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Qa 04354

To: MR LANKESTER
From: SIR KENNETH BERRILL

See LOCAL GOVT
October 1979

Relations between Central and Local Government

1. The Secretary of State for the Environment has made a proposal for an Accounts Commission for Local Government. The Prime Minister has said that she would like to have this proposal considered in the wider context of improving the management of resources by local government, and I believe she had in mind a discussion with the Ministers concerned and with Sir Derek Rayner.
2. There is indeed a lot going on in the area of the management of resources by local government. I attach a list of ideas which we in the CPRS know to be running and there may indeed be others.
3. On this list, items (a) to (h) taken together would amount to substantial changes in the central/local government relationship. The first four items point largely in the direction of greater autonomy while the next four (and Mr Heseltine's latest proposal) aim to impose tighter financial disciplines.
4. But none of them tackles the basic central/local financial problem emphasised by Sir Derek Rayner (local government is responsible to a local electorate but central government provides the bulk of its funds).
5. It is, in a way, strange to find that this central issue is absent from the list (e.g. when the Inland Revenue is computerised, would local income tax provide the answer?). *No*
6. So we in the CPRS would welcome the discussion the Prime Minister has in mind as something which might pull together the threads of the work listed in the annex and give it all focus. If this meeting did take place, the basic questions which we think might be considered by Ministers are -
 - (i) Does the Government contemplate in the medium/longer term any radical change in the central/local financial relationship (Sir Derek Rayner's fundamental question)?

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(ii) Whatever the answer to (i), what is the future of the rating system, and what are the practical possibilities for alternative sources of local government finance (if any)?

(iii) Do Ministers wish to bring the various proposals in hand together as part of a broader strategy? There seem to be three general themes behind the proposals - first, to give much greater discretion to local authorities to allocate their own expenditure and decide their own priorities; second, to impose tighter central government controls on total expenditure (while 'interfering' much less on detail); and third, to impose more effective and public financial accountability.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB.

23 November 1979

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- (a) Central government controls over local government: White Paper published in September proposing abolition of some 300 controls (comments asked for by mid-October).
- (b) Control over volume of circulars, etc. sent to local authorities.
- (c) Proposals to relax central Government control on the allocation of capital expenditure by local authorities (while tightening controls on total capital expenditure).
- (d) Proposals for reform of RSG from 1981/82 - unitary grant, and disciplines on high spenders.
- (e) Review of statutory duties imposed on local authorities (are they necessary? Should they be discretionary?), and scope for more charging (increase of existing charges or new charges).
- (f) Review of scope for contracting out/privatisation of local authorities' functions in whole or part. (This is linked to our review of scope for contracting out other public sector functions.)
- (g) Proposals to require local authorities to publish more statistics relevant to their cost effectiveness.
- (h) Expenditure Committee's recommendation for amalgamation of Exchequer and Audit and District Audit.
- (i) Sir Derek Rayner's note to the Prime Minister on efficiency and waste in local government (on which discussion was postponed to December some time). This raises the fundamental issue of local government finance and the unsatisfactory nature of the current arrangements. Short of this, it raised issues of inspection (especially the education inspectorate), more effective district audit (relevant to Mr Heseltine's proposal), and better dissemination of good and bad practice.