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My ref:

Your ref:

10 April 1984

Dear Andrew

LOCAL GOVERNMENT SPENDING: POLICY UNIT PROPOSALS

P419  
Thank you for your letter of 26 March. As you may know, David Pickup, the Under Secretary responsible for general local government policy matters here, met John Redwood on 4 April to discuss the Policy Unit's proposals. In general it was agreed that it would be helpful to associate the Policy Unit with further work on some aspects of the continuing search for economy and effectiveness in the local authority sector. What follows, therefore, is by way of interim comment on the 4 specific proposals in your letter.

On contracting-out of services my Secretary of State very much shares the Policy Unit's impatience with authorities' slow progress and with the fact that legislation cannot be put in place more quickly. A rigorous analysis of the form any legislation should take and what activities it should cover is needed before any announcement could be made.

We will, however, shortly be in touch with John Redwood again to agree how best the Policy Unit might participate in the preparation of the official paper on this issue that we hope to bring forward to Ministers later in the summer.

As regards publicity for the advantages to be gained by contracting out, Ministers of this Department have done, and will continue to do, a very great deal both to draw attention to the good example of those authorities which have let successful contracts, and to encourage others to do likewise. This effort will be maintained, not least by the imminent issue - probably next month - of a guide to good practice in contracting-out.

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The Policy Unit raised the possibility of introducing rate support grant incentives for authorities to reduce expenditure both by contracting-out and by maximising income from fees, charges and other commercial activities. The block grant system already incorporates substantial incentives for authorities to minimise net expenditure. First, the general principles of the system provide that an authority has to levy a rate poundage which depends on the level of its expenditure. If an authority can cut its expenditure by £10 per head of population, it can reduce the rate it has to ask its ratepayers to pay by about 6p. Second, the block grant taper puts extra pressure on high-spending authorities, so that a similar reduction in next expenditure would allow them to reduce rates by 7.5p. Third, the system of grant holdback introduced in the 1982 Local Government Finance Act puts very strong pressure on authorities to meet their expenditure targets. Expenditure above target causes grant losses at an increasingly severe rate; up to a 9p ratepayer level for each percentage point above target in 1984/85. Since targets require real reductions in net spending from nearly all authorities, they face a very strong incentive to cut the gross cost of providing services and to maximise income.

It is difficult to see how - within the structure of a block grant which is deliberately not hypothecated to spending on particular services - extra incentives could be incorporated to encourage contracting-out and income generation as distinct from other means of reducing net expenditure. Nor is it clear that this would be desirable - for example, would the government really wish to reward an authority more for increasing its charges for school meals than for making real reductions in its gross expenditure in preparing those meals? Specific incentives for making new savings through contracting-out or extra charges might also have the perverse effect of favouring high spending authorities who are forced to make savings by rate-capping more than authorities who have already heeded government policies and have done everything possible to reduce expenditure already.

The Secretary of State agrees, however, that - provided we stop short of municipal trading in direct competition with private businesses - more should be done to encourage authorities to exploit the many opportunities they have to increase their income. These possibilities might usefully be picked up as a related aspect of the contracting-out study; and you will doubtless be aware that the Audit Commission will also be taking an interest in this topic.

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Measures to promote the use of unused or underused land are an important feature of our current policy. The derelict land programme has been substantially increased and some 17,000 hectares have been reclaimed over the 8 years between the national surveys of 1974 and 1982. This year the provision for private sector reclamation schemes is being more than doubled. The new Urban Development Grant (which also involves the private sector) is beginning to make an impact in inner city areas. The two Urban Development Corporation (London Docklands and Merseyside) have massive reclamation schemes in progress. The Enterprise Zones have also stimulated the development of derelict sites. Operation Groundwork is a new initiative promoted by the Countryside Commission, but involving the private and voluntary sectors, as well as an input of public funds, to bring all-round effort to bear on improving neglected land on the urban periphery. Waste disposal policy is also an important factor, with 80% of household refuse being used to fill old mineral workings and similar sites. Finally, the Land Registers system is proving an effective means of bringing unused land into use, with some 5,500 hectares having been sold for development or brought into use in the last two years or so. Whether or not it proves necessary to use the Land Register powers to direct disposal of registered land, the cumulative effect of all these measures is substantial and well worth publicising.

Finally, we are conscious of the need to look again - and hard - at the burdens central government has imposed (and might be tempted to impose) on local authorities through legislation. We will be in touch with John Redwood shortly to consider how such an exercise might best be carried forward.

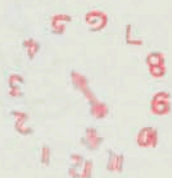
*Yours sincerely*

*John Ballard*

JOHN BALLARD  
Private Secretary

Local Govt: Bul. Pt. 20

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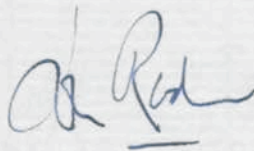
MR TURNBULL

LOCAL AUTHORITY EXPENDITURE

I have seen Patrick Jenkin's reply.

In general it is very positive and we will keep our contacts and try and help them with the development of money saving ideas.

I quite agree with their warning that we do not want to encourage more municipal trading. The basis of our idea, as I explained to them, was to let out on rental space in local authority properties which the private sector could use for offering additional services and facilities. It is therefore a form of privatisation rather than municipal trading. I believe that Patrick's officials are quite happy with this approach.



JOHN REDWOOD

Policy Unit  
11 April 1984