

Prime Minister

LOCAL AUTHORITY FINANCE

1. Herewith Memorandum dated 28th October, sent by Adam Ridley to the Chancellor of the Exchequer.
2. There is very widespread concern indeed among some Conservative Councillors that the formula being prepared by Michael Heseltine and Tom King will penalise some of the most strongly Conservative controlled authorities.
3. You should also know that there is substantial and growing anxiety in the Parliamentary Party about this, and about the Rates Referendum proposal.

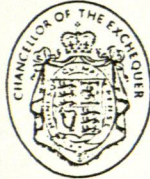


2nd November 1981

IAN GOW

cc. The Rt Hon Michael Jopling MP





G.13

*Mb*

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Minister of State (C)  
 Minister of State (L)  
 Mr Cropper  
 Mr Harris

MR PARKINSON'S MEETING ON THE IMPLICATIONS OF THE DOE'S PROPOSALS  
 FOR LOCAL AUTHORITY FINANCE

After a certain amount of confusion, I managed to attend Mr Parkinson's meeting at 6 pm in the House of Commons last night. Those present included Sir Frank Marshall, John Lovell (ACC), Tag Taylor, Ian McCullum (ADC), Noel Hepworth (LBA); Mr Jopling, Mr King, Joan Varley (Central Office), Tony Hutt (CRD), Alan Howarth and a note-taker.

The meeting was a little disorganised due to Tom King's late arrival. Cutting a long story short, the issues can be summarised as follows. The ADC have done calculations on the basis of some hypothetical figures recently supplied by DOE, to illustrate the possible impact of the imminent DOE Bill in defining the degree of "excess" expenditure over GRE and the cuts required in that expenditure to avoid a referendum. The tabulation of these figures (attached at Appendix A) suggests a very horrendous picture. McCullum argued that this would be totally unacceptable politically, being particularly unfair on some of the most prudent and thrifty councils. It would require impossible cuts in ordinary services; rent increases, not least in areas where rents have not been held down, if anything the contrary; and in many cases it would force the councils to soak up and redeploy from other potential uses the valuable balances which have been accruing from the sales of council houses. The ADC appear already to have made up their mind to formally oppose the DOE's new Bill.

John Lovell for the ACC was rather more agitated. He predicted that the ACC would come out formally against the new Bill within a week, and that "there will then be confrontation". His councils



were in the process of being consulted and all but a few would certainly be most strenuous in their opposition. In his view and theirs the new Bill was likely to be unnecessary. There were other ways of achieving the same effect by manipulating block grant, introducing suitable differential treatment of domestic and non-domestic ratepayers, and if such proposals would deliver almost as much as the new Bill, would the fight be worth the candle? In any case, there was a very real risk that the proposed legislation would not achieve any of its goals. To bring about a level of overall expenditure in line with the Government's financial targets, the "cut-off" for initiating supplementary rates and referenda would have to come into force at very modest excesses of actual expenditure over norm levels. The result would be that a vast number of councils would be pushed into supplementary rates and referenda, referenda which almost certainly would give the wrong result. If, at the other extreme, one aimed at numbers which allowed a considerable excess over GRE, then one would not hit all the high spenders, and one would certainly not achieve the Government's overall financial targets. So what was the point of the exercise? McCullum added the proposition that there were, in any case, other ways of finding savings if that was what the Government was after. He had been looking recently at the question of unfunding local authority pensions, and thought that much money could be saved through that route.

Tag Taylor made a much more political intervention, and with considerable emotional force. He depicted the new measures as a drastic attack on local authority autonomy, alien to Conservative principles, and almost certainly the product of centralising official minds who wanted nothing more than to get their hands more effectively on local authority decisions.

Tom King attempted to defuse these anxieties with a number of distinct arguments. First, he stressed that the aim of the new legislation was to deal with the politically provocative behaviour of high spending local authorities. He stressed that it was wrong to think that the whole of the Conservative party in local government was opposed to the DOE's Bill - there was very strong support and enthusiasm for it, not only at the Party Conference itself but also amongst Tory oppositions on councils controlled by other parties.



As far as Mr McCullum's "hit-list" was concerned, too much should not be made of it. Indeed it would be a good idea if it could be handled very tactfully. DOE Ministers and officials were well aware that they had to find a system which did not hit thrifty councils, particularly those in the districts such as Mr McCullum represented. It had to be recognised, however, that the timetable of public expenditure discussions and the great impact of these discussions on the RSG settlement this year would make it inevitable that no precisely worked scheme and figures could be offered, let alone discussed, for some weeks yet. His tactical conclusion - and plea to the local authority leaders - was to trust DOE Ministers to be sensible; and to try to hold back their troops and slow down the mobilisation of their attack on the Government until the end of November or later, which would permit DOE Ministers to come forward with agreed proposals which would be undoubtedly of a reassuring character, and could be illustrated with an altogether different kind of hit-list. Such discussions would be vital in any case, since without them the legislation would not get through the House! He asserted more than once that the end result with a DOE Bill would only affect "a few high spending authorities" and he would "be pretty disappointed to find a Conservative local authority caught by the scheme, or at least caught significantly by it".

He also warned the local authority leaders that it was unrealistic to think that the Cabinet would change its mind about the inclusion of the new Bill in the Queen's Speech. The Bill would come forward, and it would be vital to recognise that it was a temporary provision, which would be followed by the far more important Green Paper on the future of rates, which would be published only a few weeks later.

Mr Parkinson, in closing the meeting, reiterated Tom King's plea to the local authority leaders to go as slowly and gently as possible in the short run, to allow DOE and other Ministers to reach agreement on the basic expenditure decisions and then to work out the way the provisions of the Bill might be put into force and practice. There was some recognition on the local authority side that this was sensible advice.



Comment

There are several thoughts which struck me about the whole affair. The first is that, for reasons which may well be understandable and inevitable, the diplomacy of DOE Ministers has not been very effective, particularly in the purely political sphere. This is not our primary concern, but I think we may need to keep our eyes and ears a little more skinned than in the past nonetheless. The second is that the local authority associations are getting very fed up indeed. One of the most disturbing things for them has been that the Government reneged on the commitment of only a year ago that there would be no further major legislation affecting them. They were also very agitated lest the system which we devise now could be turned against our interests by a future Labour Government. Tom King was very fair in presenting the issues to the meeting. But it was fairly clear to me that he was arguing that the way local authorities are treated would be dependent to a vast extent on the broader decisions about expenditure, on the arguments about local authority rents and house building, and therefore that the ultimate blame for any difficulties which may arise in due course could well be pushed back on to the Treasury and the general expenditure strategy.

Fortunately, perhaps, I was not required to speak on any issue during the meeting. There was no suggestion of how matters would be taken further after the Queen's Speech, but a clear understanding that our people on the local authority associations would be given quiet reassurance and guidance before many weeks had passed.



ADAM RIDLEY  
28 October 1981



Trassey

2nd November 1981

Local Authority Finance

Thank you so much for having sent to me a copy of your Memorandum dated 28th October.

I share your unease.

Please keep me informed.

Ian Gow  
Parliamentary Private Secretary

Adam Ridley Esq