

LORD ROTHSCHILD

Telephone: 01-280 5000

Telex: 888031

N.M. Rothschild & Sons Ltd.  
New Court  
St. Swithin's Lane  
London EC4P 4DU



1 January, 1985

*Dear Prime Minister,*

You wrote to me on 30 October 1984 requesting a sharp look at local authority finance and function. My first sharp look, for your personal information, is enclosed. In addition, I have made a preliminary study of single tier local government. Attractive as this may be on organizational and managerial grounds, it is, I believe, politically unacceptable.

I shall continue the work, so far as Ken Baker and William Waldegrave wish, until mid-April which I believe to be the target date for completion of the study.\*

With best wishes for 1985 et seq.

*Yours  
Victor*

\* which will, I think, contain some useful stuff.



Personal and Confidential

THE LOCAL AUTHORITY PROBLEM VIEWED BY AN OUTSIDER, 1.1.1985

(1) When viewing, for the first time, the Local Authority problem, the outsider is most forcibly struck by the lack of harmony and ill-feeling among those concerned. The Department of the Environment is contemptuous of the Local Authorities. The Local Authorities dislike intensely the Department of the Environment. The Audit Commission criticised the Department of the Environment in print, in what some people thought was intemperate language. The Department of the Environment, while approving of some Audit Commission studies in a lukewarm way, denigrates the Commission as often as possible, itself publicly picking holes in its work. Ministers, unfortunately, have followed suit. Since the Baker-Waldegrave Enquiry started, officials in the Department of the Environment have successfully blocked an attempt, by the outsider, to improve relationships with the Local Authorities.

(1.1) A major effort should be made to attenuate, if not eliminate, this disharmony. The effort will need a special, carefully designed operation.

(2) The most serious misapprehension to be countered is the Local Authority cry "It's our money; what's it got to do with the Government?". Local Authorities do not understand the need for overall control of public sector borrowing and expenditure and, during the elimination of the existing disharmony, a special effort should also be made to explain the economic basis for this necessity.

(3) A further matter requiring urgent attention concerns the incredible complexity of the arrangements which the Government has allowed to develop. To quote one of the outsider's mentors:

The grant system is at the root of the financing problem. Its Byzantine complexity (GREs, targets, expenditure limits, and rate-capping, all wrapped up in more than 60 equations) is far from the slimline RSG originally sought by Michael Heseltine.



Local authorities cannot know for certain what they are getting (the close ending problem) and the thrifty are often penalised. There is widespread hatred of the system right across the political spectrum.

This is an example of the current mess which is incomprehensible to an outsider. There follows, however, another example which is incomprehensible to all outsiders and to 99.9% of insiders, for which Ministers must take responsibility.

PERSONAL SOCIAL SERVICES

Children under 5 at risk (XI) is calculated as indicator A4 multiplied by the sum of the proportions of children under 5 in the area of an authority who

- (i) live in households lacking exclusive use of a bath or inside WC or live in households at a density of occupation greater than 1.5 persons per room, multiplied by 0.047661;
- (ii) live in households that contain a lone-parent family, multiplied by 0.45864;
- (iii) live in households whose head was born in the New Commonwealth or Pakistan, multiplied by 0.029293;

all as estimated by the Secretary of State on the basis of the 1981 Census

How can Ministers permit such mumbo-jumbo to be inflicted on Local Authority officials ? Has the time not come for the Prime Minister to say "Stop it."?

(4) The malaise underlying these symptoms will not be cured by a small group of Officials and Consultants supervised, part-time, by a Minister or Ministers, with the odd Oxbridge seminar thrown in for good measure.

(4.1) A new and ruthless broom is needed. It seems doubtful whether an outsider can provide the broom, let alone wield it.

k.