

PRIME MINISTER

Local Government Conference: Saturday, 1st March 1986

You are leaving No. 10 at 11.40 am. You are not due to arrive at the Wembley Conference Centre until 12.15. You will tour the stands while the Conference itself is still in session. During the lunch break, you will have to make two separate short speeches to representatives (because there are two lunch sittings), in between which you will have lunch yourself and a chance to circulate. You are due to leave Wembley at 2.15 pm. The Conference resumes at 2.30 pm.

Attached are:-

- FLAG A - Detailed timetable (including a letter from Dr. John Blackburn MP about a request from Price Waterhouse for them to present flowers to you.)
- FLAG B - Brief speech notes
- FLAG C - An assessment of the mood of Conservative Councillors (by Roger Boaden)
- FLAG D - A note from DOE explaining the shire county rate increases for the coming year.
- FLAG E - A brief note from the DOE about the position in Leicester, Nottingham and Bury.
- FLAG F - Expected rate increases in the shire counties.
- FLAG G - A speech by Kenneth Baker (today) Friday in Plymouth. I am told he is making the same speech to the Conference but with slides.
- FLAG H - Kenneth Baker's speech in the RSG Debate last January.
- FLAG I - Statement by Kenneth Baker in the House on Rate Reform.

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STEPHEN SHERBOURNE

28.2.86

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A

TIMETABLE FOR PRIME MINISTER

- 12.15 Arrive at front entrance of Wembley Conference Centre to be met by:-
John Heddle, M.P., Chairman of Local Government Advisory Committee
John Lord, Manager of Wembley Conference Centre.
(Provision for retiring to Green Room if required before touring Exhibition)
- 12.20 Tour Exhibition, visiting each stand and talking to Exhibitors. Provision for photographs taken by CCO
12.55 Photographer.
- Note: at Stand 16 Price Waterhouse have asked if they can present a bouquet of flowers to the Prime Minister. (SEE ATTACHED LETTER)
- At Stand 14 where we will be displaying details of the Rates Green Paper, we wish to take a photograph with Anthony Paterson, the Prospective Conservative Candidate for Brent South.
- 12.55 Proceed to the Wembley Restaurant on the third floor - taking the lift.
- 13.00 On arrival in the Wembley Restaurant Prime Minister to (approx) speak from the special rostrum in the centre of the restaurant to those at the first lunch sitting.
- 13.10 Prime Minister to join other guests and Councillors at lunch at the special tables on the Red side.
- 14.00 Prime Minister to return to the rostrum to speak to the (approx) second lunch sitting.
- 14.10 Leave the Wembley Restaurant - via the lift, with call at Green Room if required.
- 14.15 Leave the Wembley Conference Centre. (approx)



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

26 February 1986

Dear Stephen,

Local Government Conference 1 March 1986

Thank you for your letter of 18 February in which you asked for any points which Kenneth Baker feels the Prime Minister might like to include in her speech on Saturday. This question was discussed at the Ministers Meeting this morning and it was suggested that she might like to include the following points.

1. Abolition of the GLC and the Metropolitan Counties is going through despite the claims made that this was impossible. On April 1 these councils will cease to exist and an unnecessary tier of Government will have been removed.
2. The savings as a result of abolition are coming through very clearly. Only this week the London Residuary Body announced that £90 million will be passed back to the boroughs following the abolition of the GLC. That sum could have been even greater if it wasn't for the Labour Party's determination to squander all their financial resources on politically favoured causes.* As a result of these savings rate increases will be considerably lower than they would otherwise have been had the GLC still existed.
3. Ratecapping has been of undoubted benefit to those ratepayers living in ratecapped authority areas. None of the disasters threatened by the ratecapped authorities have materialised but it still seems that old habits die hard. An examination of ratecapped councils spending plans for 1986/87 shows that if they had been allowed to raise the rates to the level they had wanted we would have seen increases of 49% in Islington, 55% in Liverpool, 44% in Southwark, 33% in Haringey and 28% in Greenwich.
4. The Government is still determined to crack the whip on rent arrears and to ensure that local authorities are disposing of their unused land. The total national figure for rent arrears is some £200 million of which the inner London boroughs, many of them ratecapped, have £57 million outstanding in uncollected rent.

** the subject of a Westminster Council court action against the GLC - result expected next week.*

5. The PM could say she knows that there will be rate increases in the shire counties but she also knows that some are increasing their expenditure by 10 - 12%. There is no way that the Government could fund this. Many of the higher spending shire counties are in Alliance hands or are hung councils. Experience shows that hung councils are high spending councils and the Government is resolved not to use national taxpayers money to fund the increases of local authorities.
6. The PM will want to talk about the May 8th Elections and hammer home the point that Conservative Local Government is good local government and that hung councils are inevitably bad councils.

I think it would be tactful for the PM to apply balm to the hurt feelings of many of the faithful on Saturday. A robust defence of Treasury policy would only lead to rumblings in public that "she doesn't understand or care", and that would not help morale going into the May elections. It would be right to defend this year's settlements but to promise better next year. I think that on this occasion tone and style is going to be more important than substance. I hope this is of some help to you.

Yours ever,

Tony

TONY KERPEL
Special Adviser

cc Roger Boaden

Stephen Sherbourne Esq



HOUSE OF COMMONS
LONDON SW1A 0AA

20th February 1986.

The Rt. Hon. Michael Alison, M.P.,
10, Downing Street,
Whitehall,
London SW1.

Dear Michael,

LOCAL GOVERNMENT CONFERENCE, WEMBLEY, 1st MARCH 1986.

Further to our recent conversations, I am delighted at the help you have been able to give me in connection with the possible presentation to the Prime Minister, The Rt. Hon. Mrs. Margaret Thatcher, M.P.

I have now completed arrangements that on her arrival, if she could eventually be directed to the Display of Price Waterhouse, the Senior Partner Mr. Henry Butt will present to her a bouquet of Singapore Orchids. I will be at the Conference, and I would esteem it a personal favour if you would kindly present my warm compliments to the Prime Minister coupled with my appreciation for receiving this bouquet.

As a point of interest to the Prime Minister, it was Henry Butt who forwarded 60 red roses to her on the occasion of her Birthday in October last year.

For your help and co-operation in this matter Michael, I am deeply in your debt, and I thank you for your kindness.

*kindest regards
John*

Dr. John G. Blackburn, M.P.

*P.M.
You may
wish to
know
Mr Butt.*

MOOD (of Conservative Councillors) - from Roger Braden

1. Have had success in building bridges mood up to and including KB appointment getting noticeably better - despite residual ill-feeling over losses in low-spending counties.
2. RSG settlement has undone it all - earlier announcement of provisional figures was good, but have more time for anti-reaction.

Loss of grant is too much for many and therefore forcing higher precepts.

3. Raiding reserves in 1985 for the County elections is now feeding through into higher spending which loses even more grant.
4. High national pay awards - manuals and teachers - are difficult to absorb against allowed figures.

The 1985/6 figures for local authority employees is estimated to be 4.00% above what was allowed - that means there can be no increases in 1986/7 in effect with only 3.5% allowed.

5. Accusations of 'let down', 'betrayal', 'not delivering promises', 'stabbed in the back', are coming thick and fast from Conservative County Councillors.
6. Shire Counties are bitter at the way in which cash in the settlement has been taken from them to be given to the cities to meet re-adjusted GREAS (? to pay for abolition?)

They present the idea that they have to force their ratepayers to meet higher bills to finance Hatton, Livingstone and Co.

They argue that whilst they can accept higher spending in inner cities, it should be for the general taxpayer and not for the shire county ratepayer.

7. Politically, they believe we have done deep damage to our suburban and rural support in order to see low or lower rates in London Boroughs which we will lose anyway.
8. Conservative Leaders have asked for a meeting with John Macgregor in early April to put their case for no further RSG reduction. He has agreed to see them, but not until late July - when the decisions will have been taken.



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

28 February 1986

Dear Stephen,

SHIRE COUNTY RATE INCREASES 1986/7

We spoke on the telephone yesterday and you asked for an explanation of the high shire county precept increases now coming through. It is inevitably difficult to generalise, since the facts of each increase are bound to be different, but I hope the following is helpful.

The average shire county precept increase looks from present estimates to be about 20%. The key points seem to be as follows:

i. The main reason for the high precept increase is the high increase in planned expenditure. The shire counties seem on average to be budgetting to spend about 10% more in 1986/7 than they are spending in 1985/6. If they had budgetted to increase spending by say 4%, the average precept increase would be about 10% rather than this 20%. Likely explanations of this increase in spending are:

a. Post-election year return to higher spending trends, deferred or concealed by use of reserves in run-up to election;

b. The 1985 elections saw change of control, or no overall control, in several counties. No election due till 1989.

ii. But in addition local government argue that a 4% spending increase is unrealistic, because 70% of their costs are wage-related, and their wage bills are going up much faster than inflation generally. But that is the responsibility of the local government employers: the Government never undertook to validate excessive wage settlements. Some shires are planning some real growth in services, which again we never undertook to validate.

iii. The 10% precept increase even for only a 4% spending increase is very broadly due to:

- a. An increase of about 4% in line with the increase in spending;
- b. An increase of around 2% due to the reduction in the grant percentage from 48.7% to 46.4% - grant in 1986/7 is the same in cash next year as this; the increase due to the reduced percentage is more than 2% in high rateable value shires, mainly in the Home Counties, because of the resource equalisation built into the system;
- c. An increase of around 2% due to the small shift of GRE from the shires to the cities; and
- d. An increase of about 2% due to rates having been held artificially low in 1985/6 by use of balances and reserves.

These average figures of course conceal wide variations. To give the flavour of that I attach a table showing precept increases under 4 different spending assumptions.

The key point to get across in our view is that of course if spending is going up by 10%, precept increases are bound to be high. That is not an inevitable result of the RSG Settlement, and only a very small part of the projected increases is due to the small shift of GRE: smaller spending increases would still mean much lower precept increases.

Please let me know if this is not what you wanted or if you would like something else.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

1986/87 RATE SUPPORT GRANT SETTLEMENT

TABLE 1

Required increase in precept for different spending levels (see note 1)

	Spending in 1986/87 at:			
	1985/86 budget	1985/86 budget	1985/86 budget	1985/86 budget
	plus 4% (note 2) (%)	plus 6% (note 2) (%)	plus 8% (note 2) (%)	plus 10% (note 2) (%)
Avon	9.6	13.9	18.3	22.6
Bedfordshire	15.5	20.4	25.3	30.2
Berkshire	8.7	13.6	18.5	23.4
Buckinghamshire	9.3	14.6	19.9	25.2
Cambridgeshire	9.2	14.4	19.5	24.7
Cheshire	2.4	7.0	11.6	16.2
Cleveland	4.2	9.4	14.6	19.8
Cornwall	6.1	11.6	17.1	22.5
Cumbria	7.8	12.6	17.5	22.4
Derbyshire	12.0	16.8	21.7	26.5
Devon	7.1	12.3	17.4	22.6
Dorset	7.5	12.2	16.8	21.4
Durham	10.3	15.1	19.9	24.7
East Sussex	9.5	14.3	19.0	23.7
Essex	10.1	14.9	19.7	24.5
Gloucestershire	7.7	12.6	17.5	22.4
Hampshire	12.5	17.5	22.4	27.3
Hereford and Worcester	9.4	14.7	20.0	25.4
Hertfordshire	15.5	20.2	24.9	29.6
Humberside	3.5	8.6	13.6	18.6
Isle of Wight	13.5	18.3	23.1	27.9
Kent	10.1	15.4	20.6	25.8
Lancashire	10.7	16.1	21.5	27.0
Leicestershire	7.5	13.0	18.4	23.8
Lincolnshire	11.4	16.9	22.4	27.9
Norfolk	6.0	11.2	16.4	21.5
Northamptonshire	4.0	9.3	14.6	19.9
Northumberland	(.7)	3.5	7.7	11.9
North Yorkshire	10.9	15.9	20.9	25.8
Nottinghamshire	5.2	9.9	14.7	19.4
Oxfordshire	19.0	23.5	28.0	32.5
Shropshire	3.4	9.2	14.9	20.6
Somerset	11.5	16.6	21.7	26.9
Staffordshire	8.0	12.8	17.6	22.4
Suffolk	10.8	15.5	20.2	24.9
Surrey	14.2	18.5	22.7	27.0
Warwickshire	14.7	19.8	24.8	29.9
West Sussex	12.1	17.0	21.8	26.6
Wiltshire	8.7	13.9	19.0	24.2

NOTE 1: These figures assume no drawing from or replenishment of balances and no assumed receipt from close-ending ('grant recycling')

NOTE 2: These figures refer to the reported 1985/86 total expenditure. The true 1985/86 expenditure may differ through use of special funds ('creative accounting')



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

28 February 1986

Dear Stephen,

LOCAL GOVERNMENT CONFERENCE, 1 MARCH

I am writing to you separately about shire county precept increases. I understand that when the Prime Minister saw Mr John Patten last night, she raised the question of rate increases in Leicester and Nottingham City Councils, and in Bury Metropolitan District Council. This sets out what we know about them.

In Leicester, which is of course Labour-controlled, the Finance Committee have recommended a rate increase of 80%; and press reports from Nottingham say that the Labour City Council there are considering an increase of that order too. In neither case is such an increase explicable by anything in the RSG Settlement. If those figures are right, it can only mean the Council are planning enormous spending increases, or that their 1985/6 rates were artificially held down to a huge extent, with the chickens coming home to roost this year.

Bury is Conservative-controlled. We know from Alistair Burt, Mr Baker's PPS, that they are thinking of a 5% rate increase, but that they cannot at the moment get their spending plans down to a level consistent with that increase. Hence the rumour that is around that they are thinking of doing a Liverpool, and making an unlawful rate which does not cover likely expenditure. But no decisions have been taken, as far as we know, and Alistair is in touch with them about it. I do not think there is anything here which the Prime Minister needs to take up at this stage.

Yours sincerely,

Robin Young.

R U YOUNG
Private Secretary

Stephen Sherbourne Esq

F**F**THE RATES TABLE - SHIRE COUNTIES1. CONSERVATIVE CONTROLLED COUNTIES

	1985-6 Precept	1986-7 Precept	% change
Berkshire	150.80	170.50	13.1
Buckinghamshire	147.50	191.80	30.0
Dorset	149.00	179.00	20.0
Hereford and Worcester	146.50	162.50	10.9
Kent	144.59	162.97	12.71
Lincolnshire	143.50	175.00	22.0
Norfolk	143.00	170.20	19.0
Suffolk	150.00	176.50	26.5 17.7
Surrey	152.50	170.80	12.0
W. Sussex	141.00	168.00	19.1

2. CONSERVATIVE ADMINISTRATION IN HUNG SITUATIONS

	1985-6 Precept	1986-7 Precept	% change
Essex	151.50	180.00	18.8
East Sussex	147.30	176.60	19.9
Hertfordshire	157.70	192.30	21.9
Hampshire	147.50	169.00	14.6
Humberside	171.00	196.00	15.4
Northamptonshire	153.00	172.10	12.5
North Yorkshire	151.00	175.00	15.9

3. ALLIANCE CONTROLLED AND ALLIANCE ADMINISTRATION IN HUNG COUNCILS

	1985-6 Precept	1986-7 Precept	% change
Isle of Wight	157.00	188.40	20.0
Cambridgeshire	146.00	194.00	32.9
Cornwall	143.50	172.20	20.0
Devon	146.75	175.75	19.8
Gloucestershire	152.40	179.28	17.8
Shropshire	143.00	171.00	19.6
Somerset	147.00	186.00	26.5
Wiltshire	147.00	185.00	25.9

4. LABOUR CONTROLLED AND LABOUR ADMINISTRATION IN HUNG COUNCILS

	1985-6 Precept	1986-7 Precept	% change
Cleveland	210.00	235.00	11.9
Derbyshire	186.00		
Durham	168.00	199.00	18.5
Nottinghamshire	186.00	222.00	19.4
Staffordshire	169.00	185.50	9.8
Avon	190.00	243.00	27.5
Cheshire	178.00	195.00	9.7
Lancashire	158.50	188.50	18.9
Northumberland	175.00	202.00	23.0
Warwickshire	151.60	186.40	23.0

5. OTHER COUNTIES

	1985-6 Precept	1986-7 Precept	% change
Bedfordshire	161.10		
Cumbria	176.00	240.00	36.4
Leicestershire	149.50		
Oxfordshire	151.00	193.10	27.9

(Bedfordshire and Oxfordshire have 'shared' administrations - in Bedfordshire, we 'rotate' Chairmanships with Labour, in Oxfordshire there is a three-Party decision - making process)

(In Cumbria (shared) and Leicestershire (Conservative - lead) we have pulled out at Lib/Lab pacts which have pushed figures high)



CONSERVATIVE PARTY
NEWS
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Press & Public Relations
Department.

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Conservative Central
Office.
32 Smith Square,
London SW1P 3HH

RT HON KENNETH BAKER MP

Release Time: 1300 hrs Friday 28
February 1986 93/86

Extracts from a speech given by the Rt Hon Kenneth Baker MP (Mole Valley), Secretary of State for the Environment speaking to a Conservative lunch in Plymouth, Friday 28 February 1986.

"The mice are emerging from the rickety structure of our local tax system and squeaking that they can think of better mouseholes to go to.

The Labour Party has now unveiled its alternative which is to keep the rates system but to base it on the capital valuation of property which would be revised upwards at regular intervals. Such increases would bear no relation to the householders' income, or ability to pay, or consumption of services. This system retains all the faults and unfairness of the current system and hugely magnifies their financial consequences.

Massive rates rises would be the consequence of Labour's policies. A greater boost to inflation would be hard to devise.

This "alternative" Labour policy of keeping the antiquated Morris Minor of a rates system, and then harnessing to it the jet engine acceleration of house prices and regular revaluation, shows that Socialists grasp as little about technology as they do about local government finance!"

Turning to the SDP/Liberals

Turning to the SDP/Liberals Mr Baker said:

"The SDP and the Liberals seem to have tangoed towards local income tax which was favoured by the Layfield Committee in 1975. But local income tax was not adopted by the Labour Government of which David Owen was then a member. He didn't like it then but wants it now.

Today Dr Owen flatters his Liberal suitors by his willingness to recycle old rubbish and so he becomes a born again local tax man. Local income tax fails on the same score as the present rating system by concentrating the burden on too few shoulders. It would prove to be massively unpopular when people realise exactly how much extra income tax the town hall proposed taking from them. And will local taxpayers really thank the Alliance for putting income tax powers into the hands of Liverpool and Lambeth? Will electors really want Bernie Grant and Ted Knight given the power to raise the basic rate of tax by an average of 4½p in the £?"

"Would local electors be happy to see Derek Hatton have access to their tax records?"

Mr Baker argued that two key notions underlay his proposed reform of local government finance which introduces the community charge as a basic replacement for rates.

"We believe firstly in the notion of social equity. People should share the cost of providing the local services which they enjoy rather than see the burden borne by a few." he said.

"Secondly we believe in democratic accountability. We want to re-establish the connection between those who pay for and those who vote for local services."

We believe that the only suitable replacement for rates which meets our objective of what a local tax should do is a flat rate charge - a community charge set by the Local Authority, payable at the same rate by all the adult residents of a local authority.

This establishes a firm link between those in receipt of services and those who pay. It is a user related charge. It strengthens accountability although the rebate system will still safeguard those unable to meet the full charge. The effect is broadly neutral with single people (including many pensioners) paying less, couples paying the same, and families with adult children living at home paying more.

Mr Baker then pointed out that "implicit in our reform is the concern that councils themselves ought to be freed from the thicket of webs and snares woven and set by the hideously complex central government formulae."

"We are also intending to free businesses from the yoke which they are currently forced to wear as local beasts of burden. We want to let them do what they do best which is to thrive as economic enterprises, offering job opportunities and not reducing job opportunities because of high unit costs due to heavy rate bills."

END

Clearly, we do not want to prejudge the issue. Can we ask you, Sir, to ask for sight of that document and to look at it in that light? If not, Sir, you will have to tell us how we judge whether something is a quote. If a Minister happens to bring a document, as is suggested, to the Dispatch Box, reads a piece of it and does not submit it to *Hansard* when he gives his speech notes, as is normal, this is a way of evading the controls that "Erskine May" envisaged. I ask you to take this away, not to give a judgment immediately, but to come back and give us a ruling on whether it was a quotation.

Mr. Speaker: Order. The Chair must interpret the rules and the rules, as set out in "Erskine May", have been fairly and fully quoted by the hon. Member for Workington (Mr. Campbell-Savours). If the Minister was quoting from a document it is his duty to lay it. I shall look at *Hansard* but I have no means of interpreting what was in the Minister's mind and whether he was or was not quoting. That is not a matter for him. I am concerned only about the rules of the House and I shall faithfully follow them.

STATUTORY INSTRUMENTS, &c.

Ordered,

That the draft Importation of Live Fish of the Salmon Family Order 1986 be referred to a Standing Committee on Statutory Instruments, &c.—[*Mr. Maude.*]

Rate Support Grant (England)

Mr. Speaker: I must tell the hon. Member for Tiverton (Mr. Maxwell-Hyslop) that I am not able to select his amendments.

4.40 pm

The Secretary of State for the Environment (Mr. Kenneth Baker): I beg to move,

That the Rate Support Grant Report (England) 1986-87 (House of Commons Paper No. 140), which was laid before this House on 18th December, be approved.

This afternoon we shall be considering the three rate support grant reports which I laid before the House on 18 December. Before I describe them in detail, I should like briefly to remind the House of where we stand on local authority spending.

This year local authority current spending amounts to about a quarter of all public spending and it is for that reason that the Government seek to influence it.

Mr. Speaker: Order. I did not hear the Secretary of State say whether he was taking the three reports together.

Mr. Baker: Yes, I would ask for the House to take them all together. The other two motions are:

That the Rate Support Grant Supplementary Report (England) (No. 2) 1985-86 (House of Commons Paper No. 587), which was laid before this House on 18th December, be approved.

That the Rate Support Grant Supplementary Report (England) (No. 3) 1984-85 (House of Commons Paper No. 138), which was laid before this House on 18th December, be approved.

Mr. Speaker: It seems that the right hon. Gentleman has the leave of the House to do so.

Mr. Baker: Thank you, Mr. Speaker. We do not want three debates like this.

Current spending by local authorities for which they get grant has grown by about 4.5 per cent. in real terms since 1981. This means that local authority spending is growing at about 1 per cent. a year above the rate of inflation, despite all our efforts to encourage restraint. We have had some success. In the present financial year there has been no real increase at all. This is an improvement on the 1960s and the 1970s when councils were spending at about 5 per cent. more in real terms each year than the rate of inflation. That was when Tony Crosland went to Manchester city hall and made his famous speech about the party being over. But the party did continue in full swing and it was not until 1979 that one began to see a significant downturn.

I am sure that all my right hon. and hon. Friends will agree that we should continue our policy of expenditure constraint. But I do accept how strongly some shire counties have felt that they have more than played their part, and some indeed have. I must tell the House that on average since 1978-79 shire counties have increased spending by nearly 5 per cent. in real terms and only seven counties have cut their current spending over this period.

Having said that, in no way do I want to denigrate the work that the shires do. They have done much better than many of the high-spending Labour-controlled authorities. Indeed, so great has been the extravagance of those that we have had to introduce rate capping to curb their expenditure. The sort of levels of expenditure that one has been seeing among those authorities is: Wolverhampton, up 8 per cent. in real terms since 1979; Kirklees up 11 per cent.; Sheffield up 14 per cent.; and Hackney, at the top of this unenviable league, up 46 per cent. We have had to

[Mr. Baker]

introduce rate capping to restrain the expenditure of Hackney and many other central London high-spending Labour authorities.

Mr. Tony Banks (Newham, North-West): Will the right hon. Gentleman give way?

Mr. Baker: Not just yet.

Sir Peter Hordern (Horsham): Would my right hon. Friend care to make an amendment to the public expenditure White Paper which has just been published and which shows that, so far from the increase in expenditure for the shire counties being 5 per cent., as he mentioned, the figure appears to be 1.5 per cent., 9 per cent. for metropolitan areas and 13 per cent. in London? Disregarding that point, will he now make an exception for those shire counties that have consistently spent less than their grant-related expenditure and allow them at least the progression that has been accorded to them in each of the past two years?

Mr. Baker: May I answer that point, which is known as the GREA exemption proposition, in a moment, when I have cleared up the other two reports? I agree that that is central to the point and I am aware that many of my hon. Friends feel that local authorities should be allowed to spend up to GREA without loss of grant.

First, may I deal with the two subordinate reports before dealing with 1986-87? The first is the third supplementary report for last year, 1984-85. That adjusts block grant for 1984-85 in the light of the latest information about authorities' expenditure. The other report is the second supplementary report for the current year, which takes account of late budget data received after the first report which was laid last July. The very fact that, in these two subordinate reports of the reports relating to this year and last year, the grants of local authorities are being changed as the year is progressing, or in the case of last year, when the year is over, shows how deeply unsatisfactory the system is. No treasurer either this year or last year has been able to know the exact amount of grant that his authority is likely to get.—[Interruption.] I shall be bringing forward proposals in the Green Paper next week which will change that.

Let me make a technical point which is important because two local authorities—one has just sent me a telex which I received on coming into the House—have submitted revised budget information for 1985-86, too late to be taken into account for this report. I shall, of course, be making further supplementary reports in the current year so that the authorities need be in no doubt that their revised spending will be reflected in their final grant entitlements for the current year. However, the figures in the second supplementary report have been used as the basis for caps and nets on grant changes in the 1986-87 report. I do not at present propose to redetermine the caps and nets in the light of late information about spending in 1985-86.

The main issue before us is the report for 1986-87.

Mr. Tony Banks *rose*—

Mr. Baker: I want to deal with this and then reply to the point raised by my hon. Friend the Member for Horsham (Sir P. Hordern).

The first point I want to make, Mr. Speaker, is that the amount of grant which the Exchequer, and that means the taxpayer, will pay to local authorities next year is £11.8 billion. This is the same figure as we announced a year ago for the current year. It is, however, about £400 million more than we actually expect to pay out this year because of penalty holdback and I want to come to that later in my speech as it is of material concern. This means that next year the Exchequer will be funding about 46½ per cent. of local spending. Local authorities have known this since my predecessor's announcement in July. Also in July my right hon. Friend announced that we were providing for £22¼ billion of local authority spending next year. This is nearly £1 billion more than was provided for the current year.

Those are substantial increases and at the time the local authority associations protested. They wanted on top of that a further £1¼ billion. But the Government could not agree to that substantial increase and I do recognise—this is at the core of many of the problems affecting the shire counties represented by my hon. Friends—that the figure announced last July does imply real term cuts in this year's budgets.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): Will my right hon. Friend give way?

Mr. Baker: No. I want to come to the point made by my hon. Friend the Member for Horsham.

Mr. Beaumont-Dark: What about the fall in the Exchequer grant from 61 per cent. to 46 per cent.?

Mr. Baker: My hon. Friend asks in parenthesis about the fall in the Exchequer grant from 61 per cent. to 46 per cent. We have made it clear that we have followed that policy because we have wanted to reduce the Exchequer support to local government in an attempt to improve local accountability. My hon. Friend has a distinguished career in local government and we are agreed that local government in Britain would be much enhanced, without a shadow of doubt, if one could improve local accountability and reduce controls from the centre.

I come now to the comments of my hon. Friend the Member for Horsham about the GREA exemption. I remind the House that local authorities knew when my predecessor made those announcements in the summer that the Government were not prepared to underwrite expenditure of that level. I am sorry to say that many local authorities appear to be ignoring the advice about budgeting which my predecessor issued and largely as a result of that they are now facing substantial rate increases. I must say in defence of the Government's policy that we should not be blamed for that. Take, for example, wage settlements. I have seen several delegations in the past fortnight with county treasurers, county councillors, district councillors and their Members of Parliament. So have many of my ministerial colleagues. Many of the delegations have said that it was all very well for the Government, in the summer of 1985, to say that we were only prepared to fund a 3.5 per cent. increase in expenditure but many of them are having to bear high wage bills this year of 7 or 8 per cent. I have had to say to them that when, for example, the negotiators who were discussing the manual workers' wage claim just before Christmas in October and November said that they would offer 8.2 per cent., I said to the negotiators—which is a

mixed team from all parties—that if the offer was made and settled they should not come to me at the end of the day and ask central Government to make up the difference between 3.5 per cent. and 8.2 per cent. If local government agrees to an inflationary wage settlement of 8.2 per cent. it must be up to local government to pick up the difference. In reply to that they said that it would not be an inflationary wage settlement. They said they would make offsets and savings. I thought that that was callous because, in effect, they were saying that they would lay people off and their wage bill at the end of the day would be no more than the 3.5 per cent. suggested by the Government although they would actually be paying 8.2 per cent. I have had to say to the treasurers and the various delegations that I have seen during the week that if they are building wage settlements of that level into their budget forecasts the Government will never find that extra amount.

Mr. Deputy Speaker (Mr. Ernest Armstrong): Order. I am anxious to hear every word of the speech and I would be grateful if the right hon. Gentleman would address the Chair more directly and not turn his back on it.

Mr. Clive Soley (Hammersmith): He is worried about his back.

Dr. John Cunningham (Copeland): I am grateful to the Secretary of State for allowing me to intervene, particularly as my question is on the matter of wage settlements. Is it not the case that the report before the House does not enable local authorities to receive sufficient money even to accommodate the wage offer that has been made to teachers, which the Secretary of State for Education and Science has approved? If there is an even higher supplement does that not mean that the gap between what the local authorities can pay and what the Government are offering will be even larger?

Mr. Baker: I have a comment, which I was going to make later, but I shall make it now if the hon. Gentleman wishes to know the exact position on teachers' salaries.

Some more grant will be available next year for education authorities for lunchtime supervision. I made that point to several of the delegations that I saw. I notice that some of them had anticipated that and some had not. In addition, if the local authority employers can negotiate a satisfactory agreement with teachers on duties and salary structures we would make block grant available to help finance another £150 million worth of expenditure in 1986-87 on teachers' pay in England. Clearly, that additional provision would have consequences for education GREAs, which I am sure the hon. Member for Copeland (Dr. Cunningham) appreciates. Our present thinking is that the education GREA totals would be increased by the £150 million rise in provision in 1986-87. With an overall percentage of grant of 46.4 per cent. that would attract an additional £70 million to education authorities in grant, not at the expense of non-education authorities. That depends on my right hon. Friend's conditions about agreement on duties and salary structures being met. The longer such agreement is delayed the more difficult it will be to make the necessary adjustments in local government finance in 1986-87.

Mr. Douglas Hogg (Grantham): I understand the answer that my right hon. Friend has just given. He does

not fully deal with the main point that the current offer of around 6.9 per cent. has to be financed out of a settlement that implies a decrease in spending of 3.5 per cent. I do not see how that can be done. It seems to me that the basic assumption that the increase in local government spending will be 3.5 per cent. is simply unrealistic.

Mr. Baker: My right hon. Friend the Secretary of State for Education and Science has made clear in the various negotiations on wage settlements for the current year that there is no extra money on the table. In my talks with delegations, treasurers have told me that they have taken this into account in their forecasts. I hope that what I have just said suggests that there is a possibility that they will have a further flow of grant in the next year, 1986-87, to meet the extra wage costs.

The most important feature of the settlement next year is that we have got rid of targets. That decision has been commended by the Public Accounts Committee in its valuable report published last week. I believe that Members on both sides of the House welcome the abandonment of targets and penalties. I was repeatedly pressed by all authorities, not just the shire counties, to do that. However, I accept that some authorities are disappointed that we have retained strong pressures for restraining expenditure through the new slope schedule that we have introduced. Some of my hon. Friends have made that point to me.

Those slopes mean that as authorities spend more they get less grant. Even those authorities spending below GREAs, which is the point of my hon. Friend the Member for Horsham, will lose grant if they increase their spending. The possibility of granting what is called the GREAs exemption was put to me earlier in the debate. That would mean allowing authorities to spend up to GREAs without incurring any further penalties. I asked my officials to calculate the increase in public expenditure if that were extended to all authorities spending below GREAs. I have been told that the increase in public expenditure would be an additional £1.1 billion. If that exemption were granted they would certainly spend up to GREAs. I say to my hon. Friend the Member for Horsham that I understand the case he is making for West Sussex.

Sir David Price (Eastleigh) (rose)—

Mr. Baker: Please allow me to deal with one matter at a time. My hon. Friend the Member for Horsham is quite right to say that West Sussex is the lowest spending of all the shire counties. If there is to be a GREAs exemption the national consequences for all authorities would be an extra increase in public expenditure of £1.1 billion. I can think of few Conservative Members who have been so resolute in supporting the Government's overall economic strategy that is based upon the containment of public expenditure.

Sir David Price: What is the point of GREAs in the circumstances explained by my right hon. Friend? Why have it at all? I thought that it was expenditure up to statutory responsibility as determined by the Department.

Mr. Baker: The GREAs assessment of needs is not a target in that sense. The authorities below GREAs are better off on the new system than on the old system of targets and penalties. The loss that West Sussex would suffer for every extra pound that it spent above target this year would be £3.10. However, under the new slope it will sacrifice only

[Mr. Baker]

74p. That means that it can move towards GREA with considerably less penalty loss of grant next year than in 1985-86.

Sir Peter Hordern: With the greatest respect, that is not the case. Under the old target and penalty regime West Sussex, as being the objective low spender, was allowed the largest increase of any authority below GREA. The proportion was an increase of 4.625 per cent. before any penalty was attached. It could at least be argued that that was higher than any authority received, and that those authorities which spend, and continue to spend, well above GREA were not allowed to spend even a small proportion. How can it be argued that it is a good thing to do away with the target and penalty system when the result of that abandonment, as my right hon. Friend has explained to the House, makes it much worse for the county of West Sussex than it was before?

Mr. Baker: I may not have explained the point clearly. The new system undoubtedly places authorities, such as my hon. Friend's in a better position than the target and penalty system. It does so for three reasons. First, low spenders, which is what West Sussex is, would receive more grant at their present level of spending than they would have received if we had not scrapped the targets and steepened the slopes. Secondly, they receive more grant for spending at GREA than they would have done. Thirdly, they have a much reduced rate of grant loss if they reduce spending from present levels. I should be happy to set out that point to the treasurer of West Sussex county council and to my hon. Friend.

Dr. Oonagh McDonald (Thurrock): I thank the right hon. Gentleman for giving way, because I represent part of a shire county. Of course, it is a lower spender than I should like. [Interruption.] It is. It does not provide a proper level of services. If it were to spend enough to meet the standard services that the Government require, the rates would have to go up and the level of grant would be reduced. How does he explain that absurd position?

Mr. Baker: The answer lies in the reply that I gave to my hon. Friend the Member for Horsham. Under targets and penalties there is no doubt that the authorities in those areas that the hon. Lady and my hon. Friend represent would be much worse off. I am afraid that that is how the system works and has worked. That is why we have abandoned it.

At the centre of the debate lie the estimates of expenditure for next year that have been made by various shire counties and all district councils and metropolitan authorities. Local authorities are estimating what their budgets will be. I received a delegation from Buckinghamshire last week. The meeting was attended by my right hon. Friend the Member for Chesham and Amersham (Sir. I. Gilmour). I shall give my recollection of the meeting. If it does not accord—[Interruption.]

When I asked the chairman of Buckinghamshire county council what its budgeted increase in expenditure was for next year, he said that it was 12 per cent. He set out the reasons why he was budgeting for an increase of 12 per cent. I told the chairman—I believe that my right hon. Friend will agree—that in no way could the Government be expected to finance that degree of

overspending. It is well above the rate of inflation and the level announced by my predecessor in July. I said that it was pointless for authorities to come to me and say, "Please fund that level of spending with central Government grant." The chairman wrote to me after the meeting and said:

"The presentation I made and the notes I have left you with did, I trust, bring out the essential financial problems facing the County Council, but I should like to re-emphasise that the exercise to examine our projected expenditure level next year is still at an early stage and depends on decisions not yet made about the extent of budget reductions the County Council may choose to impose."

The point that I want to make is that all local authorities are now making up their budgets. They are, to some extent, negotiating not just with the various members of their councils, but with central Government. It is clear that Buckinghamshire's estimate was a preliminary one. If there were to be an increase of 12 per cent., there would be a substantial rate increase. The chairman has gone away and is to examine with his committee chairmen whether they can make any savings. I expect that they will be able to make savings.

Sir Ian Gilmour (Chesham and Amersham): I do not dispute in any way my right hon. Friend's recollection of that meeting. The county council chairman has now written a second letter to him, which I believe I am at liberty to quote. He points out how the 12 per cent. was arrived at. He reiterates his points, but says that he is still going to look for economies. He shows that what he said about the 12 per cent. was nothing like as tentative as my right hon. Friend has inadvertently suggested.

Mr. Baker: It is a strange parallel. I received the letter literally as I came into the Chamber. In the penultimate paragraph of the second letter, the chairman says: "However, I must continue to stress that the County Council is actively seeking ways to reduce its expenditure in 1986-87 both by real terms reductions and further management efficiencies." I applaud him for doing that.

Mrs. Elaine Kellett-Bowman (Lancaster) rose—

Mr. Baker: If I may continue—

Mrs. Kellett-Bowman: My right hon. Friend referred to the fact that local authorities are now making up their budgets. Would he care to contrast the negative view taken by the Lancashire county council, which has been profligate over the past four years and has increased rates massively, with its excellently conducted, but Conservative-controlled, city council which has not raised rates at all over the past four years but which may have to make a small increase this year?

Mr. Baker: I am glad that I gave way to my hon. Friend. She has shown that some authorities continue their high-spending habits. Lancashire county council is one of them. Another group of councils that is substantially increasing expenditure consists of those councils that have no overall control. Those that have no overall control, which are the nirvana of coalition politics, seem to be in agreement on only one thing—spend more. Hung councils mean high-spending councils; high-spending councils mean high rates.

Mr. Stephen Ross (Isle of Wight) rose—

Mr. Baker: May I move on, please?

Mr. Ross: The right hon. Gentleman must be fair to this Bench.

Mr. Baker: May I move on and say—

Mr. Ross: The right hon. Gentleman is dodging the issue.

Mr. Baker:—that having sought to make the points that I have, I none the less accept that it has been said to me repeatedly during the past few weeks that shire authorities have suffered a disproportionate loss of grant.

Mr. Michael Grylls (Surrey, North-West) *rose*—

Mr. Baker: May I get just a little further on before I give way again?

One of the foundation stones of the rate support grant system is called resources equalisation. That is why something like £1 billion each year is transferred through the grant system away from London and the south-east to the rest of the country. Few people appreciate how the grant system works — [Interruption.] — as a major redistributive element. That is one of the fundamental—

Mr. Robin Maxwell-Hyslop (Tiverton): Defects.

Mr. Baker: I agree with my hon. Friend that it may be a defect. But it has been in the system for a long time. It means that when the available block grant is reduced, all authorities lose a common rate poundage of grant but that loss is greater in cash for the higher rateable value authorities such as the home counties. This principle of resource equalisation is reputed to have been inspired by the late Sir Winston Churchill when Chancellor of the Exchequer, the late John Maynard Keynes and the very much alive Earl of Stockton. Some of my hon. Friends, though not all, would consider that an impeccable pedigree.

In answer to the intervention of my hon. Friend the Member for Tiverton (Mr. Maxwell-Hyslop), I should say that the Green Paper on local government finance, which I shall bring out next week, will raise the issue of resource equalisation. In the period of consultation which will be available, Members and outside interests will be able to comment upon this. It is central to the grant system. I want to consider whether it should continue at its present level or at a lower level as a less significant feature of the new arrangements. It is a fundamental and important part of any change in the grant system and accounts for some of the loss of grant this year to the home counties.

Mr. Tony Banks *rose*—

Mr. Grylls: Will my right hon. Friend give way?

Mr. Baker: May I press on?

Mr. Grylls: My right hon. Friend, as a Surrey Member, will know that there is a feeling of outrage in Surrey. Surrey has lost £22 million in grant this year, yet it is the second lowest spender after East Sussex. People cannot understand that. Will my right hon. Friend look at that aspect and seek a fairer distribution? We are asking not for more public expenditure, but for a fairer distribution and no penalties for economic and efficient local government.

Mr. Baker: Like me, my hon. Friend the Member for Surrey, North-West (Mr. Grylls) represents a Surrey constituency. I saw the Surrey delegation with the treasurer last week. Surrey is budgeting for an increase of 5.7 per cent. That is one of the lowest in the range of expenditure increases.

Mr. Simon Hughes (Southwark and Bermondsey): But a rate increase?

Mr. Baker: I think that the rate increase in Surrey will be significantly less than 20 per cent. However, there are several other factors still to be taken into account, some of which I shall come to in a moment.

Mr. Tony Banks: Will the Minister give way?

Mr. Stephen Ross: Will the Minister give way?

Mr. Baker: I will take one intervention.

Mr. Ross: Does the Secretary of State agree that the GREA methodology has been reduced this year? If the Isle of Wight spends the GREA it will still have a rate increase of 16 per cent. The island has had the worst settlement of all, except for Bedfordshire. Will the Minister listen to our pleas? The Isle of Wight is under Liberal control, but it has not overspent.

Mr. Baker: I do not have to hand what the level of budgeted expenditure will be for the Isle of Wight next year. I dare say that that will be a material fact if there is to be a rate increase of that level.

Another feature of this document is the support given to the inner cities. I want to meet this issue head-on. I think that my right hon. Friend the Member for Chesham and Amersham made a speech on this matter just before Christmas. My right hon. Friend and other hon. Friends will agree that the problems of some of our towns and cities are acute. High levels of social deprivation, large numbers of single-parent families, pockets of poverty, pockets of unemployment rising as high as 50 per cent. and the problems of large ethnic minorities require extra resources. I have thought it right to recognise that. No Secretary of State can walk by on the other side when faced with those problems. Some say that while they recognise the needs of the towns and cities, those needs should be met from resources other than through the rating system. But if more resources are to be found, they have to be found either from the ratepayer or the taxpayer. At the end of the day the resources cannot come from anywhere else. As my hon. Friend the Member for Surrey, North-West has pointed out, my own constituency is making a contribution to that shift this year, and I steadfastly defend that policy.

Dr. Keith Hampson (Leeds, North-West): I am sure that my right hon. Friend the Minister will agree that not all his right hon. and hon. Friends come from the shire counties. Will my right hon. Friend look again at the GREA formula? I am the only person here from any party representing Leeds, which has a deprived inner-city area, acute ethnic problems and the largest percentage of defective housing in the country. How is it that the formula has given us fewer resources this year than last year?

Mr. Baker: I shall certainly look at the GREAs. Some have suggested that I should not look at GREAs and that they should remain the same, but I believe that it is necessary to do so. This year, Leeds has a grant of £111 million and next year Leeds could qualify for a grant of between £123 million and £128 million. I am not familiar with the expenditure pattern, but I will look at what my hon. Friend has said.

Mr. Beaumont-Dark: I do not doubt the sincerity of my right hon. Friend when he says that he wishes to tackle head-on the problems of the inner cities. Why is it that

[Mr. Beaumont-Dark]

when he tries to help Birmingham, we always come out as the sufferer? With help like that, Birmingham is not encouraging any enemies. The rate of penalties for Birmingham is 180 per cent. Over the past two or three years Birmingham has spent within the Government guidelines and spent below the wretched GREA principle—which I warned the Government against years ago. Why should Birmingham now be penalised for doing what the Government wanted it to do? It seems not common sense but lunacy.

Mr. Baker: I received a group from Birmingham before I made my statement in December. There was then talk of a rate increase in Birmingham of 60 per cent.

Mr. Beaumont-Dark: They always do.

Mr. Baker: There is an element of negotiation in estimated rate increases. As I understand it, the rate increase will be substantially lower than that this year.

My hon. Friend asks if the Government will do anything about the GREA. The Green Paper makes two specific proposals on grant. One is an infinitely simpler system of grant, and the other is the need for a simpler set of formulae other than GREA. The system has become over-complex, and we are attempting to fine tune elements of local government expenditure which should not be fine tuned.

Mr. Max Madden (Bradford, West) *rose*—

Mr. Tony Banks: Will the Minister give way?

Mr. Baker: I shall not give way again.

Mr. Banks: The Minister has not given way once.

Mr. Baker: The problem of London and grant recycling will critically affect the level of rates next year. A central issue for all London boroughs, both inner and outer, will be the levy of the London Residuary Body. The chairman issued a proposed budget involving a high proportion of capital items. If that had been the basis of the levy, London rates would have been very high. The chairman has now written to me with a much lower budget of about £60 million.

Mr. Banks: Who leant on him?

Mr. Baker: The chairman proposes to use capital receipts from mortgage repayments and GLC balances to meet some of the obligations of the London Residuary Body.

Mr. Banks: There will not be any.

Mr. Baker: That seems to me to be a reasonable basis for determining the levy.

In addition, London Members will know that I have been consulting about the basis of how the balances should be distributed—whether on a rateable value basis or on a population basis. I have decided that the balances should be distributed on a population basis.

Mr. Banks: That helps Croydon.

Sir William Clark (Croydon, South): I am sure that my right hon. Friend will appreciate that the inner and outer London boroughs are similar to the shires. The outer boroughs will be prudent and are prepared to be penalised. The budget of the London Residuary Body was £117

million, but my right hon. Friend says that that has been cut to £60 million. Does that mean the elimination of the redundancy payments within that body? Any redundancy payments due to the abolition of the GLC should not be carried forward, but should be settled by the GLC before it is abolished.

Mr. Baker: The answer to that question is yes, it does exactly that.

Dr. John Cunningham: I am grateful to the Secretary of State for giving way again—he has given way a great deal. Is he saying that the London residuary body will have total freedom to use however much of its capital receipts it thinks fit—in contrast to the rigid controls that the Government have put on the capital receipts of local authorities?

Mr. Baker: As for capital receipts, one of the major items of the Budget was £70 million of mortgage repayments. One of the original proposals was that that should be recycled to the boroughs but the collective view is that those capital receipts should be used against capital items.

Dr. Cunningham: So the answer is yes.

Mr. Baker: I am not so sure that it is. I shall look carefully at what the hon. Gentleman has said. The main item here is the adjustment of mortgage repayments. I shall now consider grant recycling.

Under the old system of targets and penalties, the grant lost by the high spenders was surrendered to the Treasury? Last year, this holdback amounted to £450 million and this year it is about £430 million. Under the new system, the grant that will be lost by the high spenders will form a pool which will be recycled to local authorities. Therefore, if traditional low spenders can keep their spending right down, and if the high-spending Labour authorities cannot break the habit of a lifetime and spend up as usual, substantial amounts of grant will flow back to the low spenders.

Mr. Tony Banks: Will the hon. Gentleman give way?

Mr. Baker: I regret not. From the picture that is emerging of budgets for next year I have little doubt that there will be significant extra grant available from this source. I cannot estimate the figure precisely, but I have exemplified the effects of a pool of £400 million which is a little less than holdback this year. If such a pool existed, it would be distributed on an equal poundage basis. This would mean that Bedfordshire could get an extra £4.5 million, Buckinghamshire nearly £6 million, Cambridgeshire just over £5 million, Devon nearly £7 million, Dorset £5 million, East Sussex nearly £6 million, Essex £13.5 million, Hampshire over £12 million, Hereford and Worcester over £5 million, Hertfordshire nearly £9.5 million, Kent over £11 million, Norfolk over £5.5 million, Staffordshire over £7 million, Suffolk over £4.5 million, Surrey £9.5 million, Lincolnshire £3.7 million, West Sussex over £6 million and Wiltshire over £3.5 million. I had that exemplification in my Box last night and I think that I had better put it in the Library.

Mr. Paddy Ashdown (Yeovil): Will the right hon. Gentleman give way?

Mr. Baker: No.

Mr. Neil Macfarlane (Sutton and Cheam): Will my right hon. Friend give way?

Mr. Baker: I really should finish my speech but I shall give way once more.

Mr. Macfarlane: Might any of the outer London boroughs such as Sutton or Croydon be added to that list?

Mr. Baker: When I put the figures in the Library, my hon. Friend will find that that is the case.

Mr. Ashdown: Will the right hon. Gentleman give way?

Mr. Baker: I hope that the hon. Gentleman will forgive me, but no. I have already given way once to a Liberal, and that is disproportionate to their representation in the House.

I want to stress that I cannot guarantee that this extra grant will be available since it will depend upon the extent of the overspend, but it is quite clear from the meetings that I have had with the treasurers that some are anticipating in their budgets some flowback, because they too have done these calculations. It is a question for them and for their finance committee to judge how much could reasonably be estimated.

I think it right to set out for the House the position on the recycling of grant since this is the first year in which it will operate in this way. During the coming weeks, treasurers and finance committees will want to consider how this is likely to affect their cash position and how in turn it is likely to affect the rates which they will agree.

In a few moments, we shall hear from the Opposition. I hope that the hon. Member for Copeland will set out the Opposition's policy on local government finance. Would he increase grants from the Government next year? If so, by how much? How much would go to the shires? Would he stop rate capping?

Dr. Cunningham: Yes.

Mr. Baker: Has he estimated the cost of ending rate capping? How many hundreds of millions of pounds would it cost? How many millions of pounds would then be thrust to the most extravagant councils in the country? Before he poses as the friend of shire counties, will he spell out what role he sees for them? During the past year, he and his colleagues, the hon. Member for Blackburn (Mr. Straw) have made speeches advocating new regional councils and powerful district councils.

Mr. Tony Banks: Will the right hon. Gentleman give way?

Mr. Baker: Where does that leave the shire counties? What functions will he move away from the shire counties? Social services? Roads? Education? Police? Fire? Will such functions go up to regional councils or down to district councils?

Mr. Tony Banks: Will the right hon. Gentleman give way?

Mr. Baker: I am being asked by several of my right hon. and hon. Friends to try to square the circle between increases in spending well above the rate of inflation and low rate increases, while holding down total local government expenditure and curbing the excesses of the lunatic Left. I make no bones about it—

Mr. John Fraser (Norwood): Will the Secretary of State give way?

Mr. Baker: No.

Mr. Fraser: I speak for the lunatic Left.

Mr. Baker: If the cap fits, wear it. I make no bones about the fact that the settlement attempts to keep the lid on rising expenditure while recognising the efforts made by lower-spending authorities. It is well known to the House that I am not enamoured of the system of local government finance—

Mr. Tony Banks (rose)

Mr. Robin Maxwell-Hyslop: Will my right hon. Friend give way?

Mr. Baker: Very well.

Mr. Maxwell-Hyslop: If my right hon. Friend is not enamoured of the rating system of local government finance, why does he increase the proportion of local authorities' income from that system and reduce the proportion from the system of which he presumably is enamoured—central Government taxation?

Mr. Baker: My hon. Friend might not have heard what I said earlier—[HON. MEMBERS: "He did."] I have been asked to square the circle between expenditure that is rising well above the rate of inflation, to secure low rate increases and to contain Government expenditure. The containment of general Government expenditure lies at the heart of the Government's economic policy and that is why I have not been able to agree with the GREA exemption and why the settlement cannot increase grants significantly. However, as a result of recycling, higher-spending authorities will contribute significant grant to lower-spending ones. My hon. Friend's criticisms of the system are well-known.

Mr. Tony Banks (rose)—

Mr. Baker: Next week I shall bring out a Green Paper which deals with the fundamental question, which is as my hon. Friend said, the constitutional question whether we want more central control or more local accountability. I stand firmly on the side of those who want more local accountability. [HON. MEMBERS: "Come off it."] The House will be able to judge that statement when it sees my Green Paper. Until a new system, which will involve fundamental changes, is in place, I commend this fair settlement to the House.

Mr. Simon Hughes: On a point of order, Mr. Deputy Speaker. The Secretary of State referred to a document containing figures of how much might return to shire counties this year. It is a key element in the debate. The right hon. Gentleman said that he would put it in the Library. Can it be put in the Library within minutes, rather than hours, so that it is available to hon. Members during the remainder of the debate?

Mr. Deputy Speaker (Mr. Ernest Armstrong): That is a matter for the Secretary of State, not for me.

5.30 pm

Dr. John Cunningham (Copeland): The House is asked today to approve the seventh major rate support grant presented to Parliament by the Conservative Government since they took office. There have been many supplementary reports, and there are two more of those before us today. Entertaining as it might be for the House to discuss Labour party policy on local government, that is not the purpose of the debate. I am happy to say that if the Government will provide a day for such a debate, we will be more than willing to participate.

Local Government (Financing)

3.41 pm

The Secretary of State for the Environment (Mr. Kenneth Baker): With permission, I should like to make a statement. Together with my right hon. Friends the Secretaries of State for Wales and Scotland, I have today presented to Parliament a Green Paper entitled "Paying for Local Government". It makes major proposals for the future financing of local government in Great Britain.

The central theme is the need to bolster local democratic accountability. To do so, we need a way of paying for local government which narrows the gap which exists between those who use, those who vote for and those who pay for local government services.

The three fundamental weaknesses in our present arrangements are: the complex and uncertain effect of Government grants to local authorities; the way in which businesses can be heavily taxed to pay for excessive local spending; the unfair burden on householders of domestic rates.

May I deal with non-domestic rates? Business and commercial ratepayers foot 60 per cent. of the local tax bill but have no vote to influence local elections. For businesses, rates are uncontrollable overhead costs which can and do vary from year to year very significantly. Increased business rates lead to higher costs; to lower pay or job prospects; or to reduced investment. Those who are ultimately affected are quite unaware of how these extra burdens arise.

For all those reasons, non-domestic rates should not be a local tax. We propose therefore that a uniform non-domestic rate poundage should be set centrally. Businesses will be protected by indexing the poundages to inflation so that they can predict their liability with confidence. All of the yield of non-domestic rates would continue to support local government expenditure but it would be pooled and redistributed as an equal amount per adult in all authorities. Transitional arrangements would be required in each of the three countries to allow for an orderly move to the new system. We are setting in hand a revaluation of all non-domestic properties so that new rateable values will be available from April 1990.

I turn to the question of Government grants. The present grant arrangements are unstable and complex. They obscure the link between what people pay for local services and what they get for their money. But the clarity of that link is essential to local accountability.

We therefore propose a new two-part grant structure. First, a needs grant to compensate authorities for their different needs. Secondly, a standard grant—to reduce local tax bills by a standard amount per adult. Both grants would be fixed in cash, in advance, for the year in question. Local authorities would then know where they stood. We would remove the whole paraphernalia of schedules, tapers, multipliers and close ending.

Taken together with our proposals on the non-domestic rate, these grant arrangements would produce the clearest possible relationship between changes in spending and changes in tax bills. Every extra pound spent will be met in full by local domestic taxpayers. Every pound saved would benefit them in full. And that would be true in every authority in the country.

On the subject of domestic taxes, at present in England around 35 million adults are eligible to vote in local

elections. Only 18 million are directly liable as ratepayers. Of these, 3 million have their bill met in full by housing benefit. In many authorities well over 50 per cent. of the voters pay no local rates and therefore have little interest in restraining spending by the local authority; indeed, they have a clear interest that it should spend more.

Under the new social security proposals, every ratepayer will have to pay part of their rate bill. That still leaves 17 million adults with no liability to pay for the local services they use. It still means that the single pensioner or the single parent will face the same bill for local services as the house next door with four earners.

Rates are a tax on property. They are unpopular because the rates burden is carried on too few shoulders and needs to be spread more widely and fairly. There are broadly three alternatives—a sales tax, local income tax, or a flat-rate community charge. The Green Paper sets out the many difficulties we see both in sales tax and in local income tax, and the reasons why we prefer a community charge. It would be more closely linked to the use of local services and would give all adults a stake in local spending decisions. As with rates, there would have to be assistance for those on low incomes. Each local authority would set its own charge and there would have to be registers of all adults. The registers would be entirely separate from the electoral register.

This proposal would lead to the same local tax bill for the same standard of service in all areas. That would lead to significant changes in the distribution of local tax burdens between authorities. There would have to be transitional and safety net arrangements.

In England and Wales the community charge would start at a low level, with a corresponding cut in rates. The whole burden of any increased spending would fall on the community charge from the start, so that a clear link would exist between higher spending and higher community charges. In subsequent years there would be further transfers from rates to the community charge. In some areas rates would disappear within three years, and they would be eliminated in all areas within 10 years.

Under the proposals some people would be paying local taxes who presently pay nothing. But those living on their own who presently pay more than their fair share, including many of the poorest households, would be better off.

The Green Paper illustrates the effects of the proposals, had they been in force in 1984-85. The illustrations show that the changes would be modest for most people, and that the shift to the new tax would be both gradual and manageable in terms of household incomes.

There are also proposals in the Green Paper to reform the capital control system on which I am inviting comments.

Those proposals amount to the most thorough reform of local government finance this century. It is right that there should be a substantial period of consultation. My right hon. Friend the Secretary of State for Wales and I have asked for comments by 31 July. My right hon. Friend the Secretary of State for Scotland will make a statement tomorrow. The pace of further developments in England and Wales will depend on the outcome of the consultation process.

The message from our studies is clear; the way we now pay for local government undermines local accountability. That is no basis on which to run democratic local government. It has drawn central Government deeper into

[Mr. Kenneth Baker]

conflict with local government. The alternatives are clear. We can continue down the present path—that is the road to closer central involvement in local affairs and increased central control—or we can face up to the weaknesses in our present arrangements and provide local government with a financial system to bolster local democracy. The Government prefer that course, and I commend it to the House.

Dr. John Cunningham (Copeland): The Secretary of State has made a major statement on what is by any test a very important Green Paper. Will he accept that the Opposition are prepared to support any genuine attempt to increase local accountability and to return to local government the freedoms and local democratic control that have been consistently eroded during the seven years of the Prime Minister's Administration?

Is the right hon. Gentleman aware that the Opposition welcome the Government's recognition that after seven years of Conservative Government local authority finance is in a bigger mess than ever before? Does he realise that we agree with his message last week in a letter to Tory councillors nationwide that the system that his Government have created is unfair and stifles local accountability?

Does the Secretary of State recognise that, after seven years of successive failure in local government finance, the Green Paper announces yet again the abandonment of the Prime Minister's oft-repeated promise to abolish domestic rates altogether in this Parliament? Is it not clear that the Prime Minister has comprehensively ratted on that promise to the ratepayers? Is not the general proposition at the heart of the Green Paper a proposal to introduce a poll tax to be imposed on every adult regardless of income or ability to pay? Will that not also be a tax on the right to vote, as the Green Paper makes abundantly clear? Is the right hon. Gentleman aware that no other Western industrial democracy employs such a grotesquely unfair system as the basis of the major source of local government income?

What has changed since the Government rejected these very proposals in their 1983 White Paper on rate reform? The Government rejected the proposals then on the basis that they were expensive and bureaucratic to administer, bearing harshly on low-income families and a tax on the right to vote. That was revealed in the Government's White Paper two years ago.

Is it not the case that every ratepayer, regardless of means, will have to pay a minimum flat-rate charge under the Government's proposals? Why has the Secretary of State, in his statement and in the Green Paper, been so obscure about the proposals to help low-income families get over the major impact of the new impositions?

Will the Secretary of State confirm that his proposals for a uniform business rate are a further huge centralisation of power which will undermine local democracy and accountability and not enhance it? It will leave in the hands of Ministers massive additional controls over local authorities regardless of their political persuasion. Will not this mean higher business rates in many Tory local authority areas? I ask Conservative Members to study the proposals carefully, because that is the implication. That is what is at stake, especially if the yield is to remain the same as at present.

Why do not the right hon. Gentleman and his right hon. Friends address themselves to the far higher costs to industry and commerce of interest rate charges which result from the Government's policies? What are the distributional effects of changes on people in different circumstances in different local authority areas? The figures that he has given relate to regions and national situations, not to specific local authority areas. In that sense, the figures quoted are nothing short of misleading.

Is not the right hon. Gentleman asking his right hon. and hon. Friends to accept a time bomb ticking away under them in their constituencies and local authorities? These proposals will bring shock waves of horror to many Conservative Members who believe in some craven way that they and their constituents will benefit from them. Will the right hon. Gentleman publish the data and studies that he and his right hon. Friends have used and made to give the examples in the Green Paper?

Is not this exercise a vain attempt to redeem the pledges of the Prime Minister and to cast a cloak of obscurity over the failure of the Prime Minister in seven years in government to deliver that simple, if not cynical, promise to abolish domestic rates? Is not the reality right through the Green Paper simply that rates will be here long after the Government have gone?

Mr. Baker: The hon. Gentleman asks my hon. Friends to study the Green Paper carefully. I hope that he takes such advice himself, because rarely has the House heard such a thin and empty comment. I have tried in the Green Paper to set forward the central issue of what I hope will be a great debate upon the future of local accountability in local government. During the course of that great debate the Labour party will have to say what system of local government finance it will support. From the hon. Gentleman's concluding comments, and from those of his hon. Friend the Member for Blackburn (Mr. Straw) recently, I assume that he will favour the retention of the rating system.

Dr. Cunningham: Answer my questions.

Mr. Baker: I shall answer the hon. Gentleman's questions. The hon. Gentleman argued that the community charge is unfair and regressive and will hit the poor, but I remind him that rates are also regressive and unfair and bear little relationship either to ability to pay or to the use of local government services. If rates are to be kept, there will have to be a major revaluation and that will create a turbulence in family incomes much greater than what I am proposing to the House.

The hon. Gentleman asked me about those who will benefit. Let me consider those who will face lower bills under my proposals. Eighty-six per cent. of all single pensioners will receive lower bills. Eighty per cent. of single adult householders will face lower bills. Businesses in the north, the midlands and the north-west will face lower bills. Areas of high unemployment will face lower bills.

The hon. Gentleman asked me whether the proposal was a tax on the right to vote. It most certainly is not. The registers will be separate. There will be people on the community charge register who will be liable to the community charge who do not have the right to vote—for example, foreigners resident in our country. What I



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CONSERVATIVE NATIONAL LOCAL GOVERNMENT CONFERENCE

Speakers at the Conservative National Local Government Conference at Wembley Conference Centre on 1 March will include six Government ministers.

The Hon William Waldegrave MP, Minister for the Environment, Countryside and Local Government; the Rt Hon Kenneth Baker MP, Secretary of State for the Environment; and the Rt Hon Douglas Hurd CBE MP, Secretary of State for the Home Department will speak at the morning session.

During the afternoon, there will be speeches from the Rt Hon Norman Tebbit MP, the Party Chairman and Chancellor of the Duchy of Lancaster; the Rt Hon Keith Joseph Bt MP, Secretary of State for Education and Science and the Rt Hon Norman Fowler MP, Secretary of State for Social Services.

Mr John Heddle MP, Chairman of the Local Government National Advisory Committee, will preside.

END.