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From the Private Secretary

18 June 1981

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Dear Dennis,

Local Government Finance: Medium- and Long-Term Measures

As you know, the Prime Minister held a meeting with your Secretary of State and Mr. King this afternoon to discuss the draft paper circulated under cover of your letter of 17 June. The Chancellor of the Exchequer was also present, as were the Home Secretary and the Chief Secretary for part of the meeting.

It was agreed that the draft should be circulated in its present form to E Committee, subject to paragraph 5 (vi) being revised to make clear that it referred to "capping".

The Prime Minister said that probably the most controversial proposal in the paper was the idea that local authorities would have to submit themselves for re-election before levying a second supplementary rate. It was agreed that this would be a superior proposition to holding a mandatory referendum before a second supplementary rate.

Other points raised were:

- (i) The Chief Secretary said that he had written to Mr. Heseltine suggesting that it would be worth considering other methods of "capping" for the longer term: this would necessarily include the question of controlling local authority borrowing. Mr. Heseltine said that he was quite happy for this to be covered in the consultation document on alternatives to domestic rates which was planned for the autumn.
- (ii) The Chief Secretary said that, on Mr. Heseltine's proposals for local authority re-elections, it might still be possible that a profligate local authority could run out of money before such an election took place. If this happened, it would put the Government on the collision course with that local authority which the proposal was intended to avoid. Mr. Heseltine said that he doubted that this could happen, but he would look into it and make sure that the point was covered in finalising the proposal.

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There was also a brief discussion of Mr. Heseltine's minute of 12 June on local government finance and structure. Mr. Heseltine explained that the structure issue was bound to be raised once the Government published its consultation document on alternatives to rates. Any changes in local authority finance would be designed partly to ensure greater local accountability; yet the present two-tier system of local authority government would make it extremely difficult to achieve this objective whatever system of finance was adopted. He therefore proposed to prepare for colleagues' consideration a paper on different forms of structure as they might affect the various financial alternatives at the same time as the draft consultation document.

It was strongly argued by others at the meeting that, while it might be possible to get rid of the two-tier system in the metropolitan areas, this would not be feasible in the shire counties. However, it was agreed that Mr. Heseltine should prepare a paper for colleagues' consideration on the lines he proposed.

I am sending copies of this letter to John Halliday (Home Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

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Tim Latham

D. A. Edmonds, Esq.,
Department of the Environment.

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