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g. Mr Ryden  
Mr Wilson  
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Waste in local Govt - Muffey  
MM Local Govt

NOTE OF A MEETING HELD AT 10 DOWNING STREET AT 1700 ON 8 JANUARY 1980  
TO DISCUSS THE RELATIONSHIP BETWEEN CENTRAL AND LOCAL GOVERNMENT

- Present: Prime Minister  
Home Secretary  
Secretary of State for the Environment  
Secretary of State for Social Services  
Secretary of State for Education and Science  
Chief Secretary to the Treasury  
Lord Thorneycroft  
Sir Frank Marshall  
Mr. Clive Whitmore  
Mr. Michael Pattison

The Prime Minister recalled that the Chairman of the Party had written to her in November about the concerns expressed by representatives in local government. She invited Sir Frank Marshall to outline the position. Sir Frank Marshall said that he had encountered a range of problems in travelling around local authorities. Initially, reductions in public spending had caused difficulty, but these were now being overcome. He had recently put three questions to the Conservative controlled councils in England and Wales. He had asked what had been done to reduce expenditure, first in percentage terms and secondly in cash terms, and thirdly what would be done to reduce manpower in the current year. He had a 64% response. They had responded manfully to the requirement for cuts, and many had gone further than instructed by central government. The results were now being correlated. Mr. Heseltine had seen a first draft of the results, and this was now being revised. In the Autumn, the matters of concern to local government were essentially the financial provisions of the Bill, especially on the block grant and capital controls. The overwhelming opinion of the local authorities was that these would result in a strong centralisation trend to the detriment of local autonomy. The three associations had come down against the proposed changes. In Sir Frank's view, the real problem was that there had been insufficient time for consultation, and the time available had been ill-used. These central/local issues could only be resolved in a process of give and take, and there had not been enough give from central government. Ministers were now engaged in campaigning

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about the changes, and this would probably win greater agreement. He was confident that both points could be resolved.

The Prime Minister commented that Conservative councils had long pressed for a unitary grant arrangement. There had been many complaints about the inequity of the existing system. Sir Frank Marshall said that the block grant would replace two key elements of the existing rate support grant. Many Conservative authorities felt that the changes were being introduced to catch a few extravagant Labour controlled authorities, and that this was insufficient reason for imposing new controls on all authorities. They believed that the true decision on allocation of money between alternative uses would now be removed from the grass roots to Whitehall. He accepted that this would be true of capital expenditure, not revenue expenditure, but in effect this would result in Whitehall prescribing the use to which the councillors should put their revenue. Mr. Carlisle commented that the changes would require central government to assess local authority needs. This was theoretically required under the current system, but in practice need had been assessed by what the authorities spent.

Mr. Heseltine said that the new system had yet to be finalised. The methodology for calculating local authority needs was now the subject of consultation. The local authorities had objected to the old system, and he had therefore invited them to say what they wished to replace it with. He had personally seen 150 local authority leaders in the past 24 hours, and had found that opposition to the changes were based purely on ignorance. Sir Frank Marshall commented that this arose from poor consultations. There had been a Consultation Paper on the capital provisions but none on the block grant.

The Prime Minister stressed that the Government were responding to demands from the local level. It was now necessary to sell the changes properly. She recognised that local officials - as opposed to local politicians - were stirring up resistance, but it was the job of the elected central government, not paid local officials, to provide leadership. Mr. Heseltine commented that the reactions of councillors were based on briefing from their permanent officials. The new system would allow much more light into the operations of local government, which many officials resented. Every local

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authority group leader had been invited to meet one of his Ministers over the next ten days. In his view, there was no substantive hostility to the block grant arrangement, although there were difficulties on capital controls. Sir Frank Marshall concurred.

The Prime Minister expressed concern about how some authorities might take advantage of the capital control changes. This was why there must be an ultimate right of Whitehall to call in proposals. Mr. Heseltine pointed out that any capital spending now required the submission of at least six different forms to his Department. He agreed that the consultation on changes could have been better. He intended to put this right now. His packages of legislative and administrative changes would pull Whitehall out of a great deal of detailed control. A MISC group of Ministers, chaired by the Home Secretary, was meeting tomorrow to finalise arrangements. He was confident that he had now reached agreement with the Treasury, although his colleagues in spending departments had not yet had a chance to take a final view of the proposals. Overall, the new arrangements would provide the most exciting deal local authorities had ever had. He intended to have only a single capital block for each authority, with the exception of services supervised by the Home Office. Each central spending department would allocate funds for its services, and the local authority could handle the total allocations as one block. There would be powers to vire, to transfer funds between different authorities in some circumstances, to roll over between years, and to use receipts at local discretion. The one significant control would be a rigid overall ceiling. Taking housing as an example, authorities would now prepare submissions for their councils in a common form, and this would be more informative for the elected representatives, would be published to the public benefit, and would be copied to his regional office, who could intervene in extremis, but who would normally take no part in the decision. Cost yard sticks would go. But in cases where the prepared figures showed that there would be no return on the investment, the Department would enter the discussion, and would have formidable back-up powers.

/ Mr. Carlisle

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Mr. Carlisle said that he and the Minister of Transport had not accepted the single block arrangement. He would argue for a guaranteed core of education expenditure, allowing the authority scope to vire to or from education only on a very limited scale. He could not accept that the police and courts should get their own block of funds whilst education did not.

In further discussion, the Prime Minister observed that the local education authorities differed in law from other local authorities, and had statutory duties to fulfil. For this reason, she felt that Mr. Carlisle had a strong case. But even with five sub blocks, local authorities would have much greater freedom than before.

The Prime Minister was concerned that the reduction in regulation of local authorities would not be accompanied by compensating manpower reductions. Sir Frank Marshall wanted to know how capital expenditure would be defined. Mr. Heseltine said that there would be de minimis provisions, but he had not yet cleared final proposals. Sir Frank Marshall was encouraged by the discussion, much of which had not been made clear previously. Nevertheless the ultra vires rules of capital over-spending were still a personal threat to individual councillors. Mr. Biffen confirmed that the Treasury were broadly content with the new proposals, and that the remaining difficulties were those outlined by Mr. Carlisle. Mr. Heseltine drew attention to the fundamental democratic issue of whether local authorities made decisions or were effectively branch offices of Government. Mr. Carlisle acknowledged that Mr. Heseltine's paper now went a long way to meet his difficulties. Mr. Jenkin thought that the real issue was when sanctions would become operative on authorities. The system should include a warning shot. Mr. Heseltine confirmed that he would reserve the right to impose the full disciplines of project control if a local authority became unacceptably extravagant.

The Prime Minister hoped that this discussion had been helpful to the Home Secretary in clarifying the issues to be taken at the MISC group on 10 January.

/ Lord Thorneycroft

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Lord Thorneycroft stressed the political dimension of these problems. The Conservative Party was losing half the seats it fought at local level. They would lose control of the AMA in May. The Department of the Environment paper on capital controls had worried the local authorities, perhaps unnecessarily. Mr. Heseltine was now making a tremendous effort to retrieve the situation - only recently he had been told that convention prevented Mr. Heseltine speaking on local election platforms, although this had now been overturned. Central government had to work with the local authorities. The Government still had some pluses to use for local elections, such as the Housing Bill, manpower savings in some areas and perhaps the Local Government Bill. All these must be used to the full to help the Party hold on to a few more seats. The Prime Minister stressed that housing, mortgage costs, and rates would determine elections.

The Prime Minister asked what could be done to control and reduce local authority manpower. Sir Frank Marshall saw this as the only true means to reduce public expenditure at local level. But many authorities had inherited "no redundancy" agreements from their Labour predecessors. There were success stories which he had passed to Mr. Heseltine. Mr. Heseltine disagreed with Sir Frank Marshall's analysis. He was advised that the 1½% cut back sought the previous year would not be achieved. Local officials continued to run rings around local politicians. Sir Frank's figures showed no manpower saving in a great many authorities. Sir Frank said that financial arrangements for redundancy would have to be considered. Mr. Heseltine said that central government had achieved reductions without redundancies. But during the freeze on local government manpower, 30,000 had left whilst 29,000 had been recruited. Conservative Governments in the recent past had a poor record on local authority manning levels. Sir Frank Marshall argued that central government tended to leave much of its policy to be implemented at local level. Mr. Heseltine outlined the difficulties in getting accurate figures on manning in individual authorities. Lord Thorneycroft confirmed the lack of facts. Part of Mr. Heseltine's Bill was intended to counter this. Mr. Carlisle found current trends in his field more encouraging. The Shire counties would achieve up to 1½% against the

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3% saving sought this year. For next year, having longer notice, they would probably reach the 5% target.

Mr. Whitelaw drew attention to the attitude of some local Conservative Party organisations to their links with national politicians. In the distant Shires, the local authorities did not see themselves as the arm of Conservative central government. They preferred to regard themselves as divorced from the dirty business of politics. Lord Thorneycroft accepted this, but stressed that the only real options were either to work with local government as it existed, or slowly to eliminate it. He pleaded that, in all decisions in a difficult period, Cabinet Ministers should keep firmly in mind electoral opinion - especially at local level - as they reached decisions. The Prime Minister emphasised the need to ensure that the best local authority practice was made widely known.

The meeting concluded at 1815.

*MP*

9 January 1980

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