

NOTE FOR THE RECORD

LOCAL GOVERNMENT FINANCE

The Prime Minister held a meeting at Chequers on Sunday 28 October at 6 pm to discuss local authority finance. Present were Mr Waldegrave, Mr Heiser, Mr Letwin and Mr Turnbull. The purpose of the meeting was to provide the Prime Minister with a "teach in" on the way the local government finance system operated and on the issues which were likely to arise in the course of the studies which Mr Jenkin announced at the Party Conference.

Mr Waldegrave and Mr Heiser took the Prime Minister through the charts and tables in the booklet prepared for the meeting. In the course of this, the following points arose:

(i) Urgent consideration should be given to collecting non-domestic rates centrally, with the funds being redistributed back to local authorities.

(ii) The main purpose of the RSG system was to equalise the rate poundage required to provide a given level of service in different authorities, regardless of the differences in resources or needs.

(iii) This process of equalisation gave rise to huge, and largely hidden transfers of resources from one part of the country to another. It gave local authorities the impression that the grant was "their money", giving the Government no credit or leverage for the resources transferred.

(iv) Local authorities had no incentive to seek additions to their rate base, eg. by industrial development, since shortfall was made good by the system.

(v) The system was not designed to provide an incentive to economise on expenditure and for most authorities grant rose as expenditure increased. (There were, however, some authorities for whom grant fell because the product of a 0.6p rate exceeded the cost of an extra pound of spending per head).

(vi) The target/holdback system had been imposed on top of an equalisation system in order to provide the missing ingredient of restraint. Targets had undoubtedly restrained expenditure but the system was nearing the end of its life. There would however be a difficult re-entry problem. One possibility was to increase the slope of the block grant schedule. A number of councils, eg. Cambridgeshire, were beginning to manipulate the system.

(vii) The calculation of GREs was based on 63 different variables. These were the subject of endless debate and it might be better to return to the previous system which used a far smaller number.

(viii) The booklet could be refined and given wider circulation, perhaps even being published.

Over supper the discussion turned to the refusal by councils to comply with Government legislation. Liverpool and perhaps two or three other councils might seek confrontation with the Government next year. There were

differing views on how the Government should respond. One was that the Government should resist any calls to intervene until a collapse of local services was actually taking place. At this point the Government intervention might be welcomed by local people and unions. It was likely, however, that disruption to the local authority finance market could precede a collapse of services and the Government might need to intervene rather earlier.

Mr Waldegrave reported on how it was proposed to conduct the studies in each local authority finance. Before moving to the "Fowler style" reviews, with evidence being taken from the public, he and Mr Heiser would want to spend up to six months working on a number of ideas. In this internal phase they might want to draw on the help of outside experts. While some might have close experience of local government it would be helpful to have others who would come to the subject with a fresh mind. In this context the Prime Minister suggested enlisting the help of Lord Rothschild and she agreed to write to him. The Prime Minister also canvassed the idea that Ministers might hold a public conference at Lancaster House.

Mr Waldegrave outlined three families of solution:

(i) A reduction in the size of the local authority sector through the transfer of functions which would allow local authorities to finance most of their expenditure from their own income.

(ii) Limits on the money local authorities have to spend rather than at present on their expenditure.

(iii) Some mixture of the two.

The aim would be provide a White Paper, either in the Autumn of 1985 or Spring of 1986.

The discussion then turned to the enquiry into local authority abuses. The Department hoped the Chairman would be an eminent lawyer eg. Professor Wade. The Chairman would be supported by people with close knowledge of local authority politics and the influence of the militant left. It was hoped to be able to enlist moderate labour support in the study. Once a Chairman had been found the Department would then consult the local authority associations.

The meeting ended at 2215.

Andrew Turnbull

31 October 1984

cc MURPHY

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bc Oliver Letwin

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10 DOWNING STREET

From the Private Secretary

31 October 1984

Local Authority Finance

I attach a brief note on the discussion at Chequers on Sunday evening.

I am sending a copy to Terry Heiser.

Andrew Turnbull

Mrs Joan Dunn
PS/The Hon William Waldegrave
Department of the Environment

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