

cc. B1

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PRIME MINISTERPolitics of Local Government

To be discussed  
on Monday a.m.  
at 12 noon  
meeting?  
no

The attached note by the Policy Unit sets out very clearly the issues raised by the rate capping revolt. The recommendations on page 4 can be considered at the first meeting of the new MISC.

I would make one addition to the note. My hunch is that the rate capping revolt will first come to a head not over a breakdown through a deliberately contrived default of interest payments. On the Government side the weak link will not be a departmental Minister worrying about a service for which he has responsibility, but the Chancellor, backed by the Bank of England, worrying about the local authority finance market. He is likely to call for Government intervention long before political conditions exist in the local authority which would make successful Government intervention possible.

You will need to consider very carefully the Treasury/Bank arguments. They will argue that a default in the local authority finance market will damage Britain's reputation as a financial centre, and will deny finance to law-abiding authorities. I suspect the result would be tiering, as I cannot see why institutions should be any less ready to lend to Surrey. While tiering will, on average, raise the borrowing costs of local authorities, and hence public expenditure, it should be seen as a step towards greater local accountability.

AT

16 November, 1984ANDREW TURNBULL



15 November 1984

MR TURNBULL

c Mr Sherbourne

THE POLITICS OF LOCAL GOVERNMENT

1. The Problem

Kaleidoscope of Events 1985 and 1986 will be busy years for local government. In addition to Abolition and the Rate-Capping revolt, there will be elections in May 1985 and May 1986, new RSG settlements and capital allocations for 1986/87 and 1987/8, and two new rounds of selective rate-limits. There may be some unfortunate coincidences. For example, in September 1985 the auditors may be initiating disqualification proceedings at roughly the same time as (1) the Abolition Bill receives Royal Assent and (2) the Rate-Capping selection for 1986/7 is announced. (Our full provisional calendar is attached as Annex A).

Increasingly sophisticated opposition. Meanwhile, the campaign against Government policies is becoming ever more vigorous and intelligent:

- i. The GLC's advertising agency, BMP, is reported to be preparing a new programme of film and TV advertisements.
- ii. The 'Local Government Campaign Unit' is expanding and becoming more active. This organisation was founded in 1983, under the aegis of Councillor Blunkett, with local authority and union backing. Its original staff of 8 (headed by an ex-Home Office official) is now growing to 14 and its starting budget of £150,000 pa appears to have increased substantially. It monitors, coordinates and disseminates information about successful methods of attack. Ironically, it claims to be a 'non-political' organisation.
- iii. The MCCs now have an extremely efficient propaganda organisation known as 'The Case For The Metropolitan Counties'. This body employs not only advertising agents but also the lobbyists, GJW, to 'brief' MPs and others; it has identified Charles Morrison and Geoffrey Rippon as the Conservative MPs who are most likely to act as their spokesmen, and is now setting about to 'capture' them.

Disaffected supporters. The Association of County Councils is a bulwark of support for the Government: Conservatives have 100 representatives against 38 Socialists, 6 Liberals, and 2 Independents. Moreover, the Conservative councillors now coming up for re-election mainly gained their seats with reasonable majorities in 1981 despite the fact that it was a fairly bad year.



However, in 9 'Conservative' Counties the Party governs either with an overall minority or with a slender majority. And small gains for others could lead to a major loss of Conservative seats on the ACC because minority parties with sufficient strength can often claim a degree of ACC representation. (Cf Annex B)

In addition, many of the Shire County Conservatives are furious about the RSG settlement. Councillor Alston of Norfolk has gone so far as to accuse William Waldegrave of deceiving Parliament about the 'Pym commitment', and the leader of Buckinghamshire is set to resign on the same grounds. There is also residual discontent because of the Government's refusal to consult the LEAs about the MSC's new role in further education.

No clear policy on rate-capping. The rate-capping revolt is just about to begin in earnest; but there has not yet been a clear statement of Government policy. Experience with the miners' strike shows that a clear line needs to be established from the start. Otherwise, the public become confused, and the Government's opponents constantly receive new opportunities for propaganda triumphs.

## 2. Tackling the Problem

More Information and Co-ordination. To ensure that the Government is well-informed and capable of avoiding unnecessary dramas, we suggest that the new MISC on rate-capping should establish a shadow group of officials to ensure that the Government prepares properly for the revolt. This official group should:

- i. prepare regular reports on the Government's publicity drive;
- ii. study the likely pattern of service breakdown in the event of a local authority running out of cash;
- iii. identify those service breakdowns which would be hazardous to health and safety;
- iv. specify the most sensible methods of dealing with such hazards;
- v. establish effective methods of monitoring any breakdown that may occur.

The group will, of course, need to cooperate closely with the Civil Contingencies Unit in dealing with items ii-v.

Matching the opposition. Ken Baker's recent broadcasts, speeches, articles and advertisements have been enormously



helpful. We understand that the Party has now also received a £100,000 donation to support a new campaign; and this will apparently be linked with a Party Political Broadcast. But more is needed: the propaganda war is crucial. We suggest that the Prime Minister should ask Lord Whitelaw to instigate another two or three more rounds of well-timed speeches from other Ministers on local government policy. The review of local government abuses should be established quickly, and evidence placed before it should be used as ammunition for Ministerial speeches.

Improving morale amongst the Government's supporters. The main cause of disaffection in the shire counties has been the level of targets for low-spending authorities. The Treasury have now agreed to increase targets for low-spenders in line with the new GDP-deflator. This may placate a number of shire Conservatives, who were on the point of revolt. But the legacy of bitterness remains. To help remove it, and to encourage Conservatives to fight hard in the May 1985 elections, we suggest that the Prime Minister should hold receptions for shire county leaders and majority party councillors. This could have a significant effect on morale. In addition, the Prime Minister might urge John Selwyn-Gummer to organise rotas of properly briefed Ministers to speak in the Counties. An all-out campaign to win the County elections will keep the ACC on our side and bring dividends for years to come.

Clarifying policy on the rate-capping revolt. There are two methods of dealing with the rate-capping revolt:

either seek to "conciliate"  
or engage in brinkmanship

Conciliation is popular, but means giving more money to LAs and thereby destroying the policy. But we much prefer the second, tougher option, on the grounds that rate-capping is only worth doing if it is done vigorously.

If Ministers do decide in favour of brinkmanship, they should:

- a. begin the propaganda battle now, by warning the public of the coming defiance and by announcing that the Secretary of State will not protect councils from their own folly;
- b. when the councils begin their campaign, repeat the message that there will be no negotiations and that the councils must suffer the consequences of their own ill-doing, adding that the Government believes in local autonomy and responsibility within reasonable budgets;



- c. take no further action until illegality or breakdown actually occurs;
- d. draft another Contingency Bill enabling the Government to divert RSG payments and other funds to pay for substitute services.
- e. if an illegal budget is set, proceed with disqualifications of offending councillors as fast as possible, but take no other action;
- f. if services break down, do nothing for as long as possible, explaining constantly that the council has the remedy in its own hands;
- g. when health and safety are threatened, pass the new Bill, and divert funds to maintain essential services, using the information prepared by the official back-up group for the new MISC;
- h. impose Commissioners only if popular clamour for further Government action becomes irresistible.

The policy is brinkmanship: it will require nerves of steel; but it stands a real chance of defeating most of the councils, and of causing a rift between the Labour Party and the extremists. It also gives the Government a new means of avoiding Commissioners, and ensures that if they do have to be brought in they will be a response to popular pressure rather than a dictatorial imposition.

Conclusion The outlook is still bleak. To help improve matters, we recommend:

- a. creating a group of officials, reporting to the new MISC, with explicit instructions to report on the Government's publicity, to study and assess likely pattern of service breakdowns, and to identify the least dramatic means of dealing with hazards to health and safety;
- b. asking Lord Whitelaw to instigate two new rounds of speeches from non-DoE Ministers;
- c. giving Prime Ministerial receptions for shire county Conservatives, and a higher Central Office profile for the May 1985 elections;
- d. pursuing a policy of brinkmanship against the rate-capped authorities, permitting, if necessary, even the breakdown of some services, diverting funds to substitute for health and safety functions and keeping Commissioners as a last resort.

*Oliver Letwin*  
OLIVER LETWIN



LOCAL AUTHORITIESPROVISIONAL TIMETABLE FOR 1985 AND 1986

<u>Date</u> <u>1984</u>	<u>Rate-Capping</u> <u>Revolt 1985/6</u>	<u>Abolition of</u> <u>GLC/MCCs</u>	<u>Local Authority</u> <u>Finance</u>
<u>November</u>	20 Nov: ILEA sets budget and (?) proposes precept	21 Nov: Abolition Bill to L Cttee  22 Nov: Abolition Bill published (if approved by L)	
<u>December</u>		3/4 Dec: Abolition Bill 2nd Reading in HoC.  (?) 21 Dec: Abolition Bill in Cttee in HoC	Mid-Dec: RSG Report in HoC - final statement of RSG & of Provisional 1985/6 Rate & Precept limits (Debated in January)
<u>1985</u> <u>January</u>	15 Jan: End of period for appeals vs. rate & precept limits.	14 Jan: (?) HoC returns to Cttee work on Ab.Bill	
<u>February</u>			15 Feb: Precept Limits for 1985/86 must be set by DOE - subject to affirmative resolution. May be interim limits for later revision, but will probably be final

<u>Date</u> <u>1985</u>	<u>Rate-Capping</u> <u>Revolt 1985/6</u>	<u>Abolition of</u> <u>GLC/MCCs</u>	<u>Local Authority</u> <u>Finance</u>
<u>March</u>	<p>10 March: 'Capped' precepting authorities (GLC/ILEA/S.Yorks/Merseyside) have legal duty to set precepts by now</p> <p>11 March: 'INTERESTED PARTIES' (ie ratepayers or boroughs/districts in Greater London, S.Yorks, Merseyside) MAY START LEGAL PROCEEDINGS TO OBTAIN WRITS FORCING PRECEPTING AUTHORITIES TO SET LEGAL PRECEPTS</p>	<p>Early March: Ab. Bill reaches Report &amp; 3rd Reading in HoC</p> <p>Late March: Ab. Bill leaves HoC for HoL</p>	<p>1 March: Rate Limits for 1985/6 must be set by now - subject to affirmative resolution in HoC</p> <p>During March: LAS announce new rates; Press interest generated</p> <p>Mid-Late April: LA provisional budget for 1985/86 should be sent to DoE - some rate-capped LAS may refuse or be unable to send budgets</p>
<u>April</u>	<p>Early April: 14 'Capped' Rating Authorities would normally have set rates by now</p>		
<u>May</u>	<p><u>2 MAY: LOCAL GOVERNMENT ELECTIONS - County Councillors stand for re-election</u></p>		
		<p>(?)Mid-late May: If Abolition Authorities have refused to supply information as required by Paving Act, court cases may be starting</p>	<p>Mid-late May: 1986/7 RSG and rate-capping selection process begins</p>

JMOABO



Date  
1985

Rate-Capping  
Revolt 1985/6

Abolition of  
GLC/MCCs

Local Authority  
Finance

June

During June (?): LAs acting illegally may now have difficulty obtaining credit on market. PWLB may also begin to have qualms

July

June/July(?): Auditors in Rate-Capped Authorities may notice 'loss' or 'deficiency' of finance due to 'wilful misconduct'.  
AUDITORS MAY START COURT PROCEEDINGS TO DISQUALIFY RESPONSIBLE COUNCILLORS

Mid July: Ab. Bill finishes in HoL

End July: Ab. Bill Royal Assent

August

Mid Aug: Both Rating and Precepting Authorities may now be running out of current funds, due to failure to set legal rate/precept

Early July: E(LA) makes basic RSG/Rate-Capping decisions for 1986/87

Mid July: Announcement of basic RSG/Rate-Capping decisions for 1986/7. [This may include predicted precept limits for joint boards following abolition]

Early August(?): Liverpool may be running out of RSG entitlement. (Rate-capped authorities may run out later in year.)



<u>Date</u> 1985	<u>Rate-Capping</u> <u>Revolt 1985/6</u>	<u>Abolition of</u> <u>GLC/MCCs</u>	<u>Local Authority</u> <u>Finance</u>
<u>September</u>	(?) Early Sept: First service breakdowns may occur	2 Sept: Jt Boards start preparations for takeover from GLC/MCCs	
	Mid-Sept: Capped Authorities Capital Spending may dry up: defaults on loans become likely though some authorities may purposefully have defaulted earlier	2 Sept: Interim-ILEA set up preparatory to new body being established: same membership as ILEA - NB old ILEA remains until March 1986	Late Sept: DoE announces Capital Spending Regime for 1986/7
<u>October</u>			
<u>November</u>			Late Nov(?): Decisions on rate limits for 1986/7 made
<u>December</u>	End Dec.: authorities which have set rates but are purposefully engaging in deficit financing may run out of funds by now.		Early Dec: Announcement of revised RSG settlement and GRE for 1986/7. Capital allocations for 1986/7 also announced



<u>Date</u>	<u>Rate-Capping Revolt 1985/6</u>	<u>Abolition of GLC/MCCs</u>	<u>Local Authority Finance</u>	<u>Rate-Capping Revolt 1986/7</u>
<u>1986 January</u>				
<u>February</u>		15 Feb: DoE announces precept-limits for Joint Boards for 1986/7 subject to HoC Affirmative Resolution	15 Feb: precept limits for 1986/7 must be set by DoE subject to HoC Affirmative Resolution	
<u>March</u>	End March: Rating Authorities chosen for 1985 Rate-capping must set rates for 1985/6 by now, or forego rating entirely			10 March: Precepting authorities 'capped' for 1986/7 have legal duty to set precepts by now
<u>April</u>		1 April: GLC/MCCs abolished	Mid-Late April: Local Authority budgets for 1986/7 should be sent to DoE	Early April: 'Capped' rating authorities for 1986/7 would normally have set rates by now
<u>May</u>	5 May: ELECTIONS FOR ILEA & LONDON BOROUGHs (all councillors)		Early May: Decisions on 1987/8 RSG and Rate- Capping begin	



Rate-capping  
revolt 1985/6

Local Authority  
Finance

Rate-capping  
revolt 1986/7

June

During June(?)  
If authorities  
selected for  
1986/7 'capping'  
are acting  
illegally they may  
start to run out  
of credit/be making  
'losses' noticed by  
auditors

July

June/July(?):  
Councillors from  
Authorities which  
set illegal rates  
& precepts in 1985  
may now be at end  
of appeals, and hence  
be disqualified

Early July: Basic RSG  
and EL decisions for  
1987/8 taken by E(LA)

Late July: Announcement  
of provisional RSG and EL  
settlement, together with  
Joint Board precept-limits

August

July/August:  
If authorities  
selected for  
1986/7 capping  
are acting  
illegally,  
they may be  
running out of  
current funds



Date

Rate-Capping  
Revolt 1985/6

Local Authority  
Finance

Rate capping  
revolt 1986/7

September

Late Sep: DoE  
announces capital  
spending regime  
for 1987/8

October

November

Late Nov: Rate Limits for  
1987/8 decided

December

Early Dec: DoE announces  
capital allocations  
for individual authorities

Mid Dec: Final RSG & Rate-  
Capping decisions made and  
announced for 1987/8.



ASSOCIATION OF COUNTY COUNCILSPOLITICAL COMPOSITIONPresent Balance of Shire Representatives on ACC

Conservative	100
Socialist	38
Liberal	6
Independent	2

Conservative Representation at Risk

<u>County</u>	<u>Representatives</u> <u>on ACC</u>				Con. majority over all other parties	<u>Control of Council</u>		
	Con	Soc	Lib	Ind		Con. Minority Leadership	Con/Lib majority over all other parties	Con/Ind majority over all other parties
Bedfordshire	2	1	1			(-5)		
Berkshire	2	1	1		1			
Cambs	4				0	(0)		
Essex	4				2			
Glos.	4							7
Leicestershire	2	2					7	
Oxfordshire	4				3			
Shropshire	1	1	1					2
Warwickshire	3					(-2)		
Wiltshire	4				8			



Security of Conservative Councillors

We have taken a sample of 1981 results in 15 wards in each of three vulnerable counties, to see whether the councillors standing for re-election in 1985 are generally secure or insecure. The results (below) indicate that the average Conservative councillor in these areas is probably fairly secure. But it should be remembered that the average disguises a large number of marginal cases [cf column III ]:

	Average majority of Conservative Cllrs over nearest rivals		Percentage of Cons. Cllrs who have <10% majorities III
	Votes	Percentage	
	I	II	
Bedfordshire	543	24.9	8
Gloucestershire	380	13.5	33
N.Yorks	532	18.7	20
Overall Ave. of 45 sample Wards	510	20.8	18

Worst Case Result

If Conservatives lose control of all vulnerable counties, and lose all ACC representatives from those counties to the party most likely to gain the biggest political block on each council, the strength of parties on the ACC would be:

Conservative	74
Socialist	64
Liberal	6
Independent	2

It should be remembered that this situation could be aggravated still further if Socialists in counties like Cheshire make small gains and deprive Conservatives of all ACC representation. Under such circumstances, Conservatives might lose overall control of the ACC.



RATE-CAPPED AUTHORITIES IN 1985/61. Precepting Authorities

- ILEA (covers: Camden, Greenwich, Hackney, Hammersmith & Fulham, Islington, Kensington & Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth, Westminster).
- GLC (covers: Boroughs as for ILEA above + Barking & Dagenham, Barnet, Bexley, Brent, Bromley, Croydon, Ealing, Enfield, Harringey, Harrow, Havering, Hillingdon, Hounslow, Kingston-Upon-Thames, Merton, Newham, Redbridge, Richmond-Upon-Thames, Sutton, Waltham Forest).
- S. Yorks (covers: Sheffield, Rotherham, Barnsley, Doncaster).
- Merseyside (covers: Liverpool, Wirral, Sefton, Knowsley, St Helens).

2. Rating Authoritiesa. Conservative:

Portsmouth

Brent

b. LabourLondon

Camden  
Greenwich  
Hackney

Haringey  
Islington  
Lambeth

Lewisham  
Southwark

Out of London

Basildon  
Leicester

Sheffield  
Thamesdown



Pyne Minute ①

Agree I ask Mr Jenkin to minute you  
on how he proposes to handle this?

AT 9/11

Yes not

MR TURNBULL

9 November 1984

#### RATE-CAPPING REVOLT

Rumours are reaching us from several sources that the ILEA intends to set, on 20 November, a budget and (possibly) a precept. If this occurs, it will be the first move in the rate-capping revolt.

We believe a new coordinating body, the Local Government Campaign Unit, is probably behind the move. We understand that they have been planning a test case for some while; and the timing of ILEA's action - two days before the intended publication of the Abolition Bill - can hardly be a coincidence.

The budget will probably be slightly below this year's spending in real terms, enabling Frances Morrell to claim that she is being reasonable; but it will be high enough to entail either a precept above the likely limit or an illegal deficit.

If a precept is proposed\*, it will not yet be illegal, because the DoE has not so far announced a final precept-limit. But once the limit is finally announced (on or before 15 February) the precept (if approved by the GLC) may become illegal, and Ms Morrell will no doubt be quick to point this fact out.

If no precept is proposed, Ms Morrell may either announce her intention to set one at an illegal level in due course, or threaten to engage in illegal deficit funding, or challenge the Government to impose a generous limit that will enable her to set a legal precept without incurring deficits.

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\* The GLC is responsible for setting the ILEA precept: ILEA itself merely proposes a figure to the GLC.



The point of any of these variants will be to cajole the DoE into:

i. Negotiations.

ii. A sell-out.

We believe that any negotiations whatsoever would be disastrous. If ILEA wish to apply formally for a redetermination, the DoE must of course hear the request. But any 'beer and sandwiches' meeting will inevitably lead the public to believe that there are 'two parties' to a 'dispute' with 'some right on both sides'; and the result will be a shabby compromise.

On the other hand, the Government can be made to look intransigent if it first allows Ms Morrell to capture the limelight and then refuses to negotiate. She will, of course, say that she is being utterly reasonable and that she just wishes someone would talk to her.

It is therefore vital that DoE Ministers should take the propaganda initiative. They should speak out before 20 November, stating quite clearly that:

- i. Ms Morrell is rumoured to be thinking of defying the Government;
- ii. the ILEA has more than a billion pound to spend, and is free to spend that as it sees fit;
- iii. no final precept limit has yet been set, and the Government is happy to receive formal applications for redetermination ;
- iv. if an authority, refuses to make a formal application, the Government must conclude that it



has no case, under the law, for an alteration in  
its expenditure limit;

- v. the law is fixed, and there is no question - nor  
can there ever be any question - of the Government  
'negotiating about its application': policemen do  
not negotiate with people who are contemplating  
crimes.

To ensure that Ministers keep to this line as the first step  
in a consistent policy of brinkmanship, we suggest that the  
Prime Minister should write to Patrick Jenkin or Ken Baker,  
stating clearly that negotiations are ruled out, and that the  
publicity initiative needs to be seized before 20 November.

Before  
telling  
Mr Jenkin  
what he should do,  
you should allow  
him to tell you  
what he proposes.

AF

*Oliver Letwin*

OLIVER LETWIN