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P.01394

PRIME MINISTER

Local Government Policies

You are holding a meeting of Ministers on Thursday 27 September to discuss a number of issues relating to local government.

2. You have about two hours for the discussion and there is potentially a lot of very difficult ground to cover. The letter of 17 September from the Private Secretary to the Secretary of State for the Environment sets out a suggested agenda, and his two letters of 21 September attach a series of notes on the individual topics. There is also a general scenario paper on "Local Government Policy 3 years From Now"^{- Item H} DHSS are providing a note on item (D). With this wide range of topics it is important that discussion on any one of them does not become too protracted. This brief is a handling brief, outlining for each topic the issues on which decisions are needed.

Opposite

FINANCE

(A) RATE-CAPPING: CONTINGENCY PLANNING

3. 18 authorities have been selected for rate-capping next year (see Annex). Many are refusing to take part in procedures and are not applying for redeterminations of expenditure levels (ELs) (which they are entitled to do under the Rates Act) even though DoE are pointing out that they are not likely to suffer thereby. Some authorities are talking of confrontation next spring either by not setting a rate or by setting an illegal one. In some cases events may develop as they did with Liverpool this year. The Secretary of State for the Environment's note (on agenda item A) sets out some possible legislative options. The Commissioner legislation prepared this year is in reserve. At some stage contingency planning for individual services (as was done for Liverpool) may be needed.

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Issues for decision

4. i. What should the present public stance be?

The Secretary of State for the Environment suggests that it is to avoid new powers, and to emphasise the mechanisms provided for in the Rates Act, first of all redetermination, which will not be used to reduce expenditure levels. Beyond that let the authorities sweat on what may be done.

ii. Should contingency legislation be prepared?

The purpose would be to exert pressure on authorities short of putting in commissioners, eg to fix a date by which a rate must be set (see para 3 of the Secretary of State's note). In the Liverpool case, the absence of such rigid constraints may have played a part in enabling a solution to be found. A key factor is the likely effect of such measures on the authorities. A fuller paper might be commissioned from the Secretary of State covering this aspect. Commissioner legislation was fully prepared earlier this session.

Does putting a deadline for when also prevent Govt from playing it long?

iii. Is any other contingency planning needed?

Any planning at this stage would need to be restricted to a very narrow circle. Probably little would be lost by waiting to see where the most difficult problems are likely to be.

Handling

5. Apart from the Secretary of State for the Environment, the Chief Secretary and the business managers may, in particular, have views.

(B) MINISTERIALLY-LED REVIEW OF LOCAL GOVERNMENT FINANCE

6. A motion at the Party Conference urges the Government "to make positive steps towards the abolition of the domestic rating system ...". The Secretary of State for the Environment proposes that a



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DoE Minister should lead a review, involving selected non-Government experts, including some from local authorities, to:

"consider the scope for introducing a more satisfactory local government finance structure together with any associated changes which may be necessary; and to make recommendations"

and that he should announce this at the Party Conference. It would report by spring 1986.

Issues for decision

7. i. Should there be a review?

As the Secretary of State acknowledges, the Government "should not embark on a new review unless it is ready to respond positively to the conclusions that emerge".

Past exercises to replace rates have not been successful. Furthermore a review might prove a distraction from tackling the difficulties of present arrangements. On the other hand, as the DoE scenario paper suggests, these may themselves give rise to increasingly severe problems (eg more authorities being rate-capped, tougher holdback tariffs).

ii. What should it cover?

The Secretary of State for the Environment implies that the review should cover: alternative local taxes; the possibility of taking some service expenditure out of local government altogether; the future of block grant, including the equalisation arrangements; the link between voting and paying; and perhaps further changes in local government organisation. One option would be to restrict the review more narrowly to the future of domestic rates, the issue of main concern to the Party Conference.

Mr Jenkin needs to be able to demonstrate why this review can lead somewhere when others didn't. He has answers eg not just domestic rates, longer timescale to find answers and implement them.

This just covers old ground.

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iii. If there is to be a review, should it be announced?

The Chief Secretary believes that a public review would cast doubt on present arrangements and help to make them more difficult to work. In fact any review would be almost certain to become public knowledge, and could not collect evidence and views from outside Government if it were not. If Ministers believe that public knowledge of such a wide-ranging review would make it more difficult to operate the existing arrangements, this may be an argument for not having the review.

iv. If there is not to be a publicly announced review, what is to be said at the Party Conference?

Handling

8. The Secretary of State for the Environment will want to explain the case for his proposal. The Chancellor of the Exchequer and the Chief Secretary, the Lord President and the Chief Whip may particularly have comments.

(C) THE ELIMINATION OF TARGETS FROM RATE SUPPORT GRANT

9. Targets for individual authorities and penalty tariffs for exceeding them have been necessary in order to restrain total local authority expenditure. Because it has not been realistic to expect high spenders to reduce their expenditure suddenly to GRE level, the relatively low spenders have had to have targets below their GREs. This has not been fair on the low spenders (hence the Pym commitment), the inequities are cumulative, and penalties have to be increasingly severe to remain effective. Ministers have always said that they will abolish targets as soon as they can and rate limitation (and the abolition of the GLC and MCCs) may provide the opportunity. It may be, however, that other changes to RSG arrangements, eg a more credible system of GREs, are also necessary before targets can be dropped.



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Issues for decision

10. i. Is it still an objective to eliminate targets?
The pressure against targets from the low spenders is certain to grow. But the adequacy of the other measures available for controlling overall local authority expenditure needs to be assessed.
- ii. What should be the next steps?
DoE are working up exemplifications of different options. When these have been further developed they might be discussed in E(LA) so that a general plan on how to move forward can be agreed.

Handling

11. Secretary of State for the Environment to introduce. The Secretary of State for Education and Science, the Chief Secretary and the Chief Whip may particularly have comments.

(D) IMPROVEMENT OF THE LINK BETWEEN VOTING AND RATE-PAYMENT

12. An element of housing benefit is to provide support to recipients in respect of their rate payments; similar arrangements go back to before the war. Some $6\frac{1}{2}$ billion households receive some assistance with their rates in this way, and $2\frac{1}{2}$ million households have all their rates paid. Beneficiaries still receive a rate notice etc but they pay only the sum (if any) for which they do not receive assistance. Beneficiaries are very little affected by increases in rates as these are reflected in increased benefits. The whole of housing benefit arrangements are at present under review (due to report by the end of the year). Part of the Review's philosophy is to seek to bring home to recipients the value of their rent and rates even where they receive assistance but detailed proposals have not yet been formulated.

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Issues for decision

13. There is no issue that needs immediate resolution provided the review will be taking account of: (a) the appropriate level of assistance, tapers, etc, and (b) whether the assistance with rates should be a cash payment so that the beneficiary then pays his rates bill in full (at present this is not the case). Action will need further consideration when the review has reported.

Handling

Mr Newton will be attending

14. The Secretary of State for Social Services to introduce. The Secretary of State for the Environment and the Chief Secretary will have views.

ABUSES

(E) PROPOSED EXTERNAL INQUIRY INTO ABSUSES IN LOCAL GOVERNMENT

15. The Secretary of State for the Environment suggests that he should announce at the Party Conference his intention, after consultation with the local authority associations, to set up a Committee of Inquiry into Local Government Practices and Procedures. The Committee might consist of up to 7 members chaired by a constitutional lawyer and would in particular consider the need for safeguards on the rights of minorities on local councils, the independence and political neutrality of officers, limits on the use of ratepayer's money on politically motivated activities, and conflicts of interest on the part of elected members. It is highly desirable to have the support of the Labour Party on the need for, and scope of, a review. It is suggested that the review would take 12 months or so.

Issues for decision

16. i. Should there be a review? How wide ranging should it be?
Do developments in some authorities justify a wide-ranging

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review likely to lead to changes in the statutory framework for all authorities? Some of the issues (eg the rights of minorities) look much less contentious and difficult than others (eg politically-motivated activities). Should the review be restricted to the former if it is to make progress?

ii. Labour Party/all party agreement

How important is this? It may be more likely to be secured if eg "politically-motivated activities" are omitted.

iii. Announcement at the Party Conference?

Does the ground need to be more fully prepared with the opposition parties before an announcement? If the intention is to secure all-party support for such a review, is announcement at the Party Conference desirable?

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17. The Secretary of State for the Environment to introduce. The Lord Privy Seal, the Lord President and the Chief Whip may have views.

(F) ABOLITION: PRESENTATION AND IMPLEMENTATION

18. The timetable of the Bill in Parliament and arrangements for handling it there are to be discussed at a meeting of business managers and Environment ministers on 4 October. There is therefore no need to cover these aspects at the present meeting. This does, however, leave a number of issues for decision:

i. How best to put over the Government case in the next few months. The Secretary of State for the Environment suggests in particular:

- major statements by colleagues whose services are affected on future arrangements for those services

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- identification of and publicity for the scope for savings following abolition (This has proved very difficult to pin down so far.)
- maximum effort to counter the GLC/MCC's publicity drive.
What is in mind?
- The London dimension - see my note.

ii. Colleagues' active participation in working out plans for implementation

There will undoubtedly be pressure to explain these as the Bill goes through Parliament. On the face of it, the implementation timetable is a vulnerable issue. The Secretary of State for the Environment might be asked to coordinate work and make a report by Christmas.

iii. Policy on collection of information

Some (all?) authorities may well be recalcitrant notwithstanding the powers in the Paving Act. The Secretary of State for the Environment, however, favours informal approaches and the avoidance of court action. In time, authorities or their staff will very likely be more forthcoming. But will it be soon enough?

iv. All possible measures to get the successor authorities to come out in support of abolition, and to reassure staff

In time, realism will set in. Other measures, such as the spelling out of implementation arrangements, will also help. Does the Secretary of State for the Environment have anything else in mind?

v. Should further counter-obstruction measures be included in the Abolition Bill?

Is this likely to be worthwhile? The Secretary of State for the Environment mentions "organising committees", which might be in danger of looking like an attempt to resuscitate the transitional authorities. The best course might be to leave well alone. Or the Secretary of State for the Environment could be asked to bring considered proposals to MISC 95.

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The Secretary of State for the Environment to introduce.
Departmental ministers and the business managers will all have views.
The Lord President may particularly have views on presentation.

OTHER

(G) HOW TO IMPROVE EFFICIENCY

19. Action proposed includes:

- (a) further action on unused land, empty housing and public ownership - a paper has just been circulated to E(DL) on the first two.
- (b) further action on contracting out, eg compulsory tendering and accounting regimes, regular reviews of in house services. A paper will be coming to E(A) shortly.
- (c) appointing a Deputy Chairman to the Audit Commission (there is a vacancy).
- (d) pressing representative bodies of local authorities to support the carry through of Audit Commission Value for Money (VFM) studies.

The need to keep up the pressure in ways which will not put local authority backs up.

Issues for decision

20. The forthcoming discussions in E(DL) and E(A) will carry matters forward on two fronts, and the combination of financial pressures and Audit Commission reports on Value for Money will also have a gradual effect. Is there anything more that can usefully be done? eg more resources or more teeth for the Audit Commission.



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Handling

21. Secretary of State for the Environment to introduce. Chief Secretary to comment.

PLG
P L GREGSON

25 September 1984

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AUTHORITIES SELECTED FOR RATE-CAPPING

Basildon

Brent

Camden

Greater London Council

Greenwich

Hackney

Haringey

Islington

Inner London Education Authority

Lambeth

Leicester

Lewisham

Merseyside

Portsmouth

Sheffield

Southwark

South Yorkshire

Thamesdown

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Read up today

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Secretary of State for Social Services

Andrew Turnbull Esq
10 Downing Street
London SW1

*25 September 1984**Dear Andrew,*

LOCAL GOVERNMENT POLICIES

I enclose, by way of background for the meeting on 27 September, a note on Rates and Housing Benefit.

Copies go to John Ballard (Department of the Environment), Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Hugh Taylor (Home Office), Elizabeth Hodgkinson (Department of Education and Science), David Morris (Lord Privy Seal's Office), John Gieve (Chief Secretary's Office), Paul Thomas (Lord Gowrie's Office), John Graham (Scottish Office), Colin Jones (Welsh Office), Mike Bailey (Kenneth Baker's Office, DOE), and Richard Hatfield (Cabinet Office).

*Yours sincerely,**S H F Hickey*

S H F HICKEY
(Private Secretary)

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AGENDA ITEM A

CONTINGENCY PLANNING FOR OBSTRUCTION OF RATE LIMITATION

1. Most selected authorities are presently refusing to take part in procedures and are not applying for redeterminations of expenditure levels. Some are also talking of confrontation next spring either by not setting a rate or by setting an illegal rate, ie either above the rate limit or inadequate to cover estimated expenditure.
2. It is up to the individual council whether to cooperate and apply for a redetermination. We see no need to be over-anxious about encouraging them: they are best left to sweat. But we are pointing out that we do not propose through redetermination to reduce ELs, or to takeover detailed management through onerous conditions.
3. Our main aim in considering contingency measures against failure to set a legal rate should be to persuade councillors to set a legal rate before financial collapse occurs. We regard appointment of Commissioners as an absolute last resort. But is there a case for taking any measures short of that, possibly involving legislation? Following our Liverpool experience the options are:-
 - a. Leave the law unchanged. This could be an effective way of applying pressure.
 - b. Fix a date by which a rate must be set. This would simplify legal action against a non rate-setting council, but would need to be backed up by new sanctions.
 - c. Increase the pressure on councillors to set a rate. This could be done either by strengthening the powers of the auditor (eg by providing that loss of income arising from failure to rate would be illegal and speeding up the consequent audit process, or by making payment of RSG conditional on rate-making). Either approach could quickly precipitate a crisis. Some outsiders favour requiring authorities to have regard to their budget when they fix their rates, but this has drawbacks.
 - d. Set an automatic rate. Legislation could provide for automatic collection of a rate, say at last year's level, if no rate had been made. This would safeguard finances temporarily, but reduce pressure on councillors to act responsibly.
4. We consider that the best stance for now is to avoid new powers; there is great advantage if we could achieve our objectives without them. But we should prepare contingent legislation on items b, c and d above for use if needed.

RATES AND HOUSING BENEFIT

Note by DHSS

1. Since the 1930s the social security system has provided help with housing costs. Initially this help went to those not in work receiving means-tested benefits: first unemployment assistance, then national assistance and now supplementary benefit. For most beneficiaries, the cost of rates was met in full.
2. In the 1960s rates were increasingly perceived as a regressive tax. Accordingly a discretionary system of rate rebates was introduced by the Labour Government. The Conservative Government introduced the national scheme of rate rebates (along with rent rebates) in 1972. Rate rebates were designed, like tax allowances, to reflect the ability of people to pay.
3. The housing benefit scheme combines the help given with housing costs through the supplementary benefit and rate and rents rebate schemes. The effect is that nearly all of the $6\frac{1}{2}$ million households receiving housing benefits get some help with their rates. A slightly larger number were getting such help before the housing benefit scheme started in 1982.
4. In more detail:
 - * the average weekly rate rebate is about £2.60 compared with current average rates of £6.06;
 - * about $2\frac{1}{2}$ million households (ie about 2 out of 5 receiving housing benefit) get all their rates rebated through housing benefit. All but a few of these are supplementary benefit households;
 - * not all supplementary benefit households get their rates rebated in full. Nearly $\frac{1}{2}$ million get less than 100% help because there are non-dependants, eg grown up children in the household. Where there are, there are deductions from the calculation of housing benefits.
5. Even where housing benefit recipients are not paying rates they generally receive a normal rates notice showing their gross and net liability for rates. They also receive any local authority literature showing how money is spent. (Local authority rent books also generally advise tenants of their rates liability).
6. Although most people on supplementary benefit have always had their rates fully covered in the calculation of their benefits, it was not until the introduction of housing benefit that they had their rates rebated at source so that they did not physically have to hand the money over. Rebating at source was seen as one of the principle advantages of the housing benefit scheme. It substituted a central settlement between central and local government for assistance for poor rate payers in place of an administratively wasteful system whereby central government paid an individual money to hand over to local government - money which might always not get to its proper destination. Despite housing benefits difficulties, rebating at source will have saved both local authorities and central government money, and to revert to a system where individuals on supplementary benefit physically paid over part or all of their rates could add to the administration cost and complication of the housing benefit scheme.

7. The housing benefit review is however currently considering the future of housing benefit. The team in their work so far have placed particular emphasis on bringing home to the individual his responsibility for his rent and rates and will be considering whether any administratively acceptable way of doing so can be found.

8. The remit of the review is to consider ways of simplifying the scheme and concentrating help on those most in need. A reduction in the income levels to which housing benefit is paid and an increase in the rate at which help is tapered off would reduce the numbers of people on rates rebate and the help those on rebates get and hence increase the impact of rates. The review will also be considering the balance of help in the scheme between rent and rates - help with rates at present is taken away more gradually than that with rent - and there may be scope there also for reducing numbers and amounts of rebate.

9. The review is expected to report to the Secretary of State of Social Services at the end of the year. That report will have to be considered in the context of the social security reviews generally. Present plans are that the final proposals would emerge in a Green or White Paper in the early part of next year.

The Commission has received a number of reports from the States and Territories regarding the progress of their work in the field of social work. It is pleased to note that a number of States have already completed their reports and are in the process of submitting them to the Commission. It is hoped that all States will be able to submit their reports by the end of the year.

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ABOLITION: STRATEGY ON THE BILL

TIMETABLE

1. The main points are:

- Introduction in late November 1984
- Complete Commons stages by Easter 1985
- Royal Assent essential by July 1985.

2. The Bill is long and detailed. It will be controversial in principle, on major aspects of the policy (eg the expected savings), and in detail. A guillotine is probably unavoidable.

3. Details of Parliamentary handling are to be discussed at Lord President's meeting on 4 October.

THE APPROACH

4. The key points are:

- a. Deploying the case effectively both within the Parliamentary debates and outside Parliament using three major themes:
 - making local government more local;
 - making local government more effective and efficient (ie the savings case);
 - emphasising the poor record and the present wastefulness of the GLC and the MCCs.
- b. Taking a very firm line on the major substance of the proposals, while being open to suggestions for detailed changes.

ACTION NEEDED

5. To achieve this, we need:

- a. colleagues' active participation in deploying the case; in particular, major statements on future arrangements by colleagues whose services are affected.
- b. commitment to identifying, and publicising, the scope for savings (despite transitional costs).
- c. maximum effort to counter the expensive publicity effort of the GLC/MCCs.

ABOLITION: IMPLEMENTATION

TIMETABLE

1. The firm target is abolition, and the transfer of functions, on 1 April 1986. Eight months between Royal Assent and implementation is unprecedentedly short. (Previous reorganisations had 18 months for implementation.)

ACTION IN HAND

2. The "functions paper" published at the end of July gives a detailed account of proposals for most services. Any remaining points are being settled, and further statements will be needed over the next few months.

3. All Departments have been asked to begin planning for implementation for their services (including needs for information). Detailed discussions have started with cooperative local authorities.

4. The Paving Act gives us control over letting of contracts, disposals of land, and section 137 spending (in respect of 1985/86) by the abolition authorities. These controls are operating smoothly so far.

NEXT STEPS

5. We need a strategy on collection of information. We now have the new powers in the Paving Act. But legal powers are fraught with difficulty, and remedies uncertain. It will be better, wherever possible, to get information through informal approaches. To take a high profile, leading to court cases (whose outcome is uncertain) could simply emphasise the strength of the abolition authorities' position.

6. As the reality of abolition gets closer, the boroughs/districts - including many Labour-controlled ones - will begin to come on side. Staff in the abolition authorities will also start to think more about personal prospects than about loyalty to their present employers. The sooner we can get staff interests to enter into negotiation the better.

7. We must be prepared for a poker game with our opponents in local government. To imply that early cooperation is essential to success could be to place a powerful weapon in their hands.

ACTION IN THE LOWER TIER

8. In the longer term we shall need cooperation. If most of the boroughs/districts are actively planning for takeover, the power of the abolition authorities will be very much less. It will also help if the staff of the authorities are resigned to abolition.

9. But political obstruction could remain, and we must be prepared for that. Measures could be included in the Abolition Bill (not necessarily on Introduction) - for example, giving a right of access to GLC/MCC files and setting up "organising committees". In the last resort, however, legislation cannot compel cooperation and the alternative of direct takeover is probably not feasible.

CONCLUSION

10. The key points are:

- a. colleagues' active participation in working out plans for implementation;
- b. a carefully coordinated strategy on the collection of information - concentrating on what is essential, and avoiding any implication that we need active cooperation from the abolition authorities.
- c. all possible measures to get the boroughs and districts to come out in support of abolition, and to reassure staff.
- d. consideration of further measures to be included in the Abolition Bill (if necessary) to counter obstruction by the GLC/MCCs after Royal Assent.

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LOCAL GOVERNMENT EFFICIENCY

1. The main general policies affecting local government efficiency over the past 5 years have been

(i) general grant pressure on authorities;

(ii) enhancing local accountability, by removing unnecessary detailed central controls, and by requiring authorities to publish manpower figures, comparative statistics etc;

(iii) creation of the Audit Commission with more private sector involvement, and a specific remit to undertake value for money studies;

(iv) promotion of competition and privatisation (legislation on direct labour organisations, the contracting out initiative, the attack on land hoarding).

2. During the next five years all of the above policies will need to be vigorously pursued. A major political problem will be to promote efficiency in ways which will win wide-spread support among local authorities, instead of being resented and rejected as creeping centralism.

Proposed Action

3. A sustained drive for greater efficiency might produce savings in local government current expenditure over time big enough to make a major contribution to the reductions we are seeking.

Action now in hand includes:

(a) further consideration by EDL of the proposals of unused land, empty housing and public ownership;

(b) consideration by E(A) of the scope for further contracting out - see separate note;

(c) strengthening membership of the Audit Commission by the appointment of a Deputy Chairman, for which there is a vacancy; and

(d) pressing representative bodies of the local authorities e.g. CIPFA (the body representing Local Authority Treasurers), SOLACE (the body representing Chief Executives), and other such organisations to support the carry through of Audit Commission VFM studies by individual authorities.

CONTRACTING OUT BY LOCAL AUTHORITIES

1. Some two dozen contracts, mainly for refuse collection/street cleaning, have now been let by local authorities. Although substantial savings have been achieved under such contracts, new arrangements of this kind are rare and there is little sign of the private sector being invited to work in other functional areas.
2. Against this background, E(A) Committee in February invited the Secretary of State for the Environment to commission a study by officials of the legislative options for increasing the extent of contracting out. An interim report (in a letter of 25 July to the Chancellor of the Exchequer) was generally favourably received. The final report will be circulated shortly and taken on 3 October by E(A).
3. The main findings are that -
 - a. the compulsory tendering and accounting regime applicable to local authority building work since 1 April 1981 could usefully be extended to refuse collection, ground maintenance, cleaning services and some other minor functions. This would cover those activities with aggregate expenditure of some £2,000M pa which have been the subject of representations from the private sector for more contracting out;
 - b. beyond these sectors, authorities could be required regularly to assess, on a rigorous basis, the likely costs of retaining other activities (eg professional services or leisure facilities) inhouse as compared with the cost of contracting them out, and could be required to publish the results of these reviews.
4. Officials will also make recommendations shortly for legislative action to deal with the imposition by some local authorities of politically motivated contract conditions.