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10 DOWNING STREET

From the Private Secretary

27 September 1984

Dear Tom,

Local Government Policies

The Prime Minister held a meeting today to discuss local government policies. Present were your Secretary of State, the Lord President, Home Secretary, Chancellor of the Exchequer, Lord Privy Seal, the Secretaries of State for Education and Science, Transport and Scotland, the Chief Secretary, Chancellor of the Duchy of Lancaster, Chief Whip, Minister for Local Government, Minister of State Welsh Office, and Minister of State DHSS. Also present were Sir Robert Armstrong, Mr. Brearley (Cabinet Office), Mr. Heiser (DOE) and Mr. Redwood.

Introducing the discussion, your Secretary of State said the Government's local government policies had had some successes; the growth of current spending had been reduced from 3% to less than 1% per annum in real terms, but for which it would have been £4 billion higher. The rate increases this year were the lowest for 10 years; and the Government's legislation was being put onto the statute book. Nevertheless, the whole system of local government finance was suffering severe strains and present policies could not hold the position very far into the life of the next Parliament. The regime of targets and penalties was splitting at the seams. It was seen as unfair and was becoming increasingly unpopular. The system of block grant and GRE, though sound in principle, was not understood. The rate poundage equalisation acted as a hidden transfer mechanism which encouraged high spending councils and gave no credit to the economical councils. The link between paying rates, receiving services and voting was tenuous and provided no accountability. As a result, the Government had had to impose artificial sanctions on high spending authorities. Extremist urban politics were increasingly damaging the relation between local and central government.

He said it was essential to start work now on new policies which could be put forward at the next election for implementation in the next Parliament.

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Rate Capping : Contingency Planning

The Minister for Local Government said that 16 of the 18 rate capped authorities appeared to be co-ordinating their strategy. They were refusing to seek redetermination. Their aim appeared to be a confrontation with central government in the spring of 1985 extending through the summer. This would be backed by a £500,000 advertising campaign by the rate capped London boroughs alone. The Government should seek to woo the more moderate councils away from the group but it was likely that 2 or 3 would want to go to the brink or beyond. Liverpool, though not rate capped, was likely to repeat the tactics of this year and the financial juggling which had taken place to produce a solution could not be repeated.

Mr. Baker then discussed a number of responses. Legislation could be introduced to set a date by which a rate had to be set - only the precepting authorities, such as GLC and ILEA, currently had such a date. This would bring confrontation to a head early and it would provide a bench mark against which the Auditor could measure losses incurred by refusal to rate. Such legislation might also telescope the timetable under which the various legal sanctions came into play. An alternative was legislation to allow the Secretary of State to set a rate, possibly at the level of the previous year.

In discussion, it was noted that it would be extremely difficult to accommodate another contentious Bill in the legislative programme. The Secretary of State had power to allow an authority a higher expenditure limit if necessary on condition that it brought its expenditure under control by the following year. The Government should make the most of the fact that the rate capped authorities were refusing to make use of this possibility, to the detriment of their ratepayers.

The Prime Minister said Ministers would be very reluctant to bring in legislation of this kind and no decisions could be taken at this stage. The immediate line to take should be that proposed by the Secretary of State for the Environment. Further work, short of actual drafting, could be undertaken on the various proposals and considered further by Ministers in due course if necessary.

Review of Local Government Finance

The Secretary of State for the Environment proposed, in response to the growing strains on the system of local authority finance, that there should be a review to consider the scope for introducing a more satisfactory local

government finance structure together with any associated changes which might be necessary. He envisaged a Ministerially-led review, modelled on those conducted by the Secretary of State for Social Services, with officials and outsiders as members. It would be helpful if he could make such an announcement when responding to the critical motion on local government finance at the Party Conference. He explained that such a review would differ from earlier reviews. It would not be limited simply to finding forms of local revenue to replace rates but would look at the whole system including RSG and the distribution of functions.

In discussion, a number of colleagues questioned whether launching a review was right or whether it would be helpful in responding to the motion at the Party Conference. A review could raise expectations which it would be difficult to fulfil. There would also be cynicism about what a review could achieve when the ground had been gone over so many times in recent years. It was doubtful whether a review would succeed in deflecting the Conference motion. It would be better for Ministers to put down an amendment.

The Chancellor argued that there was an inconsistency in the existing constitutional arrangements. In fully federal states local authorities had responsibility for spending and for raising revenue and were held accountable by their electorates. In fully unitary states central government was accountable. The UK was a unitary state with a substantial degree of devolved power but this produced a division between spending decisions and responsibility for raising finance. He did not believe that new sources of local finance or amendments to the RSG system could resolve these inconsistencies. Rather than launch a review which would wrongly hold out hopes of a totally new system the emphasis should be on improving the working of existing arrangements where they were most inequitable.

A number of Ministers emphasised the lack of correspondence between payment of rates, receipt of services and voting, to which the extensive nature of housing benefit contributed. It was important that the Secretary of State for Social Services, in his review of housing benefit, should take full account of this problem. It was also important that in further work no option should be ruled out from the outset.

Summing up this part of the discussion, the Prime Minister said the Secretary of State for the Environment should respond to the Party Conference motion by putting down an amendment. In his speech he could indicate that the Government would be looking at the most serious inequities and deficiencies of the system but without giving this the status of a review. People outside central government might be consulted if necessary but should not be full participants. The Secretary of State for the Environment was invited to bring proposals to Cabinet in the

light of the discussion and the Secretary of the Cabinet was instructed to put forward proposals on how this could be organised at Ministerial and official levels.

Abuses in Local Government

The Secretary of State for the Environment said the nature of local politics was changing. Not all the developments were undesirable and some could not be reversed, but some were extremely worrying. Local government was becoming more like Cabinet government but without many of the safeguards. Hitherto there had been a heavy reliance on convention which was increasingly being challenged. He suggested an external inquiry headed by an eminent lawyer who would look into local government practices and procedures to find ways to protect the democratic rights of minorities and prevent the exploitation of power by majority parties. It would be wrong to legislate without such a review having been conducted. He hoped to secure the participation of all political parties.

The Goodson-Wicks report had been produced under Party auspices and would be published shortly before the Party Conference. This would reveal such practices as cross-employment of officers and councillors, manipulation of Standing Orders, misuse of expenditure under S.137, excessive advertising and politicisation of officers.

In discussion it was agreed that these developments were extremely worrying though there were dangers in an external review. Some of the recommendations which emerged might create awkward precedents for Parliament. There were dangers also of an announcement during the Party Conference as this might jeopardise the co-operation of other political parties which was desirable.

Summing up this part of the discussion, the Prime Minister said that there should be an external review of local government procedures and practices. The Secretary of State for the Environment should agree with colleagues in correspondence the terms in which he would make such an announcement and its timing; the review might be trailed at the Party Conference with a later more formal announcement when Parliament resumed. It was desirable to involve the local authority associations and the other political parties in the review but terms of reference were for the Government to settle and the review could not be dependent on the participation of these organisations.

I am sending copies of this letter to Janet Lewis-Jones (Lord President's Office), Hugh Taylor (Home Office), David Peretz (HM Treasury), David Morris (Lord Privy Seal's Office), Elizabeth Hodgkinson (Department of Education and Science), Dinah Nichols (Department of Transport), John Graham (Scottish Office), Richard Broadbent (Chief Secretary's Office), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean

(Chief Whip's Office), Mike Bailey (Office of the Minister for Local Government, DOE), Michael Chown (Office of the Minister of State, Welsh Office), Christopher Evans (Office of the Minister of State, DHSS), Alex Galloway (Paymaster General's Office), Richard Hatfield (Cabinet Office), Mr. Brearley (Cabinet Office) and Mr. Heiser (DOE).

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

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Department of the Environment.