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PRIME MINISTER

Report of the Ministerial Group on Local  
Government Organisation and Finance  
(C(83)1)

BACKGROUND

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Following discussions in the Ministerial Committee on Economic Strategy (E(82) 1st Meeting) and the Cabinet (CC(82) 4th Conclusions, Minute 5) studies were put in hand of the following:

- (i) Alternatives to Domestic Rates
- (ii) The financing of education
- (iii) The financing and organisation of transport in the conurbations
- (iv) The future of the Greater London Council (GLC) and the Metropolitan Counties.
- (v) The relationships between central and local Government.

The last of these was not a matter for independent decision but a framework for decisions on the first four items.

2. The Ministerial Group on Local Government Organisation and Finance (MISC 79) was set up last summer to make recommendations on these items. During the early stages of its work it made the following main recommendations, all of which were approved in correspondence by yourself, without dissent from other members of the Cabinet:

- (a) That no further work should be put in hand on new sources of revenue for local authorities (assigned revenues, local income tax, local sales tax, poll tax), but that the Group should concentrate on reforms to the rating system (Home Secretary's minute of 18 June 1982; Mr. Scholar's letter of 28 June).
- (b) That there should be a new system of guidelines to limit subsidies from local authorities for public transport (Home Secretary's minute of 8 July; Mr. Scholar's letter of 12 July). This, with other more detailed measures recommended by MISC 79, is the basis of the Transport Bill now before Parliament.

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(c) That there should be no separate Exchequer Grant to help to finance local authority education, replacing the present system whereby Exchequer financial assistance for local authority education is part of the block grant (Home Secretary's minute of 20 July; Mr. Scholar's letter of 23 July). The Secretary of State for Education and Science is, however, considering a more limited proposal that he should be able to make new specific education grants, within the agreed total of aggregate Exchequer Grant, to encourage activity in areas of particular importance. I understand that he intends to bring proposals on these lines to Home and Social Affairs Committee.

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3. The Group have now reported on the remaining matters within their remit. Their recommendations are summarised in paragraph 3 of the Home Secretary's covering memorandum (C(83) 1) in his capacity as Chairman. The most important are:

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The abolition of the GLC and Metropolitan County Councils.  
Reorganisation of transport in London.

A scheme of discounts on domestic rates for households consisting of only one person.

4. A consequence of the abolition of the GLC would be that the Inner London Education Authority (ILEA) would have to be replaced. MISC 79 was unable to reach an agreed view on what should replace it - a new unitary body (probably a joint board of the inner London boroughs), or transfer of responsibility to the individual boroughs. Similarly, MISC 79 did not reach agreement on whether there should be a new system of direct central control of the rates or current expenditure of individual local authorities in England and Wales or on whether increases in non-domestic rates should be limited ('capped'). The arguments for and against the various courses are set out in the Group's report.

5. With only minor exceptions, the Group's recommendations require primary legislation to give them effect. They consider that the Government should be ready to legislate as quickly as possible after a General Election.

MAIN ISSUES

6. The main issues before the Cabinet are as follows:
- (a) Are the Group's recommendations accepted -
    - (i) On organisation (paragraphs 3a and b of C(83) 1)?
    - (ii) On finance (paragraphs 3c to j of C(83) 1)?
  - (b) What view does the Cabinet take of the disputed questions in paragraph 4 of C(83) 1, i.e. the future of the ILEA; direct control of rates or current expenditure; and 'capping' non-domestic rates? In connection with the second and third of these questions, would it be helpful to require local authorities wishing to spend or rate highly to hold new elections or a 'town poll'?
  - (c) Do the decisions taken under (a) and (b) above amount to a satisfactory package? If not, how might they be modified or supplemented?
  - (d) How and when should the Government's decisions be announced and presented?

Depending on the answers to these questions, you will also wish to consider the arrangements for taking the work forward.

7. It is probably most convenient to tackle the issues by considering organisational questions (on which the Group have made their main positive recommendations) first and financial questions second. The check list in paragraphs 3 and 4 of C(83) 1 summarises the matters on which decisions are required.

Abolition of GLC and Metropolitan County Councils

8. The arguments for this recommendation are set out in paragraph 2 of the Group's report attached to C(83) 1 (propensity to overspend, duplication of the lower tier, conflict with central Government, and general unpopularity). Possible difficulties are described in paragraph 3 (costs of transition, problems over re-allocation of functions, possible charges of political vindictiveness, etc); but the Group say that they do not regard them as insuperable. There are two other considerations which you may wish to bring to the attention of the Cabinet:

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- (i) Apart from the rate discount scheme, this is the most important of the Group's recommendations. If it is rejected, it will be hard to construct a package of much consequence.
- (ii) On the other hand, few members of the general public take much interest in local government organisation. The public reaction to change may be that little will be achieved other than to incur the heavy transitional costs that seem inseparable from reorganisations. Supporters of the metropolitan counties will ask why it should be an improvement to carry out the functions of the metropolitan counties (mainly police, fire and transport) by boards or committees but organised in a more fragmented way than the existing authorities.

Reorganisation of Transport in London

9. London Transport (LT) is responsible to the GLC. If the GLC is abolished, something will have to be done about the organisation of transport in London. But MISC 79's recommendations (paragraph 4 and Annex B of their report) do not depend on abolition: the Group consider that there is strong independent justification for them.

10. The Group recommend that LT should be converted into a Metropolitan Transport Authority (MTA), appointed by and answerable to the Secretary of State for Transport. It would co-ordinate the London underground and buses with the commuter services of British Rail (BR) and distribute Exchequer support for transport in London between LT and BR; but BR would remain responsible to the Secretary of State.

11. Organisationally, this has drawbacks. LT would be responsible solely and directly to the Secretary of State; BR, although responsible to the Secretary of State, would have a 'dotted line' responsibility to LT in its capacity of MTA for London. And LT might, rightly or wrongly, be suspected of favouring its own activities as operator when, as MTA, it distributed Exchequer Grant.

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12. However, these difficulties could be avoided only by making both BR and LT solely responsible to the Secretary of State, who would effectively be the MTA for London. This is a tidier organisation; and it avoids creating anything that could be described as a new 'quango'. But it would be more likely to draw the Secretary of State into day-to-day management questions; and it might be politically objectionable to increase the responsibilities of Central Government in this way. MISC 79 therefore rejected this approach.

13. The Cabinet's decisions on the organisation of transport in London, and the presentation of them, will need to be considered in due course against the background of the Serpell Report on Railway Finances. An attempt to co-ordinate Exchequer support for both LT and BR does not of itself imply a view on any of the options in the Serpell Report, but the relationship will need to be thought through and the eventual announcement carefully drafted.

ILEA

14. The ILEA is formally a special committee of the GLC. It must therefore be replaced if the GLC is abolished. As paragraph 5 of the Group's report says, they were unable to reach an agreed recommendation on the replacement.

15. You will recall that the Cabinet considered the future of the ILEA two years ago (CC(81) 1st Conclusions, Minute 4; CC(81) 3rd Conclusions, Minute 5) and decided to retain it.

16. Mr. Scholar's letter of 19 July 1982 said that you were opposed to the retention of a single authority for education in Inner London; and that you wished MISC 79 to consider a system whereby local authorities could opt out of ILEA (the 'secession' option). The Group do not favour 'secession', for the reasons mentioned in paragraph 6 of their report (the disruption of organisation and finance, and the undesirability of allowing local authorities to decide for what services they would make themselves responsible).

Discount on Rates

17. MISC 79 recommend a scheme of discounts for rate-paying households consisting of a single person. The discount would be of the order of £1.50 a week for bills of £3 a week or more, and

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50 per cent of smaller bills. It would cost between £140 and £170 million a year. The arguments for the scheme are set out more fully in Annex C to the Report. You may also wish the Cabinet to consider the following points:

- (i) The justification for the scheme, in essence, is that single-person households make fewer demands on local authority services than large households. But rates are not a charge for services: they are a tax on the occupation of property. Single occupiers pay as much as large households (paragraph 9 of the report) only if they occupy accommodation of the same size and quality. Once it is accepted that people should pay rates in proportion to their call on local services, many other groups could claim relief: for example, young couples who make no call on personal social services, do not use public transport, and either have no children or educate them privately.
- (ii) The scheme may be resented by people with family commitments seeing single people, perhaps with larger incomes than themselves, paying lower rates.
- (iii) On the other hand, this, with the proposed abolition of the GLC and the Metropolitan County Councils, is the Group's main recommendation; it is their only substantial recommendation in the field of rates. (The changes recommended in paragraph 3 d. to i. of C(83) 1, though useful, will not arouse much public interest). The package will look thin without it. But there is no ready alternative: MISC 79 have examined a large number of possible schemes, and consider them definitely inferior.

Rating Reform: Other Measures

18. Paragraph 3d to i of C(83) 1 recommends a number of changes in the rating system, discussed in more detail in paragraphs 11 to 14 of the Group's report. Since they are largely technical, and have been agreed by all Ministers with a direct departmental interest, you will probably feel that they need not be discussed by the Cabinet.



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Direct Control of Local Authority Current Expenditure or Rates

19. MISC 79 recognise that the organisational changes which they recommend will not necessarily solve the problem of local authority over-spending, which they believe is at the root of discontent with rates. Paragraphs 20 to 26 of their report discuss whether the Government should establish a new system, in addition to the existing system of expenditure targets and grant holdback, of direct central control of current expenditure or rates by local authorities in England and Wales. (A system of central control already exists in Scotland; but there are important differences; and the relevance of the scheme to the situation in England and Wales is disputed. The arguments are set out in Annex D to the report.)

20. The arguments on either side are set out clearly in the report. The majority make a telling point when they suggest (paragraph 26) that Ministers should not canvas the possibility of a scheme of control in public unless they are reasonably confident that it would be workable and acceptable.

'Capping' Increases in non-domestic Rates

21. Non-domestic rates are the largest single tax paid by industry and commerce and provide a larger proportion of local authority revenue than domestic rates. Yet local authorities are not directly accountable to non-domestic rate payers, who can influence rating decisions, if at all, only by pointing to their likely implications for business activity in the area. There are therefore arguments for limiting the ability of local authorities to put additional burdens on non-domestic rate payers by prescribing a maximum permissible level of increase in any particular year.

22. The difficulty is that any such limitation, unaccompanied by a similar limitation on expenditure, must increase the level of domestic rates (or be offset by additional money from central Government - which hardly seems an acceptable solution). In some parts of the country, over 70 per cent of rate revenue comes from non-domestic rates; and the 'gearing' effects on domestic rates of limiting non-domestic rates would be severe - too severe in the judgment of the majority of MISC 79 to be acceptable. The majority therefore favour no system of 'capping' increases in non-domestic rates.

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The 'town poll'

23. The view of the majority of MISC 79 on central control of local authority current expenditure is based in part on a belief that, if a local community insists on a higher level of expenditure than the Government thinks appropriate, and is prepared to pay the cost, it should be allowed to incur it. There is a case for ensuring that the local community knows, and is willing to accept, that cost by putting the issue explicitly in a 'town poll'; the report discusses this idea without a recommendation either way. MISC 79 recognises of course, that it has a rather unhappy history; but suggest that it might do better if there were a longer period for consultation and influencing public opinion.

24. It can be argued that, even on this basis, a 'town poll' by itself does not really meet the point. If non-domestic rates are not capped, local electors can transfer a large part of the cost of their decisions to non-electors. That might suggest coupling a system of 'capping' increases in non-domestic rates with the requirement to hold a 'town poll' if the consequences of this, and the local authority's expenditure plans, was an increase in domestic rates above a prescribed level. If the Cabinet wished to pursue these ideas further, the Secretary of State for the Environment would have to be asked to bring forward more detailed proposals.

Local Authority Elections

25. The aim of the 'town poll' would be to increase accountability. This might also be achieved by more frequent elections. But the Group recommend against this. They were influenced by considerations of cost; by the fact that in many parts of the country control of the local authority rests more or less immovably with one party (and even in other parts, local elections tend to be decided by national considerations); and that changes in local electoral arrangements could open up a debate about the whole electoral system.

The Package as a Whole

26. The Cabinet will be anxious to assess the political adequacy of their decisions, taken as a whole. They may be disappointed





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that the proposals from MISC 79 do not go further: indeed, several members of MISC 79 have themselves expressed such a view. But the Cabinet will wish to bear in mind that MISC 79 have explored the issues thoroughly; and that proposed changes in local government organisation and finance inevitably involve both losers and gainers and tend to displease at least as many as they please. It might, for example, be suggested that some of the conclusions which MISC 79 reached last summer (paragraph 2 above) should be reopened. But there were good reasons for those decisions; and they attracted no significant dissent from the Cabinet.

Legislation and Announcements

27. The Cabinet will probably endorse the Group's view that legislation in this Parliament is not practicable; and that the Government's decisions should be announced together, not piecemeal, in order to achieve the maximum effect. The natural way forward would probably be by one or more White Papers: White, rather than Green, since most of the announcements will be firm decisions. It may be right to have more than one document: for example, it would be possible to deal with the organisation of transport in London as a separate matter. But this need not be decided immediately.

28. MISC 79 suggest that legislation on rating reform and transport in London could be ready for introduction in November 1983; and that legislation to abolish the GLC and Metropolitan Counties could be ready early in 1984 provided that preparations begin and announcements are made soon. The second part of this may be over-optimistic: experience with previous legislation for reform of local government suggests that the preparation of draft legislation takes a very long time, because of the complexity involved. Parliamentary Counsel has informally advised that legislation will probably take twelve months to draft after instructions are produced; and it seems unlikely that Departments could complete instructions before the late summer of 1983. At the very least, it seems clear that if there is to be any chance of achieving the timetable suggested by MISC 79, decisions must be taken and announced very quickly.

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Further Work

29. If the Cabinet are broadly content with the proposals from MISC 79, you will probably wish to invite the Secretary of State for the Environment to co-ordinate the preparation of material announcing the Government's decisions; this material would have to be cleared with the Cabinet before publication. MISC 79 might stay in being to consider the drafts of any White/Green Papers before they come to Cabinet, should this turn out to be desirable, and to resolve any points of detail, should they arise during the next stage. Likewise, if the Cabinet are not able to approve the proposals and want substantial new work done, it will be natural to ask MISC 79 to take it on.

HANDLING

30. You may find it best to take the discussion in stages as follows:

- (i) The Home Secretary could be invited to introduce the report in his capacity as Chairman of MISC 79.
- (ii) The Cabinet might then go through the items listed in paragraphs 3 and 4 of C(83) 1.
- (iii) You could then invite general views on the adequacy of the prospective package as it emerges from (ii); on whether further possibilities need to be explored; and on the form and timing of announcements.

The Home Secretary, and other Ministers with local government responsibilities (Secretaries of State for Education and Science, Scotland, Wales, Transport, Social Services and Environment) will clearly wish to contribute extensively. The Secretary of State for Defence will probably want to comment from the standpoint of his recent responsibilities for local government. The Secretary of State for Industry has strong views on non-domestic rates; he cannot be present on 20 January, because of absence in the Far East; but it may be that the Cabinet will in any case need more than one meeting to dispose of such a complicated set of proposals. The Chief Secretary, Treasury will wish to discuss the implications for public expenditure and, in particular, to develop

  
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the case for direct control of local authority current expenditure in England and Wales. All members of the Cabinet will have views on the general political aspects: you will particularly want to hear the views of the Lord President of the Council and the Chancellor of the Duchy of Lancaster.

CONCLUSIONS

31. You will wish the Cabinet to reach conclusions on:
- (i) the recommendations in paragraph 3 of C(83) 1;
  - (ii) the issues raised in paragraph 4 of C(83) 1;
  - (iii) when and how presentation of the Government's decisions should be announced;
  - (iv) any further work that the Cabinet may require.

*Pete Mark.*

*approved by Sir Robert Armstrong  
and signed in his absence.*

Robert Armstrong

17th January 1983

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