOSES TO TACKLE THIS ASPECT OF ITS WORK. COPIES ARE IN THE LIBRARY OF THE HOUSE, AND I AM SURE THAT THE COMMISSION WILL BE HAPPY TO PROVIDE A COPY TO ANY HON MEMBER WHO WISHES TO HAVE ONE. COPIES HAVE BEEN SENT TO EVERY LOCAL AUTHORITY; AND EACH LOCAL AUTHORITY HAS BEEN GIVEN AN INDIVIDUAL PROFILE OF ITS OWN SPENDING, COSTS, AND OTHER DATA - INCLUDING DEMOGRAPHIC DATA - TOGETHER WITH COMPARISONS WITH THE FIGURES OF OTHER COMPARABLE AUTHORITIES OF THE SAME CLASS.

26. THESE PROFILES, AND THE OTHER MATERIAL IN THE HANDBOOK, ARE INTENDED TO HELP INDIVIDUAL AUTHORITIES AND THEIR AUDITORS TO IDENTIFY THE AREAS WHERE THEY SHOULD CONCENTRATE THEIR EFFORTS IN LOOKING FOR BETTER VALUE FOR MONEY, AND FOR SAVINGS THROUGH GREATER ECONOMY AND EFFICIENCY. THEY PROVIDE THE NECESSARY INFORMATION TO ENABLE AUDITORS AND COUNCILLORS TO ASK THE REALLY SEARCHING QUESTIONS THAT ARE NEEDED.



27. LET ME QUOTE FROM THE HANDBOOK'S INTRODUCTION:

"IS THE COUNCIL GETTING WHAT IT IS PAYING FOR? DOES THE COUNCIL NEED TO PROVIDE ALL ITS PRESENT SERVICES, SOME OF WHICH MAY WELL BE GEARED TO THE NEEDS OF AN EARLIER ERA? SHOULD RESOURCES BE REDEPLOYED TO MEET NEW NEEDS AND DEMANDS? ARE THERE LOWER COST WAYS OF DELIVERING THE SAME BENEFITS? IS THE COUNCIL BEING MANAGED WELL? THESE ARE QUESTIONS . . . . TO WHICH, OFTEN, THERE ARE NO READY ANSWERS".

28. THE HANDBOOK DEALS GENERALLY WITH THE ARRANGEMENTS WHICH COUNCILS SHOULD HAVE IN PLACE TO ENSURE ECONOMY, EFFICIENCY AND EFFECTIVENESS IN THEIR USE OF RESOURCES. IT SHOULD BECOME COMPULSORY READING, NOT ONLY FOR CHIEF OFFICERS BUT FOR THE CHAIRMEN OF POLICY AND RESOURCES COMMITTEES AND THE CHAIRMEN OF FINANCE COMMITTEES. THERE MAY BE COUNCILS WHO CANNOT IMPROVE THEIR SYSTEMS. I SUSPECT THEY MAY BE VERY FEW.

29. THIS FIRST EDITION OF THE HANDBOOK CONTAINS SECTIONS ON FURTHER EDUCATION, POLICE, REFUSE COLLECTION AND PURCHASING. FURTHER SECTIONS WILL BE ADDED PROGRESSIVELY TO COVER OTHER SERVICES AS THE COMMISSION'S SPECIAL STUDIES OF SPECIFIC AREAS PRODUCE RESULTS AND FINDINGS FOR GENERAL APPLICATION. LET ME GIVE THE HOUSE SOME EXAMPLES OF HOW THE HANDBOOK CAN BE USED.



30. TAKE THE MUNDANE SUBJECT OF REFUSE COLLECTION. THE HANDBOOK RECORDS HOW ONE COUNCIL CUT ITS REFUSE COLLECTION COSTS BY 30% USING THE "ROSS" COMPUTER PROGRAMME DEvised BY LAMSAC. OTHERS HAVE SAVED 15% OR MORE. WHY IS IT THAT ONLY ONE REFUSE COLLECTION AUTHORITY IN EIGHT HAS ACTUALLY SEEN FIT TO USE THE SYSTEM?

31. OR TAKE POLICE. THE COMMISSION OUTLINES THE RANGE OF OPPORTUNITIES FOR SAVINGS THAT EXIST, INCLUDING FOR INSTANCE THE USE OF CIVILIANS. USING 1% MORE CIVILIANS INSTEAD OF UNIFORMED OFFICERS FOR ADMINISTRATIVE POLICE WORK COULD SAVE A TYPICAL COUNTY POLICE FORCE £100,000 A YEAR. THERE IS NO EVIDENCE TO SUGGEST THAT CIVILIANISATION REDUCED THE EFFICIENCY OR EFFECTIVENESS OF ANY FORCE. WHY DOES THE RATIO OF CIVILIANS TO POLICE OFFICERS IN DIFFERENT FORCES RANGE FROM 11 PER 100 OFFICERS TO 59?

32. OR TAKE FURTHER EDUCATION. THE HANDBOOK SPELLS OUT THE SIGNIFICANT OPPORTUNITIES FOR INCREASING STUDENT NUMBERS AND REDUCING COSTS WITHOUT ADVERSE EFFECTS ON THE QUALITY OF EDUCATION. IN 1981 ONE POLYTECHNIC ALONE WASTED £110,000 OF WHICH £20,000 WENT ON RATES ON BUILDINGS THEY DID NOT NEED, HAD ALREADY SOLD OR WHICH HAD EVEN BEEN PULLED DOWN. IS EVERY EDUCATION AUTHORITY QUITE SATISFIED THAT NOTHING LIKE THIS IS HAPPENING IN THEIR AREA?

33. I MUST TELL THE HOUSE THAT I REGARD THIS AUDIT COMMISSION HANDBOOK AS ONE OF THE MOST POWERFUL TOOLS FOR EFFICIENCY EVER PUT INTO THE HANDS OF LOCAL COUNCILLORS. TIME AND TIME AGAIN, OFFICERS TELL THE COUNCILLORS, AND COUNCILLORS TELL THE PUBLIC (AND, DARE I SAY, THEIR MEMBERS OF PARLIAMENT?) THAT FURTHER ECONOMIES CAN ONLY MEAN SAVAGE CUTS IN SERVICES. WHO IN THIS HOUSE COULD PUT HIS HAND ON HIS HEART AND SAY THAT HIS COUNCIL IS SO EFFICIENT THAT ANY FURTHER ECONOMIES MUST MEAN CUTS IN SERVICES?

34. WHY IS IT THAT SIMILAR AUTHORITIES CAN PRODUCE SUCH TOTALLY DIFFERENT FIGURES FOR EXPENDITURE PER HEAD? ACCORDING TO CIPFA FIGURES FOR 1982/83, TORY WANDSWORTH SPENT £246 PER HEAD ON ALL ITS SERVICES; LABOUR CAMDEN SPENT £528, OVER DOUBLE WANDSWORTH'S FIGURE. TORY DUDLEY SPENT £290 PER HEAD, COMPARED WITH LABOUR NEWCASTLE'S £478 OR LABOUR MANCHESTER'S £548. SPENDING PER HEAD IS I AGREE A ROUGH AND READY COMPARISON, BUT WE ARE BOUND TO ASK HOW AN EARTH THE DISPARITIES REVEALED BY THOSE FIGURES CAN BE JUSTIFIED! ARE WANDSWORTH'S RATEPAYERS REALLY GETTING LESS THAN HALF THE SERVICES RECEIVED BY CAMDEN'S RATEPAYERS? OR MANCHESTER'S NEARLY TWICE AS MUCH AS DUDLEY'S? I DO NOT BELIEVE IT FOR ONE MINUTE!



35. THE HON GENTLEMAN FOR HOLBORN AND ST PANCRAS SOUTH MADE AN IMPASSIONED SPEECH LAST TUESDAY ABOUT THE INNER LONDON EDUCATION AUTHORITY. WHAT THE HONORABLE MEMBER DID NOT ASK - AND I WONDER WHETHER HE EVER HAS ASKED - IS WHY THE ADMINISTRATIVE AND CLERICAL COSTS PER PUPIL IN THE INNER LONDON EDUCATION AUTHORITY ARE 80% MORE THAN THE AVERAGE COSTS IN THE OUTER LONDON BOROUGHS. OR WHY THE SUPPORT STAFF COSTS PER PUPIL ARE 86% MORE; OR WHY THE STAFF LOOKING AFTER SCHOOL PREMISES ARE 90% MORE. THESE ARE NOT THE CLASSROOM COSTS. THESE ARE THE ADMINISTRATIVE TAIL WHICH OVER THE YEARS HAVE MADE THE INNER LONDON EDUCATION AUTHORITY A BYWORD FOR FECKLESS EXTRAVAGANCE. COMPARING ILEA WITH SOME OF THE OTHER HARD-PRESSED INNER CITY AREAS IN THE PROVINCES ? MANY OF THEM WITH LARGE ETHNIC MINORITIES, THE EXPENDITURE PER PUPIL IN ILEA IS HALF AS MUCH AGAIN AS COVENTRY, BRADFORD, BIRMINGHAM AND WOLVERHAMPTON. IT IS TWICE AS MUCH AS THE WEST YORKSHIRE DISTRICT OF KIRKLEES.

36. IT IS THIS SORT OF COMPARISON, BROKEN DOWN BY FUNCTION AND SERVICE, WHICH SHOULD ENABLE COUNCILLORS WHO GENUINELY WANT TO CUT OUT WASTE WITHOUT DAMAGING SERVICES TO SEE THE WAY TO DO SO.

37. MILLIONS OF POUNDS CAN BE SAVED BY PUTTING SERVICES OUT TO COMPETITIVE CONTRACT. THIS HAS BEEN SHOWN CONCLUSIVELY BY THOSE COUNCILS WHO HAVE DONE IT, REFUSE COLLECTION, STREET CLEANING, PARK MAINTENANCE, SCHOOL CLEANING AND NO DOUBT MANY OTHER SERVICES CAN SHOW SUBSTANTIAL COST REDUCTIONS THROUGH COMPETITIVE TENDERING. WHEN THE SAVINGS ARE NOW PROVEN WHY HAVE SO FEW COUNCILS STARTED DOWN THIS ROAD? IS IT FEAR OF THE UNIONS? MANY COUNCILS HAVE SHOWN THAT IT IS PERFECTLY POSSIBLE TO NEGOTIATE SATISFACTORY DEALS WITH THEIR UNIONS IN ORDER TO SECURE REAL BENEFITS FOR THEIR RATEPAYERS. WHAT IS AT THE MOMENT A PIONEERING TRICKLE MUST BECOME A GREAT COST-SAVING FLOOD. THE OPPORTUNITIES ARE THERE, ALL THAT IS NEEDED IS THE COURAGE AND THE WILL TO GRASP THEM.

38. THAT IS THE WAY TO MAKE SURE THAT THIS SETTLEMENT, TOUGH AS IT UNDOUBTEDLY IS, BRINGS BENEFIT TO RATEPAYERS, AND I ASK HON AND RT HON MEMBERS TO GIVE IT THEIR APPROVAL,



# LOBBY BRIEFING

time: 4.15 pm date: 19.1.84

BY LEADER OF THE HOUSE

## RATE SUPPORT GRANT

He did not know how many rebels there would be on Monday, but it was a different case to last Tuesday. Some of the Tuesday rebels felt they had made their point; some who might have rebelled are saving it for Monday because they represent Shire counties who are adversely affected in the Rate-Support Grant settlement. But it was difficult to judge numbers.

He explained that on RSG we were away from the philosophical argument about central government taking over the powers of local government and into the modalities of the operation working out inequitably across the country. But at the end of the day he thought the figures would not be wildly out of line with those on Tuesday night. Asked if the revolt could be bigger, he repeated that he did not know and pointed out that three days before last Tuesday's vote, the Whips were still guessing.

He confirmed that the Government was still confident about the passage of the Bill. What Mr Jenkin had said still stood: the principles were not for changing, but the Government would listen to the detailed arguments in committee. His assessment of its passage through the Commons had not changed from that of 10 days ago - before the revolt.

The Lords were an enigma, but he did not think they would reject a Bill of this magnitude; his point was that the Lords had never chanced their arm against one of the session's major Bills. He knew of no case where the Lords had defeated a Bill of this magnitude. He thought the Lords more likely to amend than reject. On the Standing Committee, he said the composition including Beaumont Dark, was acceptable to the Chief Whip, and the Government would have its majority despite any planting of rebels.

The Government was in control of the situation - but of course there could be adjustments at Committee Stage.

Asked if the second part of the Bill would survive, he said (after a pause) "yes".

He did not agree that it would be facing the same trouble as the Devolution Bill had and similar local government reforms. There was a big difference between a Bill discussed in detail in Committee and a Bill discussed in detail on the floor of the House - which was Labour's problem with the Devolution Bill.

Monday's affair would be short, sharp and over in a day. The Shire counties resented the rate support settlement because of the inequities, but he thought these would be muted in their anxiety for the Metropolitan counties.

The (uninformed!) public generally thought rate-capping was a good thing and that pressures against came from the well informed elitist quarter.

## RATES

Asked to explain the constitutional background to the Rates proposals, he said that it was based on the fact that so much of local



government expenditure was being provided by corporate revenue. It was taxation without representation. There was an imbalance between the sources of revenue and the voters who decided how it would be spent.

Asked about the restoration of the business vote, he pointed out it would not add many many votes to the list, whereas corporate money was 60% of local government revenue. He had no great enthusiasm for the proposals, but no public agony.

#### CENOTAPH CEREMONY

Asked about discussions, he said everybody was being seen separately; it was not a round table conference. The purpose was to see if there was the basis for agreement. He did not rule out a suggestion of a Speaker's conference, but he said the process was being taken one step at a time. He found the arguments about the ceremony distasteful and absurd.

#### ELECTORAL REFORM

Asked about the proposal for an extended list of signatures on the nomination paper, he said the House would have the chance of discussing it. But he would still like to see a deposit system retained. Asked about the deposit being raised, he said nothing had been decided. He thought the next step would be a White Paper, then legislation. (FOOTNOTE: A White Paper will be published shortly.)

#### LOBBY LUNCHEON

The Leader of the House offered his congratulations to the Chairman of the Lobby on his speech.

#### ELECTRICITY PRICES

Asked about the price rise, he said he had not been aware an announcement had been made and had taken Mr Kinnock's assertion that it had at face value. There had been no directive to nationalised industry chairmen to come to a particular judgement.

#### PUBLIC EXPENDITURE DEBATE

He could not help on timing (of a discussion document). He had no further information than offered previously. He noted a Lobby Member's offering that Mr Lawson has been postulating December last week.

#### HOUSING BENEFIT

Asked for the timing for the laying of the Orders, he said it was not known yet. It would be fairly soon but not next week. (FOOTNOTE: The regulations will be laid within the next few weeks, at the same time as Mr Fowler responds to the Social Security Advisory Committee report (which leaked to the Guardian).

#### PUBLIC EXPENDITURE WHITE PAPER

He confirmed that the White Paper could be expected before the Budget.

#### FREEPORTS

Asked if they would be named next week, he said they would not.



There had been interdepartmental discussions, but no Ministers' decision yet.

DEPUTY PRESS SECRETARY'S BRIEFING

4.35 pm

The morning Lobby was repeated.

RADIATION INCIDENT AT ALDERMASTON

We read out the line the Prime Minister would have taken if asked:

"It occurred when six employees were moving, under carefully controlled conditions, a small piece of radioactive material within a purpose-built facility.

Six employees suffered very minor contamination which was immediately removed by normal decontamination procedures. Medical and health physics staff are continuing to carry out measurements on the six to ensure that there has been no internal ingestion and that the radiation dose, while contaminated, was within permissible limits.

No other people were involved so that there is no question of risk to others in the establishment and that there is no effect on the environment of the establishment and beyond."

We were not prepared to answer a hypothetical assertion that the Government would not have revealed the incident if it had not been publicised in the Reading Evening Post on Tuesday.

THE GLC

Asked about an article in Tribune by George Tremlett, criticising the Government's proposals for abolishing the GLC, we did not know if the Prime Minister had seen it. We pointed out it was not her practice to comment on articles.

MARK THATCHER

Asked about a possible follow-up by the Observer, we pointed out that the Prime Minister had made it clear she intended to maintain her position on the matter.

MH



File

# Briefing Note

No. 2  
19.1.84

## THE RATES BILL

The Rates Bill, designed to control local authority overspending in England and Wales, received a second reading in the House of Commons on 17th January, by a majority of 100.

Background. Local authorities in England and Wales are responsible for a quarter of all public expenditure. Back in the early 60's their current spending amounted to about 5% of all domestic expenditure; by 1982 that proportion was around 9%. The national Exchequer makes a very substantial contribution, providing 52% of the funds spent by local authorities in England and Wales.

Between 1978-79 and 1983-84, at a time when the Government was striving to achieve real savings, current expenditure by local authorities rose significantly. Budgeted expenditure this year in England is expected to be 12% above the levels set by the Government in 1980.

As a result, between April 1979 (just before the Government came into office) 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 £, but in some authorities the rise has been as high as 160p.

The Government has reduced the proportion of local government finance provided by the rate support grant in order to encourage greater economy. But a small number of local authorities have responded to this by imposing an ever-greater burden on their ratepayers instead of making the savings which are essential for the country's continued economic recovery. Three quarters of this year's budgeted over-expenditure of £770 million is due to only 16 authorities. If these authorities had reined back their expenditure, rate increases this year would on average have been below the general rate of inflation.

Rates will cost UK companies £5 billion this year - the largest rates bill, in real terms, that they have ever been required to pay, and nearly 60% of all rates levied. Such high rates discourage the setting up of new firms, encourage old companies to move away from important centres of population, and contribute to unemployment by damaging profitability. Mr Patrick Jenkin, Secretary of State for the Environment, stressed: 'excessive rates have added to unemployment difficulties in some areas, and are certainly one of the reasons for the exodus of small firms from inner cities' (Hansard, 17th January 1984, Col.169).

The constitutional implications. Britain is a unitary state. Local Government carries out the functions prescribed by Parliament. There is no 'local mandate' through which national policy can be overridden. The Government is entitled to expect local authorities to help it in its task of achieving lasting economic recovery. The Labour Government in 1975-76 called on local authorities to fall in with its policies. Mr Jenkin has said: 'all the local authority associations accept that it is the duty of local authorities ... as a whole to abide by the broad general guidelines in spending that are laid down by the House. That was the policy of our predecessors, and it is our policy now' (ibid. Col.167). The Government is entitled to ask Parliament to provide it with the means to ensure that the long established constitutional position is respected.

The Conservative Manifesto 1983 promised: "We shall legislate to curb excessive and irresponsible rate increases by high-spending councils, and to provide a general scheme for limitation of rate increases for all local authorities to be used if necessary". The Government is now implementing that unequivocal commitment, thereby extending to England and Wales a principle that has already been introduced in Scotland.

A selective scheme will apply to the most extravagant overspending authorities, which number between 12 and 20 of the 456 councils in England and Wales.



The process of rate limitation will have four stages:

- (i) the selection of authorities whose rates (or precepts) are to be limited;
- (ii) the setting of expenditure levels for each selected authority - normally in July;
- (iii) consideration of any applications for increased expenditure levels - normally during August-December;
- (iv) the setting of rate limits - normally during January.

The rate limits set will be upper limits. If an authority attempted to levy a rate at a higher figure it would be invalid and ratepayers would not have to pay it. (An authority could, of course, set a lower rate if it chose.)

Provision has been made for setting expenditure levels because:

- it will provide authorities with advance notice of the savings they will need to find: the rate limits themselves cannot be calculated until relatively late when the Rate Support Grant for the authority is set in the December RSG settlement;
- local authorities initially prepare their budgets in expenditure terms.

#### The reserve power for a general scheme

The general rate limitation scheme will provide reserve powers to set upper limits for all local authorities. The powers would not become available until an order had been approved by both Houses of Parliament. Before presenting such an order the Secretary of State would be required to consult with the local authority associations.

The mechanisms of the scheme are similar to those of the selective scheme with the following main differences:

- (i) there will be no automatic exclusions from the scheme, although there will be a power to exclude councils with low expenditure;
- (ii) before determining expenditure levels of all authorities the Secretary of State will be required to consult with local authority associations;
- (iii) the parliamentary procedure for determining maximum rates and precepts will provide for a parliamentary Order to be made, setting limits for all authorities which do not accept the rate figure proposed by the Secretary of State; he would then have power to increase the figures determined in the Order, as discussions were completed (though any reduction in rate limits would require the approval of a further Order).

Mr Jenkin emphasised: 'the Government hope that this part of the Bill will never have to be invoked. We hope that the powers in Part I, coupled with the existing system of block grant, expenditure targets and other measures in the Bill, will bring local government spending into line with the Government's guidelines' (ibid. Col.174).

#### Improvements to the rating system

The Bill also provides for reforms to the rating system which will improve accountability. A duty will be placed upon local authorities to consult representatives of local business ratepayers before determining their budgets and rates or precepts; availability of rate relief for institutions caring for the disabled will be widened; and other minor improvements are to be made, such as allowing non-domestic ratepayers to pay rates by instalments from 1985-86.

The Labour Party has claimed that ratepayers through their votes can keep rates down. But this argument totally ignores two key facts: 60% of rates are paid by non-domestic ratepayers, and only 35% of local electors pay full rates. As Mr William Waldegrave, Under-Secretary of State at the Department of the Environment, said: 'the system is far too weak to protect ratepayers; in such classic circumstances, ... the Government are right to take powers to prevent ratepayers suffering from institutions which are not working as intended' (Hansard, 17th January 1984, Col.246).





File

DP  
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use cost only

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

17 January 1984

Overtaken  
see letter of 20.1.84

AT

AT 12/11

Dec John

I agree  
with AT 18/11

SPEAKING NOTE ON RATES BILL

Thank you for your letter of 11 January

It may be helpful if I set out our understanding of the agreement reached by officials about the treatment of expenditure deflated to different types of constant prices. Expenditure plans are to be shown only in cash or in cost terms (deflated by the GDP deflator); outturn and budgets (in the case of local authority revenue expenditure) can be shown in cash, cost terms or volume (deflated by the index of local authority revenue expenditure) can be shown in cash, cost terms or volume (deflated by the index of local authorities' pay and price changes). When we use volume we say we are using volume; we try to avoid the rather ambiguous term "real terms". I am afraid that in the speaking notes recently sent to the Chief Secretary and other Ministers we inadvertently used "real terms" rather than "volume", We will put this right.

My Secretary of State is of course, a firm supporter of cash planning, and in general our figures are presented in cash terms only. But like the Treasury, this Department sometimes finds it useful to express certain figures in constant price terms. On some occasions we use cost term comparisons; we recognise the importance of these in demonstrating the changing burden of local authority expenditure on the economy as a whole. In this context, you will have noticed our use of cost terms in paragraph 1.19 and Graph 3 of the Rates White Paper. We also use volume comparisons. This largely reflects the fact that we have to talk to and negotiate with local authority bodies. They recognise volume; but cost terms is not a concept they yet fully understand. Moreover, volume is a meaningful concept; it shows the changing amount of inputs being used by local authorities.

My Secretary of State and this Department therefore propose to continue to use volume comparisons where we consider them appropriate. For example, they are particularly appropriate in the comparison between what the Government's early (volume) plans had expected for 1983-84 and what local authorities have actually achieved. This analysis has been successfully presented in both volume and cash terms. A number of volume figures have now become well known. We will of course continue to give cash and cost terms figures too.



Two final points. First, large differences between cost and volume are largely the result of Clegg and other comparability awards during 1979/80 and 1980/81. Since 1981-82, local authority costs have been moving roughly in line with other prices in the economy. Second, "real terms" is an ambiguous term. To those in the Treasury it clearly means cost terms. To those in local government it means volume. We think that confusion can best be avoided if we refer to volume when we use volume, and refer to cost terms when we use cost terms.

I am copying this letter to those who received copies of yours.

*Yours sincerely*

*John Ballard*

J F BALLARD  
Private Secretary