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# The politics of rate increases and the fight against the cuts.

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A Hackney Socialist Challenge pamphlet

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# The Background

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The British economy is facing its greatest post-war crisis. With its uncompetitive, out-of-date industries, low profitability and lack of new investment, it is ill-equipped to deal with the present worldwide recession. Only North Sea oil and superprofits from investments in Third World countries are staving off an even more serious crisis.

Margaret Thatcher's Tory government is determined to solve this crisis at the expense of working people. The Tories' attempt to 'revive' the economy means tax cuts for the rich and even greater financial incentives for private industry, while working people are faced with wage cuts, soaring prices, mass unemployment, the erosion of the welfare state, and massive cuts in public expenditure.

A major focus of the Tories' offensive are local councils, which administer the majority of our public services — education, housing, and social services. The aim is a massive reduction in the £10,000 million given by government to local authorities each year.

Local authorities have for many years been slowly strangled by their inadequate system of financing in any case. The effect has been most marked in inner-city areas with great social needs and essential housing programmes. The banks and finance institutions have their fingers tightly round the windpipes of local councils through the interest charged on loans for building needs — and this means higher rents and rates.

Central government has systematically under-financed real need through the machinery of the Rate Support Grant (RSG). And new proposals by Tory Minister Michael Heseltine, which aim to introduce a block grant system, will make this under-financing even more severe.

Faced with this situation, Labour councils have a choice: either they can play by the rules of the game as determined by the banks and the government, become good housekeepers, and carry out the cuts themselves; or they can *fight*.

Almost all local councils — including many with substantial Labour majorities — have opted not to fight. Instead they have chosen to collaborate in and oversee the erosion of the welfare services that the labour movement has fought for over many years. Indeed, many councillors take a certain pride in acting as managers of the local state rather than representatives of the people who elected them — and whose services they are cutting.

But successful resistance to the Tory onslaught is possible. Later we look at the alternatives which are open to Labour councils. First, however, it is necessary to look more closely at how local government finance works, and how the Tories are aiming to tighten their stranglehold still further.

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## Where The Money Comes From

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Councils get most of their money from two sources: (a) rates and charges for services, including rents; (b) the Rate Support Grant from central government.

### RATES

The rateable value of a property is set by the Inland Revenue Department. The rates themselves (i.e. how much you pay per pound of rateable value) are set by the council.

The present rating system is based on an absurdity, however. This is the idea, put forward by the Inland Revenue, that you can determine rateable value on the basis of the 'amount a tenant might reasonably be expected to pay in rent to their landlord given no competition'.

But in reality there is competition. And as a property becomes more sought after, its notional rental value does in fact rise, and its rateable value increases regardless of the family and financial circumstances of the occupant. Moreover, because the rateable value of commercial property is so high, authorities which have a large number of such properties in their area stand to be much better off than those without — such as rural and run-down inner-city areas.

## THE RATE SUPPORT GRANT

Each year central government meets a proportion of a local council's expenditure — at the moment 61 per cent. With the exception of London, where the Greater London Council has statutory responsibilities, central government gives local authorities grants for specific purposes, e.g. police, transport, education awards, rent and rate rebates. In addition, each local council gets a Rate Support Grant.

Under present legislation the RSG has three parts:

1. **The needs element**, which is intended to compensate authorities for the difference in the amount of spending per head necessary to provide a similar level of service throughout the country. Local authorities determine their needs, but it is central government which decides whether it will meet the local authorities' demands by increasing the needs element.

2. **The resources element**, which is designed to compensate for differences in councils' rate bases, so that all authorities can finance their spending through a similar level of rates. A grant is thus paid to all authorities whose rate base falls short of a set national standard rateable value.

3. **The domestic element**, which is to compensate authorities for the amount by which the rates charged to domestic ratepayers are reduced, e.g. if the rate in a borough was £1.20 in the pound, a domestic ratepayer might only pay £1 while a commercial ratepayer would pay the full £1.20. This reduction for domestic ratepayers is subsidised by the government through this means.

But in all three areas central government has absolute discretion. It has total control over how much is paid in RSG to local authorities. It can turn the tap on — and it can turn it off.

In London there is also the additional mechanism of the 'clawback', which operates so that other local authorities share the benefit of the high rateable resources concentrated in Central London.

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## Where The Money Goes

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Below is the Department of the Environment's estimate of the national pattern of spending from the Rate Support Grant:

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**1980-81 RSG settlement (revalued to November 1979 prices)\***

**England and Wales**

	£m	%
Education, Libraries & Arts	6703	41.9
School Meals and Milk	223	1.4
Port Health	2	0.01
Personal Social Services	1246	7.8
Police	1512	9.4
Fire	391	2.4
Other Home Office Services	195	1.2
Local Transport	1123	7.0
Consumer Protection	40	0.3
Urban Programme	30	0.2
Local Environmental Services	1736	10.8
Employment	55	0.3
Other Housing	55	0.3
Revenue Contribution to Capital Outlay	730	4.6
Loan Charges	1610	10.0
Contributions to Housing Revenue Account	361	2.3
Less Interest Receipts	-275	
	15737	

\*This table re-states the breakdown on an RSG basis for England and Wales given in the White Paper 'The Government's Expenditure Plans 1980-81' (Cmnd 7746), revalued to November 1979 prices.

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At a local level, each council divides its spending into two sections: (a) capital spending, (b) revenue spending.

**Capital spending** consists of the money borrowed to pay for the council's building programme — housing, youth clubs, nurseries, old people's homes, recreation facilities, etc. All borrowing for the capital programme must be approved by the government, but the money is borrowed from a variety of sources. About 40 per cent is borrowed from central government at a rate of interest slightly below market rate. The remainder is borrowed on the open market from finance and insurance companies, pension funds, and the sale of council bonds — all at the going rate of interest.

For the purpose of the council's budget, all the different borrowings are brought together into a 'Consolidated Loans Fund' so that an average rate of interest can be worked out. This is used to calculate the interest charges to be paid by each council committee (housing, social services, recreation, etc.). The interest charges are not paid for out of the capital spending account, however, but out of the revenue budget.

**Revenue spending** consists of the money needed to cover daily running costs — wages, maintenance on buildings and equipment, etc. plus the interest charges on the money borrowed for the capital budget. Any increase in the debt charges will automatically eat into the amount of money available for council services.

What has happened over the last few years is that a combination of rising interest rates and increased capital programme borrowing (to deal with, in particular, housing need) has created a massive increase in council debts. In 1968/9 the total debt of all local authorities was £449m. The cost of building an average house was £6,000 and average interest rates were about 7 per cent. By 1974/5 the total debt had risen to £1,126m, the cost of building an average house was £14,000 and average interest rates had jumped to 14 per cent.

The result has been staggering. While in 1968/9 it cost a council just over £25,000 to provide a home (the cost of the building work plus payment of interest on the money borrowed to pay for it), by 1974/5 this had rocketed to an incredible £120,000 — 88.3 per cent of this being interest charges.

These figures mean that *councils will continually be forced to cut services to pay for their growing debt charges* unless the government is made to cancel them and institute low interest rate loans. (There is a precedent for this in the Public Works Loan Board, which until 1955—when an earlier Tory government drastically reduced its powers—was a source of protected low interest rate loans for councils.)

An upward spiral is developing, with the total debt increasing by a greater and greater amount each year. The outlook is ominous unless a real fight is mounted against the interest ransom paid by local authorities.

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# Tory Policy And The Block Grant

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This is of no concern to the Tories, of course. After all, they are the government of the leeches in the banks and finance houses. Their only aim is to reduce the total amount given each year by central government to local authorities. This is embodied in the *Local Government Planning and Land (No.2) Bill 1979*, which proposes to replace the Rate Support Grant with a block grant.

## HOW THE BLOCK GRANT WILL WORK

The first step in this new system will be for central government to make an assessment of each authority's spending need. This needs element will be based on the size of groups requiring each service, such as pensioners or primary school pupils. Each sector will attract a financial weighting based on the previous year's spending per person and reweighted for inflation. From this a crude assessment of spending need will be calculated.

At the same time the government intends that a standard national rate be set. This would be the same throughout the country, and would raise different amounts from each authority depending on the rateable value of the property in its area.

The block grant will be the difference between the amount raised by levying the standard rate and the assessed spending need figure.

Authorities which choose to spend above the government's assessment of their need will be faced with a demand to raise their rates disproportionately in relation to the actual percentage of overspending. For instance, a 5 per cent level of overspending might lead to rates going up 8 per cent; 10 per cent overspending could lead to 20 per cent higher rates; 15 per cent overspending to a rate increase of 40 per cent.

The block grant system has been opposed by all the associations of local authorities, as well as by independent consultants. Its only supporters are officials in the Department of Environment and Tory Ministers themselves. This poses the question: how will the block grant system differ from the present Rate Support Grant, and what's in it for the Tories?



## WHAT THE TORIES WILL GAIN

This can be summarised in three points:

1. A central government assessment of need, and therefore direct control over local authorities' social policy.

2. A legalised method of punishing 'overspending' authorities — in other words, a political control by central government over local authorities which will be enforceable through sanctions.

3. Central government will decide how much is to be spent in each area and on what, thus further encouraging councils to act as nothing more than the local agents of central government.

One vitally important point which has not yet been made clear is: what exactly will happen to those authorities which overspend? The exact mechanisms of 'punishment' will only finally be known when the regulations governing the Bill are laid before Parliament, i.e. after the Bill has become an Act and is law.

In the meantime, however, a combined system of Rate Support Grant and block grant is to operate in 1980/1 when local authorities ask for a 'top-up' or when the government assesses that they are failing to comply with its recommended 2 per cent cut in spending. The aim of this confusing overlap of two systems is simple: to browbeat local authorities into submission and agreement on cuts.

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## Why Are Rates And Grant Systems Important?

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The rates we pay and the government contribution to local authority funds are currently essential to the provision of local services such as:

**Social services** — meals on wheels, home helps, aids and adaptations, lunch clubs, social workers, pre-school facilities, residential accommodation.

**Housing** — house-building, repairs and maintenance, direct labour.

**Environment** — parks, cleansing.

**Education** — schools, school meals, school milk, libraries.

Labour and Conservative administrations both agree on a simple formula: if income is reduced, then services must be cut accordingly; or, if the cost of present services rises above your income, then the answer is to curtail your services. The only item which is never curtailed is the payment of debt charges to the banks and finance houses.

Yet curtailment of services means: fewer houses; fewer repairs; fewer home-helps; fewer meals on wheels; dirtier streets; fewer books; more overcrowded classes; fewer play groups; loss of jobs. These are not non-essential luxuries. On the contrary, they are essential to the health and welfare of the working class. But then those don't rate very highly in the priorities of our society compared with the profits of the bankers and other capitalists. So what's the alternative?

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## The 'Solutions' Of Labour Councils

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Faced with the present cuts in government grants, and now the promised block grant system, Labour governments have agonised over what to do. In general they have looked at three possibilities:

1. **No cuts and very high rate increases.** This approach of 'socialism on the rates' is in fact no solution at all, as it includes an acceptance of previous cuts and is based on the assumption that the answer to local need lies in the pockets of the local working class.

2. **A package of cuts and a rate rise.** This is the option which the vast majority of councils have accepted. It means knuckling under to Tory policies — an encouragement to central government to push its luck still further next time.

3. **No cuts and no rate rises either.** This would appear to offer the ideal solution. But its right-wing opponents have been quick to seize on some of the problems. Thus Islington council leader Gerry Southgate:

'The strategy of no cuts and no rate rises can only lead to the council trying to pass a rate resolution which does not provide for enough money to finance the planned council services. Such a resolution is illegal and the council's officers are bound in law not to implement it.

'If the councillors did try to implement such a policy there would be no legal rate resolution and the council would run out of money very quickly. I will not dwell on the danger and the penalties to councillors of such a resolution because I am sure that those who propose it will have taken this into account and anyway we should be mainly concerned with the people to whom we provide services and to our employees ...

'The government has no power to appoint commissioners to run a council's affairs but could get a court order instructing us to obey the law. If such an order was made and defied, councillors might go to prison and whilst they would be fed and housed there and could luxuriate in the political satisfaction of being 'martyrs', someone would have to get fuel to council housing estates, food to our homes and pay to our employees ...'

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## The Alternative: Mass Action

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The above shows that there are no easy options for those who want to stop the cuts in social services without penalising working people. What matters most is whether a council wanting to fight central government policy has the support and backing of working people in the area, its trade unions and tenants' organisations. The Tories will use all the weapons at their disposal, including the police and courts, but they can be beaten by a campaign enjoying mass support.

In terms of the immediate situation there are two choices facing an anti-cuts council which does not want to raise the rates.

The first is to *refuse to pay interest charges*. The very nature of the finance of local government makes a confrontation with the stranglehold of the banks and finance institutions inevitable at some stage. However, this must have mass backing of the kind enjoyed by Poplar council when it took on central government policies in the early 1920s. Otherwise there would be nothing to stop the banks from refusing to pay the wages of council workers, or taking the interest payments straight out of the council's account.

The second alternative involves taking a decision to *freeze council rents and rates*. This too would inevitably lead to a direct confrontation with the Tories. But it would be a very different kind of confrontation from the one that is already being prepared, in which the Tories will attack and penalise Labour councils for trying to save services by levying high rate increases (and will be able to rely on sympathy for, or at least passivity towards, this attack from working class as well as middle class ratepayers).

If Labour councils were to refuse to make cuts or raise rents and rates, however, the onus would be on *the Tories* to demand such measures. The blame for cuts would be laid squarely where it belongs — with central government. And the council would have a policy that could command widespread support and lay the basis for building the kind of movement that could defeat the Tories' attacks and eventually drive them from office.

However, so far not one local authority has adopted this approach. With a few honourable exceptions, left councillors cannot see beyond the council's administrative machinery, and so one compromise follows another in their attempts to patch together a majority for a less drastic package of cuts. It is this concentration on the wheelings and dealings of the council chamber that starts them down the slippery slope of supporting 'tactical' rate rises, inevitably leading on to 'tactical' cuts.

Faced with a capitulationist majority, any Labour councillor who seriously wants to fight the cuts has no alternative but to use their public position to build active opposition in the trade union movement, tenants' organisations and the community, as well as within the Labour Party.

Building links on a regional and national basis with others facing a similar fight is also imperative. There is no way that this struggle can finally be won by a single local council, although someone has to give a lead in defending working class interests.

The kind of campaign that is needed is shown by the 'Fightback' campaigns that have developed in a number of areas. These need to be pulled together into a powerful, co-ordinated national campaign.

The necessary mobilisation of trade unions, Labour Parties, tenants' organisations and other community groups that this would require, with the consequent implications for control over how the money is spent, falls so far outside the traditional parliamentary thinking of Labour leaders that it appears inconceivable to them. But the alternative which the Tories will otherwise be able to push through cuts at the very root of the labour movement itself, aiming to take us back to the days before the welfare state and tie the hands of the trade unions with legal shackles.

So far the left has protested loudly but not put up much of a fight in practice. It is no answer to wait for the election of a 'left-wing' majority Labour council next year or the year after, or the return of a Labour government in four years' time.

For unless we begin to fight now and put forward alternative policies in practice every day, there is no guarantee that there will be either a Labour council, left or right, or a Labour government at the next elections.

If we don't begin a fight now which mobilises the mass of working people, we can't expect to win.