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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*

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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.

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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.

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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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