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P.01436

PRIME MINISTER

Local Government Finance Studies - Work Programme
(E(LF)(84)2)

BACKGROUND

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It was agreed at a meeting chaired by you on 27 September, and subsequently by Cabinet on 4 October (CC(84)32nd Conclusions, Minute 7) that work should be done by Department of the Environment officials, under the guidance of the Minister for Local Government, on the underlying problems of local government. The Sub-Committee on Local Government Finance (E(LF)) has been reconstituted with an expanded membership to steer this work. Studies in the field were referred to by the Secretary of State for the Environment in his speech to the Conservative Party Conference.

2. No formal terms of reference have been set. It was agreed however that, in order to avoid raising expectations unduly, the work should not have the formal status of a review.

3. The Secretary of State for the Environment proposes in E(LF)(84)2 a study in two phases: a "ground clearing" exercise for the first six months to identify subjects for further study, followed by a more prolonged study (twelve to eighteen months) to prepare proposals for implementation in the next Parliament, perhaps using working groups of the type used by Mr Fowler for his DHSS reviews. Mr Waldegrave will be in day to day charge of the studies, reporting to Mr Baker on a regular basis.

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4. The Secretary of State for Education and Science, who is unable to be present, has in his minute of 19 November recorded his opposition to one possible solution to the problem of local government finance - the transfer of responsibility for education from local to central government.

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MAIN ISSUES

5. The main issues are:

- i. what guidance should be given on coverage of the study, especially in the first phase?
- ii. what timetable should be set?
- iii. how should the work be presented publicly?

Coverage

6. The main problems arising from present arrangements for local government finance have been extensively studied and are fairly well understood. In broad outline they are as follows.

- i. The Government and others believe that local government expenditure is too high both on macro-economic grounds and in the interests of ratepayers.
- ii. The system of Rate Support Grant (RSG), which has been overlaid with targets and holdback and now also with rate capping, is too complicated but not effective enough as a means of influencing local spending.
- iii. Not only are local taxes (rates) controversial in themselves; they are inimical to local financial disciplines in three main respects:
 - a. non-domestic ratepayers contribute a great deal by way of rates but do not have (and probably could not be given) an effective local franchise;
 - b. many local people do not pay rates directly because they are not householders but are nevertheless entitled to vote in local elections;

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c. many voters who do pay rates are not as concerned as they otherwise might be about the level of local expenditure because the impact on them is reduced by means-tested benefits.

iv. These chronic problems and the attempts of the Government to deal with them have led to a situation in which both constitutional and working relations between central and local government are in crisis.

7. This analysis is broadly reflected in E(LF)(84)2. Some attention is already being given to the problems of the grant system, and in particular to the possibility of moving (on a rather shorter time-scale than that envisaged for the present exercise) to a targetless system of block grant. Solutions proposed for the underlying problems usually include the following.

i. Increasing the proportion of local spending financed locally either by:

a. removing a slice of local expenditure (eg on education) to be financed by the taxpayer, leaving a much higher proportion than at present of the remaining local expenditure to be financed from local sources; or by

No b. replacing or supplementing rates with a higher-yielding local tax (in practice, probably only income tax would do) and significantly reducing the proportion of local expenditure financed centrally through grant.

ii. Cutting down the mismatch between the coverage of the local franchise and the incidence of local taxation by:

a. for non-domestic ratepayers, introducing a business vote or levying non-domestic rates centrally at a standard national rate and redistributing the proceeds; or by

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b. for domestic ratepayers, changing the way in which the housing benefit system works to make it less progressive or introducing an element in local taxation based on capitation (poll tax) rather than on property.

8. It seems inevitable that all these matters will have to be looked at. The Secretary of State for the Environment may have more to say orally about the issues which he wants to have examined. The implication of paragraph 8 of his paper is however that, in the first phase of the study, no options, however radical, should be ruled out. The question for the Sub-Committee is whether to endorse this "no holds barred" approach or to decide that some options (eg the question of whether education might become a national service) should be ruled out even at this first stage.

Timetable

9. The main question for the Sub-Committee in considering the timetable is whether they agree with the suggestion in E(LF)(84)2 (paragraph 4) that action arising from the study should be for the next Parliament, not this. If they wished to leave open the possibility of legislation (assuming that they eventually conclude that legislation is necessary or desirable) before the next election, they might want to accelerate the timetable. This might just conceivably be practicable but would carry the danger of rushed legislation discussed in a highly charged pre-electoral political atmosphere. If the Sub-Committee are content to leave any legislation until the next Parliament, it is then a question of ensuring that the work is completed in good time before a Manifesto has to be prepared. Is the autumn of 1986 a suitable deadline for this purpose?

Public presentation

10. There is a major problem over the public presentation of this review. It has been agreed that it should have the lowest possible profile to avoid raising expectations. It has however also now been agreed to

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involve outside advisers (Lord Rothschild, Professor Christopher Foster, Professor Tom Wilson and Mr Leonard Hoffman QC) and their role will have to be made known publicly. I understand that Department of the Environment Ministers are considering a draft Parliamentary question and answer on the following lines (NB Mr Jenkin has not yet approved this form of words):

" Q. To ask the Secretary of State for the Environment how he is proposing to conduct the proposed ^{internal} Local Government Finance Studies?

A. The studies will be undertaken under the direction of Kenneth Baker and William Waldegrave. They will be in two phases. The first phase, (lasting about six months,) will be a ground clearing exercise. Professor Christopher Foster, Leonard Hoffman QC, Lord Rothschild and Professor Tom Wilson have agreed to act as independent advisors. The second phase, (lasting between 12 and 18 months,) will assess the options identified for changes to the present local government finance arrangements. During this second phase there will be (wide) consultation with outside bodies."

11. An announcement of this kind will inevitably raise the public profile of the review very sharply. In particular it will be very difficult to avoid saying something publicly in about six months' time about the progress of the first phase. Moreover a reference to a second phase involving wide consultation with outside bodies is likely to close off now the option of aborting the exercise if the work in the first phase suggests that there is no politically acceptable way of taking the matter further. Finally, the reference to the timing of the second phase is a clear signal that a major statement of local government policy can be expected in about two years from now. The Sub-Committee will need to consider all these points very carefully.

HANDLING

12. You will want to invite the Secretary of State for the Environment to introduce his paper. The Minister for Local Government and the

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Parliamentary Under-Secretary of State for the Environment, who will also be present, may have comments to add. Members generally are likely to have views on the conduct and timing of the study.

CONCLUSIONS

13. You will want the Sub-Committee to reach conclusions on:

- i. the coverage of the study and in particular whether it should be "no holds barred" during the first phase);
- ii. the timetable (ie whether there should be a 6 month first phase followed by a 12-18 month second phase);
- iii. public presentation (ie what should be said about the outside advisers and how far the two-phase timetable should be disclosed).

PLG

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Vote & Paya.

20 November 1984

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