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CCNO
NBFM AF 18/7
QUEEN ANNE'S GATE LONDON SW1H 9AT

18 July 1984

LOCAL AUTHORITY EXPENDITURE CONTROLS AND FIRE SERVICE RESOURCES

I have seen your letter of 26 June to Patrick Jenkin about ELs for the GLC and ILEA. As you know, Patrick later wrote to me on 9 July commenting on my letter of 19 June to you about fire service resources.

I do not disagree with you that a stringent regime should be set for the GLC. By the same token I accept that no service, including the fire service, can be exempt from the search for economies. On the other hand, to further our cause effectively, we must be realistic. It would therefore be wholly counter-productive to rely on the difference between any fire authority's budgeted expenditure and the relevant component of its GRE. My Private Secretary pointed this out in the exchange to which you refer, and my letter of 19 June to you went fully into the background inter alia on this very point. It follows that the implication that the GLC might reasonably be expected to cut their fire budget by 24% in one year has no objective basis. Citing the possibility in public would be severely damaging not only to the credibility of rate-capping but also to that of the abolition strategy. It would mean reducing fire cover standards and closing fire stations to an extent that could only confirm the alarmist and irresponsible GLC propaganda we have been at such pains to discount.

Without wishing to prejudice the outcome of the study of fire cover in any way, I have to express some scepticism about whether GREs can be pressed into service for single purpose authorities quite in the way that is being assumed. GREs were designed for allocative rather than indicative purposes, and close examination in the context of local government reorganisation may show that we cannot continue to press into service old concepts in a new environment. There is a danger both of confusion and distortion. Evidence of the latter is, I think, already available in the tendency abroad to assume that spending above a particular GRE component is a sure indication of scope for saving.

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

Leon B. ...

The Rt Hon Peter Rees, QC, MP

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local govt relats pt 21

18 JUL 1984

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Treasury Chambers, Parliament Street, SW1P 3AG

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

26 June 1984

Mr Patrick

attached

EXPENDITURE LEVELS FOR THE GLC AND THE ILEA

I have seen your letter of 14 June to Willie Whitelaw.

We obviously have to balance the need to ensure that the rate-capping legislation works smoothly in its first year against the need to show that it is capable of delivering substantial savings. I am sorry therefore that you feel unable to accept Keith's offer of a 2 per cent cut on ILEA's budget and that you cannot endorse my proposal that we should seek a 5 per cent cut from the GLC. Together these proposals would increase the savings from rate-capping by some £60m.

GLC

I fear I am not persuaded by your arguments on the GLC. The GLC has budgetted to increase its cash spending by 14 per cent between 1983-84 estimated outturn and 1984-85 budget. I understand that the bulk of that increase is accounted for by services other than transport ie services for which the GLC will remain responsible after 1 April 1985.

I was surprised by some of the items you chose to single out. On the GLC's fire services, for example, your Private Secretary's letter to the Prime Minister's Private Secretary on the savings from abolition mentioned the scope for substantial savings. As he pointed out, the GLC's 1983-84 fire budget was "no less than" 24 per cent above that component in its Grant Related Expenditure. I do not think the position has changed markedly in 1984-85.

There is one item in the GLC's budget which you do not mention. That is the "Revenue Contribution to Capital Outlay" (RCCO) which

constitutes some 6.7 per cent of the adjusted budget. I understand that only Leicester of other Column 2 authorities is budgetting to make an RCCO in excess of 1 per cent.

Both Nigel and I have been very worried at the prospect of rate-capped authorities maintaining their current spending by switching from revenue to debt finance of capital. Our officials have discussed with yours the scope for limiting such borrowing round rate limits. They were assured that it was unlikely to be a problem because the authorities were budgetting for very low RCCOs. The GLC seems to be the exception to that rule.

So I fear I would put a rather different construction on the disaggregated GLC budget figures attached to your letter. Rather than take them to mean that we should not set the GLC a tough expenditure level, they suggest to me that it is an absolute imperative that we do so. If anything, 5 per cent looks too modest.

ILEA

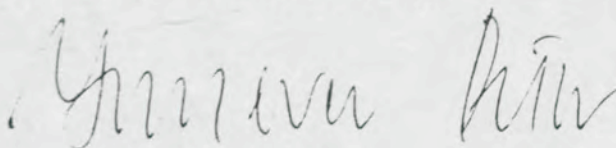
I note your view that we cannot single out the ILEA for special treatment. That appears to conflict with the letter of the Rates Bill, which states that you can set expenditure levels on "general principles applicable to each class of authority". I have always understood the ILEA to be in a class of its own. [I must admit that I would doubt that an authority would be seen to be acting reasonably if it sought to have its initial expenditure level quashed when it had a statutory right to seek a remedy through an application for a derogation].

But if you remain of the view that we would run a severe risk of legal defeat then we have two alternatives - either to adopt a more discriminatory general approach as, for example, set out in my letter of 22 May, or to pass up the savings Keith says are attainable from the ILEA. I cannot accept that the latter is preferable.

Selection Criteria

One final point. If we are to regard the question of selection criteria as still open, despite E(LA)'s deliberations on 24 May, I have to say that I would regard the question of the appropriate general level of reduction as similarly open.

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



PETER REES

Local Govt Relations

PT 21

27 JUN 1964





PS/ Lord Bellin
 PS/ Mr Waldegrave
 Mr Heister
 Mr Owen *
 Mr Hobson
 Mr Mays
 Mr Young

2 MARSHAM STREET
 LONDON SW1P 3EB

01-212 3434

My ref:

14524

Your ref:

18 June 1984

Dear Lord President

RATE LIMITATION: EXPENDITURE LEVELS FOR GLC AND ILEA

At the meeting of E(LA) on 24 May, I was asked to look further at the question of whether tougher expenditure levels (ELs) might be set for GLC and ILEA. I have also received Keith Joseph's letter of 8 June.

GLC

In his letter to you of 22 May, Peter Rees argued that the historic evidence of shortfall in GLC's budgeting suggested that an EL which was a cash freeze on 1984/85 budget might require no real terms cut on outturn. I attach at A below a table putting the GLC's historic shortfall in the context of shortfall by other classes of authority. 1982/83 was an exceptional result reflecting the "fares fare" lawsuit. For 1981/82, the GLC's outturn was above its budget. Current figures forecast a 4.7% shortfall for 1983/84, but we will not have final figures until November this year. We do not of course have any idea of what the 1984/85 position will be. With these uncertainties the GLC would be in a strong position to argue that an assumption of a large shortfall from their 1984/85 budget was unreasonable.

We have no evidence that a real terms cut larger than the 4½% currently proposed as the norm is attainable in one year, even for the highest spending authorities. The 9% real terms cut in one year proposed by Peter Rees looks on the face of it unreasonable and would invite challenge in the courts. We can hardly doubt that the GLC would have the will and the resources to mount such a legal challenge.

Furthermore, the GLC that will be rate-limited will already have lost responsibility for transport. The scope for cuts by the GLC after the setting up of LRT in 1985/86 will be greatly reduced. As the table at B below illustrates, within the 1985/86 budget which will be the subject of rate limitation, about 16% of expenditure will be accounted for by fire services and 20% by debt charges. Moreover the major part of the Rate Fund Contribution to the Housing Revenue Account is either committed expenditure on housing transferred to the boroughs, or debt charges. So almost 50% of the budget will be made up of items that are not easily cut.

ILEA

Although I should be glad to accept Keith's judgement that ILEA could be given a 2% cash cut, I can see no justification in law for treating them separately. They are only 4th highest of the "column 2" authorities in expenditure against GRE and 7th highest against target. They are not exceptional either on historic evidence of shortfall or on growth since 1981/82. We could not therefore set ILEA a tougher EL without reopening our conclusion at E(LA) that a cash standstill was appropriate for all the other selected authorities.

I would therefore propose that we should not set tougher ELs either for GLC or for ILEA. The smooth operation of the rate limitation scheme in its first year is I believe a paramount consideration. The rate-capped Labour authorities will be poised to exploit any opportunities we offer them to challenge the policy. We must not put ourselves in the position where there is a real risk of being subjected to legal challenge and losing the case.

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

Yours sincerely

Att. Dan

for
PATRICK JENKIN

*Approved by the T of S and
signed in his absence*

'TOTAL EXPENDITURE BY CLASS OF AUTHORITY ; SHORTFALL

TABLE A

	1981/82			1982/83			1983/84			1984/85	
	Revised Budget	Outturn	% Change	Budget	Outturn	% Change	Budget	Revised Estimates	% Change	Budget	
	£m	£m		£m	£m		£m	£m		£m	
Non Met counties	8379	8464	1.0	9046	9055	0.1	9384	9394	0.1	9574	
Non Met districts	1398	1354	-3.2	1403	1396	-0.5	1443	1430	-0.9	1461	
Met counties	1080	1034	-4.3	1122	1171	4.4	1176	1165	-0.9	1178	
Met districts	3798	3785	-0.3	3998	3995	-0.1	4117	4108	-0.2	4178	
GLC	456	467	2.4	683	505	-26.1	867	826	-4.7	936	
ILEA	697	712	2.2	774	767	-0.9	858	850	-0.9	923	
City of London	60	57	-3.5	55	53	-4.5	56	55	-1.8	56	
Inner London	816	777	-4.8	841	810	-3.7	899	885	-1.6	944	
Outer London	1624	1614	-0.6	1700	1658	-2.5	1756	1736	-1.1	1771	
Isles of Scilly	1	1	-	1	1	-	1	1	-	1	
Met Police	292	296	1.4	324	311	-4.0	346	338	-2.3	367	
England	18602	18563	-0.2	19947	19722	-1.1	20905	20788	-0.6	21390	

GLC BUDGET 1984/85 ASSUMING TRANSFER OF
TRANSPORT REVENUE SUPPORT TO LRT (1)

Service	Em	Em	Revenue expenditure on % of budget
	<u>Debt charges</u>	<u>Net revenue Expenditure</u>	
Fire	5.5	121.7	15.6%
RFC to HRA	-	113.8	14.6%
Highways etc	17.9	61.7	7.9%
Transport Services	60.9	8.6	1.1%
Concessionary Fares	-	69.0	8.8%
Refuse disposal	9.5	51.6	6.6%
Non-HRA housing	9.5	23.6	3.0%
RCCO	-	52.0	6.7%
Other	49.6	124.9	16.0%
	<u>152.9</u>		19.6%
		£779.8m =	<u>100%</u>

(1) Assumes reduction of £156m in 1984/85 budget on transfer of transport revenue support, to produce an estimated budget of £779.8m.



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

8 JUNE 1984

Iron Patrick

RATE-CAPPING: ILEA

pt 20 attached

On 24 May E(LA) invited you, in consultation with Peter Rees and me, to consider whether the GLC and ILEA should be subjected to tougher ELs than the cash freeze we agreed for other authorities (E(LA)(84)3rd Meeting minutes, item 1).

In his letter to Willie Whitelaw of 22 May Peter Rees proposed a cash cut of 5% for the GLC. If this is agreed, I think there is a good case for some reduction for the ILEA. I suggested 1% for all authorities to be rate-capped in my letter of 22 May to Willie, but would be willing to accept Peter's proposal of 2% for ILEA.

As you will see from the enclosed table, ILEA's expenditure per pupil even in 1982-83 was far ahead of that of other education authorities. But 1983-84 it was spending 61 per cent above its education GRE (compared with 22% in Brent, 20% in Haringey and 13% in Sheffield, the three other education authorities in question). Worst of all, its budget for 1984-85 shows a cash increase of 7½% over last year, a very much bigger rise than that of education authorities as a whole, and is 73% above its GRE.

The only factor pointing the other way, as I said in my letter of 22 May, is that ILEA plans nearly all its expenditure mainly by reference to academic rather than to financial years and therefore could not readily achieve big savings before September 1985. For this reason I think a 2% cash cut - 6% or so in real terms or the equivalent of an annual rate of 9% or 10% from

/September

Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment
2 Marsham Street
London SW1 3EB

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September 1985 - would be appropriate if we agreed on 5% for the GLC, where this timing point does not arise. A reduction of this order, worth nearly £20m, would be achievable, I believe, without compulsory redundancies. It would of course only be a beginning: over three or four years I would expect us to secure through rate-capping larger reductions in ILEA's expenditure.

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

W. Whitelaw

W. Whitelaw

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ILEA: COMPARATIVE EXPENDITURE

Schools 1982-83 GRE +36%

	unit costs 1982-83 outturn/England = 17			
	Nursery	Primary	Secondary	Special
Teachers	1.29	1.29	1.29	1.20
Non-teaching Staff	1.68	2.25	2.48	1.79
Maintenance	1.29	1.85	1.64	1.96
Cleaning + Water	1.13	1.11	1.32	1.44
Energy	1.33	1.40	1.49	1.42
Rates	1.42	0.96	1.08	2.12
Books	0.96	1.40	1.93	2.01
Equipment	1.89	2.60	2.53	2.42
Establishments	0.98	1.54	1.79	1.89
Total	1.53	1.50	1.44	1.47
1983-84 CIPFA Estimate	1.48	1.43	1.42	1.20
1983-84 Est PTR	1.13	1.27	1.25	1.11

Percentage of 3&4 year olds in nursery education Jan 83: 40%

Meals and Milk 1982-83 GRE +97% 1983-84 GRE +145%

Further Education 1982-83 GRE +68%

	unit costs 1982-83 outturn				
	Lecturers	Premises	Admin	Stud Supp	Total /England = 17
AFE	1.02	1.28	1.13	1.12	1.10
NAFE	1.12	1.60	1.41	1.48	1.26
Adult Education	Gross 1.16	Income 0.40	Net 1.41		

Administration 1982-83 unit cost 2.15

Child Guidance " " " 1.86

Youth & OESR " " " 3.94 1982-83 GRE +205%

Education 1983-84 GRE +61%

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08 JUN 1984

