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PRIME MINISTER

SIMPLIFIED NEEDS ASSESSMENTS

E(LF) agreed last year on the broad basis for determining needs assessments under the post-1990 grants system for local authorities. It is now necessary to carry the detailed work forward.

Mr. Ridley's minute of 15 November (Flag A) proposes issuing to local authorities as a basis for consultation a paper setting out a package of options. He also attaches a table showing the illustrative effects on community charges: this would not be sent to the local authorities.

Various spending Ministers have said they are content with this proposed approach. But in his minute of 25 November (Flag B) the Chief Secretary indicates the importance of stressing that no decisions have yet been taken on an alternative basis of needs assessment; this is essential in order to avoid legal difficulties with the operation of the 1989/90 regime. His agreement to the consultation process is therefore dependent on making adjustments to the paper to be issued to local authorities. The revised approach set out in the Chief Secretary's note has, I understand, been discussed and agreed with DoE, who now recognise the point about potential legal difficulties.

Content for the consultation to proceed on the revised basis set out by the Chief Secretary?

Paul G.

(PAUL GRAY)

25 November 1988

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FROM: CHIEF SECRETARY
DATE: 25 November 1988

PRIME MINISTER

SIMPLIFIED NEEDS ASSESSMENT

Nicholas Ridley minuted you on 15 November about preliminary work by officials on the assessment of relative needs under the new grant system for local authorities. Nick proposes that consultation with the local authority associations should begin straight away on the basis of the draft paper attached to his minute (but not, of course, the illustrative exemplifications).

2. I am in principle content that the consultation process should now begin - but subject to two important points.

3. First, we need to be clear that, as Nick has indicated, what we have at the moment is no more than some highly preliminary results from the first runs in a major exercise. We do not yet have a reliable new assessment of relative needs, much less anything superior to the existing GREs. My officials have a number of technical concerns about the proposed approach, for example the dependence of the suggested new 'other services' assessments on past levels of actual expenditure rather than needs, and the difficult question of area costs adjustments. Interesting as the preliminary analysis undoubtedly is, I am sure Nick would agree that in no sense at this early stage do we have any reliable or agreed alternative basis for assessing relative needs.

4. Second, we must be particularly careful to avoid giving any impression to local authorities or the rest of the world that we do have an alternative basis of needs assessment at this stage or that particular groups of authority are likely to do better than others under the simplified system. If we were to give any indications, along these or other lines, which the authorities

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could argue undermined the existing GREs, we would risk running into major difficulties (not excluding the possibility of legal challenge) over operation of the existing rate capping and RSG systems in 1989-90. The existing GREs, with all their imperfections, are the best we have until we have devised something comprehensive and reliable to put in their place.

5. Against this background, it will be important to avoid giving exemplifications to the authorities at this stage in service areas where we do not yet have agreed proposals or models we can trust; and to include for each of the other service assessments a wide range of options.

6. So far as the draft paper attached to Nick's minute is concerned, I think it would be premature to indicate how we propose to treat capital financing before we have decided among ourselves (much less told anyone else) how we should proceed in the light of the consultation on the capital finance system. It would, I believe, be much better to say simply that the Department will make specific proposals in due course. The uncertainties in this area do incidentally provide yet another indication of how far we are from having a reliable 'new' set of GREs at this stage.

7. I am copying this minute to members of E(LF) and to Sir Robin Butler.

P. Walters

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[Approved by the Chief Secretary and signed in his absence.]

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

29 November 1988

Dear Roger,

SIMPLIFIED NEEDS ASSESSMENTS

The Prime Minister was grateful for your Secretary of State's minute of 15 November and the Chief Secretary's minute of 25 November.

The Prime Minister is content for the consultation process to proceed on the basis set out by the Chief Secretary.

I am copying this letter to the Private Secretaries to members of E(LF) and to Trevor Woolley (Cabinet Office).

*Yours,
P.G.*

PAUL GRAY

Roger Bright, Esq.,
Department of the Environment.

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