

PART 12

Confidential File

Relations between Central and
Local Government

LOCAL
GOVERNMENT

Local Authority Expenditure

Part 1: May 1979

Part 12: June 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.6.82							
18.6.82							
23.6.82							
28.6.82							
30.6.82							
2.7.82							
6.7.82							
8.7.82							
12.7.82							
13.7.82							
15.7.82							
- Pt ends -							
<p>PREM 19/834</p>							

PART 12 ends:-

15-7-82

PART 13 begins:-

16-7-82



Local Govt

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P.0809

PRIME MINISTER

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

(E(82)57 and the letter of 22 June from the Secretary of State for the Environment's Private Secretary to your Private Secretary. (E(82)43 to 46 set out the starting point in detail)

BACKGROUND

Local authorities in England, Scotland and Wales are budgeting for total current expenditure in 1982-83 well above the Government's expenditure plans. At the Committee's previous discussions (E(82)13th and 14th Meetings) it was agreed that the Government should respond by making selective reductions in rate support grant (RSG), to the extent of £312 million in England, but not by making a general reduction in RSG as well. The only further penalty to be considered was a scheme advanced by the Chief Secretary, Treasury and explained in more detail in the annex to the letter circulated with E(82)57. It would reduce RSG to English local authorities by about £80 million, concentrated on high-spending authorities.

2. The Chief Secretary was invited at E(82)14th Meeting to try to reach agreement on this basis with the Secretary of State for the Environment (and on the consequentials for Scotland and Wales with the appropriate Secretary of State). For the reasons set out in the attachment to the letter of 22 June from the Secretary of State for the Environment's Private Secretary such an agreement has not been reached.

MAIN ISSUES

3. The main issue before the Committee is simple: should the Government impose the £80 million holdback proposed by the Chief Secretary or rest on the selective reduction in RSG already agreed? There is no other possibility.

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4. In favour of action is the argument that English local authorities will be spending about £1.4 billion more than the Government's plans; that they appear largely to have budgetted already for these selective reduction in RSG; and that for the Government to take no further action to enforce spending disciplines would expose it to ridicule and jeopardise compliance with any future restrictions on expenditure.


5. On the other hand, it can be argued that a reduction of £80 million is so small in comparison with the prospective overspend as to risk seeming absurd; that it will be hard to convince opinion that the proposed action is consistent with assurances by Government's spokesmen that the Government will not take selective action against local authorities beyond what has already been agreed, and may fail to secure the necessary Parliamentary approval; and that it would bear heavily on, among others, authorities with responsibilities for police expenditure (who may respond by reducing that expenditure rather than their other programmes). It is also suggested that there might be legal difficulties, though it is not obvious why this should be so, since it is admitted that the Chief Secretary's proposal is formally consistent with the Government's publicly stated position (and therefore presumably with the legislation).

Scotland

6. If the Committee decides to take no action against English local authorities, it will no doubt take a similar view regarding Scottish local authorities. If it favours positive action, it should be necessary to do no more than invite the Chief Secretary and the Secretary of State for Scotland to reach agreement on appropriate consequential action, and to report the result to the Committee.

7. However, there is one particular point, which is discussed in paragraph 5 of E(82)46 and which the Secretary of State for Scotland may wish to raise at the present meeting.

8. The Secretary of State suggests that a reduction in rates induced by threats of selective grant reduction should equate to a grant reduction. Presumably he means that if he threatens grant reduction of £45 million, and the authority concerned responds by reducing its rate call by, say,



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£10 million, the grant reduction should then be only £35 million.

9. This seems logical at first sight. But a rates reduction of £10 million does not mean that current expenditure will necessarily be reduced by the same amount (there are various accounting devices available to local authorities in this area); and in any event, the public sector borrowing requirement will remain largely unaffected and, presumably, at a higher level than the Government would wish.

10. You may therefore wish to avoid accepting the Secretary of State for Scotland's opposition as a general principle even if, in the particular circumstances that he has in mind, he may have to be allowed to make concessions to the local authority concerned in his negotiations with it.

Wales

11. The Committee has accepted that the appropriate scale of action in Wales should be decided in the light of what is agreed for England and Scotland: originally, the Secretary of State for Wales proposed holdback of the order of 50 per cent of the prospective overspend in 1982-83, but indicated that he would have to reconsider this if, as now seems inevitable, holdback in England and Scotland is of the order of only 20 to 25 per cent of the prospective overspend. (On the other hand, unlike England and Scotland, there has so far been no penalty imposed on Welsh local authorities for overspending in 1981-82). Again, the Chief Secretary and the Secretary of State for Wales can be invited to agree on appropriate consequentials and to report the result.

Publicity

12. The responsible Secretaries of State are likely to want to announce the Government's decisions before the Summer recess: there is a meeting of the English Consultative Council on Local Government and Finance on 19 July. It is desirable that the presentation of the decisions should do what is possible to encourage restraint in public expenditure in both 1982-83 and 1983-84. You may wish to invite the Secretaries of State to circulate drafts of any proposed announcements to the Committee.



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HANDLING

13. It will probably be best to concentrate the first part of the discussion on England. You could invite the Chief Secretary, Treasury and the Secretary of State for the Environment to open the discussion. Any of your colleagues may wish to comment; but you may wish the Lord President of the Council or the Chief Whip to advise on the Parliamentary implications, and the Attorney General on any legal arguments.

14. When the Committee has reached a view on what is appropriate for England, you might invite the Secretaries of State for Scotland and Wales to mention any particular points relevant to the Scottish and Welsh consequentials.

CONCLUSIONS

15. You will wish the Committee to reach conclusions on the following:

- (i) Whether the scheme for £80 million holdback of rate support grant from English local authorities in 1982-83 as proposed by the Chief Secretary, Treasury, should be accepted or rejected.
- (ii) The consequentials of the decision for Scotland and Wales.
- (iii) The announcement of the Government's decision.

PLG
P L GREGSON
Cabinet Office.
13 July 1982.

CONFIDENTIAL

F



10 DOWNING STREET

cc	WCO	DOE	D/Trans
	HMT	MAFF	WPO
	FEO	D/Ind	CBO
	DES	WO	LPSO
	NIO	SO	FIN
	MOD	DHSS	D/M

Local Govt da

From the Private Secretary

12 July 1982

DOT
CAL
CPRS
LOD
CO

Dear John,

Public Transport in London and the Metropolitan Counties

The Prime Minister was grateful for the Home Secretary's minute of 8 July about the conclusions of the Ministerial Group on Local Government Organisation and Finance (MISC 79) on public transport in London and the Metropolitan Counties.

The Prime Minister agrees that legislation on the lines set out in paragraphs 5 - 12 of the Home Secretary's minute should be introduced in the 1982/83 Session. She has noted that a number of issues still remain to be resolved - in particular those about the extent to which the legislation should be tied to cost-benefit studies.

I am sending copies of this letter to the Private Secretaries to the other Members of the Cabinet, Jim Nursaw (Attorney-General's Office), Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

John Halliday, Esq.,
Home Office.

CONFIDENTIAL

da

From: JOHN HUNT, M.P.

Cell. BARKWAY



HOUSE OF COMMONS
LONDON SW1A 0AA

9th July, 1982

10

PPS

Dear Prime Minister

The Leader of Bromley Council, Councillor Dennis Barkway, wrote to you on 17th June to express his concern at Bromley's loss of rate support grant this year.

The purpose of this letter is to emphasise the strength of feeling in Bromley on this matter. They really do resent the fact that, having met the Government's targets in full, they are now being penalised as a result of the over-spending of other spendthrift authorities. We really do seem to have got our rate support grant arrangements badly wrong when this can happen. I hope you will be able to help.

Yours ever

John

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
SW1.



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/14590/82

Your ref:

Alan
Have you 'X'pl?

Kay
13/7.

6/29 July 1982
Lu Pmsomaker
pte

Jean Tui,

Thank you for your letter of 21 June enclosing this one from Councillor Barkway. I attach a draft reply. The question of close-ending grant claim to the cash limit in 1982-83 is now down for discussion in E Committee; David Edmonds sent a letter to Michael Scholar on 22 June about this.

~~_____~~ A+12

yours

Helen Ghosh

MRS H F GHOSH
Private Secretary

Tim Flesher Esq

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO
COUNCILLOR DENNIS BARKWAY

Thank you for your letter dated 21 June about Rate Support Grant.

I understand that the adjustment to which you refer is not designed as a penalty, but is necessary to ensure that individual claims equal, in aggregate, the cash-limited amount available for grants. At present, and until any Supplementary Rate Support Grant Report is approved by Parliament the Government is obliged to make this adjustment by means of a uniform percentage reduction in all grant claims.

The adjustment is necessary because grant claims exceed the cash limit, not because of authorities overspend their targets. I know that you appreciate that under the new grant system there is no longer a simple relationship between grant claim and expenditure: in some cases - for example that of the GLC - the more authorities spend, the less grant they receive. The grant 'lost' by means of this mechanism is redistributed to other authorities; and so the necessary adjustment to Bromley's claim would be greater, not smaller, if some authorities did not plan to overspend.

It is nevertheless possible, by means of a supplementary report which would have to be approved by Parliament to close-end grant claims to the cash limit in ~~other~~ ^{other} ways than by means of a uniform percentage adjustment. We are currently looking at different ways in which this might be done for 1982/83 and we shall certainly bear what you say in mind when doing so.

62 HEATHFIELD ROAD
KESTON
KENT BR2 6BA
TEL. FARNBOROUGH 51733

17th June, 1982

The Rt. Hon. Mrs. Margaret Thatcher,
10 Downing Street,
LONDON SW1

R 18.

Dear Prime Minister,

I apologise for worrying you with domestic matters at this time but you will understand that we are not always masters of timing on particular issues.

I have had occasion to write to the Secretary of State for the Environment, Mr. Heseltine and have received a reply from Lord Bellwin regarding the close ending of the rate support grant. I felt that you would wish to be acquainted with the very serious reaction to the close ending action taken by your Government which has resulted in Bromley losing £450,000 of grant this year.

You will know that Mr. Heseltine's department set two targets for each local authority. Only ten authorities, of which Bromley and Croydon were two, managed to comply with both targets. They are now faced, in spite of having met those targets, with sharing in the penalty as a result of the overspending by all the local authorities who did not meet both targets.

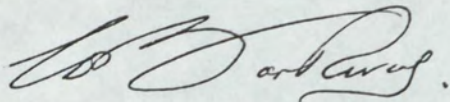
My colleagues on Bromley Council have felt it necessary to address this inequitable treatment as forcefully as possible and we have the support of the four Bromley Members of Parliament and matters are now proceeding where the Constituency Associations feel equally strongly that the system of penalties on conforming authorities is simply not good enough. I know that if I set out all the pros and cons I run the risk of being extremely boring but the simple principle of fair treatment to those who comply as opposed to those who do not, can be enacted by straightforward legislation exempting compliant authorities from penalty.

Your cabinet colleague Patrick Jenkin in his address to the CBI dinner referred to the dangers of rate increases on the level of employment and then went on to address the question of incentives to industry. I am confident the point would not be lost on you, that local authorities such as Bromley to whom you may reasonably have looked to set an example, equally require incentive but under the present system we in Bromley and the other complying authorities have the worst of both worlds.

2/...

It is now likely that short of your intervention in the matter, Bromley will find precious little reason to meet targets next year because to do so means to suffer a penalty and not to do so means also suffering a penalty but at least enjoying the benefits of overspending. This inequitable treatment between the good and the bad was intended to be overcome by the amendment of the rate support grant system and we now feel that as Councillors and through the Constituency Associations the need to invoke your support to prevent the circumstances arising where these Associations and the Council find it necessary to express their disappointment publicly.

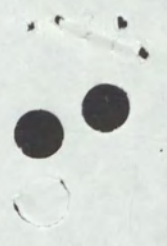
Yours sincerely,



E.D. Barkway
Leader of the Council
London Borough of Bromley



12 JUL 1982





*With the Compliments of
the Private Secretary to
the Minister of State*

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House

Elephant and Castle

London, S.E.1.

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Prime Minister (2)

Mus 9/7

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister for Health

cc J.V.

The Rt Hon Michael Heseltine MP

8 July 1982

Dear Michael,

MS

RATE SUPPORT GRANT SETTLEMENT - 1983/84

Norman Fowler has asked me to reply to your letter of 14 June. I am sorry we have not met your deadline for comments, but your letter did not reach here until after it had passed as it was apparently sent initially only to members of 'E' committee. I should be grateful if your Private Office would note that I should be included in all 'E' committee circulations involving local authority expenditure.

I can see the attractions of using different totals for GREs and targets. When translated into distributions between services, the use of two totals would carry the clear implication that the lower one was more acceptable to the Government (and would therefore attract rate support grant), while the higher total would indicate how far the Government was prepared to go in acknowledging realistically what expenditure on particular services was likely to be.

Clearly, some forms of local authority expenditure are much more unacceptable to the Government than others (e.g. excessive transport subsidies). On the other hand, services like personal social services provide for the needs of some of the most vulnerable people (the frail and isolated elderly, children in care, people with various handicaps). These services are subject to considerable pressures from the growing number of very elderly in the population and increasing numbers of older children for whom social service provision is being made as an alternative to custodial treatment.

Personal social services should not be exempt from the search for savings. Local authorities can and must, of course, be expected to finance some of the demand for these services by further improvements in efficiency and by greater use of less expensive care options where available. I hope however that we will collectively consider the very different factors that influence

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expenditure on PSS and other similar local authority services from those that have led to high expenditure on some other services. It would not be satisfactory in my view that the two new totals you propose for LA current expenditure should simply be distributed between services in proportion to local authorities' own budgets or even in proportion to the very provisional indicative figures agreed hurriedly at a late stage last year.

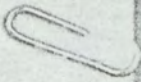
I am sending copies of this letter to members of 'E' committee and other colleagues with local government responsibilities.

J. C.
L.

KENNETH CLARKE

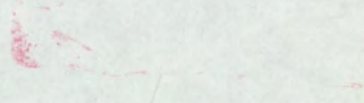
Dist. copies:
E Committee
Scotland & Wales.

cc Mr Clark
Mr Stokes POC
Mr Hulme
Mr Rodger
Mr Scott Clanchiff
Mr Banks
Mr H. Scott White
Mr Fletcher
Mr [unclear]





- 8 JUL 1982



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Prime Minister (1)

* Agree to legislation on the lines of paras 5-11 in the 1982-83 session?

PRIME MINISTER

* you may care to read the attached record of MISC 79's Discussion.

MCS 9/7 Yes - but

PUBLIC TRANSPORT IN LONDON AND THE METROPOLITAN COUNTIES

(I fear a no. of issues have yet to be satisfactorily resolved. not)

1 The Ministerial Group on Local Government Organisation and Finance (MISC 79) has considered future policy towards public transport in London and the Metropolitan Counties and, in particular, the possibility of new legislation to regulate the amount of subsidy that can be paid to public transport by local authorities. This minute reports our conclusions and recommends the introduction of legislation in the 1982-83 Session.

The Need for Legislation

2 As you know, the Greater London Council (GLC) have chosen to interpret the judgment given by the House of Lords at the end of last year as meaning that London Transport (LT) must break even in 1983 without subsidy. They say that this will require an increase in fares of 30 per cent in January 1983 and further substantial reductions in services. They are using these arguments to stir up industrial trouble in LT and seeking to blame the law, and the Government for refusing to change it to permit unrestricted subsidy. We shall be in a difficult position politically if we do not legislate; but any legislation must control the level of subsidy that is permissible in order to prevent the GLC claiming a political triumph and reverting to their previous irresponsible policy.

3 The law applying to transport subsidies by the Metropolitan County Councils (MCCs) has also been thrown into uncertainty by cases in the courts. Some councils are paying excessive subsidies, which present a danger to our public expenditure plans and which we need to reduce. Moreover, we cannot justify a laxer subsidy regime for the MCCs than for the GLC.

4 There is, therefore, a strong case for legislation to clarify the powers of both the GLC and the MCCs to subsidise public transport.

The Basis of Legislation

5 If there is to be such legislation it could follow one of two broad approaches.

6 The first is for central Government to prescribe a precise limit, either directly or perhaps through some approach analogue to the external financing limits of the nationalised industries. The second is for central Government to set guidelines, and to require local authorities to produce rational justification for departures from them, but to allow the ultimate decision to rest with the authorities, subject only to challenge in the courts.

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7 Neither approach is free from difficulties. But the balance of opinion in MISC 79 - which all members of the Group were willing to accept - was that the second approach was preferable. Although it offers less certainty that expenditure on transport subsidies will be precisely controlled, it avoids drawing central Government into detailed consideration of, and perhaps ultimate responsibility for, local services and fare levels, and avoids the potentially dangerous precedent of central Government imposing limits on a particular component of a local authority's current expenditure.

8 The Annex to this minute sets out how the new system would work. Some further study needs to be given to the details to clarify the precise role and basis of the Secretary of State's guidance. I should also say that the Group had doubts about the wisdom of relating the legislation too closely to cost-benefit studies. It will be necessary to strike a balance between requiring local authorities to give properly argued reasons for their decisions on subsidy levels and excessive reliance on one particular technique, which is not free from debate or difficulty. These aspects are to be resolved in further discussions between the Secretary of State for Transport, the Secretary of State for the Environment, the Chief Secretary, the Attorney General and the Central Policy Review Staff.

Safeguards Against Irresponsible Behaviour

9 However the legislation is drafted, it would be virtually impossible, without reserve powers, to prevent irresponsible behaviour by a local authority determined to make trouble. MISC 79 agreed that there should be a reserve power enabling the Secretary of State to require, by Order, that the exercise of a local authority's powers in this field should be subject to the Secretary of State's consent, or to exercise the powers himself. Orders would be subject to affirmative resolution procedure.

10 In order to avoid the risk of hybridity, this reserve power would apply to both the GLC and the MCCs.

Efficiency and Competition

11 MISC 79 agreed that any new legislation should foster competition and the role of the private sector. It accordingly agreed that the legislation should empower the Secretary of State to direct a local authority to arrange for tenders to be invited for a proportion of transport services and to publish the reasons if the lowest tenders are not accepted. This may not be sufficient safeguard against a local authority, or transport executive, determined to keep the private sector out by subsidies competition; and the Secretary of State for Transport will be investigating the possibility of reducing this danger, for example by setting up an appeals procedure.

Further Reforms in Transport in London

12 It may well be impossible to secure the fundamental improvements that are required in LT without removing control of it from the GLC. There may also be advantage in making changes designed to promote greater co-ordination between the services of British Rail and other transport services in London and the South East. MISC 79 will be studying this further. But it is clear that any changes on these lines, which would have implications for the whole future of the GLC, could not be accommodated in legislation in the next Session.

Legislative Programme

- 13 The Lord President of the Council has said that he is willing to accept legislation on the lines discussed in paragraphs 5 to 11 above in the 1982-83 programme, provided that it is short and can be available at the very start of the Session. The Secretary of State for Transport assured MISC 79 that, apart from the points of detail which are to be the subject of the further discussions mentioned in paragraph 8 above, instructions could be sent to Counsel forthwith.

Conclusion

- 14 MISC 79 therefore recommends that legislation on the lines I have described should be introduced in the 1982-83 Session. I should be grateful for your agreement, and that of other Cabinet colleagues, to this course. The Secretary of State for Transport is anxious to make an early announcement of the Government's intentions in order to counter a campaign in favour of their "Fares Fair" policy which the GLC are expected to launch on 20 July. It would be most helpful, therefore, if any comments could reach me no later than Thursday, 15 July.
- 15 I am sending copies of this minute to other members of the Cabinet, the Attorney General, Mr. Sparrow and Sir Robert Armstrong.

8 July 1982

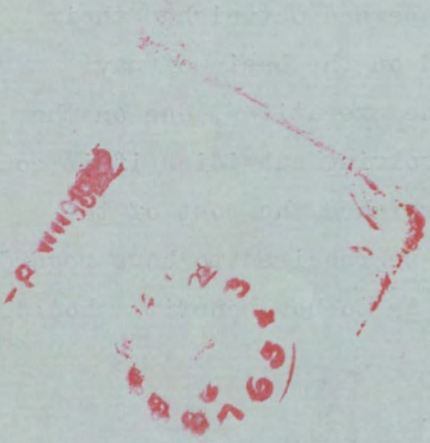
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NEW LEGISLATIVE BASIS FOR SUBSIDIES TO PUBLIC TRANSPORT

The legislation would provide that London Transport and the Passenger Transport Executives were under a duty to provide public transport services, within the resources available, so as to achieve the greatest benefit for those who might use them. It would enable the Greater London Council and the Metropolitan Counties to subsidise public transport, but only if the benefits of the subsidies concerned outweighed their costs. Whether this was so would be assessed on the basis of a comparison of corporate plans, prepared by the executives, one on the basis of breakeven, and alternative plans involving subsidies if it could be shown that the benefits to passengers ^{or others} outweighed the cost of the subsidies. Executives and authorities would be required to have regard to guidance issued by the Secretary of State as to how benefits should be evaluated and compared with costs.

2. Even if the proposed amount of subsidy could be justified in terms of cost-benefit analysis it might not be consistent with the need to contain public expenditure. The legislation would therefore require authorities to have regard to guidance from the Secretary of State on what he considered to be an appropriate level of subsidy, taking account both of general economic conditions and of the particular circumstances of the authority.
3. The authorities would then inform the executives how much subsidy they intended to pay in the following year. The duty of the executive would then be to break even, taking account of the subsidy.
4. Authorities would retain ultimate discretion regarding the amount provided in subsidy, but would be open to legal challenge against excessive expenditure. Substantial departure from the guidance issued by the Secretary of State would have to be backed by clear and strong justification. Moreover, the authorities would still have to consider their fiduciary duty to their rate payers, reinforced by the pressures of the block grant, which would not be affected by the legislation.

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Faint, illegible text covering the majority of the page, likely bleed-through from the reverse side.

*Lord Gah**see JV**Prime Minister**(4)**MUS 417*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Tom King MP
 Minister for Local Government
 and Environmental Services
 Department of the Environment
 2 Marsham Street
 London SW1P 3EB

5 July 1982

*2 Tom,**[Handwritten mark]*

LOCAL AUTHORITY OVERSPENDING? 1982-83

Thank you for your letter of 2 July.

I am sorry, but I do not see how we could exempt urban programme expenditure from the calculation of local authorities' overspending against targets. To do so would weaken the force of our penalties, leaving the authorities with more rate support grant than they expect to get. It would also open the way for a very large number of fresh claims for exemption. As you know, I believe that we should be strengthening our penalties, so as to reduce the rate support grant.

I know that we exempted urban programme expenditure last year. But we established the penalty regime for local authorities late in the day. This year, local authorities have had fair warning of the targets and the grant penalty regime from the start. I really cannot see a case for introducing exemptions now.

I think we can reasonably expect local authorities to find off-setting savings in their budgets for priorities such as the urban programme. I see nothing inconsistent about offering subsidy for spending which we favour and at the same time penalising local authorities for aggregate overspending.

I am sending copies of this letter to the members of E Committee.

[Handwritten initials]

LEON BRITTAN



15 JUL 1992



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

MINISTER FOR LOCAL GOVERNMENT AND ENVIRONMENTAL SERVICES

2nd July 1982

Prime Minister (2)

MUS 2/7

Dear Chief Secretary,

As you know, for 1981/82 we disregarded certain categories of local authority expenditure, including some urban programme expenditure, from the calculation of grant abatement. For the urban programme the exemption applies to any increase in Partnership and Programme authorities' expenditure on grant-aided projects between the 1978/79 base year and 1981/82.

I have had representations from the AMA and a number of authorities asking for further urban programme exemption for 1982/83. I think we must agree to this. It is indefensible for us to encourage urban programme expenditure on projects which we specifically approve, and then include such expenditure in the calculation of grant abatement. Having done it for 1981/82, I can see no justification for not exempting this expenditure this year too.

Because 1982/83 targets are based on authorities' 1981/82 budgets, they already take account of last year's level of urban programme spending. Consequently authorities can only claim to be unfairly penalised where the targets do not allow for their increased urban programme expenditure compared with last year. I would therefore propose to calculate the cash increase in Partnership and Programme authorities' revenue expenditure on urban programme projects, net of the 75% specific grant, between 1981/82 and 1982/83, and to deduct that amount from their total expenditure when comparing it with target or GRE for holdback purposes.

Only estimated figures are available for individual authorities' 1981/82 urban programme expenditure, and very approximate projections of their likely revenue expenditure in 1982/83. On this basis the total net increase in expenditure to be disregarded would be about £5½m. However, most Partnership and Programme authorities are budgeting to spend so far above target or GRE that deductions on the basis proposed would be insufficient to bring their overspend down to less than 5%, which is the maximum for holdback. This means that the actual reduction in the

amount of block grant withheld would not be more than about
 $\frac{1}{2}$ million - a very small price for disposing of a real
presentational difficulty.

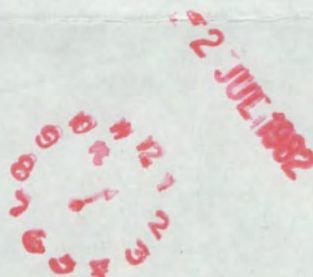
I would be grateful for your agreement to the proposed
exemption, if possible in time for an announcement during the
final stages of the Local Government Finance (No 2) Bill next
Wednesday.

/ I am copying this letter to members of E Committee.

Yours sincerely,

Lester Dick (Private Secretary)

for. TOM KING
(approved by the Minister and
signed in his absence)





20
Local Govt

10 DOWNING STREET

From the Private Secretary

28 June, 1982.

Local Authority Current Expenditure 1982/83

Thank you for your letter of 21 June, and for the attached short paper on the proposal for additional hold-back of £80m Rate Support Grant in the current year.

I showed this to the Prime Minister. I also showed her David Edmonds' letter of 22 June to me, and the paper attached thereto. The Prime Minister was grateful for these two statements of the position, and has concluded that it will be necessary to raise this matter at E Committee again.

I am sending copies of this letter to David Edmonds (Department of the Environment), the Private Secretaries to the other members of E Committee, the Private Secretaries to the Secretaries of State for Scotland, Wales, Health and Social Services, the Attorney General, and Sir Robert Armstrong.

M. C. SCHOLAR

Terry Mathews, Esq.,
HM Treasury.

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6



From the Secretary of State

CC JV
Prime Minister (2)

MU 28/6

CONFIDENTIAL

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

June 1982

Dear Michael,
Your letter of 14 June to Leon Brittan raised a number of issues which we will need to consider in the context of the 1983/84 RSG settlement.

The expenditure plans for 1982/83 do represent a setback. We cannot retrieve the whole of the deterioration compared with our original target. But our overriding objective must be to reduce total Governmental expenditure as a proportion of GNP and this means that with only very, very modest GNP growth, we must reduce expenditure in real terms. Against this background I would certainly go for the 2% real reduction rather than the 1%: but doubt whether more could be achievable. The important thing is to re-establish a downward path.

Ideally, the GRE is the right target to aim for but we cannot get there at all quickly. The most we can achieve is the steep taper with the clear warning implied in this that the aim is to force people down to their GRE level.

For those below - and consistently below GRE - I well understand the problem of enforcing a target below GRE. But equally to set GRE as the target, even if constrained in the way suggested, is almost an open invitation to increase expenditure. Is it not possible to find a via media under which authorities below GRE were given some headroom but not an open licence to go up to GRE?

On Service Distribution I have one small, if parochial point, to make and that relates to the Trading Standards service. This is a relatively small service, but an essential one for the enforcement of fair trading and consumer law. Like others, it is under increasing pressure. I could not find extra resources for it from my own Department's PES provision, but it should receive at least its fair share of any extra available over and above the £18.6 billion already in the White Paper.

CONFIDENTIAL



From the Secretary of State

CONFIDENTIAL

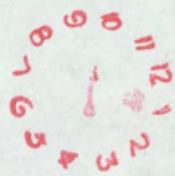
I am copying this letter to the Prime Minister, members of E Committee, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

U
W
H

LORD COCKFIELD

CONFIDENTIAL

28 JUN 1982



PRIME MINISTER

LOCAL AUTHORITY CURRENT EXPENDITURE 1982/83

Play A
You will see from the attached correspondence that the Chief Secretary and Mr. Heseltine^{Play B} have not succeeded in reaching agreement on the proposal for an additional hold-back of £80 million for this year.

I had been going to suggest that you took a small meeting of the Chief Secretary and Mr. Heseltine, to drive this to a conclusion. Mr. Heseltine has returned strongly to the charge, and I think it inevitable that this returns to a fairly wide group of Ministers. In short, I am afraid that the matter will not be resolved outside E Committee.

Do you agree with this analysis?

MCS

Yes mt

25 June 1982

*With the Compliments
of the
Secretary of State*

*Scottish Office,
Dover House,
Whitehall,
London, S.W.1 A 2AU*



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

3/11/82

cc J.V.

Prime Minister (2)

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Parliament Street
LONDON
SW1P 3AG

M

Another
24 June 1982

powerful case
for increasing
expenditure figures.

Dear Leon,

RATE SUPPORT GRANT SETTLEMENT FOR 1983-84: SCOTLAND

MUS 25/6

copy file

Michael Heseltine wrote to members of E Committee on 14 June about the Rate Support Grant Settlement for 1983-84 in England. It might be helpful if I set out my own assessment of the prospects for the 1983-84 RSG settlement in Scotland.

I agree with the aim of making some provisional announcements in July though I am not persuaded of the need to announce the grant quantum as early as July. This letter therefore concentrates on the question of determining a realistic expenditure figure for Scotland and discusses the considerations which should influence what is announced in July.

Current expenditure total

Cmd 8494 (adjusted for the NIS reductions) provides for current expenditure of £2515m in 1983-84 cash terms. Local authorities' budgets for 1982-83 are £2618m at 1982-83 cash prices. The PES provision for 1983-84 therefore implies a cash reduction from 1982-83 budgets of 4 per cent. That implies a real terms cut of over 10 per cent allowing for 6-7 per cent inflation between 1982-83 and 1983-84. I conclude that a reduction of the order implied by the figures is quite beyond the scope of authorities, even given the political will to make reductions. As in England, authorities collectively have achieved certain reductions in expenditure since reorganisation; - 1.1% in 1976-77, - 3.0% in 1977-78 and about - 1% in 1981-82. But there is simply no prospect of them attaining the overall target implied for them in the White Paper. We must give urgent consideration to the question of what enhancement there should be in order to inject realism into our consultations with the local authorities for the next grant year.

The following table shows the cash provision which would be required on the assumption of real terms reductions from 1982-83 budgets of 2, 3, 4, and 5 per cent. I have not assumed any shortfall from budgets, though I have asked authorities to do what they can to reduce expenditure this year.

CURRENT EXPENDITURE AGGREGATE 1983-84

£ million

Real terms cut
from 1982-83 budgets

Provision required on alternative
inflation assumptions of 6 and 7%
(figures in brackets are the
required additions to Cmnd 8494)

	<u>6 per cent</u>	<u>7 per cent</u>
2%	2720 (+205)	2745 (+230)
3%	2690 (+175)	2717 (+202)
4%	2665 (+150)	2689 (+174)
5%	2636 (+121)	2660 (+145)

To match the reduction from budgets proposed for English councils I would require an addition to my PES provision of £202m. This would enable me to ask Scottish councils for a cut of 3 per cent in their 1982-83 budgets which is equivalent to the 2% reduction from outturn assumed by Michael Heseltine. As the recent expenditure record shows, this would be a stern proposition but I would be prepared to defend it as being consistent with the Government's strategy since the last election and entirely realistic.

I would however be acutely concerned if I had to set Scottish authorities a significantly higher target reduction than proposed for English authorities. That would be the outcome if the degree of enhancement applied in Scotland were calculated on the basis of the territorial formula, as occurred in 1981. Under the territorial formula, the Scottish block is increased or decreased by 10/85ths of agreed variations in comparable English programmes; if that factor were applied to the £1.2bn enhancement proposed for England, the figure for Scotland would be £14lm rather than £202m (£6lm less) and the target reduction for Scottish authorities would be increased to about 5%. It would be extremely difficult for me to defend such a proposition in any event but especially if it were in the last year of the present Parliament.

At present I see no prospect of finding the difference of £6lm from within the rest of the Scottish public expenditure block. I may therefore have to make a bid in due course for extra cash for this part of my programme.

Grant Quantum

Although fully in agreement with the proposal that early notification should be given of our intentions for expenditure levels, I question the need to give any indication as early as July of the grant quantum for next year. In determining the grant quantum we need to give careful consideration to the effect on rate levels. Rate levels will be influenced by the view taken by authorities on the appropriate level of service, the level of inflation experienced by them between 1981-82 and 1982-83, the level of inflation they expect between 1982-83 and 1983-84, their forecast of interest levels in 1983-84 and the policy which they decide to adopt in drawing form or building up balances. I do not believe that it is practicable at this stage, some 5 months

Before the RSG settlement is due to be made and 9 months before the start of the financial year in question, to make accurate forecasts of these various factors nor do I believe that it is necessary to do so. Any provisional proposal for the grant quantum based on current estimates would require extensive review and possibly substantial change before the grant settlement.

I agree that it would be useful for us to undertake a preliminary discussion on the tolerable level of rate increase next year and I agree with Michael Heseltine's view that we should aim to keep the average increase to single figures. My view is that our provisional conclusion on expenditure should be announced in July but that any statement then about the grant quantum should simply indicate that some reduction is in prospect to discourage high levels of planned expenditure.

Conclusion

In summary my proposals are that:

- (a) PES provision for current expenditure in 1983-84 should be increased to give local authorities a realistic target;
- (b) the need to set similar - not more ambitious - targets for Scottish authorities to those for England should be recognised;
- (c) decisions on the grant quantum should be postponed until later in the year;
- (d) the consequences for rating levels should be given proper consideration before any announcements are made.

I would also want to add one comment on Michael Heseltine's letter. I see real difficulties in having, in effect, two figures for the total of relevant expenditure which would be the result of the proposal which would lead to the total of targets exceeding the total of GRES. While I understand the reasons that have led to this proposal, I think it would cause confusion about the nature of an already complicated system. It would not occur in Scotland. I very much hope we can find some other way of achieving the same objectives.

I am sending copies of this letter to the Prime Minister, Members of E Committee, Nicholas Edwards, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

Yours ever,
Cunne



25 JUN 1982



Mr Whitmore
to see

Prime Minister

(2)

MUS 22/6

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

22 June 1982

Thank you for your letter of 11 June about end-year flexibility. I am glad that your officials will participate in the wider study arising from the proposals in Michael Heseltine's letter of 29 April.

The implication in your letter that the Treasury has in some way held up the discussion of this matter is not justified. It is true that the remit on this occasion came from OD and arose in the context of defence. But it is clearly of far wider application and affects many other colleagues apart from those represented on OD. For that reason it was agreed with the Cabinet Secretariat at the time that a report should be made to Cabinet as a whole. It was under the impression that you were aware of that (your officials certainly were) and had not objected. I am sorry if there was a misunderstanding.

A draft paper written by my officials was discussed with yours some considerable time ago. It was agreed then to delay further action until it became clearer how successful MOD had been in eliminating the large underspend then in prospect on the defence budget in 1981-82 by making use of methods already available. Again, I was under the impression that you had been consulted.

I understand that it has now become apparent that the underspend was eliminated, and that, partly because bills which would have fallen in 1982-83 were paid in 1981-82, and apart from the very large question of the Falklands, the problem with which we were specifically concerned in OD in January concerning 1982-83 no longer exists.

The introduction of a general scheme of end-year flexibility could cost between £350 and £500 million a year, depending upon its precise specification. We can hardly take decisions with consequences of that magnitude separately from the rest of our decisions about public expenditure.

I had therefore in mind that the report by officials should be ready to lay on the table for discussion with Cabinet along with other public expenditure matters on 15 July, and that we should take a decision about it in the autumn.

I frankly do not see that a separate independent discussion in OD would serve much purpose, in view of the inevitable need for spending on this scale to be considered in the context of the general public expenditure discussions which we shall all be having.

I am copying this letter to members of OD.

*Y
Lear*

(Signature)

LEON BRITTAN



Prime Minister (2) *g/c JV*



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)

MS 23/6 WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

ME

22nd June 1982

Dear Michael

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983/84

You wrote to Leon Brittan on 14 June, copying to the Prime Minister and colleagues about the 1983/84 RSG Settlement and inviting our comments. I have a very direct interest of course given my responsibility for RSG in Wales.

It is clearly desirable to give local authorities an early indication of the main element of next year's Settlement in order to influence their budgeting decisions and I hope to let Welsh authorities have as much information as possible by the end of July. In this respect possibly the most important aspects as far as authorities are concerned is for them to know the provision for relevant current expenditure and that grant withholding will be effected if our expenditure targets are not met. I agree entirely with your arguments about the need for realism in determining the expenditure reductions we can reasonably hope to secure from local government and support your claim for additional provision.

As regards announcing expenditure targets for next year I must reserve my position on this for the time being. As you know I have asked Welsh authorities to revise their 1982/83 budgets by the middle of July and I need to consider the results of this exercise before deciding whether to set individual authority targets for next year. I would like to be able to avoid this if I could be reasonably confident that their expenditure would be in line with our plans but I realise this may not be the case and that individual authority expenditure targets will have to be set. However, I cannot take a decision on this until after the revised budgets have been received and analysed. That does not of course affect my intention to announce that holdback will be effected next year if authorities' expenditure in aggregate exceed my target.

As regards the service distribution of total cash provision it would of course be helpful if this could be sorted out by end July but I appreciate that this is a more difficult task for colleagues in England than myself.

/On

Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB



On announcing the amount of aggregate grant I accept it would be helpful for authorities to have this information as soon as possible so they could take it into account when framing their budgets. It is always easier, although no less painful, to budget within a known framework rather than to have to secure reductions in expenditure at a later date. However I recognise the reservations you have expressed about limiting our freedom of manoeuvre and that the arguments for this are finely poised. On balance I think it would be best to announce the aggregate grant early on but do not think that this is absolutely essential.

Turning to the actual expenditure targets in England, I appreciate your views on the difficulties of setting targets below GRE. As you know, in deciding on the expenditure targets set for Welsh authorities for the current year I concluded that setting targets at GRE for all authorities was not a practical proposition; there is simply no way I could expect the higher spenders above GRE, whatever their efforts, to get down to GRE in a single year. However, we have said on earlier occasions that GRE is not a target and I did not think it appropriate in Welsh circumstances to provide an exemption which would allow authorities below GRE to spend up to that level without penalty. Accordingly in setting targets I asked all authorities to reduce their current expenditure by 1% this year, including of course those whose expenditure was below GRE. I take your point about the views our supporters have expressed on setting targets below GRE in England but find it difficult to see how the overall expenditure target in England can be met if all authorities below GRE are allowed to spend up to that level. A possible compromise might be to let authorities whose expenditure is below GRE to have a small real term increase in expenditure, say one or two percent, although within a finite block grant total this would mean of course that authorities spending above GRE would have to bear the cost.

I will be interested to note colleagues' views on your proposals since they will obviously influence me in the decisions I shall have to take in the near future.

I am sending copies of this letter to the Prime Minister, members of E Committee, the Secretary of State for Scotland, the Attorney General, the Chief Whip and Sir Robert Armstrong.

J. E. S.
N. C.

CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

22 June 1982

Dear Nutall

LOCAL AUTHORITY CURRENT EXPENDITURE 1982/3

I refer to Terry Mathews letter to you of 21 June. *with PM*

My Secretary of State does not believe that it is reasonable to discuss the issues raised in the Chief Secretary's paper without bringing in the other Ministerial colleagues who have been involved in the earlier discussions, and some of whom have a strong Departmental interest in the outcome. For example, part of the burden of further holdback would fall on the Metropolitan Counties with implications for police and transport. There are also, of course, wide implications for education authorities. Nor does my Secretary of State feel that the Chief Secretary's paper gives full weight to the arguments against further grant holdback in 1982/3. He has therefore prepared a short paper setting out these arguments. This is enclosed.

I am sending a copy of this letter and paper to the Private Secretaries to the Chief Secretary, all members of E Committee, the Secretaries of State for Scotland, Wales, Health and Social Services, the Attorney General, and to Sir Robert Armstrong.

*Yours sincerely
D A Edmonds*

D A EDMONDS
Private Secretary

2 Marsham 83-84

Michael Scholar Esq - No 10

LOCAL AUTHORITIES' CURRENT EXPENDITURE 1982-83

PAPER BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. This paper complements Leon Brittan's (circulated on 21 June).
2. The arguments against further holdback this year are both political and legal. They are in my judgment overwhelming.
3. Tom King and I have given repeated assurances in the House, in terms agreed with Leon Brittan, that there will be no further differential holdback of grant this year. But Leon's scheme is differential because it takes more grant from the high spenders than from the low spenders.
4. Leon argues that there is no inconsistency between the assurances and his proposals. Technically he is right. But his argument rests on a fine technical distinction between differential holdback using multipliers - which we have formally ruled out - and differential holdback using a changed poundage schedule for the close-ending part of it - which is formally still an option.
5. I do not believe we could possibly defend Leon's proposals by appealing to abstruse distinctions of this kind. Our opponents would ridicule us. More important, many of our supporters would charge us - quite plausibly - with breach of faith. Grant holdback needs Parliamentary approval; I doubt whether we could command a majority in the House for Leon's proposals.

6. There is also a legal risk. Grant holdback has already been the subject of one successful legal challenge. We have tried to safeguard our position by taking further powers in the Local Government Finance (No 2) Bill. But we know that some authorities are already preparing further challenges. We must now proceed as quickly as possible to get Parliamentary approval for grant holdback of £200m for 1981-82 and of £312m for 1982-83. We have already agreed on these. But Leon's proposals could jeopardise the relevant Orders, both in the House, and - if we were to succeed in getting them through - in subsequent litigation. This is because they involve further discrimination between authorities; the very point on which further legal challenges are likely to concentrate. In this context I would advise colleagues most strongly against adopting proposals which can - and will - be attacked as inconsistent with assurances given in Parliament.

7. Leon admits that his proposals would be unpopular with local government and would probably have only a marginal effect on expenditure this year. I would add that they would bear particularly harshly on the metropolitan counties and hence on police. In my view they should not be pursued.

8. Of course we must pursue our policies for restraining local government expenditure. Some of this year's overspend is due eg to excessive transport subsidies, for which we are already discussing possible longer term remedies in MISC 79. We should now concentrate on those remedies and on a tough RSG settlement for 1983-4, with an announcement of the main elements in July. I have already outlined proposals to colleagues, and I shall shortly be putting a paper to E Committee.

Mr. BARKWAY 5/7

Chased - missing back 9/7
 Reply
 Despatched last
 Friday so should
 get a copy today - 12/7.
 (SW)

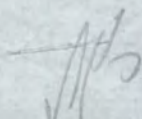
21 June 1982

I attach a copy of a letter the Prime Minister has received from Councillor E.D. Barkway of Bromley Council.

I should be grateful if you could provide a draft reply for the Prime Minister's signature, and if this could reach me by Monday 5 July.

T F

Mrs Helen Ghosh
 Department of the Environment

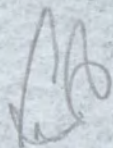


21 June 1982

I am writing on behalf of the Prime Minister to acknowledge your letter to her of 17 June. This is receiving attention and a reply will be sent to you as soon as possible.

T F

Councillor E.D. Barkway





~~Prime Minister~~ (1)

~~The Chief Secretary and
Mr Heulhine have tried to settle
this several times, with no success.~~

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
London SW1

21 June 1982

~~Agree to a
small meeting?~~

~~MLs
21/6~~

Dear Michael,

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

E Committee invited the Chief Secretary and the Secretary of State for the Environment to try to agree bilaterally on the Chief Secretary's proposal for additional hold-back of £80 million Rate Support Grant in the current year. They met last week, but were unable to reach agreement.

The attached short paper sets out the problem and the solution proposed by the Chief Secretary. He wonders whether it might be possible to resolve the issues in a meeting of the Ministers directly concerned under the Prime Minister's Chairmanship, rather than take the whole thing back to E Committee again, and he hopes the Prime Minister will feel able to proceed in this way.

I am sending copies of this letter and the paper to David Edmonds and to David Wright.

Yours sincerely

Terry Mathews

T F MATHEWS
Private Secretary

LOCAL AUTHORITIES CURRENT EXPENDITURE 1982-83

Paper by the Chief Secretary

Local authorities in England have budgetted to spend nearly £1½ billion more this year than we allowed for in the RSG settlement. Last autumn we agreed to raise our provision for this year by over £1 billion precisely in order to provide a realistic target. The £1½ billion excess over the increased figure has been the response to that decision.

2. We have already said that overspenders will lose rate support grant. We announced a scheme of penalties before we knew the size of the problem. This will impose cuts in the RSG of £312 million. That is an inadequate response to the overspending we now face. Local authorities have in any case allowed for these penalties in their budgets.

3. To do nothing further would be irresponsible. The press are already justifiably mocking us for our impotence.

4. We agreed in E Committee that any further reduction in grant must protect our supporters, and in particular those spending less than GRE, so far as possible. It must also not conflict with the undertakings we have given. I have now developed a scheme which would meet these requirements. It is described in the annex. It could only achieve a fairly small - £80 million - reduction in RSG. But it would focus the grant cut pretty precisely. For instance, shire counties and outer London boroughs would lose nothing.

5. I have discussed this with Michael Heseltine and Tom King. They agree that the scheme I propose would be feasible and consistent with their undertakings during the passage of the the Local Government Finance Bill. At the time they were made I specifically asked for those undertakings to be suitably limited, so that the action I am now proposing should be available to us. But

Michael and Tom are concerned that any further reduction in grant may appear contrary to the spirit, if not the letter, of what they promised. Allegations about the spirit of an undertaking can always be made, but in the context of a modest cut with the impact of the kind set out in the annex I do not think this would be well founded.

6. I appreciate that any measure to cut grant to local authorities will be unpopular. I also accept that the effect on local authority expenditure may only be marginal at this stage in their financial year. But that makes it more, rather than less tolerable, when its affect is so overwhelmingly on the worst overspenders.

L.B.

ANNEXProposal to Cut RSG in England for 1982-83 by £80 million

Local authorities' claims for RSG for 1982-83 amount to £81 million more than the cash limit. So the claims must be scaled down to fit the cash limit. This is called "close-ending".

2. There are several ways of doing this. Last year we arranged that each local authority lost RSG worth about 6p on the rates. This amounted to rough equality of misery. We could do the same again.

3. Alternatively, grant claims could be shaded down selectively. I propose that we follow this course. Thus we could deduct the £81 million from the high spenders. The others would lose nothing.

4. But even those who are not high spenders are at the moment expecting to lose something by the normal close-ending process. We could make them lose the amount they are expecting by simultaneously reducing the rate support grant across the board. The overspenders would lose from this as well as from the operation described in paragraph 3.

5. The net effect would be to leave low spenders where they expect to be and high spenders worse off.

6. To illustrate, the table below gives examples of how this proposal would alter local authorities' grant, compared to what they are currently expecting from close-ending:

	<u>Authority</u>	<u>£ million</u>
High spenders	GLC	-26.3
	Lambeth	- 2.4
	Greater Manchester	- 1.9
	South Yorkshire	- 4.7
	Newcastle	- 2.1
Others	Buckinghamshire	+ 0.01
	Croydon	+ 0.004
	Kensington	+ 0.002
	Wakefield	+ 0.003
	Southampton	-

CONFIDENTIAL



10 DOWNING STREET

FWL

18 June 1982

The Rt Hon William Whitelaw CH MC MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1

Dear Willie,

At the risk of adding to the mountain of paper already facing the Ministerial Group on Local Government Organisation and Finance, I hope the enclosed papers may help to shed some light, from a slightly different angle, on this fiendishly complicated problem.

Part I: Origins of the 'Local Government Problem' makes the point that there was no problem until local authorities were made responsible for education.

Part II suggests how we might return, by a relatively simple route, to effective and democratically accountable local government as we knew it in the past, with rate income roughly balancing revenue.

I have sent copies of this paper to the other members of the Committee, and to the Prime Minister.

Yours sincerely

Ferd

FERDINAND MOUNT

CONFIDENTIAL

LOCAL GOVERNMENT REFORM

A Note by the Policy Unit
10 Downing Street

18 June 1982

T. ORIGINS OF THE "LOCAL GOVERNMENT PROBLEM"

Until quite recently, raising the money through the rates to pay for the services provided by local authorities was not perceived as an especially perplexing problem. In the nineteenth century when fresh duties were assigned to local government, central government would often make a grant to ease the burden on the rates. These grants mounted up, but even after they had begun to be merged in Goschen's Local Government Act of 1888, central government continued to foot only a small proportion of the bill for local authority services. In 1930, the proportion was still as low as 30% of all local authority spending, rising in the late 1930s to 40%, and in the 1950s and 1960s to 50% until the central government grant reached its peak in 1975-76 of 66% of relevant expenditure, from which it has been gradually reduced to the 1982-83 figure of 56%.

What caused the huge swelling in the central government burden which, for a time at least, effectively destroyed the independence of local government? Clearly, on the one hand, rates lack buoyancy as a source of revenue. On the other hand, the local authorities were asked to shoulder more and more responsibilities.

But the local authorities were also shedding responsibilities over the same period - notably their responsibilities for the relief of poverty and unemployment. The rating system could thus have financed local authorities quite adequately, no doubt with the help of modest government grants to push through specific projects and to equalise unequally endowed local authorities; they could have shouldered their responsibilities without this huge growth of central grant, were it not for one ever-growing responsibility which came to overshadow all others - education.

The cuckoo in the nest

Before Balfour's Education Act of 1902, education accounted for only 12% of all local authority expenditure. After the 1902 and the 1918 Acts, education expenditure grew rapidly to account for some 20% of all expenditure in 1930. After the Butler Act of 1944, it grew again to reach 33% of total expenditure in 1950, and 45% in 1982-83.

The growth of the central grant has corresponded exactly to the growth of educational expenditure. Indeed, in recent years, the two figures have often been roughly equal to one another.

Education is the cuckoo in the nest which has grown so huge and greedy that it is threatening to squash the other, far smaller fledglings. The mother tries to pretend that the cuckoo is merely another of her children. The motto of "a national system locally administered" is devised and reverently repeated to convince ourselves that the present division of responsibility is both sensible and traditional. But suppose we describe our system, more accurately, as one which is "largely nationally financed but almost wholly locally controlled". Then we can see the divorce between taxation and representation - and the fundamental lack of true accountability in the system.

This divorce is rare, if not unique, in modern Western nations. In other countries, either education is both financed and controlled centrally, as in France; or it is both financed and controlled at regional or local level, as in the West German Länder or the American states.

The "education problem" is one and the same as the "local government problem". It is impossible to solve one without solving the other.

Most of the other functions exercised by local authorities have been so exercised for centuries:

- the police function is so ancient that it predates even the introduction of the Norman French word "constable"
- the welfare function can be traced back to well before the Elizabethan poor law. Being "on the parish" - with all its resonances - is one of the oldest notions in English government
- the highways and byways function is one of the principal reasons for the establishment of parish boundaries.

These other functions are intimately and logically related to the idea of locality. It is your high street which the police patrol and which the council maintains; the fire brigade puts out fires in your area and your area only; it is your sick and destitute whom the modern parish helps to maintain.

These services are also for the use of the local population as a whole in their capacity as individual citizens, whether young or old, married or single.

It is no accident that education should be a relative newcomer to local government, for education is a quite different type of service. To start with, it is restricted to one category of citizen - children and young people. It is not limited by geography. Parents can and do send their children halfway across London or halfway across Britain to be educated. You can be educated by correspondence or by TV. In higher education, there was never any pretence that education is an exclusively local responsibility.

The traditional functions of local government are also relatively unchanging and modest in their demands for public funds. But education is not only geographically unlimited; its demands are both spiritually and economically limitless. A high street with no potholes is a good high street; a good policeman is a good policeman. But a good school is more like a good modern hospital which has an unlimited appetite for funds. Teachers, equipment, facilities and buildings can all be improved ad infinitum.

It is true that many towns and cities had owned or helped to maintain schools long before the coming of Forster's 1870 Act; but the systematic undertaking of responsibility for all primary and secondary education was a very different matter, particularly when, as Rab Butler admitted in the case of the 1944 Act, it was undertaken very largely to improve the buildings and facilities of the church schools which were to be integrated into the state system.

The record of local authority control

The input of very large sums of money has achieved the desired effect on the material criteria: pupil-teacher ratios, buildings and equipment. But these material achievements could have been achieved equally well by central government doling out the same ever-rising income directly to schools or by local authorities raising all the money by any combination of local taxes.

The conventional tests of achievement do not measure:

- (a) the responsiveness of the system to parental wishes;
- (b) the level of educational standards achieved;
- (c) the responsiveness of the system to financial controls.

Dissatisfaction with this system is now being recorded at all levels by parents, head teachers and Secretaries of State, all bemoaning their lack of power.

CONFIDENTIAL

It is at least arguable that the divorce between the revenue-raising power and the administering power may have some connection with this alleged lack of accountability.

And if the local education authority system is now said to lack accountability - which was formerly esteemed its chief virtue - then it may be that the local education authority, far from being the chief glory of our local government tradition, is in reality a latecomer to, and an intruder upon, that tradition.

CONFIDENTIAL

II. BETTER LOCAL GOVERNMENT

If we start from the assumption that we cannot solve the local government problem without bringing together the financing of education with the control of education, then there are two choices:

Either to increase the rates or some other newly-minted local tax or taxes to finance virtually the total cost of primary and secondary education.

Or to shift direct control of education, along with the bulk of its cost, to central government and begin to devise fresh methods of injecting both quality and local control into our schools.

The impetus behind all these studies and discussions is public indignation about the ever-rising level of the rates. Any solution which depends either on further massive increases in the rates or on imposing a fresh tax, however ingenious, is unlikely to soothe that indignation. It is equally unlikely therefore to be a practical possibility.

The alternative then is to begin to shift the control of educational expenditure to central government.

Once this crucial shift is undertaken, we may find it considerably easier to satisfy the criteria which all the studies have identified as essential to any reformed system of local government. Indeed, we may find that the series of actions required to satisfy these criteria no longer conflict as before, but instead begin to dovetail.

The four main criteria identified by the studies seem to be:

1. Democratic accountability. The principal complaints here are low polls, long periods between elections, lack of correlation between expenditure and rate income, still less correlation between rate revenue and local electorate. Remedies:

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- (a) More regular elections would make councils more responsive to ratepayers' wishes. Either all councils could be elected by thirds each year; or the whole council could be elected every 2 years.
- (b) A closer match between rate revenue and local authority expenditure would make councils more responsible to the voters in the control of current expenditure. The education shift is the only item large enough to make this closer match a reality to the voters.
- (c) Voter control on capital expenditure could be secured via referenda, as in the USA, as well as or instead of the present system of Government controls.

2. Restraint of public expenditure

- (a) Accountability measures as in 1.
- (b) Privatisation and contracting-out of local government services.
- (c) Network of tapering and penalising controls on expenditure overruns.
- (d) Bringing a substantial element of local authority expenditure under central government control. Again, the only worthwhile candidate is education.

3. Fair local taxation. This is a complex technical question. But the general criteria on which fairness is to be judged are clear:

- (a) The closer match between locally-raised revenue and local authority expenditure.
- (b) Simplicity and cheapness of collection.
- (c) Equity between ratepayers in different categories and different areas.

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The general drift of the papers so far submitted is that a reformed rate system would best meet these criteria, provided that the demands made on that system are modest. Once the scale of local government expenditure is reduced, other alternatives to the present arrangements (sales tax, poll tax, etc) become much easier to envisage, if preferred.

4. Optimum management of local services. The principal dilemmas here concern transport and education.

Transport. The main alternative to the present structure is the proposal to introduce or extend Passenger Transport Authorities. This perpetuates, in a different guise, the present confusion of three separable functions - licensing authority (legal), social service (welfare) and transport provider (service industry).

A cheap, well-run, competitive transport system ought to separate out these three functions - as we began to do in the 1980 Transport Act.

- (a) Licensing powers, where necessary at all, should be restricted to the Minister of Transport. London Transport and other public transport undertakings should have no more right to make representations than any other body or individual.
- (b) The social service function, if thought necessary, should be looked after by the newly-democratised local authority. Each contract to provide a subsidised service should be separately agreed between the local authority and the service provided.
- (c) The service provider should be split up into its natural component services, to improve competition and the optimum use of resources.

Transport in London, for example, might be divided into London Underground, London Surface Railways, and London Buses. London Underground should be profitable in its own right, once shorn of the need to cross-subsidise the buses.

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London Surface Railways could take in all inner London commuter services. It would be expected to experiment with conversions into bus-only trackways (eg Broad Street-Richmond line) and to make optimum use of its huge empire of unused derelict land. London Buses would be expected to separate its profitable routes from its unprofitable ones and invite subsidies to keep the latter going. It would also be free to experiment with a wider variety of vehicles and services - minibuses, jitneys etc. All three might then be attractive to injections of private capital or even complete privatisation.

The local government effect of all this would be to reduce the elements of transport undertakings for which the local authority is responsible to the subsidy of otherwise unprofitable routes. This modest function, replacing the large, if somewhat vague powers conferred on the GLC and other metropolitan authorities, means that transport would no longer provide a justification for retaining these authorities if we wish to do away with them. Even if we don't, transport would no longer be a substantial problem - since the social service function could be exercised quite capably by any tier of local government.

Education. The natural method of real decentralisation is to decentralise power to parents, not to local education authorities. The most intimate form of local accountability is accountability to parents. Some form of education ticket or allowance is the rational outcome. But meanwhile, there are other ways of using central funds in ways which bypass LEA's and improve the power of parents and headmasters.

I suggest here only:

- (a) the transfer of LEA school ownership to local school boards directly elected by parents or with weighted membership dominated by parents and not by local politicians; or

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- (b). the possibility of parents having the right to apply to the DES for funds to establish a school to be set up as a charitable trust which would have to satisfy certain conditions - academic, financial etc.

But the basis premise for all such schemes, whether modest or radical, is that the DES should first have its own funds to disburse. Again, the only way through is some measure of central government control.

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CONFIDENTIAL



*Local Govt
CC JV*

Prime Minister (2) 1

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

MUS 18/6

The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1 3EB

MH 18 June 1982

Dear Secretary of State,

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-84

Thank you for sending me a copy of your letter of 14 June to Leon Brittan.

2. I have no comments at this stage on the need for an addition to the total provision for local authorities: as Leon said in his letter of 2 April, we shall have to look at this again in the autumn when we consider the rest of public expenditure. And I agree that we should defer a decision on aggregate grant. But I have some points on targets and holdback and their relationship to service distribution.

3. I do not think that we should rule out the alternative response to local authorities' overspending, namely an increase in the penalties within the block grant system itself, until we have considered the other options in more detail. If we significantly steepened the rate poundage cost of expenditure beyond GRE, with perhaps a further kink or kinks beyond that; we might avoid the political difficulties associated with targets and holdback; and we could present higher-spending authorities with a sustained incentive to reduce their expenditure, difficult though this might be for some of them.

4. If we decide in the event that targets should again be used, I agree that it would be wrong to apply penalties to authorities spending below their GREs. This would have damaging effects upon the education service in the case of some low-spending local education authorities as well as the political consequences you mention. I can see the attractions of the option you describe, involving again different totals for targets and GREs, effectively the system we adopted this year, with only modest success. But

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Ministers responsible for services would need to be satisfied that the GRE total embodied service GREs which were consistent with the government's policies for those services; and it is surely essential that any difference between the totals of GREs and of targets should be distributed among services.

5. I am sending copies of this letter to the Prime Minister, members of E Committee, the Attorney General, the Chief Whip and Sir Robert Armstrong.

*Yours sincerely,
A. Gordon*

Approved by the Secretary of State
and signed in his absence

62 HEATHFIELD ROAD
KESTON
KENT BR2 6BA
TEL. FARNBOROUGH 51733

17th June, 1982

The Rt. Hon. Mrs. Margaret Thatcher,
10 Downing Street,
LONDON SW1

R.18.

Dear Prime Minister,

I apologise for worrying you with domestic matters at this time but you will understand that we are not always masters of timing on particular issues.

I have had occasion to write to the Secretary of State for the Environment, Mr. Heseltine and have received a reply from Lord Bellwin regarding the close ending of the rate support grant. I felt that you would wish to be acquainted with the very serious reaction to the close ending action taken by your Government which has resulted in Bromley losing £450,000 of grant this year.

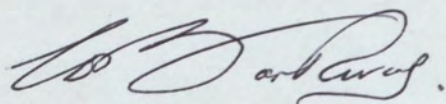
You will know that Mr. Heseltine's department set two targets for each local authority. Only ten authorities, of which Bromley and Croydon were two, managed to comply with both targets. They are now faced, in spite of having met those targets, with sharing in the penalty as a result of the overspending by all the local authorities who did not meet both targets.

My colleagues on Bromley Council have felt it necessary to address this inequitable treatment as forcefully as possible and we have the support of the four Bromley Members of Parliament and matters are now proceeding where the Constituency Associations feel equally strongly that the system of penalties on conforming authorities is simply not good enough. I know that if I set out all the pros and cons I run the risk of being extremely boring but the simple principle of fair treatment to those who comply as opposed to those who do not, can be enacted by straightforward legislation exempting compliant authorities from penalty.

Your cabinet colleague Patrick Jenkin in his address to the CBI dinner referred to the dangers of rate increases on the level of employment and then went on to address the question of incentives to industry. I am confident the point would not be lost on you, that local authorities such as Bromley to whom you may reasonably have looked to set an example, equally require incentive but under the present system we in Bromley and the other complying authorities have the worst of both worlds.

It is now likely that short of your intervention in the matter, Bromley will find precious little reason to meet targets next year because to do so means to suffer a penalty and not to do so means also suffering a penalty but at least enjoying the benefits of overspending. This inequitable treatment between the good and the bad was intended to be overcome by the amendment of the rate support grant system and we now feel that as Councillors and through the Constituency Associations the need to invoke your support to prevent the circumstances arising where these Associations and the Council find it necessary to express their disappointment publicly.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'E.D. Barkway'.

E.D. Barkway
Leader of the Council
London Borough of Bromley

Prime Minister

(2)

JCV

2 MARSHAM STREET
LONDON SW1P 3EB

Rt Hon Leon Brittan QC MP

My ref:

Your ref:

14-June 1982

I support the
Chief Secretary's
view.

The Chief Secretary's views
on proposals for a large
increase in cash provision
for local authorities in 1983-84.

When he has Leon Brittan's reactions he will
bring a paper to E.

RATE SUPPORT GRANT (RSG) SETTLEMENT 1983-4

MS 15/6

We have agreed to make a provisional announcement by the end of July about the main elements of the RSG settlement for 1983-4. This will give local government early notice of our intentions and enable them to plan for the necessary economies.

We agreed in E Committee on 26^{PC 10} May that we might be well advised to reach a more severe settlement for 1983-4 than for 1982-3. We must certainly continue to aim for maximum restraint on expenditure. But our critics will be looking to attack us on 2 main fronts: if we reduce the rate of grant very sharply we shall be accused of causing massive rate increases; and if our expenditure provision is unrealistic, we shall be attacked for demanding unacceptable cuts in services. We must try to avoid a situation in which local authorities fail to make reductions which they see as unrealistic, and blame us for the consequent high rate increases.

I hope to bring detailed proposals to E Committee in time for a statement to be made at a meeting of the Consultative Council on 19 July. This letter sets out the main issues which we shall have to decide.

The July announcement should cover:

- i. any adjustment to the provision for relevant current expenditure in the Public Expenditure White Paper;
- ii. expenditure targets and holdback;
- iii. the service distribution of the total cash provision;
- iv. the aggregate grant.

If we can reach agreement on (iii) and (iv) as well as on (i) and (ii) in time for a July announcement, we shall be doing better than last year and be well on course for a pre-Christmas settlement (though there will certainly be problems in the autumn, as the new data from the 1981 Census have to be fed into our exemplifications).

The Public Expenditure Provision

As the White Paper stands it provides for £18.6 bn of current expenditure in 1983-4 (after adjusting for the reduction in the National Insurance Surcharge). But the budgets for 1982-3 already imply spending of £19.1 bn this year. Our present plans thus imply that local government should make a 3% cash reduction from this year to next - or about 10% in "real terms" if we assume inflation at 6% or 7%.

I believe that it would be politically indefensible to seek reductions of that amount. We know - and local government know - that they are simply not achievable. In the 7 years since reorganisation the only real cuts that have been achieved are about 2% in 1977-8, 1½% in 1980-1, and perhaps 1% in 1981-2. Besides, an unrealistic total provision inevitably leads to unrealistic targets for individual authorities, even those who wish to comply with our guidelines, and it becomes the more difficult for us to isolate the real high-spenders. To leave the White Paper figures unchanged would outrage our supporters in local government, and give our opponents an easy line of attack.

How then should we set about deciding on an alternative figure? I suggest that we should begin by considering what is the most we can ask of local government as a whole. Bearing in mind that current expenditure fell in 1980-1 (1¼%) and 1981-2 (about 1%), and will probably stand still or fall slightly in 1982-3; that local government manpower has fallen by 4¼% since we took office; and that the relatively large reduction of 2% in 1977-8 came after a period of sustained growth, I think it would be quite unrealistic to expect a further reduction between 1982-3 and 1983-4 of more than about 1% to 2% in real terms at the very most. Even that may be over-optimistic.

On that rather crude basis, a 1% to 2% real terms reduction between the 2 years would imply an increase in the present public expenditure provision from about £18.6 bn to about £19.8 bn (for a 2% real cut) or about £20.1 bn (for a 1% real cut). Your officials have details of the assumptions underlying these figures, which I think would be generally accepted.

But we also need to look at the distribution of cuts between individual authorities. Many of them, including many of our supporters in the counties and shire districts, are already spending at or below the level of their GRE; I do not think we could possibly ask them to cut further by more than 1% or so in real terms at the most. The high spenders should be able to do more, but it would probably be unrealistic to expect them to achieve more than perhaps 4% or 5%. (The 7% which we sought from many of the high spenders this year was certainly unrealistically high.) I have asked my officials to illustrate the implications of seeking reductions within this sort of range from individual authorities. Until we have seen the figures I cannot be sure whether constraints of this sort could be accommodated within a total increase of the order referred to in the previous paragraph. Meanwhile I should be glad to know whether you see any difficulty of principle in my proceeding to work up proposals on the basis I have described.

Targets and Holdback

In both 1981-2 and 1982-3 we have set expenditure targets for individual authorities, with holdback of grant for those who exceed them. Local government dislike expenditure targets, and have urged us to dispense with them for next year. But this system has had a marked effect in restraining expenditure, and I believe that we need a similar one for 1983-4. In order to make it quite clear that we shall continue to seek economies from local government I would like to announce in July a firm decision to continue with targets in 1983-4.

I shall make detailed proposals for a target system in due course, but there is one issue on which it would be helpful to have colleagues' views now.

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For this year we set targets for 261 authorities at a level below their GRE. At one stage we envisaged a system of grant holdback that would apply to all authorities which spend above their target, regardless of its relation to their GRE. However, at a late stage we decided that it would be inappropriate to abate grant for authorities spending at or below their GRE, even if they exceeded their target. The result of this GRE exemption was that the GRE was widely perceived as being the effective target, and the lower, indicative target was in practice ignored by many authorities.

We could avoid that problem by making GREs the targets for all authorities, with heavy grant losses for all spending above GRE. I know that some colleagues are sympathetic to such an approach. I do not however recommend it, since it would be both unfair and unrealistic for the authorities which are spending well above GRE and cannot be expected to get down as far as GRE next year. Many of these are in inner city areas with major social problems. For this group of authorities a realistic target must be set at a level above their GRE. For authorities which exceed the target I think we need to consider the possibility of a very steep taper to the poundage schedule, so that the grant losses for overspending at this level become more severe than they have been this year.

At the other end of the scale we need to consider whether it makes any sense to set targets below GRE for low-spending authorities, and to enforce them by holdback. My own view is that there is little point in setting targets at any level if we are not prepared to reinforce them with holdback. And I am very doubtful whether we could get Parliamentary support for penalising authorities spending below GRE. Those who would suffer would mainly be shire counties, such as Essex, Hertfordshire and Buckinghamshire. Our supporters in such areas are already very concerned about our recent RSG decisions, and many of them would be unwilling to support a proposal which took grant from authorities spending at or below GRE, at a penalty for exceeding what they would see as another, arbitrary, target. I therefore see little alternative to making the target equal to the GRE for those low spenders.

Two important consequences would follow:

- a. The total of targets would necessarily exceed the total of GREs.
- b. The GREs themselves ought not to be increased significantly in real terms from this year's levels, since otherwise the low-spending authorities for whom GRE is the target would be spared any attempt at real reductions.

If, for example, we were to allow an average increase of GREs of 7%, in line with expected inflation, the total ~~current~~ expenditure provision for GREs would need to be increased from about £18 bn in 1982-3 to about £19.3 bn in 1983-4. This would be substantially lower than the total provision for targets, if that were worked out on the basis already described.

I should like to reflect further on this option of a different total for targets and for GREs. Its great advantage would be to allow us to combine a realistic target system with a tightly drawn system of needs assessment, and to provide for a GRE exemption which was less of an encouragement to overspending than this year's. On the other hand it would further complicate the grant and target system; and our supporters might well criticise this form of GRE exemption as purporting to be more generous than it really was. I should welcome

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your views and those of colleagues. Meanwhile my officials are working up some detailed figures. You will of course want to consider how this option would be dealt with for the purpose of next year's Public Expenditure White Paper.

Service Distribution

We do not need to decide at once on the apportionment between services of any increase in the cash provision for GREs and targets. But we need to decide it earlier than last year, and before the summer if possible, so that we have a firm base for constructing the GREs for individual authorities, on which the detailed exemplifications of grant distribution will be based. Options for service distribution have already been discussed between officials. Subject to any views which colleagues may wish to express at this stage, I will bring proposals to E Committee in due course.

Aggregate Grant Total

I have an open mind on whether we should aim to announce a decision on the grant total - and hence the grant percentage - in July, or whether, as in previous years, we should leave this until the time of the RSG settlement. An early announcement of a low grant figure would show local government that we mean business, and would exert the maximum pressure for economies in the preparation of next year's budgets. On the other hand a July announcement would limit our freedom of manoeuvre for the rest of the year since it would be difficult to revise the figure downwards if circumstances in the autumn were to change; and it would be seen by local government as an opening bid, which they would try to negotiate up between July and the settlement.

We must also bear in mind that we can influence, but we cannot determine, the average rate increase for the sensitive year 1983-4. Your officials have figures which show that for any given sum for total grant, the implied rate increase varies substantially according to the total level of budgetted expenditure. There would therefore be a risk in an early decision. We might decide on a level of grant to produce acceptable rate increases on the assumption of say a 1% or 2% real terms reduction in expenditure; and then find, because local authorities had budgetted for a higher level of expenditure, that rate increases were coming through at a higher level than we wished. Rate increases will also depend on the structure and severity of any holdback scheme; and it will be difficult to take detailed decisions on this before we have the autumn exemplifications available. It might therefore be better to take our decision on the grant total in the autumn, in the usual way, by when we shall have a clearer idea of how local authorities are budgetting. On this approach the main effect of the July announcement on local government's spending plans would come from what we say about the public expenditure provision and about targets.

Conclusion

I should be grateful for any comments from you and colleagues by the end of this week (18 June). I will then aim to bring proposals to E Committee in time for an announcement to the Consultative Council on 19 July.

I am sending copies of this letter to the Prime Minister, members of E Committee, the Attorney-General, the Chief Whip, and to Sir R Armstrong.

Yours ever
M.A.



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gc JV

Prime Minister (2)

P.0772

MR WHITMORE

cc Mr Wright

MW

You asked to see summaries of these papers. They are to be discussed by the Home Secretaries group (MISC 79) next week. He will be reporting to you, and Cabinet, thereafter.

LOCAL GOVERNMENT FINANCE AND ORGANISATION

pt 10

In your minute of 24 May to Mr Wright you asked for a summary to be prepared for the Prime Minister of the papers coming forward to the Ministerial Group on Local Government Organisation and Finance (MISC 79).

MCS 11/6

The Duty Clerk has the papers themselves if you want to see them

2. I attach summaries of the main papers, prepared by the MISC 79 Secretariat. The summaries have not been cleared with Departments, or their existence mentioned to Departments. We are, however, sending copies to the Home Secretary, as Chairman of the Group.

3. Although they are far shorter than the original papers, the summaries are still quite a formidable amount of reading. We have arranged them in the following order, which we hope the Prime Minister will find convenient; it corresponds to the order in which they are likely to be considered by the Group.

1. General questions: MISC 79(82)7.
2. Alternatives to Domestic Rates: MISC 79(82)3 and 4.
3. Public Transport in London and the Metropolitan Counties: MISC 79(82)2&6
4. The Greater London Council and the Metropolitan County Councils: MISC 79(82)1.
5. Financing of Local Authority Education: MISC 79(82)5.

We would not trouble the Prime Minister with summaries of MISC 79(82)8 (the CPRS collective brief; this is already in summary form, and simply outlines



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the questions for decision), or MISC 79(82)9 (detailed comments by the Secretary of State for the Environment and his officials on the proposals in MISC 79(82)5).

4. The first two meetings of the Group have been arranged for 16 June and 22 June. The aim is that it should report to Cabinet by early July. It is necessary to have decisions before the Summer Recess on legislation to govern transport subsidies, and on whether Ministers wish to legislate next Session for reform, either interim or long-term, of the domestic rating system. The other matters to be considered by the Group could be taken on a rather longer time-scale.

PLG

P L GREGSON
Cabinet Office.
11 June 1982.

Attachment:


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SUMMARY OF MISC 79(82)7: A FRAMEWORK FOR LOCAL GOVERNMENT

This paper by the Central Policy Review staff suggests that relations between central government and local government are poor. Ministers now face a series of decisions which will amount to a view on how they want local government to develop over the next decade; they need to be clear about their objectives and the role of local government.

The Problem

2. There is an inevitable tension between local government (which regards itself as having an independent responsibility to, and mandate from, the local electorate) and central government (which wants local government to conform to national policies, including policies of economic restraint). One possible resolution of the tension would be for central government to impose financial limits on individual local authorities. Ministers have hitherto rejected such a course because it would greatly reduce local autonomy. But it is the only way of guaranteeing that expenditure by local authorities will conform to the Government's targets.

3. The alternative approach is to increase the pressure on local authorities to exercise self-control. This entails bringing the cost of local services closer home to the local electorate.

4. The existing system fails to bring home the cost of local services to the electorate because the electorate bears only about one-fifth of the cost of current expenditure: the rest is financed by the Exchequer or by non-domestic rate payers. It would therefore be a move in the wrong direction to try to reduce the domestic rate burden by increasing the size of Exchequer grant. The expenditure for which local authorities are responsible and the extent to which they raise their finances from their electorate should be brought into better balance.

Reduce range of Local Authority Functions

5. One possible approach would be to reduce the range of functions for which local government is responsible. The following possibilities are considered in the paper:

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a. Education

The Secretary of State for Education and Science considers that in England parts of the education service are falling seriously short of a number of national educational objectives. He has proposed that an education grant should be introduced. The CPRS doubt whether this would significantly increase the extent to which educational objectives are met. It would greatly complicate the system of local government financing. If it reduced the pressure on the domestic rates it would go in a direction opposite to the increase in local accountability which the CPRS think desirable.

Alternatively, education could become a central government service, on lines similar to the National Health Service. This would be a very large constitutional and organisational change. Its effects on efficiency and effectiveness are debatable.

b. Transport

The CPRS agree with the conclusions of MISC 70 that transport should remain a local authority function outside London, but that the case for change is stronger in London because of its size and because of the existence of the rail commuter network. The proposals by MISC 70 for a new Passenger Transport Authority (PTA) are worth exploring further; if Ministers favour them, the CPRS recommend a variant under which local authorities would retain the function of subsidising the bus services of London Transport: the new PTA would act as contractor, and the local authorities as customer, raising funds locally to pay for non-commercial services.

Alternative Financing arrangements

6. The alternative approach is to increase the amount of taxation raised by local authorities from their electorate (with a corresponding reduction in national taxation). The main possibilities discussed in the paper are as follows:

- a. Amend the Exchequer grant system so as, for example, to require all local spending beyond a defined level to be financed 100 per cent by locally-raised revenue.



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b. Over a period of years reduce the Rate Support Grant percentage to ~~xx~~ the amount needed to equalize revenue relative to need (about two-thirds of its present level). This would need to be accompanied by a reform of the domestic rating system, the creation of other sources of local revenue, or both.

c. Convert non-domestic rates into a national, not a local, tax. Central government would decide the level. Local authorities could be given the resulting funds, either as assigned revenues or (with redistribution) through the Exchequer grant system. Another possibility would be to 'cap' non-domestic rates: this might be a first step towards converting them to a national tax.

As for new local sources of revenue:

d. Local sales tax and assigned revenues should be rejected.

e. Reformed domestic rates (ie incorporating changes to improve the fairness of the system, such as discounts for single-owner households) would have many features desirable in a system of local taxation, but could probably not raise revenue on the scale which the CPRS consider necessary if local accountability is to be increased while the functions of local authorities remain substantially unchanged.

f. A poll tax could not be the sole form of local taxation, but might be a supplement to another tax.

g. A local income tax (LIT) is the only tax sufficiently equitable to be the sole source of revenue on the scale the CPRS consider necessary. But it could not be introduced before the 1990s.

No It follows that if Ministers consider that in the long-run local government should have only one local tax, LIT is the only option. If, however, local government could be given two taxes, the range of choice is wider.

Interim changes

7. Any new tax would take some years to introduce. It is therefore worth considering interim changes to restrain local spending by increasing the proportion of marginal expenditure met by the local electorate. It would be possible to change the block grant system so as to increase the penalties for expenditure beyond the grant-related expenditure assessment (GREA). But it is debatable whether the GREA could bear the resulting weight; and the move would be politically controversial.

Other improvements to local accountability

8. The CPRS suggest that a number of institutional changes might also improve local accountability.

a. It would be possible to create unitary authorities. The case for abolishing the metropolitan counties is weak, since their only important functions are transport and police, which need to be organised over wide areas. The alternative would be statutory joint boards. It would probably reduce accountability. It would also have unhappy parallels with the Inner London Education Authority. There is a stronger case for abolishing the Shire districts. But the improvement in accountability would not justify the costs of reorganisation. London is a special case. The only major function of the Greater London Council is transport: as suggested earlier, this might be transferred to a new PTA. The case for abolition accordingly merits further examination.

b. Precepting should be replaced by separate rate bills.

c. All councils should be required to hold elections for one-third of their members every year (as Metropolitan District Councils already must); alternatively, councils which do not already hold elections by thirds should be required to hold full elections every two or every three years.



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SUMMARY OF MISC 79(82)3: ALTERNATIVES TO DOMESTIC RATES

This memorandum by the Secretary of State for the Environment discusses alternatives to the present system of domestic rates for financing local government. It is supplemented by annexes setting out:


- a. key facts about the alternatives to domestic rates;
- b. the response to the Green Paper 'Alternatives to Domestic Rates';
- c. a detailed scheme of poll tax;
- d. possible improvements to the domestic rating system;
- e. possible measures to assist non-domestic rate payers.

2. The memorandum suggests that in considering the merits of both domestic rates and their alternatives the main criteria should be fairness and accountability; and that practicability, perceptibility, cost, implications for the rest of the tax system, financial control, and suitability for different tiers of local government are also relevant.

3. The main criticisms of domestic rates are that they are not fairly related to means; and that many who benefit from local services do not contribute adequately, or at all, to meeting their cost. But the introduction of an alternative tax is more likely to be resented by those who lose than appreciated by those who gain. Moreover, the need to restrain local authority expenditure by increasing accountability points to a tax which is substantial, perceptible, and paid by large numbers. This conflicts with the wish to minimise burdens on local domestic tax payers.

4. The first date by which it would be possible to introduce an alternative to domestic rates is 1985-86. Even if it is decided to abolish the domestic rates it may still be necessary to improve the system as an interim measure.

5. The response to the Green Paper shows the following broad trends:


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(i) General public and rate payers associations for abolishing domestic rates, but with no consensus about a replacement.

(ii) Local authority associations, most professional associations, and business in favour of reformed domestic rates (RDR); some also see a role for a supplementary tax. All the main employers associations against local income tax (LIT).

(iii) Liberal Party for LIT coupled with a new tax on undeveloped property values. Social Democratic Party for domestic rates, plus LIT, with a reduction of rate support grant (RSG). Labour Party have not taken a position.

(iv) The Government's own back benchers generally believe some reform is essential but do not necessarily want total abolition of domestic rates. Little support for a local sales tax (LST); rather more for LIT; considerable support - and also considerable opposition - for a poll tax (PT).

Local Sales Tax

6. LST would increase the number of local tax payers from 20 million to 45 million. But, apart from serious technical problems, it would not enhance accountability; it could not be introduced before 1987-88; it received negligible support in the public consultations; and it was opposed by many Conservative MPs.

Local Income Tax

7. This would increase the number of local tax payers to 26 million. It would score well on fairness. But it would be costly to run; it could not be introduced before the early 1990s; in several versions it would tend to reduce accountability; and it would run contrary to the Government's policy of reducing income tax. (The Secretary of State for Scotland takes a different view - see below).

Poll Tax

8. Department of the Environment officials have prepared an outline PT scheme. Under it, all adults would be liable, though there would be some form of rebate for those on low incomes. The number of local tax payers would be increased to 40 million. It would greatly increase accountability. But it

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would be necessary to create a new register in order to establish liability; and an elaborate rebate scheme, which might well prove unavoidable, would be administratively costly. It could not be introduced before 1985-86 at the earliest.

Multiple Taxes

9. One possibility would be RDR, supplemented by a low level PT. This could increase accountability if it allowed the level of RSG to be reduced. On the other hand, multiple taxes might not be sufficiently perceptible to increase accountability; and there would be political objections to replacing rates by two or more taxes.

Assigned Revenues

10. Assigned revenues would reduce accountability, and perhaps even call into question the justification for elected local authorities. They should be eliminated from consideration.

Reformed Domestic Rates

11. If none of the alternatives to domestic rates are acceptable, something must be done to reform the rates. Possibilities worth further exploration are as follows:

a. Discount/Surcharge

A surcharge on earning non-house-holders would directly tackle the problem that many who benefit from local services do not contribute to meeting their cost. But it would be complicated. Better would be a discount of perhaps 35 per cent for single adult occupiers. The cost would be met by other rate payers. Legislation for a discount scheme might be introduced in 1982-83 for implementation in 1984-85.

b. Domestic Rate Relief

Existing domestic rate relief (DRR) is unrelated to ability to pay. It would be possible, without legislation, to reduce DRR and use the savings to increase the block grant. With legislation it would be possible to modify DRR within existing costs to reduce the rate bills of selected groups of domestic rate payers.

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c. Direct Billing

Precepting might be replaced by direct billing by different tiers of authority.

d. Rayner Reforms

Administrative improvements could reduce the cost of the rating system.

e. Capital Valuation

Since the present rental basis of valuation for rates is based on inadequate evidence, a move to capital valuation would be logical. But it would require legislation and an increase of about 1,600 staff. It could not be justified unless it were intended to retain domestic rates as more than an interim measure.

Non-Domestic Rates

12. Some measures should be taken to ease pressures on non-domestic rate papers:

a. Capping

Department of the Environment officials have been instructed to examine a scheme whereby the Government would set a ceiling, reviewed annually, on non-domestic rate poundages.

b. Non-Domestic Revaluation


The last revaluation in England and Wales was in 1973; it ought to be up-dated. The Chief Secretary, Treasury has reluctantly opposed a non-domestic revaluation on grounds of expense (up to 700 additional staff would be required); and the Secretary of State for Scotland has decided not to proceed with a similar exercise in Scotland.

c. Instalments

More non-domestic rate payers should be enabled to pay by instalments.

Financing of Education

13. There would be serious objections to reducing domestic rates either by transferring the cost of local authority education to central government or by instituting a special block grant for education.



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Control of Local Authority Expenditure

14. So long as local authorities are autonomous bodies, they will remain free to decide their own level of expenditure. Central control of spending by individual local authorities would be too likely to lead to a series of challenges in the courts to be sustainable.

Elections

15. Possibilities such as elections by thirds or whole-council elections every second year may need consideration.

Other Aspects

16. If abuses by a few high-spending authorities were eliminated, much of the dissatisfaction with domestic rates would disappear. Decisions on other matters before the Group will therefore have a bearing on the future local taxation system.

Views of Secretary of State for Scotland

17. The Secretary of State for Scotland believes that the present rating system must eventually be abolished. A two-stage solution should not be ruled out if that is necessary to achieve an acceptable replacement. In the longer term, LIT is attractive, provided that the administrative costs can be minimised; some limit on the yield to an individual local authority might be needed to curb excessive spending and prevent excessive levels of total taxation. Meanwhile, there should be a reformed rating system: there should be a discount for single adult occupiers; and domestic rates should be allowable against income tax. The Chancellor of the Exchequer is opposed to the latter change.

Views of Secretary of State for Wales

18. The Secretary of State for Wales regards the alternatives to domestic rates as unattractive; and there is little pressure in Wales for the rates to be replaced. He favours a reform of the existing system as outlined by the Secretary of State for the Environment.

Timetable

19. Early decisions to reform the rating system could permit legislation in 1982-83 for implementation in 1984-85. A decision to replace the rates




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would require more time. With the possible exception of poll tax, there could be no legislation during the lifetime of the present Parliament.

Issues

20. The issues for consideration are:

- a. Should domestic rates be abolished?
- b. If so, what should replace them?
- c. If domestic rates are eventually to be abolished, is it necessary to make improvements to them in the interim?
- d. If domestic rates are kept, should more substantial changes be made to improve them?
- e. Irrespective of the answers to these questions, should measures be taken to help non-domestic rate payers; and should there be changes in the council election system?



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SUMMARY OF MISC 79(82)4: ALTERNATIVES TO DOMESTIC RATES - GAINERS AND LOSERS

This memorandum by the Secretary of State for the Environment is a companion piece to MISC 79(82)3. It covers a lengthy analysis of who would gain and who lose from the introduction of alternative taxes in place of domestic rates.

2. In summary, its findings are as follows:

(i) 20 million households pay domestic rates. ~~By~~ 40 million adults in those households could pay poll tax. Local sales tax would also bring in some children as tax payers. About 26 million individuals would be liable to local income tax.

(ii) Comparing unrebated alternative taxes with rebated domestic rates, between 25 per cent of households would lose more than $1\frac{1}{2}$ per cent of income from a change to local income tax, and 30 per cent would lose from a composite of local income tax and poll tax. ($1\frac{1}{2}$ per cent of income is quoted, because it is believed that smaller changes are unlikely to be noticed). Gains over $1\frac{1}{2}$ per cent of income range from 12 per cent of households with unrebated poll tax to 28 per cent with local income tax. Between 8 and 10 million adults would be in households showing losses over $1\frac{1}{2}$ per cent of income; and between 3 and 8 million would be in households showing that size of gain.

(iii) Adult losers exceed adult gainers because large households tend to lose from a change and single adult households to gain. With local income tax (and, to a lesser extent, local sales tax) gains are concentrated in low-income households and losses in higher incomes. An unrebated poll tax produces substantial numbers of low-income losers. Gains over 6 per cent of income would be most frequent with the local income tax; they would be concentrated among the retired. With unrebated poll tax smaller numbers of such gains would be concentrated among single adult households - again, often retired.

(iv) Households losing are likely to be concentrated in the northern metropolitan areas of England, and those gaining in London and the south east. This effect is strongest with a poll tax.



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(v) With a poll tax, income-related rebates similar to rate rebates could substantially reduce losses. Local sales tax cannot incorporate direct rebates; and local income tax automatically relieves those with the lowest incomes.

conqueror



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SUMMARY OF MISC 79(82)2 and 6: PUBLIC TRANSPORT IN LONDON AND THE METROPOLITAN COUNTIES.

These two memoranda by the Secretary of State for Transport recommend:

- a. Early legislation to constrain the amount of transport subsidies by defining the powers and duties of local authorities and transport executives more clearly, backed up by indicative subsidy figures set by the Government; and to create a new passenger transport authority (PTA) for London which would, among other things, take over control of London Transport (LT) from the Greater London Council (GLC);
- b. action to improve efficiency and allow greater scope for private sector involvement.

The Secretary of State stresses the political desirability of making changes in the control of LT as soon as possible.

2. The memoranda are accompanied by a report by a group of officials (MISC 70). The bulk of the summary prepared by MISC 70 is reproduced in the annex to this note.

Need for Legislation

3. The GLC continues to argue for a low fare policy, to blame the Government and the law for service cuts and fare increases, and to stir up trouble. Early legislation is necessary to clarify the legal position. It is also needed both to reduce excessive transport subsidies paid by metropolitan county councils (MCCs) and to ensure there is reasonable consistency between the subsidy regime in their areas and in London. These measures would allow LT to plan securely and public expenditure on transport subsidies to be contained.
4. There is also a need to promote greater efficiency by establishing an arms-length relationship between local authorities and transport executives and by measures such as requiring tenders for running certain services, so introducing more competition and scope for the private sector.



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London

5. Control of LT should be removed from the GLC. But renationalisation would not be the right answer. Securing the best use of the resources for transport in the London area requires a small team of professional managers. This could best be achieved by creating a new PTA. This would act as a holding company for LT, with a remit to break it into more manageable units; it would administer Government grant to British Railways' commuter services (which would raise some Community complications not expected to be insuperable); and it would promote rationalisation between railway and underground.

Local Government Structure

6. There is no compelling transport case for abolishing the MCCs. If, however, it is decided otherwise, joint boards nominated by district councils should take over transport responsibilities in the conurbations. If it is decided to make substantial changes in local government organisation, but it is impossible to legislate for them in 1982-83, the legislation on transport subsidies which is essential in 1982-83 should contain provision to prevent irresponsible behaviour by the authorities proposed for abolition.

SUMMARY OF REPORT BY MISC 70

There is a need for continuing subsidy to public transport in the conurbations. But there is scope for making bus operations more efficient; and for more competition.

2. There is a strong case for local political responsibility for public transport.

3. But legislation is needed to control local authority expenditure on subsidies. This should probably make the statutory duties of local authorities and transport executives more specific, not put specific limits on expenditure.

4. The metropolitan county^x councils, except perhaps South and West Yorkshire, should keep their present transport responsibilities. If the metropolitan counties were abolished, responsibility for public transport in the continuous built up areas should be given to statutory joint boards drawn from the districts.

5. The immediate problems are more acute in London. Without early legislation there are likely to be big fare increases and service cuts, leading to industrial action.


6. There are also longer-term problems of transport in London. There are three possible ways of dealing with them:

(i) Try to control subsidies, improve efficiency, and coordinate rail services within existing organisational framework;

(ii) make London Transport a nationalised industry;

(iii) set up a passenger transport authority which would take over London Transport and coordinate and distribute subsidies for all rail services in London and the south east and for bus services in London.

7. If the GLC were abolished, as many as possible of its highway and traffic responsibilities should be devolved to the boroughs and the remainder handled



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by a joint board or the Secretary of State for Transport.

8. The immediate issues for decision by Ministers are as follows:

- a. Whether to introduce early legislation to clarify the GLC's powers to give transport subsidies, subject to effective control;
- b. whether to extend control over subsidies to the metropolitan counties;
- c. whether such controls should be by clearer definition of the powers and duties of the local authorities and the transport executives;
- d. whether powers should be taken to provide that if they remained responsible for public transport the GLC and metropolitan counties could be required to secure efficiency;
- e. if not, whether control of London Transport should be removed from the GLC;
- f. if so, whether further consideration should be given to setting up a new passenger transport authority;
- g. whether the metropolitan county councils' transport responsibilities should be taken over by joint boards; and
- h. if so, whether all the necessary legislation should be included in a single Bill, or whether there should be a two-stage programme, with an early Bill covering subsidy powers and enabling powers to take control on an interim basis.



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SUMMARY OF MISC 79(82)1: THE GREATER LONDON COUNCIL AND THE METROPOLITAN COUNTY COUNCILS

This memorandum by the Secretary of State for the Environment covers a report by officials, which was the subject of the Secretary of State's minute of 16 April to the Prime Minister about the possible reorganisation of local government services if the Greater London Council and the Metropolitan County Councils (MCCs) were abolished. It recalls the conclusion of the minute of 16 April - that colleagues responsible for the functions which would be affected should arrange for studies to be undertaken of the consequences of abolition. It promises a further report to MISC 79 at the beginning of July when those studies are ready, but suggests a preliminary discussion in MISC 79 on the basis of the existing report.

The Report by Officials

2. The report by officials is dated March 1982, and was therefore prepared before the results of the studies of transport (by MISC 70) and the financing of education (by the Department of Education and Science) were available. Its conclusions are explicitly provisional. It suggests that units larger than the present boroughs or districts would be required for:

Education in Inner London;

Transport;

Strategic land use planning;

Police in the MCCs;

Fire.

Most other functions could be made the responsibility of the boroughs or the districts, perhaps with collaborative arrangements in some cases.

3. The services needing to be organised over wider areas than boroughs or districts could be organised in various ways. The main types of possibility are identified as follows:



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- a. Voluntary joint committees;
- b. Mandatory joint committees;
- c. Joint boards;
- d. Specially created, directly elected, bodies;
- e. Central Government assuming responsibility, perhaps acting through appointed bodies.

Under a. and b. the local authorities who took part would retain the formal powers (including powers of finance); under c. and d. the new bodies would have the powers and would raise their own finance (essentially by levy or precept). Different arrangements would have different implications for accountability and for efficiency and effectiveness.

4. Potential savings in manpower from any new arrangements are hard to estimate. They would probably be small initially but should grow in the longer term.

5. A local sales tax could not be operated at the level of boroughs or districts. If the GLC and MCCs were abolished, local sales tax could not be regarded as a possible replacement for domestic rates.

6. Abolition of the GLC and MCCs could lead to pressure for further changes from major non-metropolitan districts.

7. The initial preference of officials under any new organisation is that functions should be transferred to the maximum possible extent to single-tier, multi-purpose authorities, with use of joint bodies only where operational needs could not otherwise be met.

8. Legislation could not be ready for introduction before the autumn of 1983. The earliest date for the abolition of the GLC and MCCs would therefore be 1 April 1985.

9. The bulk of the report is devoted to detailed examination of individual services.



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SUMMARY OF MISC 79(82) 5 : THE FINANCING OF EDUCATION

This memorandum by the Secretary of State for Education and Science (originally circulated, in effect, as his letter of 6 May to the Home Secretary) covers a report by officials considering possible changes in the financial responsibility of local government for education services. It rejects 100 per cent Exchequer financing of the whole of education, or of teachers' salaries, mainly on the grounds that either of these courses would require a massive increase in the number of civil servants and reduce the freedom of local government to an unacceptable degree.

2. It recommends instead the institution, perhaps from 1984-85, of an education grant: that is, a general form of Exchequer support for expenditure on education based on an assessment of local spending needs. This would be combined with limited powers of specific grant for purposes such as training more teachers in shortage subjects or providing additional facilities for the young unemployed. It suggests that such a system would:

(i) encourage a more even pattern of educational expenditure relative to need;


(ii) encourage local education authorities (LEAs) to have more regard to Government priorities and to manage resources more effectively;

(iii) enable the Secretary of State for Education and Science to promote innovations; and

(iv) better reflect his statutory responsibilities.

3. If Ministers so wished, the level of education grant could be increased to, say, 75 per cent so as to allow local authorities to reduce their rates; but there would be powerful built-in deterrents to overspending. The memorandum suggests that this would be more effective than increasing the percentage of Rate Support Grant.

4. The memorandum disclaims any intention of securing an increase in local authority expenditure on education.


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5. The Secretary of State says that he is studying the possible introduction of education vouchers in the longer term; but he recommends education grant as the best way of making immediate progress.

THE REPORT BY OFFICIALS

6. The memorandum is accompanied by a report by officials of the Department of Education and Science in consultation with representatives of other Departments. This argues that present financing arrangements do not well meet the objectives outlined at paragraph 2(i) to (iv) above, and that this constitutes a strong case for change. The report stresses the wide variation between levels of expenditure on education by different English LEAs in broadly similar circumstances. It draws unfavourable comparisons between the ability of the Secretary of State for Education and Science to influence education policy and the ability of the Home Secretary, through police grant, to influence the provision of police services.

Rejected Possibilities

7. The report discusses, and rejects, the following possible changes:

a. Increasing fees and charges

Any extensive change in this direction would require a fundamental restructuring of the educational system; and the implications go beyond the scope of the report.

b. One hundred per cent Exchequer Financing

This would increase the influence of the central government over education policy. But the role of the local authorities would be drastically reduced; and this would probably reduce the effectiveness of the local education service. It would greatly increase the detailed involvement of the Secretary of State.

c. One hundred per cent Exchequer Financing of Teachers' Salaries

Many of the arguments relevant to 100 per cent Exchequer financing of all educational expenditure would apply here. The Secretary of State would be drawn into detailed discussion of staffing levels (and redundancies);

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and the balance between expenditure on teaching and non-teaching costs would tend to be distorted.

The Education Grant

8. The report suggests that the best way of meeting the objectives outlined in paragraph 2(i) to (iv) above is to introduce a new education grant. This would be related to each LEAs expenditure on education. As with block grant, the education grant system would be based on assessment of grant-related expenditure (GRE). DES officials consider that assessments of GRE are better based in the field of education than they are generally, and that the education grant system could and should seek to encourage LEAs to spend within (say) 5 per cent of their education GRE. The report specifically mentions the possibility of imposing negative marginal rates of grant on LEAs' spending significantly above their GRE: by implication, low-spending authorities would also be encouraged to increase their education expenditure so as to come more closely in line with their GRE.

9. If the Government wished to reduce the amount of finance raised through local rates it could increase the level of education grant, though the possibility is recognised that this could lead to an increase in expenditure rather than a reduction in rates.

10. Education grant would influence total expenditure on education, not the way in which the money was spent. In order to encourage initiatives in areas of national priority, there should be power to pay specific grants on carefully defined criteria: total specific grants should form only a small part of education grant.

11. Education grant would be administered by the Department of Education and Science. The existence of two separate grant systems for local authorities - block grant and education grant - would entail some additional staff costs in both central and local government. A number of technical questions would need to be decided concerning the relationship between the two grant systems; and there would be significant shifts in the distribution of Exchequer grants



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between local authorities compared to the existing position. There would also be additional complications in the Public Expenditure Survey and in the Parliamentary handling of the two grant systems.

Scotland and Wales

12. The report suggests that although the arguments for introducing a similar (not necessarily, or even probably, identical) system in Scotland are weaker than in England (in particular, the Secretary of State for Scotland already exerts considerable influence over the Scottish education system) they are still strong. There are arguments both for and against making changes in Wales; the report suggests that the decision is essentially political.

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Local Govt

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Prime Minister (2)

MU 11/6

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MS

To: MR SCHOLAR
From: JOHN SPARROW

11 June 1982

MISC 79: Local Government

1. The Secretariat will be providing the Prime Minister with summaries of all the reports on the various aspects of local government, including the CPRS paper, before they are considered by MISC 79.
2. However, the CPRS paper seeks to develop a framework for the future of local government and is therefore rather different from the other more specific papers; further, the Prime Minister herself asked that the work should be undertaken (in response to Robin Ibbs's note of 24 December 1981).
3. I therefore attach a copy of the full paper (which is itself summarised at paragraphs 77-94 on pages 25-29).
4. I am sending a copy of this minute to Sir Robert Armstrong.

PS.

Att

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A FRAMEWORK FOR LOCAL GOVERNMENT

Paper by the Central Policy Review Staff

1. Relations between central and local government are poor. There is a great deal of uncertainty and dispute about the basis of the relationship, its future direction and the resources to be deployed. Confrontation arises because local government believes it has a right to an existence independent of Government, while Government believes it has a right to intervene in local government on matters which it considers of national importance.

2. Against this background Ministers are facing a series of decisions about various inter-related local government issues: alternatives to domestic rates; methods of financing education; arrangements for transport in the conurbations; and the future of the Metropolitan counties and the GLC. These issues raise broad questions about:

- the functions of local government;
- how these functions are to be delivered and in what structure;
- how they are to be financed.

In effect Ministers are being asked to form a view on how they want local government to develop over the next decade.

3. Given the combination of circumstances, the CPRS believes that the Government needs to be clear about the role of local government, both in order to set a steady path for the future and to provide a sound basis for decisions on the shorter term issues. This paper outlines a set of Government objectives for local government, identifies where the present system fails to meet these objectives and then discusses what changes, including those implied by the immediate issues, would improve the position.

The report is summarised in the concluding section (paragraphs 77 to 94, pages 25-29).

Objectives of Local Government

4. The Royal Commission on Local Government (Redcliffe-Maud) considered that local government, as the only representative political institution outside Parliament, "forms an essential part of democratic government It is only by the combination of local representative institutions with the central institutions of Parliament, Ministers and Departments, that a genuine national democracy can be sustained."

5. We believe that Ministers share this view.

6. The key function of local government, within the limits set for it by statute, is to enable individuals to take part in the government of the area in which they live; ie to decide their priorities about the type, the extent and the balance of local services they wish to see collectively provided, and then to pay for them. The system of local government should also act as a two way channel: enabling Government to deliver national services sensitively at the local level; and developing local initiatives which provide signals to Government about the need to develop new national policies to meet local needs. Government needs to be sure that the system of local government can perform these functions effectively and efficiently.

7. Hence the CPRS considers that a system of local government must be based on three fundamental principles:-

i. **democracy:** the local electoral system should allow the expression of local preferences; those elected should be responsive to the wishes of their electors, and there should be sufficient flexibility to allow the degree of local initiative necessary to respond to new needs and problems;

ii. **accountability:** the method by which local authorities raise their revenue should ensure that electors and elected, in making choices, take account of the financial implications of their choices;

iii. **efficiency:** the system should provide pressures to ensure that services are delivered efficiently (eg through making information available to the electorate) and to counter pressures in the opposite direction (eg from the public sector unions).

In addition there are a further three objectives which Government has in its dealings with local government -

iv. **restraint:** there should be some means of restraining spending in the light of economic realities;

v. **national priorities:** Government should have adequate instruments to ensure that its own priorities are observed (eg on minimum standards) when it is in the national interest to override what might be alternative local priorities;

vi. **equalisation:** the mechanism for exchequer support should seek to equalise the local taxation burden for equivalent levels of service provision.

8. These principles and objectives are not wholly consistent. On occasions Government pressure to develop particular services has conflicted with a broader Government desire to see local spending restrained. At other times Government uses instruments to influence local priorities (objective v.) for example circulars, inspectorates and special grants (eg for the police), and ultimately legislation, to impose national priorities; each of these implies some diminution of local democracy. Conflict stems, in these cases, from differences of view about what should count as an issue of sufficient national importance to justify overriding local preferences. Such tensions are an inherent part of central/local government relations. Conflicts on particular policies will always occur between two independently elected levels of government - they can even lead to a healthy questioning of policies.

9. But the current conflict centring on local government spending is of a more fundamental nature, in that it raises questions about the degree of independence of local government and hence about its proper role. Government considers that the response of local government to present economic realities has been inadequate (as seen, for example, in its failure to meet centrally imposed expenditure targets). Many people in local

government, on the other hand, consider these targets unrealistic, not least because they think they are based on unreal assumptions; some also question whether Government need set such targets at all. The extent to which local government expenditure matters in the context of the Government's macro-economic policy is discussed in Annex A; which concludes that under any foreseeable system there are likely to be some grounds for continuing Government concern.

Failure and the basis for change

10. Government is responsible for the system of local government. If the system is failing to meet the objectives, the onus is on Government, to modify it - or to abandon, or modify, one or more of the objectives. The present conflict relates to objective iv. restraint. But the nature of local government as currently arranged means that local authorities do have the right to set their own spending levels. Government does not have direct control over local government spending; it must rely on influence.

11. Government could seek powers to impose financial targets on local government by some form of cash limit, as is done at present for the health service. To calculate a limit for each of the 400 or so local authorities would be administratively extremely difficult, if not impossible, and would be fraught with legal problems. There would be risks of direct political confrontation and martyrdom; it might well require appointed local authorities rather than elected ones. It would thus fundamentally alter the concept of local government in Britain, in effect giving overriding priority to the objective of restraining expenditure (iv. of paragraph 7) at the expense of some of the others (notably i. - local democracy, and ii. - local accountability).

12. But such powers would be the only way of ensuring delivery of the government's spending targets. Ministers have hitherto decided, rightly in the CPRS view, that the price for such a change is too high. **But in rejecting this option, Ministers must reconcile themselves to the fact that, while other changes might bring spending closer to the government's targets, no other can guarantee it.**

13. Having rejected direct control, Ministers must look elsewhere for ways of delivering the restraint objective. The only alternative is to strengthen the mechanism of self-restraint by increasing the heavy accountability of local government. This would require changes to make the electors and the elected more aware of the full costs of their preferences and decisions by increasing their share of those costs. The local democratic process would then act as a surrogate for the discipline of the market: the electorate would choose the level of services to be provided on their behalf by the local authority, in the knowledge that, collectively, they would bear the cost. The outcome might not be consistent with targets set by central government, but in a properly accountable system, this would be the essence of local democracy. If such an outcome were still unacceptable to Government, direct control would be the only answer.

14. The system fails to work at present because **local government raises only about one fifth of its current expenditure from its electorate.** The CPRS believes that this lack of balance between local expenditure and local taxation is a major reason why the system fails on objective ii: accountability, and on objective iv: restraint -

- **political accountability is undermined** as local authorities are not accountable either to their electorate or to Parliament for the resources they receive from Government;
- **economic efficiency is undermined** because both central grant and non-domestic rates lower the price of local authority services to the electorate, resulting in excess demand for these services and hence higher expenditure.

15. Both problems would be exacerbated by any move to reduce the rate burden by increasing the size of exchequer grant. It would lessen the need for local self-restraint and would thereby encourage further spending. There is evidence that, other things being equal, the higher the proportion of grant, the greater the propensity for a local authority to spend. To prevent this undesirable effect would require imposing direct control on spending (paragraph 11).

16. The CPRS believes that **it is vital to increase accountability by bringing into closer balance the amount of money which local authorities spend and the amount which they raise from their local electorates.** There are two ways of increasing the proportion of costs borne by the electorate -

- by reducing the functions for which local authorities are responsible;
or
- by increasing the tax take of local authorities.

17. In either case local authorities would still have discretion to set their own level of spending, and there would still be a wide variation in the degree of central support for local authorities. There would thus be no guarantee that central government spending targets would be met. But such changes would undoubtedly increase the downward pressures on, and hence reduce the aggregate of, local government spending. Furthermore, the increased amountability would mean that the resulting allocation of resources would more closely represent the true preferences of the local electorate.

18. But neither course would be easy. To remove an entire service from local government (education is the most obvious candidate) would still be represented as 'centralist'. It could however be defended as providing a sharper division of responsibilities between central and local government, enabling a 'local' solution to apply to the remaining services. To raise a higher proportion of the revenue from the electorate would require an increase in the level of local taxation. This would also be difficult presentationally, and would probably require a change in the way in which revenue is raised locally. However, there would be the advantage that the increase in local taxation could be balanced by a reduction in national taxation.

19. Either path is fraught with difficulties; there are no easy options. But an attempt to steer a middle way by not addressing this basic issue will result - as it already has done - in the worst of both worlds (vociferous complaints about central 'control' without the benefits of actual control). The two courses of action are considered below.

20. Apart from the lack of balance between tax and spending, there are other weaknesses in the present system. In particular, the domestic rating system means that the burden of rates does not fall on all electors. The perception of the electorate is distorted by the precepting arrangements of one tier on another. It is not always clear to the electorate how far policies and their spending consequences are in the hands of their local authority or are influenced by central government actions. There is usually a low turn-out in local government elections, and national political considerations have a strong influence on voting patterns. These factors are also considered below.

Local Government Functions

21. It would seem, at first sight, that it would be easier politically to reduce the range of functions for which local government is responsible, than it would be to increase locally raised revenue. We have briefly reviewed the existing functions of local authorities in this light, and examine the arguments for education and transport below. We think that, if the constitutional worries could be overcome, the main Home Office functions (police and fire) would also be candidates worth considering; we have not done so here.

a. Education

22. Education is a national service administered locally. The benefits of the service extend well outside the local area in which it is provided. Although the amount of local discretion in the provision of the service is limited compared with many other local services, the Secretary of State for Education and Science considers that, in England, parts of the education service are falling seriously short on a number of national educational objectives. This reinforces the need to consider education on a national basis.

23. As a result of the "Financing of Education" exercise, the Secretary of State for Education and Science has concluded that an Education Block Grant (EBG), for possible introduction in 1984-85, is the best course to follow to the objectives of raising educational standards, improving the partnership between central and local government in education, and reducing the rate burden. The CPRS thinks that the effect that such a grant would have on the Government's educational objectives would be small - the Secretary of State would have no more direct leverage than at present; it might encourage more standardisation of local education expenditure, but not necessarily more standardisation of levels of service. There may be more effective ways of achieving the education objectives, for example the limited use of specific grants, greater use and publication of HMI's reports, more advice and perhaps guidance from the centre - possibly including more setting of minimum standards (minimum staffing ratios are set in Scotland). As far as reducing the rate burden is concerned, it has already been stressed above (paragraph 15) that such a move would conflict with the objectives of accountability and restraint on spending. Even if an objective were to reduce rates, a straight increase in grant percentage would probably achieve the purpose equally well.

24. A separate EBG at a higher percentage than the present level of grant, coupled with a lower block grant for the remaining local government services, would not increase the overall exchequer contribution to local government. It would have the same, rather nebulous, effect on the educational objectives. There would be increased pressure on education overspending (though not on ILEA as it receives no grant). But there would also be a greater incentive for underspenders to increase their expenditure, which is the usual aim of specific grants. The extent to which the balance of the various different tapers would act as further pressure on general expenditure would depend on the grant mechanisms chosen. Two separate block grants would compound the complexity of a system which is already little understood in government - both local and central - and thereby weaken the effectiveness of the pressures on expenditure.

25. The main advantage would be to increase dramatically (to around 75 per cent) the local contribution to non-education spending, without needing to increase the overall rate burden. But the regime for education might prove an unstable half-way house along the road to central control.

26. The only functional change which would avoid these complexities and uncertainties, while taking a major step toward the objective of balancing the levels of local spending local taxation, would be to transfer the responsibility for financing education from local to central government, and simultaneously to reduce grant on the remaining services. Expenditure by local government on education roughly matches, in total, the current level of central government grant. Thus the remainder of local authority services could have a much higher (than present) proportion of their costs raised locally - although this would reduce the equalisation facility that grant provides.

27. There are two ways of arranging central control. One option would be to remove the power of local authorities to raise revenue for education, while leaving them with their present administrative responsibilities for the service. However this would blur responsibility. The local authorities would not be responsible for deciding how much to spend on education - this would be determined centrally, but they would be responsible for how it is spent. They might seek to cover any failings in the latter function by claiming that central government had failed on the former. This would run a serious risk of continued conflict, and could even encourage political martyrdom (eg on the lines of Clay Cross).

28. Alternatively, education could be run on lines such as those for the National Health Service (NHS). This would mean setting up separate education authorities appointed by, and answerable to, the Secretary of State. It would provide a clear division of responsibilities between central and local government. It would require an increase in the number of civil servants. It would probably also require appointed regional and local tiers (as in the NHS) both to take the mass of administrative decisions needed, and to provide barriers similar to those in the NHS which would shield the Secretary of State from direct responsibility for matters of local detail. It would be at least as important as in health to ensure an adequate local input, perhaps via the lower tier, and particularly at the level of the individual school.

29. Local government would of course be fundamentally altered - at least in those authorities which are at present responsible for education. However the ex-education authorities would still be responsible for more services than the

present non-education authorities are, and although the case for a major reorganisation of local government structure would be much strengthened (paragraphs 63-70), it would still not be overriding. The change might, perhaps, weaken some of the links between education and the personal social services; but it would enable much stronger links to be formed with the MSC - facilitating merged arrangements for education and training at the local level - and, at least for public sector higher education, with the Universities.

30. There can be no doubt that if education were reorganised on such a centralised basis it would provide the Secretary of State with more leverage to ensure that the Government's educational policies were implemented. But the key question is whether the loss of local accountability, and shift to central control, would yield a net gain in efficiency and effectiveness.

b. Transport

31. Transport needs a high degree of stability in policy and planning, because of the long lead times for much new investment and because it takes a population a long time to adjust to new service patterns (of both roads and public transport). In most of the major conurbations such stability has been rare; there is therefore an a priori case for removing transport from local government - at least in the conurbations.

32. Officials in MISC 70 have been considering alternative arrangements for public transport in the conurbations. They have concluded that, outside London -

- policy on public transport should be controlled by the same body as controls other transport policies (roads, traffic, parking);
- the controlling body should be locally elected as transport policies have a major impact on the day-to-day lives of the individuals who live locally;
- the Metropolitan districts are not large enough for most aspects of transport in the conurbations.

33. The CPRS agrees with the conclusion that transport should remain a local authority function in the Metropolitan counties outside London; the same arguments and conclusion apply outside the conurbations. MISC 70 has proposed that new legislation should provide a more precise formulation of the statutory duties for local authorities as a means of providing restraint on levels of subsidy. Within the limits provided by the proposed legislation, the Metropolitan counties would be seen by their electorates as responsible for raising and spending finance for subsidising public transport.

34. In London the case is different, primarily because of the existence of the extensive and separate British Rail commuter network, but also because of the size of the conurbation. The Secretary of State for Transport endorses the MISC 70 proposal for a statutory Passenger Transport Authority for London and the South East. Annex B discusses this proposal and variations of it. Central government would take full financial responsibility for public transport. This would virtually eliminate any element of local accountability, and responsibility for public transport would be detached from the remaining transport responsibilities; there would also be management problems.

35. If Ministers were attracted by the idea of a new Authority, the CPRS would favour a variant of the scheme in which the role of subsidising London Transport bus services remained a local authority function with the new Authority acting as contractor and the local authority as customer raising funds locally to pay for services. We suggest that these options need further detailed examination.

Revenue raising and financing

36. The section above examined how accountability could be improved by reducing the functions for which local authorities are responsible and requiring them to pay for most of the remainder. The other route for improving accountability is to increase the proportion of the expenditure that local authorities raise from their local electorate. It too is not politically appealing. The object would be to find ways of enabling local authorities to raise directly some of the money currently raised on their behalf by the

Government, rather than to increase total taxation: national taxation could fall in line with the increase in local taxation. In principle increased charging for services could make a contribution. But the scope without radical change is likely to be limited; no proposals for radical change are in prospect at present, and any such proposals would need substantial work.

37. Redcliffe-Maud considered that if a country desired local government it should "first decide what it wants local government to do and then equip it with an adequate tax system. Such a system must rest on a tax or taxes, locally fixed, for which the representative authority accounts to the local electors." The present system does not rest on such a tax; it is bolstered by a contribution of over 50 per cent from Government and over 25 per cent from industrial, commercial, and other non-domestic ratepayers (who do not form part of the electorate). We consider how this might be changed.

a. Grant

38. Central government grant to local government has increased throughout most of this century; in 1930 grants formed about 25 per cent of revenue account expenditure as opposed to about 50 per cent now. There have been three reasons for this -

- to encourage spending to meet central government priorities: usually on specific services; for example, the police;
- to cushion ratepayers against the consequences of choosing higher levels of local authority services: there is international evidence that, in times of economic growth, individuals wish to spend more on services such as education, welfare, transport and the environment; it was often considered easier to pay for these through the national as opposed to the local tax system;
- to protect particular classes of ratepayers: for example agriculture (since 1929) and domestic ratepayers (since 1966); this has had distorting effects by penalising industrial and commercial investment.

A major rationale for grant has been to equalise rate burdens in the light of uneven resources and needs between local authorities - the principle was originally suggested by Lord Balfour in 1901.

39. The current arrangements for, and the size of, central government grant reflect this history. The system is very complex, unintelligible to most of government (both local and central) and capricious in that the effects of changes, both in themselves and in the impact they have on behaviour, can be unpredictable. The level of grant rose mainly in times of economic growth and is not readily adaptable to form an instrument of control.

40. The present block grant system is based on a wish to equalise rate poundages for equivalent levels of service. Because a few authorities have very high rateable values, grant only achieves partial equalisation. Choosing rate poundages as the variable on which to base equalisation means that ratepayers in very similar houses but in different parts of the country may be paying very different amounts for equivalent levels of services; this is due to the wide geographical variation in rateable values. An alternative view of equity could suggest that equalisation might be based on rate bills rather than rate poundages. If it is an important criticism of rates that they do not adequately take account of ability-to-pay, then it would be appropriate to construct a grant system which could take account of regional differences in income.

41. Problems also arise because the grant system incorporates the idea that equalisation should apply at all levels of local authority spending. For some authorities, particularly those with low rateable values, this means that grant continues to increase for marginal increases in spending at any level (for some others it decreases). Such increases in grant must be balanced by reductions in grant in other authorities, because the total grant is cash limited. A different concept of equalisation might provide a basis for a lump sum grant for each authority so that additional spending above some level would have to be 100 per cent funded (£ for £) from local revenue. Any of the changes in the basis of equalisation (in this or the preceding paragraph) would require legislation. Nevertheless, we think they should be examined.

42. The minimum level to which grant could be reduced while still producing an 'acceptable' level of equalisation would depend on the kind of equalisation sought. Even on the present basis, and to produce roughly the current degree of equalisation, the exchequer grant needs to be only about 40 per cent of total relevant expenditure rather than the present 56 per cent - a reduction of about £3bn. The extra grant amounts to a transfer of part of the cost of providing local authority services to the national tax system. This reduces costs locally and so acts as a stimulus to local spending.

43. The simplest way of increasing local accountability would therefore be to reduce the total grant to its equalising level, and to allow the resulting extra tax burden to fall on the local electors. Clearly in political terms the change would need to be spread over a number of years, (interim measures to restrain expenditure are discussed later in paragraphs 58-60). But the present rating system has a number of shortcomings which preclude it from offering a sufficiently equitable basis for such a markedly higher tax yield. This means that any attempt to improve accountability by increasing the proportion of revenue raised locally must go hand in hand with either a reform of the rating system or the identification of other sources of local revenue, or both (see paras 49-57).

b. Non-domestic rates

44. Over half the burden of local taxation falls on non-domestic ratepayers. Although they have no voice in local elections, they may sometimes influence spending decisions, not least because of the impact of high rates on employment prospects. However, like exchequer grants, non-domestic rates cushion the electorate against bearing the true costs of their preferences as expressed in elections; this is particularly marked at the margin in those authorities which take advantage of their high non-domestic rateable values to spend high (eg Camden or ILEA).

45. Non-domestic ratepayers benefit both directly (eg street lighting) and indirectly (eg by the provision of an educated workforce) from the services of local government, and not only from services provided by the local authority

in whose area they are situated (eg education again, and roads). As they do not form part of the local electorate, fairness would suggest they should be charged for the local government services they receive. But for all except a few services this would not be feasible; some form of tax levy is inevitable. To some extent the burden of non-domestic rates falls on those who buy the goods and services produced by the non-domestic ratepayers. But the impact of rating decisions on the costs of the goods and services is invisible to the individual, and furthermore many will live outside the area in which the rates are paid. The effect is to enable local authorities to raise a high proportion of their revenue from a source to which they are not directly accountable.

46. For all these reasons non-domestic rates are more suitable as a national tax than as a local one. As a national tax, central government could set each year the non-domestic rate poundage, either at a single national rate, or varied regionally as part of a regional policy, or varied by industrial sector to encourage investment, as at present (eg agriculture receives preferential treatment by being de-rated; in Scotland, industry is 50 per cent derated). The rate levels would be decided in the context of the Government's overall fiscal strategy towards industry and commerce.

47. The Secretary of State for the Environment suggests an examination of some shorter term options for limiting increases in non-domestic rates, but we suggest that this will need to be widened to examine how they might be converted into a national tax. One option would be for local authorities to collect the tax on an assigned revenue basis. Alternatively, central government could collect the tax and redistribute it as part of the grant mechanism. As non-domestic rateable values show a wider variation between areas than domestic ones do, this change would enable an equalisation grant to be lower. If the total tax take were returned to local authorities, the cost of services to the electorate would be unchanged, but, because the non-domestic amount would be fixed, the cost to the domestic ratepayer of any marginal increase would be higher.

48. The Government could achieve a similar effect at the margin by limiting the increase in non-domestic rates above their present levels. Such a move would not relieve those non-domestic ratepayers who are currently suffering

under excessively high spending authorities, nor would it yield the other benefits outlined immediately above. However it would be a good first step towards converting non-domestic rates to a national tax.

c. Local sources of Revenue

49. Rates are unpopular even though they produce only 6 per cent of the total tax yield. In contrast with most taxes they are highly visible and not buoyant. Their unpopularity is one of the factors which has led Ministers to consider ways in which rates might be reduced. But their unpopularity is also one of their strengths as a tax, in that accountability is encouraged in so far as the electorate can see the connection between rates and service levels. As we have argued above, if Ministers seek to protect the ratepayer by increasing the exchequer grant, this is likely to result in even higher local spending and to conflict with the main objectives of increasing accountability and restraint.

50. For a local tax to encourage local accountability and hence greater self-restraint, it must be perceptible to the local electorate and be borne by them. The 'Alternative to Rates' Green Paper identified a number of other criteria that any tax should satisfy (eg fairness, predictability, cheapness to collect, difficulty of evasion). Both the Green paper and the present paper 'Alternatives to Domestic Rates' by the Secretary of State for Environment, only considered options in the context of finding alternatives which could produce a yield similar to that currently raised by rates. For the reasons given by the Secretary of State for the Environment we agree that local sales tax and assigned revenues fail to meet these criteria adequately and should not be considered further.

51. In his paper on 'Alternatives to Domestic Rates', the Secretary of State points out that domestic rates meet most of these criteria rather well; the main criticism is that they are not 'fair' because they are not related to ability to pay (both on an individual basis and because earners who are not householders do not directly contribute). He suggests changes that could be made to the domestic rating system which would address some of the 'fairness' points (eg discounts for single earner households, capital valuation). The resulting system would stand up well on most of the criteria as compared with the major alternative forms of taxation.

52. The Secretary of State also discusses whether a poll tax could provide a suitable replacement for rates. Its major merit is that it would significantly increase the number of people liable to pay the tax and thus increase local accountability. It would have two main disadvantages. First it would require the setting up of a compulsory register covering the whole adult population which would be administratively difficult and would arouse political criticism. Second, and particularly if it were set at more than a modest level it would be highly regressive. On an individual basis, it would take no more account of 'ability to pay' than domestic rates do, and so would not be any 'fairer' in that sense. A rebate system would be essential - as it is for rates - but it would have to handle very much larger numbers (perhaps an extra 4 million people), and would have implications for the unemployment and poverty traps. The larger the poll tax the more sophisticated the rebate system would need to be, and hence the more the machinery would resemble that for a local income tax.

53. A poll tax high enough to replace domestic rates completely might come close to being a local income tax. By comparison it would have no advantages and some disadvantages (eg the compulsory register). The difference between a poll tax and LIT would be even less if the yield had to be large enough to meet the much higher proportion of local spending that we suggest is essential for accountability and restraint. In summary the CPRS does not consider that a poll tax could, on its own, serve as the the only source of local revenue; it could however be a supplement to another tax.

54. A local income tax, suitably administered, would satisfy very well almost all the criteria for a local tax. In particular it would bear on all earning non-householders and would be 'fair' in the sense of being linked to ability to pay. As such, LIT would provide a sound enough basis for a significantly higher tax yield than domestic rates. Although it would be more expensive to collect it separately from PAYE, there would be major advantages from an accountability perspective in doing so. The CPRS thinks therefore that LIT should continue to be considered as an option.

55. If Ministers consider that, even for the longer term, local government should have only one local tax, then, in order to produce the higher yield needed, LIT is the only long term option. It could not be introduced until the end of the decade, but a commitment now to its introduction in, say, 1990, if this proves feasible, would be a positive step forward. In the meantime, the CPRS thinks that it would still be worth making some reforms of domestic rates as soon as possible, unless Ministers decide in favour of introducing a poll tax on a bridging basis, in which case a rebating scheme could be developed over the decade which would facilitate the switch to LIT.

56. If local government were to be given two local taxes, it would significantly widen the tax base. The arguments against having two local taxes are not clear cut - in fact Britain is unique in Europe in having only one local tax. Together, any two of the three (reformed domestic rates, poll tax, LIT) would provide a wide enough basis to yield the higher taxation needed for accountability. There might be merits in having a separate tax for each tier. In any two tax system it would seem sensible to retain a reformed rating system, with the scope to reduce rate bills when another tax is introduced on a wider tax base.

57. As noted above, the 'alternative to rates' exercise was conducted in the context of replacing domestic rates at their present yield. Further work may be needed on the options if Ministers accept our prescription of needing to switch a higher proportion of local spending on to the local elector, and away from the national taxpayer.

d. Interim changes

58. Any new tax would take a number of years to introduce. Hence, in the context of seeking ways to restrain expenditure, it is worth considering the scope for more limited shorter-term changes in England and Wales - in Scotland the Secretary of State has more direct powers of control. Such changes should be designed to have a restraining effect on local spending by increasing the proportion of spending at the margin which falls to be met from the local electorate. The impact of marginal spending changes should influence the decisions of elected members when setting budgets, though it may be less clear to the electorate at large.

59. We have already suggested one change in that direction, namely limiting non-domestic rates from the centre (paragraph 48). A similar mechanism exists within the grant system too. The "grant-related expenditure" (GRE) assessment is intended to show what an individual authority needs to spend, as a basis for grant distribution. The grant arrangements already incorporate a "taper", the effect of which is to withdraw grant from authorities which spend more than 10 per cent above this level. Various proposals have been made to give the taper a sharper effect (eg bring it in earlier above GRE, make it steeper, kinked or curved in shape). A change in the basis for equalisation (paragraphs 40-41) could make this simpler and more effective.

60. Ministers have, however, been reluctant to put so much weight on GREs, given that actual spending by authorities is widely distributed around this level. The data base and assessments are not very reliable for all services, and there could be a "levelling up" effect if actual spending levels are ignored. Hence the present mixed system of GREs on the one hand, plus targets and penalties based on past spending on the other. The penalties could be made sharper, or applied to more authorities, but with diminishing confidence that "rough justice" would stay within acceptable limits. Such a move would be controversial and would raise political difficulties; it would also be difficult to defend as a step towards increased local accountability.

Other improvements to accountability

61. Even if acceptable ways can be found of bringing expenditure and locally raised revenue into better balance, there are other factors which act to reduce the accountability of local authorities and hence lessen the chances of self-restraint. A key factor is that the electorate should be able to see where the balance of responsibility lies (for the levels of services and for their costs) as between central and local government - hence the options discussed in the previous sections. But the more central government intervenes in local authority affairs the easier it is for an authority to evade blame for its own shortcomings. Nevertheless central government does intervene in order to ensure that its own priorities are observed. We

suggest that if local authorities can be made more accountable to their electorates, in the ways described above, then central government could afford to intervene less often, or in more limited ways. It could put more faith in the ability of local electorates wisely to influence the behaviour of their authorities. Such reduction in central intervention would in turn strengthen local accountability.

62. Accountability is made less effective because of the existence of the two tier system, in that the electorate is often unclear about which authority is responsible for which services. For some services there is an overlap of responsibilities between the tiers (eg aspects of planning and of transport, industrial promotion), which may be worth straightening out - as has recently been considered in Scotland. Obscurity is compounded by the precepting arrangements, as a result of which the consequences of decisions of the precepting authority are hardly visible to the electorate, doubly so when rates are collected along with rents for tenants. It is also worth considering whether the election of councillors could be improved in this respect. Each of these factors is considered below.

a. Unitary authorities

63. There is no evidence that any of the present services are being provided at a universally inappropriate geographical level. But as Redcliffe-Maud found, apart from minimum and maximum sizes of authority (different for different services), size (as measured by population or area) has not been shown to affect either the effectiveness or the efficiency with which services are provided. Because of this, and for reasons of accountability and co-ordination of local services, Redcliffe-Maud recommended unitary authorities in England and Wales wherever possible; he thought they were not feasible only in the very largest of the conurbations. The CPRS considers that there is still a case for unitary authorities, although we differ from Redcliffe-Maud in putting put more weight on the need for accountability and less on the need for co-ordination.

64. Outside the conurbations the lower tier (the district) is responsible for little more than housing. Most districts are too small to run education or many transport functions. Hence unitary authorities, which could not therefore be based on districts, would result in the responsibility for housing policy being more remote from the local electorate than now. But, on the other hand, two of the main upper tier functions (education and personal social services) are often organised and managed in a decentralised way; there is no reason why housing could not be similarly arranged. Unitary authorities based on the existing Shire counties, or at least merged groups of Shire districts, would therefore result in only slight loss of effectiveness for housing, while achieving the extra accountability brought by a single tier.

65. For the conurbations the case is less clear cut. Here the upper tier (the Metropolitan counties) has responsibility for little more than transport and police. The official group on Metropolitan counties has considered the feasibility (and is currently considering the merits) of establishing unitary authorities in the conurbations based on the districts (ie abolishing the Metropolitan counties). Its main conclusions so far are that there would be little difficulty in transferring most of the (relatively minor) functions to the lower tier, but, not surprisingly, there would be difficulties with both the major functions (transport and police) even if some districts were merged.

66. MISC 70 has concluded, and we agree, that much of transport policy needs to be considered over an area at least the size of the present Metropolitan counties; the same arguments apply to the police service. The 'least worst' alternative (for both) if Metropolitan counties were abolished would be statutory joint boards consisting mainly of elected members nominated by the districts, and with precepting powers. MISC 70 considered this would not be very satisfactory from a transport point of view; such boards would be likely to experience difficulty in carrying through policies which would create local controversy. We believe that such an arrangement would lead also to less accountability, as at present the authority is at least directly elected. The arrangement would have some unhappy parallels with the ILEA. This conclusion means that, on transport grounds, the balance of argument is in favour of retaining the Metropolitan counties. As transport is the major local government function of the Metropolitan counties, the case for abolition would have to be made on other grounds - we are not convinced that such grounds exist.

67. London presents a different problem. Here the upper tier authority (the GLC) is not responsible for police; its only major service is transport. Even for transport its functional responsibility is only partial, due to the British Rail commuter network and to the Metropolitan Police responsibility for parking and traffic control. The size of the commuting area for London means that the GLC's transport responsibility is also partial in geographical terms. The case for abolition of the GLC is therefore stronger than for the metropolitan counties, provided arrangements for transport could be made at least as satisfactory as the present rather unsatisfactory ones.

68. The CPRS considers that the MISC 70 proposals for a new Passenger Transport Authority for London are worth exploring further (see paragraphs 34-35 and Annex B). If Ministers are attracted by this idea in some form, then the case for abolishing the GLC would be strengthened and should be examined in detail. If, however, Ministers wish to leave transport as a local government function in London, we think that - as for the Metropolitan counties - the case for abolishing the GLC is very much weaker, because any joint arrangements among the boroughs are likely to be unsatisfactory.

69. All changes have transitional costs. History suggests not only that the process of change would give rise to significant costs in itself, but that the resulting arrangements would be unlikely to produce any significant net savings in financial terms. Change therefore is likely to be justified only if there are major gains in effectiveness of service delivery or accountability to the electorate.

70. The CPRS does not consider that the changes discussed above would increase the effectiveness of service delivery, except, perhaps, in London. Accountability would be improved by the establishment of unitary authorities in the Shires. But accountability would be little altered, and perhaps even reduced, in the conurbations because of the need for joint arrangements for both major services. We conclude, therefore that while the case for unitary authorities is stronger outside the conurbations than it is within them - a conclusion also reached by Redcliffe-Maud - in neither case would the advantage be likely to justify the upheaval involved.

b. Precepting

71. At present, the top tier does not send out its own rate bills; it precepts on the lower tier (vice versa in Scotland). As the Secretary of State points out, separate rate demands would increase the visibility of the actions of authorities and would enable electors to identify the authority responsible for high rate bills. Similarly, it would also be worth considering whether Council tenants should not receive rate demands separate from rent demands. (The water authorities already use rating lists for their billing separate from local authorities, which shows that it is administratively feasible.) There would of course be administrative costs associated with such changes, but they might be worth it for the increased accountability, and would certainly be small in comparison with the transitional costs of major structural change.

c. The election of councillors

72. Any changes will only improve local accountability to the extent that the electoral system is effective enough to force local councillors to be responsive to the wishes of their constituents. At present, local elections have low turn-outs and appear to be influenced by national political considerations. The changes discussed above are proposed with a view to making the electorate more aware of the local issues on which they are voting, and particularly of their financial consequences. Those changes should help to secure a higher turn-out at local elections, and should focus the voters' attentions more on substantive local issues.

73. In order to give electors more opportunity to make their views about local services known, all councils should be required to elect one third of their members every year. (This is already mandatory for Metropolitan district councils.) It is sometimes argued that annual elections inhibit officers and members from planning on more than a short time horizon, but there is little evidence that it does so, with a few notable exceptions (eg Liverpool). Nor do annual elections appear to lead to lower turnouts or to more frequent changes of control. There is some evidence, however, that majority parties tend to

believe that elections by thirds make them more vulnerable and that they therefore tend to behave with more restraint. An alternative course, which would make less demands on public expenditure, would be to require those councils which do not have elections by thirds to hold full council elections every three or perhaps every two years, rather than at four year intervals as at present.

74. To increase accountability further, it may be worth separating the days on which the two tiers are elected in order to minimise confusion in the minds of voters (this is already the case in Scotland). Staggering elections by region might also help to reduce the influence of national political issues.

75. There is also a problem, particularly in London, of employees of one local authority being members of another, and therefore perhaps less single-mindedly responsive to the wishes of the electorate. Just as civil servants may not be Members of Parliament, so it may be worth considering whether this practice should be allowed to continue.

76. Finally, increases in local accountability could bring further benefit to local government: individuals with good management ability might consider the role of councillor more attractive than at present and might be more ready to offer themselves as candidates at local elections. The presence of more such people on councils might stimulate desirable improvements in the level of management ability of local authority officials.

SUMMARY

a. The Problem (paragraphs 4-9)

77. Local government has a vital role to play in our democracy. But the present system is not working because it fails to satisfy a number of key principles. The Government is responsible for the system of local government; if the system is failing the onus is on the Government to change it.

78. The CPRS argues that the fundamental cause of failure is the lack of accountability in local government. Just as the Government is accountable, through Parliament, to the electorate for the money it spends, so should local government be accountable to its electorate for its expenditure.

79. It is not.

80. Local government raises only about one-fifth of its expenditure from its own electorate. This undermines political accountability - local authorities are not directly accountable for the four-fifths which come from national taxation, and from local industry and commerce. It also undermines economic efficiency - heavy subsidies to the electorate for local services lead to excess demand for them. The most obvious consequence is the inadequate response of local government to economic realities (as seen, for example, in the failure to meet Government expenditure targets).

b. Approach to Solutions (paragraphs 10-20)

81. There are only two ways in which the Government can address this problem. It could take direct control from the centre, of at least the spending of local government. But Ministers, and Parliament, have already rejected this option even though it is the only way of guaranteeing that Government spending targets are met.

82. The alternative is to improve the mechanism of self-restraint. Successive Governments has struggled to find a middle way between direct control of local government spending and increasing the accountability of local government. Such attempts have resulted in the worst of both worlds - vociferous complaints about central "control" without the benefits of actual control.

83. The mechanism of self-restraint is only likely to be effective if local government is accountable to its electors: the higher the proportion of the cost of providing the services that the electorate have to pay, the more likely are electors and elected to act with restraint. Thus the CPRS considers that the aim must be to bring into closer balance the amount of money which local authorities spend and the amount that they raise from their local electorates.

84. This has uncomfortable implications for Government policy. Any move to increase the Exchequer contribution to local government, in order to reduce rates, is in the opposite direction from what is needed. Any change to the system of local government should be judged by whether it is likely to increase accountability and hence reinforce the mechanisms of self-restraint.

85. There are two main ways of achieving a better balance between expenditure and revenue: to reduce the functions for which local authorities are responsible, or to arrange for a higher proportion of the costs to be raised from the electorate. Either path is fraught with political difficulties, and would take a long time; but for a problem that has built up gradually over most of this century, this is hardly surprising.

c. Reducing Functions (paragraphs 21-35)

86. At first sight, to reduce the range of local government functions seems the easier option. But having reviewed the range of services, our view is that education is the only serious candidate for greater central control. The Education Block Grant proposed by the Secretary of State for Education and Science falls some way short of assuming central control, though it could exert some additional pressure at the margin on the expenditure decisions of

education authorities, and could be used to shift the balance towards local finance of non-education spending (paragraphs 23-25). To change the overall imbalance between spending and revenue, central Government would have to determine the level of education spending in each area, and finance the whole of it. This would of course be a radical and controversial change, taking control away from local authorities into a central organisation analogous to the NHS; the effects on efficiency are debatable (paragraphs 26-30).

87. We also considered the option of removing the responsibility for transport from local government. Officials in MISC 70 concluded that transport should remain a local government function in the Metropolitan counties. We agree and think the same conclusion holds outside the conurbations (paragraphs 31-35). For London, in contrast, we think it may be worth exploring further the idea of a separate Passenger Transport Authority for London and the South East, as suggested by MISC 70 - although if Ministers were attracted by this we would suggest a variant in which local government retained responsibility for subsidising the bus services (paragraphs 34-35 and Annex B).

d. Increasing Local Revenue (paragraphs 36-60)

88. The route of increasing locally raised revenue is also not politically appealing. But what is needed is not an increase in the total tax burden, rather a switch from central to local taxation which, by increasing local accountability, would increase the downward pressure on spending. Ideally, industrial and commercial rates should be converted into a national tax, (paragraphs 44-48), and the Exchequer grant should be limited to the amount needed to equalise resources relative to need (about two-thirds of its present level). It is doubtful whether any system of grant which continues to subsidise additional spending at the margin can achieve the necessary degree of accountability (paragraphs 40-41).

89. This approach calls for a system of local taxation which is capable of yielding substantially increased revenues from the local electorate (paragraphs 49-57). Our view is that, if local government is to have a single

tax for this purpose, only local income tax is equitable enough, but it could not be introduced much before 1990. Although neither a reformed domestic rating system nor a poll tax would be sufficient on their own, both have their strengths. Any two of these three would form a sound basis for financing a progressively higher proportion of local government spending. Accountability might be further improved if different taxes applied to different tiers.

90. The first step to increase accountability by this route would be to reduce progressively the proportion of Exchequer support, to impose some form of central limit on industrial and commercial rates, and to reform domestic rates or to introduce a poll tax. (paragraphs 58-60) If a poll tax were preferred, a sophisticated rebate system might be developed over time which would make the poll tax more akin to an LIT, and thus facilitate the transition to an LIT if desired at a later date.

e. Structure and Accountability (paragraphs 61-78)

91. Whatever the arrangements for financing, the two-tier structure itself undoubtedly weakens accountability (paragraphs 65-72). But to create unitary authorities would involve large transitional costs. There would need to be significant gains in effectiveness and efficiency, and in accountability to justify such a change. But abolishing the Metropolitan counties would create major problems for transport and lesser problems for the police service. As these are the only significant functions the Metropolitan counties perform, the case for abolition is weak and should be rejected. There is a stronger case for unitary authorities outside the conurbations - by abolition of the Shire districts. However the CPRS does not consider that the system is crying out for any significant structural change in the short or medium term. A much cheaper way of improving accountability would be to replace precepting by separate rate demands (paragraph 73).

92. London, however, presents a unique problem (paragraphs 69-70), Transport is the only major function performed by the GLC, and its responsibility is already only partial. We think the case for its abolition is sufficiently strong to merit further detailed examination, particularly if Ministers are attracted by the idea of a Passenger Transport Authority for London and the South East.

93. Effective local accountability requires an electorate willing and able to make its view known. There are a number of changes to present electoral arrangements which would encourage this, including making elections by thirds mandatory or at least reducing the interval between full council elections. Giving local councillors clearer responsibilities should help attract individuals with good management ability to offer themselves for election.

Conclusion

94. In summary, the CPRS recommends -

- i. No change on education (unless Ministers were prepared to go a long way towards central control). (paragraphs 22-30)
- ii. Leave transport with local government, but further examination of a Passenger Transport Authority in London. (paragraphs 31-35)
- iii. Progressive reduction of the RSG percentage. (paragraphs 44-45)
- iv. Further examination of different bases for grant equalisation, to reduce still further any incentives to high spenders. (paragraphs 40-41)
- v. Some limitation on non-domestic rates, together with an examination of how they might be converted into a national tax. (paragraphs 44-48)
- vi. Reform of the domestic rating system, plus investigation of a poll tax to supplement it (preferably for different tiers), and of a local income tax which might replace one or both in the longer term. (paragraphs 49-57)
- vii. No change in structure apart from further examination of the case for abolishing the GLC (paragraphs 67-72); but replacement of precepting by separate rate demands. (paragraph 73)
- viii. Examination of changes to the electoral system to improve local accountability. (paragraph 74-80)

Cabinet Office

8 June 1982

CENTRAL GOVERNMENT CONCERN ABOUT LOCAL GOVERNMENT SPENDING

A1. No-one questions that central Government must be concerned about the total of its own contribution to local authority spending, through rate support grant (that is why it is pre-determined and cash-limited each year). But why does the Government need to concern itself about the element of local government spending which is locally financed? At present this total is included in public expenditure (unlike the spending of nationalised industries and water authorities, where only the element funded from external sources counts towards total public spending). There are a number of distinct arguments for this -

A2. **Political** The present system makes it hard to disentangle the element of local spending which is locally financed. Central Government on average funds about half the expenditure total, with the percentage for individual authorities varying with their circumstances and spending decisions according to complex rules. Hence it is easy for authorities to treat central Government as partly responsible for rate increases. So long as central Government provides a sizeable share of local authorities' finance, it must be doubtful whether Ministers could avoid being seen as taking part of the responsibility for the level of local taxation.

A3. **Economic** Aside from this political motive for concern, it is often argued that the Government must restrain local authority spending on economic grounds. In the CPRS' view the economic arguments are not all of equal weight, and a number apply equally to expenditure by nationalised industries, which is not treated in the same way -

a. **Claim on limited resources.** Whether this is seen in real terms, as a limit on the resources available for consumption/investment, or in financial terms as a limit on total money expenditure (hence "crowding out"), it is not obvious why the Government should seek to restrain local authority claims on these resources more directly or treat them differently in accounting terms, than claims generated in other parts of the public sector outside central Government.

b. **RPI.** Rates feed directly into the RPI, so that if a disproportionate increase in rates adds to inflationary pressures Ministers must be concerned about it. But this is equally true of nationalised industry price increases.

c. **Pay.** Similarly, local authority pay increases can affect pay settlements elsewhere in the economy - but so can settlements in nationalised industries.

d. **Borrowing.** Local authority borrowing, again like nationalised industry borrowing, counts as part of the public sector borrowing requirement, with an importance for monetary control reflecting its Government-guaranteed status. In principle this could be controlled by a system of external financing limits (EFLs) as for nationalised industries. But historically local authority borrowing has been controlled by a complicated set of rules relating to capital expenditure consents. It would not be easy to move to a system of EFLs set individually to reflect the Government-approved borrowing needs of each authority.

e. **Efficiency.** Under the present system central Government may well question how far local authorities' spending decisions match the real preferences of their electorates, and whether there is enough local pressure on them to deliver services efficiently. The best answer to this would be to improve local accountability and awareness as the main report suggests; steps are being taken to provide better comparative information, and the system of local elections might be made more responsive. But unless and until this can be relied on, the Government has an interest in imposing a measure of restraint from the centre.

f. **Taxable Capacity.** The essential difference between local authorities and nationalised industries, in this respect, is that local authority spending is financed by some form of taxation (in cases where it is financed by charges, eg housing rents or transport fares, these are generally netted off in calculating public expenditure). Taxes, by

definition, cannot be avoided in the same way as charges by choosing not to consume the services. They reduce the proportion of people's income which is available for spending or saving - and in this sense central and local taxes are cumulative. Then it can be argued that any increase in tax makes inroads on "taxable capacity". This notion of a limit on total taxation may reflect the view that a higher burden of taxation reduces people's incentive to work and earn. This is most obvious where marginal rates of overall taxation are very high - notably at the bottom on the scale, where the need to protect those near poverty levels (eg by rate rebates) gives rise to high marginal rates with increasing income. It may also be argued that any increase in tax will lead to some reduction in personal savings, which makes it harder to finance borrowing and control the money supply. Both these effects are difficult to prove and to quantify, and may vary with different kinds of taxes. But to the extent that they are thought to occur, they impose an "external" economic cost on increases in local taxation, and therefore provide legitimate grounds for central Government concern.

Conclusion

A4. In CPRS's view, under the present system there is some force in the economic arguments at d. **borrowing**, and e. **efficiency**; and under any tax-based system of local finance there would be some force in f. **taxable capacity** though its importance cannot be established objectively and is a matter for political debate. And the political argument, that under the present system Ministers cannot avoid being held responsible for the local tax burden to some extent, also seems inescapable.

LONDON AND ITS TRANSPORT

B1. The option of legislation along the lines proposed for the Metropolitan counties (paragraph 33) would work much less well in London, primarily because of the separate British Rail (BR) commuter network, and because of London's size. The alternative is for structural change. Officials in MISC 70 suggest a statutory Passenger Transport Authority which would take over from the GLC the control of London Transport (LT) and would become responsible for the co-ordination and finance of all rail services in London and the South East and for bus services in London. Public transport in London would be financed wholly by central government. The Authority, whose members would be appointed by the Secretary of State, would have a relationship with BR London and South East similar in some respects to that which the Secretary of State has with the whole of BR now. The Authority would be able, and required, to put through measures to rationalise and co-ordinate the now separate rail systems in London of BR and LT.

B2. In the view of the CPRS there are a number of unsatisfactory features about the proposed Authority. First it would provide little local accountability since none of the finance would be locally raised. (The presence of some local authority representation on the Authority provides only a weak accountability mechanism). Second, the Authority would be something of a hybrid, being the owner and subsidiser of LT, but having a rather different relationship with BR London and South East, for which it would have the subsidising role but would share the owner role with the British Railways Board (BRB). The management of BR London and South East would report to the Authority on some matters and to the BRB on others; serious problems would arise unless a clear demarcation could be made. MISC 70 acknowledged that much would depend upon the Authority developing good relations with the BRB. Third, the responsibility for public transport would be detached from the remaining transport responsibilities (planning, roads, traffic control), most of which would remain with the GLC, (or with the London Boroughs and the Secretary of State if the GLC were abolished); there is significant merit in all these transport responsibilities lying with a single body.

B3. If Ministers do wish to consider the option of a new Authority the CPRS believes that more work needs to be done to clarify how it would work, particularly in relation to the BRB. Also the CPRS would favour a variant of the scheme, mentioned by MISC 70, in which the role of subsidising LT bus services remains with the GLC (or the local government arrangements which might replace it). In this way the GLC would act as a customer for non-commercial bus services and the Authority would act as contractor. Thus the GLC would retain an appropriate degree of influence over bus services, which would sit well with its other responsibilities for roads and road traffic; but the GLC would lose the role of owner and operator of public transport. This variant would also mitigate one problem with the Authority as proposed by MISC 70, namely that London ratepayers would lose the whole of the financial burden of subsidising LT, and that a compensating reduction in central grants to London would lead to some boroughs gaining at the expense of others.

B4. If Ministers wished public transport to continue as a local government function in London, then there is little case for abolishing the GLC; transport is the GLC's only major function and any alternative local government based arrangement would be even more unsatisfactory. We believe that, in these circumstances, legislation of the type proposed by MISC 70 for the Metropolitan counties, together with the moves to improve local authority accountability advocated in the main paper, could provide sufficient restraint on the GLC's spending.

B5. But if Ministers wished to pursue the idea of a Passenger Transport Authority to take over public transport, the case for abolishing the GLC becomes much stronger. MISC 70 concluded that even with the PTA it could not recommend the GLC's abolition on transport grounds, but the residual transport functions that would be retained by the GLC would no longer be of overriding importance compared with the plethora of minor functions. The case for abolition would no longer hinge so critically on transport considerations and hence, in these circumstances, we think it would be worth further examination.

PART 11 ends:-

10-6-82

PART 12 begins:-

11-6-82

