

Yes - we cannot wait to restructure. We must go ahead with financial arrangements.



Prime Minister  
 We are fixing a meeting with Mr. Heald and others (probably Thursday) 12 June 1981 to discuss his draft E paper on rates. I suggest the meeting should also discuss then v. controversial proposals.

Prime Minister  
 LOCAL GOVERNMENT FINANCE AND STRUCTURE

I shall shortly be putting to E my proposals for interim and long-term measures on local government finance. It will discuss, among other things, the procedures for consultation on the alternative taxes to domestic rates (E(81)18th item 2).

Our objectives include a fairer tax base, improvement in the control of local expenditure, and greater local accountability. In my earlier paper E(81)53 I argued (para 9) that a system of unitary authorities based on the non-metropolitan counties and the metropolitan districts would provide a better basis for alternative local taxes and be better understood by the electorate than the present arrangements. We did not pursue this in our discussions on 19 and 21 May, and at the time I let it rest. On further reflection, however, I think that I should now invite colleagues to take a view on the question of local government structure, so that we do not allow ourselves to close possible options by inadvertence.

In the two-tier system the accountability of the upper tier is concealed because its precept on the lower tier and does not bill the ratepayer direct. This arrangement is at its worst in London, where not only the Greater London Council but also the Inner London Education Authority and the Metropolitan Police precept upon the boroughs. As a result ratepayers are unintentionally confused about which authority is responsible for which part of the rate bill. A recent Gallup survey suggested that only 22% of people could identify the 2 main local authorities in their area, and that only 40% could name one.

The task of controlling local government expenditure is difficult enough, and the lack of real local accountability makes it so much worse. My proposals for interim measures - restraining non-domestic rates and constraining the main rate through the use of supplementary rate demands - will go some way further to increase accountability. But so long as the structural deficiencies which I have referred to continue to exist, they will limit our ability to bring home to local electors the consequences of their council's spending decisions.

Hitherto we have set out faces against a further round of reorganisation so soon after 1974 on the grounds that it would be politically and financially insupportable. However, looking back over comments in the press since my statement on 2 June (for example, the Times on 3 June) and from Members of the House who have written or spoken to me recently, I am convinced that there is a rising tide of concern about the lack of accountability of local government. I think that most informed commentators would agree that a serious mistake was made when local government structure was considered separately from local government finance by the Redcliffe-Maud and Layfield commissions, since structure and the tax base interact so powerfully upon each other.

It may be argued that a further reorganisation will generate the kind of explosive growth in manpower and expenditure commonly associated

S E C R E T

with the 1974 reorganisation. But the reorganisation did not in fact precipitate a manpower explosion - that had proceeded apace for 20 years. The long-term trend of growth in local government manpower, from the mid 1950s was surprisingly consistent up to 1976, and its causes go much deeper than reorganisation in itself, the attached graph shows this. Since June 1979 we have succeeded, however imperfectly, in reversing the growth; and I do not believe that a further reorganisation, properly managed and coupled with appropriate expenditure policies, need compromise this.

There are several different ways in which we could handle these issues. We could take the subject head on and examine the possibility of moving to a single tier system throughout England and, perhaps, Wales. Or, as suggested in E(81)52, we could examine this option for Greater London and the metropolitan counties only. However, the masking of accountability is just as much a problem for the rest of the country. Or we could do nothing. This course, however, is not a real option, because questions of local government structure are bound to be raised in the process of consultation on alternatives to domestic rates, and we shall have to respond.

I recognise that if we decide to examine both the structural issue and the alternatives to rates, we shall not be able to legislate on either in this Parliament but we would be able to announce firm decisions before the election. If on the other hand we confine our work to the financial issue, legislation in the session 1982-83, although it involves a very tight timetable, may be possible.

I should welcome colleagues' views. In the light of them, I would hope to bring formal proposals before E Committee in due course. My own preferred view is that at the time I produce the draft consultative paper on finance to which we are committed for the autumn, I should produce for colleagues' consideration, and with the necessary inter-departmental co-operation, a paper showing how these financial alternatives might be affected by different forms of structure.

I am copying this letter personally to colleagues who attended the meetings of E Committee at which we discussed local government finance - Geoffrey Howe, Willie Whitelaw, Christopher Soames, Peter Walker, John Biffen, Keith Joseph, Jim Prior, David Howell, Leon Brittan, George Younger, Patrick Jenkin, Nick Edwards, Mark Carlisle, Norman Fowler, Tom King\* and Sir Robert Armstrong. Because of the immense sensitivity of this issue, I have instructed that only one copy of this correspondence is kept in my Department outside the Private Office and would hope colleagues can see that similar security is maintained in their Departments.

*MAHMS*

For MICHAEL HESELTINE  
(drafted by the Secretary of  
State and signed in his absence)

\*Francis Pym, Peter Carrington, John Nott and Michael Jopling

LOCAL AUTHORITY MANPOWER - ENGLAND & WALES

1952 - 1980

TOTAL FULL-TIME AND PART-TIME (000)

Notes

1. The total figures comprise all full time and part time staff (with certain exceptions - see below) and not full time equivalents. They include STEP employees.
2. The total figures include Police Forces but exclude police civilians, cadets, traffic wardens, agency, magistrates courts and probation service staff, which were not included in surveys before 1975.
3. The figures 1952-75 are shown on an annual basis (at June in each year). The figures 1975-80 are shown on an annual and quarterly basis. The quarterly figures are not seasonally adjusted.

JOINT MANPOWER WATER

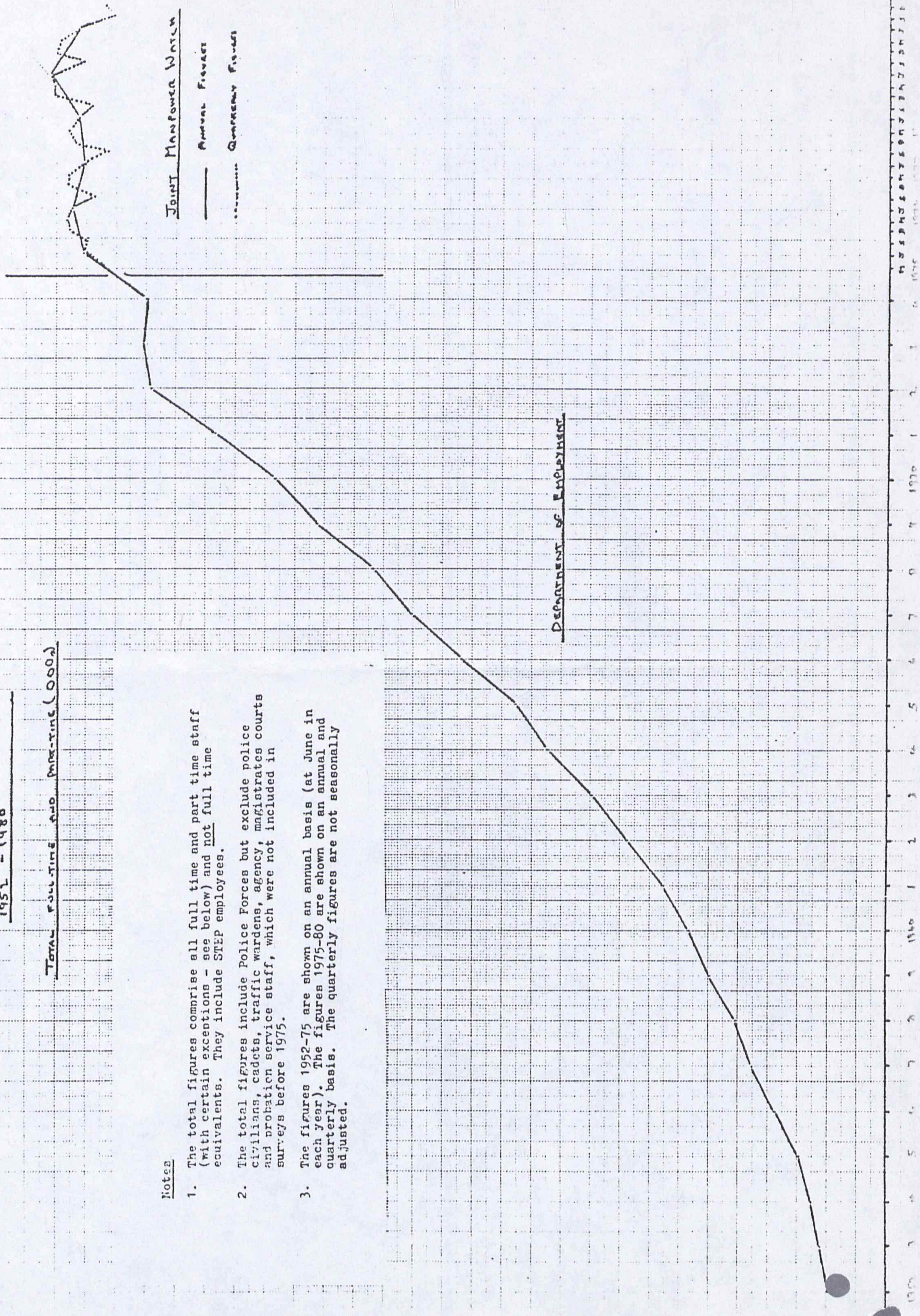
— Annual Figures

..... Quarterly Figures

DEPARTMENT OF EMPLOYMENT

1700  
1600  
1500  
1400  
1300

1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980



1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980

When local councils draw up their budgets, they always allow a little extra for unforeseen events. Nowadays, Mr Heseltine regularly comes along afterwards and makes them take it out again. In the ordinary course of events, the year usually passes without the nest-egg being needed, and the eventual out-turn is lower than the budgeted figure.

It is hard to say how far Mr Heseltine's bumping-down activities affect the result. Budgets for the financial year two months old are about as far in percentages above the target for current spending as were those for last year, for which expenditure is expected to come within one or two per cent of the target when the sums are complete. The over budgeting councils include many Tory ones. But the strategic need to keep the closest restraint on public expenditure is so acute that Mr Heseltine's precaution is worth taking, so long as the accompanying sound and fury is not allowed to obscure the truth that local government has responded far better in recent years to appeals of this kind than departments of central government have.

This is so even though the Government's sanction of with-

drawal of grant is a very imperfect one. Councils determined to maintain their spending can recoup the lost grant from the rates. After the local government elections, more councils than before may be ready to consider defiance of this kind. Mr Heseltine's undefined threats about immediate counter-action in the current year reflect that anxiety. His new block grant powers, intended to enable him to penalize overspending councils while leaving obedient ones unscathed, are useful in principle, but they were enacted in such a hurry that they penalize many councils that have done their best to conform while leaving big spenders scarcely affected. And since the Government's basic interest is in aggregate spending, councils of all colours have been too apt to respond by dropping services, rather than by trying to increase efficiency.

Ideally, of course, the extravagant council should be held in check through fear of its own electorate. That is the underlying principle of local accountability. But the prominence of national politics in the voters' minds and the shortcomings of the rates as a tax mean that this discipline operates only to a limited extent. Sixty per cent of

local spending is paid for not by the ratepayer but from general taxation through the grant. Sixty per cent of the remainder is paid for not by the local elector but by the disenfranchised commercial ratepayer. In many cities the domestic rate is even less important, and it is often disguised for the payer by its incorporation into council rent demands; it may be no coincidence that many of the most resolutely extravagant councils hold sway in just such areas.

These weaknesses have been apparent for years, and grow increasingly harmful. Yesterday's promise of a major study of methods of replacing the rates altogether was hardly over-hasty for a party committed to abolition since the mid-seventies. But the factors which have made the Tories hesitate still apply. The rates have their faults, but so do all the alternatives which have been put forward. A local spending crisis this year or next might drive the Government to further hurried legislation threatening local independence in unpredictable and dangerous ways. But the point has been reached where real local discretion can only be safeguarded by means of a stable and widely acceptable reform of local finance.

## THE HARASSMENT OF MR BANI-SADR

The campaign by Islamic fundamentalists in Iran against President Bani-Sadr seems to be gaining momentum. Two of the President's advisers have now been arrested on charges of bribery and corruption. Prominent supporters of Mr Bani-Sadr, including the Governor of the Central Bank, Mr Ali Reza Nowhari, have been harassed and threatened by the Revolutionary Guards. Liberal-minded newspapers have been closed down and then "allowed" to reopen. Most serious of all, the three man "conciliation commission" appointed by Ayatollah Khomeini to adjudicate between the moderate group around Mr Bani-Sadr and the hardline clergy of the Islamic Republican Party has found in favour of the

that Mr Bani-Sadr has in fact violated the constitution. His main offence, judging by the commission's report, is that he refused to sign a Bill, already passed by the Majlis (Parliament), empowering the Government to appoint Ministers to those portfolios still vacant. Since the Majlis is dominated by the fundamentalists of the IRP, this has become something of a test case. But the constitution — although ambiguously worded on this as on other points — appears to give the President the power to vet Ministerial appointments, and it will take a great deal of legal wrangling to prove otherwise.

The vehemence of the fundamentalists' attacks on the President may well therefore be due

week, the President defied attempts by the IRP to "outmanoeuvre me by insults and abuse", as he put it, and declared that he was not afraid of threats to put him on trial.

The armed forces remain Mr Bani-Sadr's principal base. The President is also commander in chief, and although setbacks in the Gulf War could yet undermine him, the fact that Iran has held off Iraqi attacks over a period of ten months has redounded to his credit. Above all, Mr Bani-Sadr's standing remains high among the Iranian people, who elected him by majority vote in the first place. The IRP's jibe that liberals of Mr Bani-Sadr's stamp spent a life of ease in Paris before the