CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

3 March 1986

Dear Nigel,

PRIME MINISTER'S MEETING: 4.00 PM, 3 MARCH

As requested in your letter of 28 February to Joan McNaughton, I am circulating herewith a series of notes for this afternoon's discussion. They mainly cover the options for action which were identified at the meeting with the Prime Minister on Friday. They have been prepared by officials here in consultation with other directly interested Departments; they have not yet been seen by my Secretary of State. I also attach a note on options rejected on Friday, and a list of key facts.

The following options are covered in the notes:

3P/

i allowing residuary bodies to use capital receipts and to borrow to spread the cost of redundancy compensation, after taking account of balances;

ii providing for secession from the Transport Joint Boards;

iii providing 100% grant, through TSG or otherwise, for highway projects;

iv additional assistance through specific grant, in particular the Urban Programme;

v redefining "total expenditure" to exclude certain items in 1986/87 - a quasi-disregard;

vi disregarding further MCC/GLC expenditure in 1985/86 to increased balances transferred to the residuary bodies;

vii central Government grant to residuary bodies to pay redundancy compensation costs not met by balances;

viii phasing the adjustments needed to the Advanced Further Education pools following the ILEA judgement;

ix a Government guarantee that £400 million of block grant will be recycled in 1986/87 to allow authorities to count on this money in finalising their budgets.

We can provide draft letters as necessary for the Prime Minister to send immediately after the meeting.

I am copying this letter and enclosures to the private secretaries to the Lord President, the Home Secretary, the Secretary of State for Transport, the Chief Secretary, and to Michael Stark in Sir Robert Armstrong's office.

Yours sincerely,

Robin Young

R U YOUNG
Private Secretary

Nigel Wicks Esq

USE OF CAPITAL RECEIPTS / BORROWING BY RESIDUARY BODIES FOR STAFF COMPENSATION COSTS

Description

Residuary bodies will have to meet both redundancy and detriment costs resulting from abolition. They have been told that balances of the outgoing authorities may be used for that purpose. Where balances are inadequate, costs will on present plans fall on the levy.

Allowing use of capital receipts would remove compensation costs so covered from the levy for good, at the expense of successor authorities' ability to finance additional capital expenditure from distribution of the receipts.

Allowing use of borrowing would reduce the first-year impact on the levy very considerably, limiting it to debt charges.

Effect in Merseyside/Greater Manchester

Merseyside: No balances expected, so full £5.5m costs fall on levy at present. Capital receipts unlikely to be significant, especially in first year, but borrowing could save great majority of cost, equal to 3p rate.

Greater Manchester: No help. No compensation costs included in levy anyway, because County Council intends to meet costs before abolition.

Knock-on Effects

Precedent: Existing Government attitude to local authority compensation costs generally is that such costs may properly be capitalised, but that special steps by Government to facilitate capitalisation are not usually justified (and that too much borrowing for such a purpose could unsettle the market). So consent to use of capital receipts is regularly given. Requests for extra borrowing approval are normally turned down, though Secretary of State for Transport has made exceptions for port closures at Bristol and Preston. No difficulty of precedent

with allowing use of capital receipts, but Chief Secretary has opposed in this case because of grant effects (see below). Borrowing approval would make standard line somewhat more difficult to hold in future.

Other metropolitan areas: No effect for London where balances will be adequate. Of other four areas, only West Yorkshire RB is counting (in part) on balances. Amounts presently included in levy for compensation are: West Midlands £3.6m (0.9p rate), South Yorkshire £3.0m (2.2p rate), West Yorkshire £5.3m (2.5p rate), Tyne and Wear £1.6m (1.3p rate). Extent to which this could be met from capital receipts is uncertain. Borrowing (instead or as well, preferably only as fallback if receipts are inadequate) would be more certain.

Elsewhere: The two steps together would remove £19m from levies. This benefit could be taken by the districts in reduced "total expenditure" and rates, or in higher spending on their own services. Reducing their "total expenditure" would increase their entitlement to block grant at the expense of the shires. If these steps are adopted, RBs should still be required to use balances as first preference where available; otherwise LRB could borrow despite the balances and give London boroughs the balances for extra spending.

Option: Secession from the Passenger Transport Authority.

Description: S42 of the Local Government Act 1985 allows the Secretary of State to make an order excluding a met. district from a PTA for all or some of the PTA's functions. There are a number of possibilities which need to be considered separately:

a) Secession in respect of bus revenue support. Realistically, districts could not take over this responsibility until deregulation on 26 October. Thereafter, they would take on the function for contracting tendered services in the district's area where subsidy was required. Savings would be available if the district were prepared to make reductions in service levels over and above the 10% being suggested by the PTA. This would imply additional redundancies in the PTA/PTE (about 1150 have already been assumed in Merseyside), which could be funded by borrowing. Some additional administrative costs would need to be incurred by the seceding district in setting up a tendering and planning structure.

b) Secession in respect of rail revenue support. Stated policy has been to discourage such secession. If the district opted to fund its own rail services no significant savings are likely. If they did not the PTA would withdraw support for lines in the seceding district. This would require a year's notice and in the meantime extra costs would fall on the non-seceding districts.

c) Secession in respect of concessionary fares. Districts already have power to run their own concessionary fares scheme. If districts are prepared to introduce charges for concessionary passes for their own pensioners they could now do so and receive the resulting revenue.

d) Secession in respect of other functions. Merseyside PTA expenditure on tunnel, airport and debt will be small in 1986/7 (about £5m). A further £5m is projected for PTE redundancies. Arguably it would be inequitable to load such expenditure, which is largely the result of past County-wide expenditure, on a few districts.

Financial Effects: Seceding districts would not benefit from these options unless they were prepared to make savings over and above the large savings already being imposed on the PTA. The savings would be through reductions of bus service levels or limitations on the concessionary fares scheme. By their nature, such savings are unpredictable. Nor is it possible to forecast the effects on grant to the districts: if for example expenditure was brought down to GRE level there might be significant grant benefits, while if a district did not reduce expenditure beyond the amount assumed for the PTA its grant position might worsen.

Other Problems

a) A secession order requires consultation with all affected bodies. We cannot be certain that Sefton or Wirral would wish to secede and take direct responsibility for substantial service reductions.

b) There would be practical problems in deciding how much Sefton or Wirral's share, if any, of the PTA precept should be, and serious legal complexities in ensuring that only that proportion of the precept was actually levied.

c) District Councils have no experience in planning public transport services and would face difficulties in decision-making even given six months' notice.

d) Secession would be likely to result in residual costs falling on the PTA in redundancies and possibly additional administration. This would mean severe risk of successful legal challenge to the precept limit already set for the PTA.

e) The PTE have under the Transport Act 1985 to submit a scheme for an initial bus company by the end of March. It will be exceedingly difficult to meet that timetable with new assumptions about the area of coverage and number of tendered services.

f) Allowing secession from the PTA would increase pressure to secede from other joint authorities, in particular the Waste Disposal authority in Merseyside.

HIGHWAYS CAPITAL GRANTS

Description

A. More TSG (i) Increase rate from 50%

(ii) Accept more of bids

(iii) Extend coverage to roads of only local importance

B. Use specific grant powers in 1980 Highways Act (S.272) [at present used only for roads about to be trunked]

C. Increase Capital Allocation

Grant Effects [TSG or Specific Grant, before RSG effect]

£m	A(i) 100%	A(ii) Whole Bid	A(iii) Whole Capital Alloc'n	B 100% Grant	C Whole Bid	Most Favourable Combination
Wirral	0.3	0.8	0.4	0.6	0	1.1
Sefton	0.1	0.3	0.4	0.2	0	1.0
Bury	0.8	0.8	0.2	1.5	0	1.2

Gross effect - poundage

	A(i) 100%	A(ii) Whole Bid	A(iii) Whole Capital Alloc'n	B 100% Grant	C Whole Bid	Most Favourable Combination
Wirral	0.2p	0.4p	0.4p	0.2p	N/A	0.6p
Sefton	0.1p	0.2p	0.3p	0.1p		0.7p
Bury	1.0p	1.0p	0.3p	1.0p		1.5p

The net effects would be much smaller because their block grant would be reduced because the capital spending GREs would be reduced equivalent to the TSG/specific grant increase.

Knock-on Effects and other Problems

A(i) - Need to make same change to all other authorities [cost £164m]: [differential rate of TSG illegal]

- Windfalls for other authorities - eg + £32m for London boroughs

- Difficulties of justifying, and recouping position in later years.

- complex RSG redistribution effects [changes in share-out of GRE for new capital expenditure]

A(ii) - Reopens TSG settlement: probably have to ask all authorities to reconsider all bids.

- Could be done without increasing TSG total, but would be difficult to justify at expense of reducing TSG allocations already given to other authorities [who have set their budgets]

- Total sum bid (England) £584m TSG @ 50% = +£128m grant

A(iii) - Need to make same change to all other authorities

- reopens TSG settlement - all authorities to bid again on new basis

- Total sum thus eligible (capital allocation bid) £520m: TSG @ 50% = +£96m grant

- Destroys rationale for national TSG grant

- future year effects?

- complex RSG effect through changes in GRE balance between authorities.

B. - could be done differentially in theory - but plausible reasons needed to avoid legal dangers

- has to be for specific schemes. Only one or two sizeable schemes sufficiently prepared.

C. - reopens block grant settlement

- possible small addition to transport allocation total to cover (Tsy/DOE agreement?). Otherwise, as PES is fixed, would have to be done by reducing some other authorities' allocations. Plausible reasons needed to avoid legal dangers.
/Wirral have proposed capitalising some structural maintenance - but would open door to similar bids by other authorities./

- again complex RSG effects through changed balance of GREs.

- create commitments for future years.

URBAN PROGRAMME

Wirral are a Programme (2nd tier) Authority - allocation £3.67m; Sefton an Other Designated District (3rd tier) - allocation £0.5m. Bury no longer eligible following concentration of Traditional Urban Programme - list of invited authorities is highly visible.

Options

i. accept a different balance of schemes within allocations for 1986/87 - more revenue and renewing more time-expired schemes

ii. additional allocations for 1985/86 to be used to fund main programme schemes retrospectively;

iii. additional allocations for 1986/87 to be used to fund main programme schemes.

Benefits to Wirral/Sefton

i. Only available for Wirral, magnitude would need study, maximum £200-£300,000;

ii. sum available for additional allocations nationally about £200,000; carries 75% grant;

iii. no resources available.

Difficulties

i. Directly counter to Ministerial Guidelines: these authorities are not pressing in this direction, but others would use the precedent;

ii. counter to urban programme rules on two counts (main programme; retrospective);

iii. all resources fully allocated with waiting list; additional allocations at this stage of year unprecedented and would be highly contentious.

Ndiaa

5 EXCLUSION FROM DEFINITION OF TOTAL EXPENDITURE
QUASI-DISREGARD

By removing items from 'total expenditure', total expenditure is reduced and the authorities concerned gain grant. This example shows what would happen if in each Metropolitan County and the GLC area, the Residuary Body's levy (minus compensation payments) was defined out of 'total expenditure'.

BENEFITS Wirral would gain £.148m (0.36p rate) from such a move, Sefton £0.058m. (0.2p rate) and Bury £.008m. (.04p rate) Other Metropolitan Districts and London Boroughs also gain (many London boroughs gain significantly)

DISADVANTAGES

There are very substantial drawbacks. The gains for the boroughs/districts come from **losses** in the Shire Counties (£28.32m) Shire Districts (£3.8 m) and joint boards (on Merseyside £0.122m). Rate limited London boroughs would gain and the rate limit discipline be slackened. The floodgates would be opened to requests for similar exclusions from total expenditure to replace the disregard system which Ministers have taken a firm view is no longer appropriate in 1986/87 without targets and penalties.

6. Disregard in 1985/86 for metropolitan counties preparatory costs for abolition

Districts in the metropolitan counties have been granted a disregard in 1985/86 for holdback purposes of £100,000 of expenditure on preparatory costs for abolition. The metropolitan counties and AMA have asked for a similar disregard (West Yorkshire have asked for £100,000 for each district, i.e. £500,000).

If a disregard of up to £500,000 were granted it would increase Greater Manchester's block grant by about £1.21million and Merseyside's by about £913,000. The total cost to the Exchequer in reduced holdback would be about £6million. Even if all the disregard fed through to balances it would still, on Merseyside, leave £4.3million to be funded by the levy (or, for instance, the borrowing option (Option 1). In Greater Manchester some £80,000 of extra balances could be distributed to Bury.

The principal problem with this option is that Ministers' decision not to grant the disregard was announced on 26 February. While such a disregard would allow Metropolitan Counties to add to their balances they could equally choose to increase their expenditure in the run-up to abolition. (This option should not affect the GLC, who are planning to spend below target in 1985/86.)

THIS OPTION IS DIFFERENT FROM OPTION 5 IN THAT THE GRANT GAINS FOR THE AUTHORITIES CONCERNED ARE FOUND FROM HOLDBACK WHICH THE TREASURY RETAINS, NOT GRANT LOSSES TO OTHER AUTHORITIES.

7. Exchequer funding of metropolitan county redundancy costs:

1. The government could offer to meet redundancy costs (net of balances) as a total Exchequer cost of about £23million and thereby enable the RBs to reduce the levy by £5½ million on Merseyside.

2. This would benefit Wirral and Sefton to the extent of a 3p rate but since all compensation is being met from balances in Greater Manchester there would be no benefit to Bury.

3. Agreeing to meet these costs would mean resiling on Ministers' stated public policy. They have argued that redundancy costs should be met locally and that these costs would be offset by the savings from abolition. If Ministers gave way on this, there would undoubtedly be a flood of requests to meet other bits of abolition-related expenditure which would cast doubt on the argument that abolition would lead to significant net savings. The option has a very similar effect in the short term to Option 1 (allowing Residuary Bodies to borrow for compensation costs) but it means there will be no long term financing costs, to be met by a levy.

4. The Abolition Act does not empower the government to pay compensation and Exchequer funding of redundancy costs would presumably have to be done under the Appropriation Act.

Advanced Further Education Pooling (AFE)

In 1985 DES lost a court case to ILEA on the method of calculating contributions to AFE pools. A new (legal) arrangement was introduced in the 1986/7 RSG Settlement. Corrections in respect of 1985/6 will be made in a Supplementary Report in April/May 1986. That report will adjust the block grant entitlements of authorities to compensate for the changes in AFE contribution. If all education authorities were in receipt of block grant, changes to block grant would exactly match changes to AFE contributions. Because ILEA is out of grant and its AFE contributions are reduced by £31¾m there is an imbalance which has to be met by an across the board increase in rates of 0.4p. The figures for Sefton, Wirral and Bury are:

	Increased AFE Contribution	Increase in Grant	Cost
Sefton	£1,836,000	£1,694,000	£142,000
Wirral	£1,859,000	£1,693,000	£166,000
Bury	£ 773,000	£ 697,000	£ 76,000

Option: Increase block grant by £31¾m to ensure no losers as a result of the AFE change. Sefton, Wirral and Bury gain £142,000, £166,000 and £76,000, respectively, equivalent to a 0.4p rate.

Guarantee Grant recycling

Local authorities that spend above the spending assumption used in the 1986/87 RSG Settlement, receive less grant than assumed in the Settlement. If in aggregate authorities overspend and hence underclaim grant the grant entitlements will be increased across the board in July 1986. This is known as grant recycling or grant close-ending.

In the debate on the RSG Settlement the Secretary of State for the Environment laid before the House figures which showed the effect of recycling £400m of grant, and advised authorities to take account of this when setting their rates. Local authorities, however, are generally very prudent in financial matters and many will not be prepared to allow fully for grant recyling in setting their rate.

Option

Ministers could guarantee that the amount of grant claimed by authorities will be increased by at least £400m in July, so that all authorities should allow for this in setting their rates.

From information on shire county budgets available to us it is most unlikely that grant recycling will be less than £400m so this guarantee should be costless. We therefore strongly recommend this option. The benefits to Sefton, Wirral and Bury are:

Sefton	£1,953,000
Wirral	£2,344,000
Bury	£1,127,000

OTHER POSSIBILITIES - NOT RECOMMENDED

There are some other possibilities, mentioned here for completeness. We do not believe they should be pursued.

Police Grant

Following Ministerial discussion last month, it was agreed that the rate of specific police grant should be increased from 50% to 51% (costing £28 million) and that Rate Support Grant (RSG) should be increased by £22 million. The result is to give more grant to all Police Authorities, while ensuring that no other authorities lose grant on this account. The effect in Merseyside is equivalent to 1.5p at ratepayer level.

One possibility would be to do more of the same e.g. increase the rate of police grant to 52% with a commensurate increase in RSG. This would have a further benefit of about 1.5p in Merseyside at a cost of £50 million nationally. It would, however, be very difficult to explain this additional step given the very recent decision to go up to 51%.

Increase in Rate Support Grant

For 1986/87, Aggregate Exchequer Grant has been set at 46.4% of relevant expenditure. Increasing this percentage to 48% (about the 1985/86 percentage before holdback) would benefit Wirral by £2.3 million (5.7p rate) and Sefton by £1.9 million (5.5p rate) at a cost nationally of £400 million. All authorities receiving grant would benefit. It would be a windfall gain to those authorities (mostly shire counties) that have already set their precepts, and would relieve the pressure on the expenditure of the highest spending, rate-capped, authorities whose rate limits have now been set by Parliament.

DOE

3 March 1986

REPORTED INCREASES IN RATE POUNDAGES IN 1986-87

SHIRE COUNTIES			CHANGE IN PRECEPT	
AVON	*	(NOC)	+27.5%	
BEDFORDSHIRE		(NOC)	+27% TO +31%	SPECULATIVE
BERKSHIRE	*	(CON)	+13.1%	
BUCKINGHAMSHIRE	*	(CON)	+30.0%	
CAMBRIDGESHIRE		(NOC)	+32.9%	
CHESHIRE		(NOC)	+10%	SPECULATIVE
CLEVELAND	*	(LAB)	+11.9%	
CORNWALL	*	(NOC)	+20.0%	
CUMBRIA		(NOC)	+36%	SPECULATIVE
DERBYSHIRE		(LAB)	+19%	SPECULATIVE
DEVON	*	(NOC)	+19.8%	
DORSET	*	(CON)	+20.1%	
DURHAM		(LAB)	+21%	SPECULATIVE
EAST SUSSEX		(CON)	+19.9%	
ESSEX		(NOC)	+18.8%	
GLOUCESTERSHIRE		(NOC)	+17.6%	
HAMPSHIRE	*	(NOC)	+14.6%	
HEREFORD & WORCESTER		(CON)	+10.9%	
HERTFORDSHIRE		(NOC)	+21.9%	
HUMBERSIDE	*	(NOC)	+13% TO +16%	RECOMMENDATION TO FINANCE COMMITTEE
ISLE OF WIGHT	*	(LIB)	+20.0%	
KENT		(CON)	+12.7%	
LANCASHIRE		(NOC)	+18.9%	
LEICESTERSHIRE	*	(NOC)	+32%	SPECULATIVE
LINCOLNSHIRE		(CON)	+22.0%	
NORFOLK		(CON)	+18.9%	
NORTHAMPTONSHIRE		(CON)	+12.5%	
NORTHUMBERLAND	*	(NOC)	+22.9%	
NORTH YORKSHIRE		(NOC)	+15.9%	
NOTTINGHAMSHIRE	*	(LAB)	+19.4%	
OXFORDSHIRE		(NOC)	+27.9%	
SHROPSHIRE		(NOC)	+19.1%	
SOMERSET		(NOC)	+26.5%	
STAFFORDSHIRE		(LAB)	+9.8%	
SUFFOLK		(CON)	+17.7%	
SURREY	*	(CON)	+12.0%	
WARWICKSHIRE	*	(NOC)	+18% TO +28%	SPECULATIVE
WEST SUSSEX		(CON)	+19.1%	
WILTSHIRE		(NOC)	+25.9%	

(*) AUTHORITIES ARE NEW ENTRIES SINCE THE LAST MONITOR OR A CHANGE TO A PREVIOUS ENTRY

BACKGROUND NOTE

Receipts from property

1. Merseyside

County Hall is the upper part of a tower block, held on lease. Over half will be occupied by joint authorities and the Residuary Body's own staff, but the RB are hoping for an early deal with an institution for at least some of the space. No estimate is available of receipts, but the Liverpool market is very depressed.

2. Greater Manchester

County Hall is a central Manchester block, held freehold and worth perhaps £1-2m. Over half will be occupied by successors including the Residuary Body, and it will take time to dismantle the computer system, so that sale in 1986/87 is unlikely.

BACKGROUND NOTE ON FINANCIAL POSITION

	SEFTON	WIRRAL	BURY
Total Expenditure/Block Grant			
1. 1985/86	£93.989m/£43.9m	£117.653m/£53.6m	£59.690m/£29.8m
2. 1986/87 - RSG Settlement Assumption (a)	£111.346m/£55.2m	£137.637m/£67.2m	£69.610m/£32.2m
3. - Real Terms Standstill (b)	£112.500m/£54.8m	£139.064m/£66.6m	£70.436m/£32.0m
4. - Authority's Plan	£117.500m/£53.5m	£149.000m/£63.4m	£73.840m/£31.1m
5. Growth in spending on existing services implied by 4 above from 1985/86 to 1986/87	9%	12%	9.7%
Rates			
6. 1985/86 - Local rate	140.64p	155.50p	144.11p
7. - County Council precept	73.00p (c)	73.00p (c)	50.00p (d)
8. - General Rate	213.64p	228.50p	194.11p
9. 1986/87 - Joint Authorities' precepts	76.69p	76.69p	48.03p
10. - Residuary Body levy	7p	7p	3p

Notes

(a) 1985/86 plus 3.4%
(b) 1985/86 plus 4.5%
(c) Merseyside CC used £10.5m reserves to hold down the precept in 1985/86 by 10p
(d) Greater Manchester CC used £32.6m to hold down the precept in 1985/86 by 30p

KEY DATES

Sefton's Policy Committee is to meet on 11 March. The Council is to approve a budget for 1986/87 on 20 March

Wirral's Policy and Resources Committee meets this evening to discuss the district rate. The Council budget meeting is on 19 March.

Bury's Finance Committee is to meet tomorrow, 4 March. The full Council is due to meet to set a rate on 18 March.

Home Office and DTp have no information about when the new fire, police and transport authoroities are due to set their precepts, but there is a statutory requirement to do so by 10 March. The Merseyside Police Authority is to melt on 7 March.

2

PRIME MINISTER

SEFTON, WIRRAL, AND BURY

The problem underlying your meeting today is surely that high spending Labour-dominated metropolitan authorities can transmit their extortionate bills to the electorate through Conservative-controlled district councils. So Tory Wirral carries the can for the Labour-dominated Merseyside Transport Authority.

That is the case for separate billing by Transport Authorities. It fits in with the Green Paper's stress on accountability. Of course the total bill might not change, but at least the blame would rest on the right shoulders.

David Willetts

David Willetts
28 February 1986

LOCAL GOVT. Rates VPE 4

File MA (10)

CONFIDENTIAL

10 DOWNING STREET

From the Principal Private Secretary

28 February 1986

Dear Joan,

In connection with the meeting on rates which the Prime Minister is holding on Monday afternoon, I attach copies of some letters which provide some of the background. I am sending copies also to Private Secretary to the Home Secretary and to the Chief Whip and John Wiggins in the Cabinet Office who are also invited. (Ministers from the Treasury, Department of Transport and DOE who will also be coming already have the papers.)

Department of Environment will be circulating a paper in time for the meeting, and I should be grateful if Robin Young in DOE, to whom I am copying this letter, would ensure that all the Departments attending have a copy of that paper.

Yours sincerely

Nigel Wicks

N. L. WICKS

Miss Joan MacNaughton,
Lord President's Office.

CONFIDENTIAL

fe VC

cc D. Willetts

cc D. Norgrove

10 DOWNING STREET

From the Principal Private Secretary

28 February 1986

I have already been in touch with you about the meeting which the Prime Minister wishes to have at 5.30 this afternoon to discuss the issues raised in the letters attached. I am now sending copies of the correspondence to Richard Allan (Department of Transport) and Paul Pegler (HM Treasury) so that their representatives at the meeting can be aware of the correspondence.

N.L. WICKS

Robin Young, Esq.,
Department of the Environment.

MR. NORGROVE

MR. ADDISON

DUTY CLERK

RATES MEETING: 1600: 3 MARCH

The following will be attending:

Mr. Baker

Mr. Waldegrave + Chris Brealey

Mr. Ridley + Charlotte Edgerton

Mr. Shaw + ? Mr Sheehan.

Lord President

Chief Whip

Chief Secretary + Robin Butler and Alex Alan

Anthony Langdon, Cabinet Office.

CR

3 March, 1986.

E.R.

PRIME MINISTER

cc.
Mr. Wicks
Duty Clerk

The people attending this meeting are:

Treasury

Mr. Robin Butler

Mr. Alex Allan, Principal, Local Government Division.

Environment

Mr. T. Heiser, Permanent Secretary.

Mr. Christopher Brearley, Under-Secretary, Local Government Finance.

Transport

Secretary of State

Miss Charlotte Egerton, Assistant Secretary, Public Transport.

Duty Clerk

AP

NLW

28 February, 1986.

File

JA

10 DOWNING STREET

From the Principal Private Secretary

28 February 1986

Dear John,

When I wrote to Joan MacNaughton earlier this evening I was under the misapprehension that you were the Secretary of E(LA). This of course is Anthony Langdon. Could I therefore ask that Anthony should attend the Prime Minister's meeting on Monday afternoon. Please could you pass to him the papers attached to my earlier letter together with the DOE paper when it arrives. Apologies.

I am sending a copy of this letter to Anthony Langdon.

Yours ever
Nigel Wicks

(N. L. WICKS)

JA

John Wiggins, Esq.,
Cabinet Office.

PRIME MINISTER

You will remember that I told you about the rating problems of Bury. I enclose a letter which the Conservative Leader of the Council has sent you, and for which I am arranging a draft response to be provided by Kenneth Baker's Office. As you know, I have organised for David Sumberg and Alistair Burt to take Councillor Little, the Bury Leader, to see Norman Tebbit. But I think you will want to be aware of the appalling figures disclosed in this letter.

MA

MICHAEL ALISON
28.2.86

METROPOLITAN
BOROUGH OF
BURY

OFFICE OF THE LEADER
OF THE COUNCIL

Town Hall
Bury
Lancashire
BL9 0SW

Telephone : 061-764 6000
Telex : 669853 (CorpBury)

My Ref.

Your Ref.

My dear Mrs. Thatcher,

May I at once establish my 'credentials'. I have always been an admirer of your stewardship - as Minister of Education and now as Prime Minister. Indeed, I was described in the national press at the N.U.T. Annual (1973) Conference as your sole supporter - "1 against 2,000" was one headline.

I now find myself in an impossible position.

This Conservative controlled town, an oasis in a Labour desert, has, since re-organisation of local government and the establishing of the Metropolitan Boroughs, constantly followed the best Tory principles in its financial affairs.

In 1984/85 our expenditure was 14% below the average of Metropolitan Boroughs. Last year, 1985/86, it was 12% below the average. We made tremendous cuts in our services to get down to the Government's target and were told that by doing so, we would be in a favourable position to keep our rate demand in line with inflation. This year our expenditure estimates point to an increase of between 7% and 8%. However, such is the fantastically unfair Rate Support Grant that we should have to levy a rate increase of 32% or 66p in the pound just to stand still with our existing service requirements.

Even if we accept the Government's G.R.E. figure, we face an increase of 20.8% - an increase of 42.5p!

Not included in these latest estimates is a further £1,000,000 which we will need to raise in order to finance Sir Keith Joseph's new examination system.

Year by year the standard of many of our services has fallen because of our frugality and compares badly with those of our neighbouring towns - all Labour controlled.

We have now reached a position where the Conservative Group feels that it cannot carry on and yet maintain any degree of credibility.

To reach a figure in line with our G.R.E. we would have to make cuts of £3,672,000 and still have to levy a rate increase of 20.8%.

The Policy Advisory Group - comprised of the Chairmen of all Committees - all Conservative - decided last night that it just is not worth the hassle of re-examining our estimates making a paltry cut here and there,

when we are already 12% below average, to get down to what? An increase of 21%!

They unanimously agreed that, come what may, they will levy a rate showing a 7% increase which is in line with the Government's increase in our Rate Support Grant.

They agreed to take this step realising that by doing so, they will inevitably expose themselves, individually and collectively, to punitive surcharges and possibly prison sentences for setting an illegal rate.

Their defence will be that it is in line with the Government's policy as indicated in its rate support.

Mr. Alistair Burt and Mr. David Sumberg, the Members for Bury North and Bury South respectively, have been informed of this decision.

They are both aware that, since 1975, we have made repeated representations to the Ministers of the Environment, all of whom have expressed their sympathy that with each change of emphasis in the Rate Support Grant, Bury has consistently fared badly!

We are not another Marxist Republic of South Yorkshire, nor a Militant dominated Liverpool.

You have, in Bury, a Conservative foothold which has suffered without exception under the Rate Support Grant system, and yet we view with dismay the antics of more profligate councils which, for ten years, have openly flouted the directives of successive Governments, and still, year by year, under the application of different Rate Support Grant formulæ, have always been more favourably treated.

We very much regret having to take this step, but you will appreciate that we have no real alternative.

Yours sincerely,

A Little

Albert Little O.B.E.
Leader of the Council

cc. Alistair Burt M.P.
David Sumberg M.P.
Kenneth Baker M.P.

PRIME MINISTER

Lynda Chalker is coming to see you tomorrow (Friday) to discuss rates on Merseyside. This follows letters to you about the subject from Lynda Chalker, Sir Ian Percival (whom you are seeing next Thursday) and a letter you have just received from the Chairmen of the four Conservative Associations which operate under Wirral Borough Council.

Lynda Chalker wrote to you as Chairman of the Merseyside Conservative Local Government Co-ordinating Committee, and she explains that she has been instructed to tell you of the anxiety of the two Conservative Groups who narrowly hold the Boroughs of Sefton and Wirral (Sefton has a majority of three seats, Wirral a majority of one). The view is that these Boroughs will not be held with the anticipated rate rises.

In her letter of 3rd February (Flag A), Lynda Chalker lists (on pages 2 and 3) the three requests local Conservative leaders are putting forward, all of which would cost money.

The following papers are attached:

Flag A	Letter of 3rd February from Lynda Chalker plus handwritten note of the same date
Flag B	Letter of 5th February from Ian Percival
Flag C	Letter of 24th February from Ian Percival
Flag D	Letter from four Constituency Chairmen.

STEPHEN SHERBOURNE

27.2.86

Prime Minister
The tables attached are worth studying.

cc DW
DW

2

PRIME MINISTER

DW 28/2

27 February 1986

RATE INCREASES

The attached tables show increases in rate poundages in 1986-87. They make pretty grim reading.

The shire counties have to set their precepts by 10 March, so we now have pretty solid information. Average increases work out at about 20%. I have highlighted the worst and least bad shires. The rough political breakdown is as follows:

Conservative control	+17%
Labour control	+16%
No overall control	+22%

These are not comforting figures. Perhaps their main message is that coalition government is worst of all.

The tables for district rates are more speculative, as they have until 1 April to set their rates.

David Willetts

DAVID WILLETTS

REPORTED INCREASES IN RATE POUNDAGES 1986-87

MET DISTRICTS		CHANGE IN GENERAL RATE	
GREATER MANCHESTER			
BOLTON	* (LAB)	+20%	SPECULATIVE
ROCHDALE	* (NOC)	+30%	
STOCKPORT	* (NOC)	+15%	SPECULATIVE
MERSEYSIDE			
LIVERPOOL	* (LAB)	+15%	RATE LIMIT
SOUTH YORKSHIRE			
SHEFFIELD	* (LAB)	+20% TO +35%	SPECULATIVE
TYNE AND WEAR			
NEWCASTLE-UPON-TYNE	* (LAB)	+5%	(2% below RATE LIMIT)
WEST MIDLANDS			
BIRMINGHAM	* (LAB)	+14% TO +15%	SPECULATIVE
COVENTRY	* (LAB)	+19%	
SOLIHULL	* (CON)	+25% TO +30%	SPECULATIVE

REPORTED INCREASES IN RATE POUNDAGES IN 1986-87

		CHANGE IN PRECEPT
I.L.E.A.	* (LAB)	0%
MET POLICE PA	*	+12%
LONDON REG TRANSPORT	*	-9%

INNER LONDON BOROUGHS		CHANGE IN GENERAL RATE	CHANGE IN DOMESTIC RATE	
CAMDEN	* (LAB)	0%	0%	RATE LIMITS
GREENWICH	* (LAB)	+1%	+1%	RATE LIMITS
HACKNEY	* (LAB)	-11%	-12%	RATE LIMITS
ISLINGTON	* (LAB)	-18%	-20%	RATE LIMITS
LAMBETH	* (LAB)	-3%	-3%	RATE LIMITS
LEWISHAM	* (LAB)	+7%	+7%	RATE LIMITS
SOUTHWARK	* (LAB)	-7%	-8%	RATE LIMITS

OUTER LONDON BOROUGHS				
EALING	* (CON)	-3%		SPECULATIVE
HARINGEY	* (LAB)	-10%	-10%	RATE LIMITS
NEWHAM	* (LAB)	+15%		SPECULATIVE

REPORTED INCREASES IN RATE POUNDAGES IN 1986-87

SHIRE DISTRICTS		CHANGE IN LOCAL RATE	CHANGE IN GENERAL RATE	CHANGE IN DOMESTIC RATE	
AVON					
BATH	* (CON)	-9%	+26%	+29%	
BRISTOL	* (NOC)	+9%	+25%	+27%	SPECULATIVE
BUCKINGHAMSHIRE					
CHILTERN	* (CON)	+4%	+27%	+31%	
CHESHIRE					
MACCLESFIELD	* (CON)	+5%			
WARRINGTON	* (LAB)	+15%			
EAST SUSSEX					
HOVE	* (CON)		+10%	+11%	
LEWES	* (CON)		+17%	+20%	
ESSEX					
BASILDON	* (LAB)	+5%	+15%	+17%	RATE LIMIT
TENDRING	* (CON)	+11%	+18%	+20%	
HAMPSHIRE					
PORTSMOUTH	* (CON)	+4%	+13%	+15%	
HERTFORDSHIRE					
DACORUM	* (CON)	+12%	+21%	+23%	
KENT					
ASHFORD	* (CON)	+20%	+14%	+15%	
LANCASHIRE					
RIBBLE VALLEY	* (CON)	+9%	+18%	+19%	
LEICESTERSHIRE					
LEICESTER	* (LAB)	+80%			
NORFOLK					
BRECKLAND	* (CON)	+6%	+18%	+20%	
NORWICH	* (LAB)	0%	+15%	+16%	
SOUTH NORFOLK	* (CON)	+13%	+18%	+21%	
NORTHUMBERLAND					
CASTLE MORPETH	* (IND)	+5%	+21%	+23%	
NORTH YORKSHIRE					
HARROGATE	* (CON)	+8%	+15%	+16%	
SHROPSHIRE					
BRIDGNORTH	* (IND)	-1%	+17%	+19%	

REPORTED INCREASES IN RATE POUNDAGES IN 1986-87

		CHANGE IN LOCAL RATE	CHANGE IN GENERAL RATE	CHANGE IN DOMESTIC RATE	
STAFFORDSHIRE					
EAST STAFFORDSHIRE	* (NOC)	+13%	+10%	+11%	
SOUTH STAFFORDSHIRE	* (CON)	+5%	+9%	+10%	
SUFFOLK					
FOREST HEATH	* (NOC)	+19%	+18%	+20%	
WILTSHIRE					
THAMESDOWN	* (LAB)	-4%	+17%	+19%	RATE LIMIT

Urgent, cc B/up
cc D Willetts

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

MINISTER OF STATE

My ref: M/PSO/1792/86
Your ref:

Sir Ian Percival QC MP
House of Commons
LONDON
SW1A OAA

Dear Ian,

27 February 1986

You wrote to me on 6th February about the precept which will be levied in 1986/87 by the new Passenger Transport Authority. I am sorry for the delay in replying. Since then we have of course had a debate about the Precept Limitation Order and I hope that at least some of the points in your letter will have been answered by my explanations during the debate. I have also seen a copy of your letter of 24th February to the Prime Minister.

I entirely sympathise with the position of ratepayers in your constituency. As you pointed out so clearly during the debate, it has been grossly unfair that they have been forced to contribute enormous sums over a number of years to allow others to travel at absurdly low fares. Our objective in subjecting the new Passenger Transport Authority to precept control is to ensure that this imbalance between the needs of travellers and the needs of ratepayers will be rectified within three years.

If it were possible to take immediate action to reduce the severe burden on ratepayers then I assure you we would not have hesitated to take that action. But I am afraid that the extent of the present County Council's extravagance is such that it is likely to take the full three years of precept control to reduce expenditure to acceptable levels. In the meantime I fully recognise that the merits of our policies may be difficult to present to your constituents.

This is particularly the case in the light of the present campaign by the outgoing County Council to suggest that the effect of abolition will be to increase rates. This propaganda is highly misleading. In the first place, Merseyside's precept for 1985/86 was substantially reduced by profligate spending of reserves, both those held by the County Council and those of the PTE. Without such use of reserves, and had Merseyside not been precept limited, the County Council precept might have been some 30% higher than the 73p which was actually levied in 1985/86. Comparisons between ratepayers' bills in 1985/86 and 1986/87 are thus severely distorted.

Second, I must assure you that if rate bills do go up this is not the effect of abolition. We have in fact taken special measures in the 1986/87 block grant settlement to ensure that the total amount charged to ratepayers is no greater as a result of the new organisational arrangements than it would have been if the County Council had continued to exist. Although the new precepting arrangements mean that for the first time the ratepayer can clearly distinguish just how much overspending on public transport is costing him, he is not actually having to pay any more in total than he would have done if the County Council had remained responsible for public transport and spent at the same level (£81.3m) as we have proposed for the PTA. They have spent their accumulated reserves and so have to raise what they spend!

The ratepayer is however benefitting significantly from the control which we have placed on the PTA's spending. If the PTA had been allowed to go down its preferred route and spend as it liked, which would have meant the continuance of the old County Council policies, the PTA would have had to levy a precept of nearly 60p, rather than the 44.8p maximum which we have set.

Turning to the detailed points in your letter, you asked me why Merseyside PTA could not be allocated the £25m block grant for which it would have been eligible if it had spent at its GRE of £45.4m. First let me explain that although we have for the purposes of calculating the maximum precept estimated the PTA's grant entitlement if they spend £81.3m, and at this level of spending no grant is receivable, the actual grant received by the PTA will in the event depend on their spending decisions. If the PTA decide that savings can be achieved more quickly than we have assumed it is quite possible that they can reduce spending and become entitled to grant.

Second, I should explain that the process of calculating an individual authority's block grant entitlement is essentially a process of allocating a fixed total of grant between all authorities. Thus the £25m block grant which Merseyside PTA estimate they "lose" by spending so far in excess of their GRE, is not returned to the Exchequer as your letter implies; but is, in effect, distributed among other local authorities. This system also implies that if we were to make special adjustments to ease the burden for Merseyside, this could only be at the expense of local authorities elsewhere.

GREs and Expenditure Levels (ELs) are in fact two quite different concepts, set under different legislation and according to different principles. It is not only in Merseyside that the PTA's EL is substantially different from its GRE. This is also true of all the other PTAs.

An authority's GRE (Grant Related Expenditure) is an assessment of the level of spending required to obtain a standard level of service and its use is restricted to the calculation of its block grant entitlement. Authorities are free to spend more or less than their GRE, and for many authorities spending on public transport is well below GRE. Because GREs are used to calculate an Authority's entitlement to block grant the legislation requires that they be set according to principles applicable to all authorities. These principles are discussed annually with the local authority associations and cannot be changed easily. Certainly they cannot be changed simply to favour one authority.

An authority's EL is something quite different from its GRE. ELs are set under the Rates Act 1984 and are a stage in the process of setting the Authority's maximum rate, or precept. ELs for the new PTAs were set on the basis of an assessment of the PTA's actual need to spend in 1986/87 taking into account all the particular circumstances of that Authority, including the level of spending of the outgoing County Council. Thus where County Councils have been pursuing low fares policies, as in Merseyside and South Yorkshire, their ELs recognise that they will need more than one year to reduce their expenditure to a sensible level. But in the meantime it would scarcely be appropriate for ratepayers in other parts of the country to have to pay for Merseyside's continued over-provision, which would be the effect of your proposal. It seems to me only right that where an Authority is still spending a far greater amount on services than comparable authorities elsewhere, then the main burden should fall on ratepayers locally. I hope of course that those same ratepayers will make their views very plain to the responsible authority.

I apologise for the length of this letter but felt you would wish for a full explanation of our policies. I am copying this letter to the Prime Minister, in view of your request for a meeting, and to Kenneth Baker and Norman Tebbit for information.

Yours ever

David

DAVID MITCHELL

PRIME MINISTER

cc Mr Alison

LYNDA CHALKER

BF

I have arranged for Lynda Chalker to see you at 1230 on Friday. The diary today and tomorrow is appalling.

Lynda does wish to raise the matter of Merseyside rates with you.

MT

J. Bowers

RP Caroline Ryder

26 February 1986

b.f. for meeting.

1

1/ Mr Wicks

2/ **PRIME MINISTER**

SIR IAN PERCIVAL AND LYNDA CHALKER

Attached is a letter from Sir Ian Percival seeking a meeting with you about RSG etc on Merseyside. I imagine that you will wish to agree to this request with a DOE Minister present. Agree?

Yes MT

More difficult is a request from Lynda Chalker for a meeting which her office at the FCO has conveyed to us now on two occasions. I understand that she has written privately to you about this. Personally I think it rather odd that a Government Minister should seek to lobby you about another Department's business and strictly speaking therefore I think her request for a meeting is out of order. If you agree to see Sir Ian Percival however we can make that clear to Lynda Chalker and ask her to make sure that Ian Percival is aware of her views before any such meeting.

Agree to proceed in this way?

I do not think Lynda wishes to pursue the point. She wants to see me about general political matters.

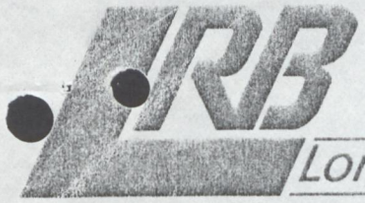
MT

NLW

(Timothy Flesher)

25 February 1986

cc PS/Sir B. Young N 17/10



London Residuary Body

Chairman's Office
St. Vincent House
30 Orange Street, WC2H 7HH

Telephone: 01-930 0613

PRESS RELEASE February 25, 1986

LRB BUDGET - "BONUS FOR RATEPAYERS"
SAYS CHAIRMAN

A financial bonus for London ratepayers was forecast today (Tuesday) by Sir Godfrey Taylor, Chairman of the London Residuary Body, as he announced the LRB's first budget 34 days before abolition of the GLC.

The LRB, formed to wind up the affairs of the GLC, will be receiving £48 million by levy across the 33 London Boroughs - a major reduction from the provisional estimate in November of £182 million.

And there is a further benefit to ratepayers: at least £71 million in GLC balances will be distributed to boroughs by the LRB - £23 million more than they are paying - plus a possible £18 million more (see attached table 5).

The LRB's gross expenditure for 1986-87 on carrying on services to the boroughs after abolition, and on its own costs for clearing up GLC functions, is £617 million. This will be met by the levy, charges for services to the boroughs and successor bodies, income from grants, mortgage repayments and rents, and inherited GLC balances.

The lower levy figure - roughly equivalent to a 2.5p rate, although it will be calculated not on rateable value but on population (see attached table 4) - has been achieved because Environment Secretary Kenneth Baker accepted that GLC home loans repayments should be used to repay debt, and that £45 million inherited from GLC balances should be used to finance redundancy payments, and for contingencies. The lower-than-expected levy will help boroughs attract more Government grant and so contribute to keeping rate levels down in 1986-87.

Sir Godfrey said today: "This is good news at last for the hard-pressed London ratepayer. The LRB has pushed hard to achieve it and with Government goodwill and the use of GLC balances which are rightfully going to the benefit of Londoners across the capital, we have managed to hold down the LRB levy to a very satisfactory level."

mf

The boroughs will also pay to the London Fire and Civil Defence Authority, the London Waste Regulation Authority and the Department of Transport for the urban traffic control system. They will pay directly for current GLC services such as waste disposal, planning, highways, entertainments licensing, magistrates' courts, housing and concessionary fares.

Sir Godfrey said: "When you add up all the costs which the boroughs are already paying anyway, they should be considerably less than the GLC's current 34p precept. And in addition the boroughs can look forward to a further distribution of GLC balances.

"It adds up to a bonus - the first stage of the money-saving exercise that abolition of the GLC always promised to be."

The budget document shows a total LRB staff of 4,331 at abolition. But this includes staff to clear up GLC offices, Thamesmead staff who will transfer to the Trust, staff engaged in services whose costs are recoverable in the charges, and apprentices who will move on when their training is completed; the LRB's own staffing requirement is less than 2,000.

Sir Godfrey added: "In the longer term there will be more savings as staff finish their jobs with us and take retirement or move on."

ENDS

CONTACT : Terry Collcutt, Press Officer, London Residuary Body,
Tel: 930 0613

James Bradley
LGR-2
P1/129

Mr. Alison

From: The Rt. Hon. SIR IAN PERCIVAL, Q.C., M.P.

Thursday 6th
at 5.00pm

HOUSE OF COMMONS
LONDON, SW1
Secretary's Tel. No.: 01 219 4065

24th February 1987

Dear Prime Minister,

May I please come & have a word with you about Merseyside, urgently.

Of course I know and accept the reasons for G.R.E., grant penalties etc. – but the short fact of the matter is that the whole scheme has totally misfired in Merseyside and is killing the very "birds".

Labour controlled authorities suffer no penalty, the vast majority of those who vote them into power suffer no penalty – it is the hard pressed rate payers (not least in Southport), such as the nursing Sister earning £140 and already paying £40 of it in taxes and insurance, the small (or large) businessman working all hours to expand (or just to stay in business), the retired who have worked hard and saved hard and always do their utmost never to call on the State for help – these are the ones we are allowing our Labour & Liberal enemies to kill.

That is desperately unfair to the very kinds of people we are so concerned to help. They have no way of controlling the Labour spendthrifts. Any way of trying to do so, in order to protect them, is in fact clobbering them and only them.

And, with respect it seems to me to be so easily avoidable. The grant money has been provided for, so no extra expenditure would be incurred by in fact paying it.

So why can we not come straight out and say that by their deliberate and totally irresponsible behaviour, local Labour politicians, so frequently supported by the Liberals, have turned the whole thing of the system on to the very people whom it was intended to protect, and that we are not going to allow them to get away with that, and that the £25'm will be made available, not to the P.T.A but to the rate payers, by paying it direct to the District Councils on condition that they use it to reduce rates, not increase expenditure.

As before I am ~~writing~~ writing to you personally and asking for a meeting both because I believe the matter to be of such importance and because several Departments are concerned. I am copying this letter to Kenneth Baker and Raymond Mitchell, who I understand to be the ministers most concerned, and to Norman Tebbit,

Yours ever

John

24 JUL 1986

From: The Rt. Hon. SIR IAN PERCIVAL, Q.C., M.P.
HOUSE OF COMMONS
LONDON, SW1
Secretary's Tel. No.: 01 219 4065

Miss Egerton
Advice please for Mr Mitchell

6th February 86.

Merseyside – Transport precept

Dear David,

It was good to be able to have a word with you last night. Thank you for looking into it so quickly – and please excuse me. I am afraid I was rather abrupt. I am sorry.

The problem as we see it looks like this.

In September 85 the "Notice of the Determination of an Expenditure Level" for the Merseyside P.T.A. stated that the "Secretary of State for Transport in accordance with Sec III (iii) of the Rates Act 1984 hereby gives notice that the level for the total expenditure of the Authority in the financial year beginning on 1st April 1986 shall be £75,200,000." Following receipt of representations by the P.T.A. the Secretary of State increased that figure to £81.3m".

In those circumstances it seems unlikely that the P.T.A. will

spend much, if any, less than £81.3 and ~~it~~ difficult to see ~~how~~ how we can criticise them if they do spend the sum authorised.

Against that the P.T.A. component of the GRE as determined by D of E. is about £45.4.

The consequences of all that seem to us to be that if, but only if, the P.T.A. were to keep within the figure of £45.4 m the Government would give £25 million towards that expenditure; but if the P.T.A. spend the sum which it has apparently persuaded your Secretary of State should be authorised, that saves the Government £25 m in grant and costs the ratepayers of Merseyside not only the extra £36 m. expenditure but also the £25 m lost grant.

No doubt the Government will be glad to save that £25 ~~m~~ m, but it does seem strange to us your friends that you should put us in this position by taking as the GRE a figure which could never realistically have had any effect but to deprive us of ~~the £25 m~~ any chance of receiving the £25 m. supposed to be available, given that the other decision in the hands of the Government (the £81.3) was anything like what it has been.

Put another way, to fix

From: The Rt. Hon. SIR IAN PERCIVAL, Q.C., M.P.

HOUSE OF COMMONS
LONDON, SW1
Secretary's Tel. No.: 01 219 4065

GRE at £45·4m, with the accompanying promise of £25m grant, loses all meaning when another arm of the Government accepts that reasonable expenditure is likely to be so far in excess of that.

In practise it amounts to a transfer to us of £25m of the cost of transport which the Government purports to be willing to bear if we play our part, but in fact makes it impossible for us to earn by trying it to a figure (£45·4) which on the basis of your own assessment of expenditure (£87·3m) is quite unrealistic.

Nothing is saved in terms of public expenditure. The £25m has presumably already been allowed for in next year's estimates and will stay in them, so there will be no effect on the raising of revenue. The one practical consequence will be a big addition to our rates with all that that entails.

As one of the only two authorities on Merseyside who have kept spending down

we do not find that easy to accept. We are also fearful of the electoral consequences, not only because we would much prefer to retain control but because it seems to us to be as plain as a pikestaff that if we lose control there will be a further increase in spending. True that will no doubt help us to regain control in a year or two but that will not be much comfort to either businesses or householders.

That is how we see it. If you think we have it wrong please tell me. Of course I will look most carefully at what you say.

Excuse longhand. I want to get this to you as quickly as possible.

As GRE is a matter for Kenneth Baker I am sending a copy of this to him – also to Malcolm Thornton and the leader of my Council.

Warmest regards

as ever

John

28.11.
1996

From: The Rt. Hon. SIR IAN PERCIVAL, Q.C., M.P.

B

CONFIDENTIAL

HOUSE OF COMMONS
LONDON, SW1
Secretary's Tel. No.: 01 219 4065

5th February 1986.

Dear Prime Minister,

You will have received Rhonda Challen's letter of 3rd Feb. written on behalf of Merseyside Conservatives and I write this brief note to add my personal comment and support.

I know that you will not in any way see her letter "as a failure on (her) part to encourage local Government in Merseyside to put its own house in order" – that would be a travesty – but rather as the measure of her concern – which I share.

None of us wishes to add a single ounce to your personal work-load. It does however seem unavoidable both (a) because our problems do not result from the actions of any one Department alone, and the solutions do seem to need co-operation between several Departments at the very highest level, and (b) because those problems really are both very serious and very urgent, and do call for a co-ordinated solution at a very early date.

The crux of the problem here – and the reason why it seems to me

that the Wirral and Sefton Councils have a right to look to the Government - is that the immediate problems are in no way due to failure by those Councils "to put their own houses in order", or to lack of control by them over the things over which they do have control. Same in a limited sense so far as Education is concerned what is happening is that expenditure is being determined or approved by others (see in particular ministerial decisions as to expenditure on Transport and Policing in Merseyside) and we are being left to raise greatly increased sums to pay for that approved spending.

We are finding it increasingly difficult to justify the rate increases which must result (23% + in Sefton). The true answer, that we have to raise all this money to pay for Government approved expenditure in other parts of Merseyside, is not attractive to us any more than it would be to the voters. It is all especially difficult remembering all we have said about the advantages of "abolition".

We shall do our very utmost to retain control but I do hope that you and your colleagues will not underestimate the dangers. They are very real. And there really is an awful irony in the fact that those who have so faithfully carried out our policies over the years may now be floored by our own actions.

Every good wish
as always
Max

CC85

A

From: Mrs. Lynda Chalker, M.P.

HOUSE OF COMMONS
LONDON SW1

3.ii.86

Dear Margaret,

My most sincere apologies for troubling you with this local government matter, but by writing I hope you may not get a "demand" to see you. This row has gone on for over six months, and I have done all I can to hold the line.

I know and understand the difficulties and am fully prepared to face what comes with the electorate but it is the Party attitude that is turning against us as a Government which concerns

me so deeply.

I will help however I can, but my grass roots are determined that you should hear their problems.

Please let me know, if I can help in any other way.

Yours ever

Lynda

From: Mrs. Lynda Chalker, M.P.

HOUSE OF COMMONS
LONDON SW1A OAA

3 February 1986

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
London
SWIA

Dear Prime Minister,

You will probably be surprised to learn that I am still nominally Chairman of the Merseyside Conservative Local Government Co-ordinating Committee. In this role I am called upon to chair meetings usually intermittently, but particularly when they feel they are approaching a crisis situation. We have now had two such meetings inside the last three weeks and I have been instructed to tell you of the anxiety of the meeting and indeed of the two Conservative Groups who currently narrowly hold the Metropolitan Boroughs of Sefton and Wirral. Whilst you may regard this as a matter of personal pleading, I can assure you that without the demand of these Groups I should not have written this letter, but I think you ought to know the complications of current Local Government financing for the forthcoming Local District elections.

At the present time Sefton District has a majority of three seats, all of which are extremely vulnerable to the Alliance. Wirral has a majority of one seat, one Ward being held by five votes and the second by ten votes, both in Wallasey. In addition to the four vulnerable Westminster seats, two in Sefton and two in Wirral (David Hunt's and mine), it is these two last bastions of Conservative Local Government control which I now have to say, I do not believe we can hold in May given the anticipated rate rises.

Kenneth Baker has been working hard for many months to help both Wirral and Sefton who have for the last eight and eleven years been financially very prudent indeed. The crazy workings of the current rate support grant system are really what lies at the heart of it and, whilst we are contemplating our changes in Local Government finance, none of this comes in time to save a critical situation in these two Metropolitan Districts. I now understand from the leaders of Sefton and Wirral, Cllr Ron Watson and Cllr John Hale, that the worst difficulty facing them in setting the rates is to do with the redetermination of the permitted expenditure level on transport in Merseyside. Originally the

Surgery appointments: telephone 051 630 1338
or write to: 8 Rake Lane, Wallasey, Wirral

PTA
GRE £45m
Approved £100m £81m

level was set at some £45 million but they applied for redetermination. Whilst they, the Labour controlled Council, were given a redetermination of £81 million, they were told at the same time that because of the RSG system and its contradictory moves, the outcome would be that they would lose in excess of £25 million of grant money. The effect of this clearly shown in the Sefton case where at present the Leader is contemplating a rate rise of 23%, 13% of which is due to this direct loss of grant as it works out for us. There are no reserves on which either Sefton or Wirral can draw to correct this for they have been so careful in their spending, and cut back so far in their services, that there is simply nothing more to be found in the local coffers.

This is not normally a matter in which I would concern you but Kenneth Baker has done all within his power to help and Angela Rumbold and I, who discussed this briefly earlier last week, both know that our room for manoeuvre is totally constricted except in three possible ways. It is these three ways which need to be examined on political grounds with which I am troubling you. The political grounds will be clear to you knowing the continuing battle we have against the Militants. They are not only in Liverpool but also in Sefton and Wirral as well, and we believe it vital that we retain both of the two Conservative controlled Metropolitan Districts in our fight to stop the whole of this area being taken over in a way that perhaps people in the south of the country simply do not understand.

The three avenues which seem to me to be open to us as a Government all cost money and I am well aware that this letter will be seen by you, as a failure on my part to encourage Local Government in Merseyside to put its own house in order. The point is that Sefton and Wirral have been doing that for eleven and eight years, and it is the system which is working so badly against them which caused this Conservative crisis meeting to come forward in such strong terms. The three considerations that the Conservative Merseyside Leaders are asking for are

1 That the £25 million plus grant on Transport should be restored but eventually phased out which would help to enable the rates to be held down at least to a more reasonable level.

2 That the advanced and further education pool money should not be loaded on the Education Authorities all in one year as seems to be the intention at the moment, but it should be be spread over several years.

3 That we should be able to phase the redundancy and compensation costs of staff made redundant from the County Council over at least a three year period rather than taking them all into the costs of the first full year post abolition. This would make a very considerable financial difference to us.

This seems a crucial political position, and locally Conservatives insist that you know. They apologise for troubling you, especially at this time, as I do most sincerely.

Yours ever

Lynda

cc The Rt Hon the Lord Whitelaw CH MC
Rt Hon Norman Tebbit MP
Rt Hon Kenneth Baker MP
Rt Hon Nicholas Ridley MP
Cllr Ron Watson, Leader of Sefton Borough Council
Cllr John Hale, Leader of Wirral Borough Council
Rt Hon Sir Ian Percival MP
David Hunt Esq MBE MP
Barry Porter Esq MP
Malcolm Thornton Esq MP

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THE NATIONAL UNION OF
CONSERVATIVE AND UNIONIST ASSOCIATIONS

North Western Provincial Area
(Woolton House, 31 Byrom Street, Manchester M3 4PJ)

Area Local Government Advisory Committee
Wirral District Co-ordinating Committee

Chairman
K.G. Allen

Hon. Secretary
F.S. Dawson M.B.E.

Please reply to ;
c/o Birkenhead
Conservative Association
20 Hamilton Square
Birkenhead L41 6AY
051 647 9131

The Rt. Hon. Margaret Thatcher F.R.S. M.P.,
10 Downing Street,
London.

Dear Mrs. Thatcher,

I write on behalf of the Chairmen of all four Constituencies who operate under the control of Wirral Borough Council, i.e., Birkenhead, Wirral South, Wirral West and Wallasey, to express our very great concern at the projected Rates increase in Wirral, which we believe will be in excess of 25%. This is without any growth in services and after all the efforts over the past six years by our Conservative controlled Council to consistently follow Government policy and guidelines.

We were the largest Authority to privatise refuse collection and street cleansing, all departments have been examined on a "value for money" basis, either through internal exercises or by outside consultants. All repairs, maintenance and capital contracts are open to competition.

From a very low base during this period, we were featured for two consecutive years in the Financial Times as the Authority making the largest reductions in manpower. Out of 36 (thirty six) Metropolitan District Councils, we stand 34th (thirty fourth) in expenditure terms and out of 105 (one hundred and five) Education Authorities, we are the lowest in expenditure. We have done all we can. We were virtually promised that for next year our efforts over the years would be recognised and our Grant Related Expenditure figure would be adjusted to take account of the realities instead of being based upon past target figures which bear no resemblance to the problems we face as an inner area Authority. This has not happened and, as a consequence, our expenditure will be in excess of the GREA figure and we shall be in a grant losing situation.

In addition, we are having counted against our GREA figure, the costs of the residuary body which includes £1.5 million in respect of compensation payments for Merseyside County Council staff redundancies. What worsens the situation is that the Secretaries of State for the Home Office and Transport have allowed permitted expenditure levels for the Police and Transport Joint Boards respectively, in excess of the GREA figures for these boards, by amounts of £16,000,000 and £38,000 ,000. This means that for Transport for example, no grant at all will be received. Either the GREA's are too low or the Secretaries of State have allowed excessive expenditure levels which is contrary to the promise made to control the expenditure of these joint boards and which was the purpose of taking appropriate powers under the Abolition Act.

.. / ....

It is our firm belief that what has happened is beyond the power of Wirral Borough Council to control and unless urgent corrective action is now taken, the loss of control of Wirral Borough Council by our Party is absolutely inevitable. Add to that the destruction of morale amongst our workers and the consequent damaging implications for our three Members of Parliament come the next General Election.

Prime Minister, we appeal to you, at this late stage, to do all in your power to right this wrong.

Yours sincerely,

Secretary to the Wirral
District Co-ordinating Committee

on behalf of :

K.G. Allen – Chairman Birkenhead Constituency
Miss K. Hobson - Chairman Wallasey Constituency
A.H. Duncan - Chairman Wirral South Constituency
Mrs. I. Whitehurst - Chairman Wirral West Constituency