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E(LF) (85) 3rd Meeting

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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 3 OCTOBER 1985 at 9.00 am

PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon Viscount Whitelaw  
Lord President of the Council

The Rt Hon Leon Brittan QC MP  
Secretary of State for Trade  
and Industry

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP  
Secretary of State for the  
Home Department

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Education  
and Science

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services



The Rt Hon Norman Tebbit MP  
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Young of Graffham  
Secretary of State for Employment

The Rt Hon Kenneth Baker MP  
Secretary of State for the Environment

The Rt Hon John MacGregor MP  
Chief Secretary, Treasury

The Hon William Waldegrave MP  
Minister of State, Department of  
the Environment (Minister for the  
Environment, Countryside and  
Local Government)

ALSO PRESENT

Mr Michael Ancram MP  
Parliamentary Under-Secretary  
of State, Scottish Office

SECRETARIAT

Sir Robert Armstrong  
Mr J B Unwin  
Mr A J Langdon  
Mr J E Roberts

Subject

LOCAL GOVERNMENT FINANCE STUDIES

LOCAL GOVERNMENT FINANCE STUDIES

The Sub-Committee considered a Memorandum by the Secretary of State for Education and Science (E(LF) (85) 6) about arrangements for funding the education service; a Memorandum by the Secretary of State for the Environment (E(LF) (85) 8) about possible ways of modifying the distributional effects of the reform package; and a Memorandum by the Secretary of State for the Environment (E(LF) (85) 7) about the timetable for reform.

The Sub-Committee -

1. Invited the Chancellor of the Exchequer to arrange for a working group under Treasury chairmanship to examine the role and extent of specific grants in funding local authority services with particular reference to the proposals by the Secretary of State for Education and Science for greater use of such grants to fund education.
2. Agreed in principle that there might be a safety net grant to moderate the distribution effects of the Department of Environment (DOE) package.
3. Invited the Secretary of State for the Environment to set in hand further exemplifications and report to a future meeting of the Sub-Committee.
4. Agreed that there should be no statement in advance of the full Green Paper text.
5. Invited the Secretary of State for the Environment to prepare a Green Paper with all urgency.
6. Invited the Social Services Secretary to discuss the handling of the Social Security Bill with the Lord President of the Council, the Lord Privy Seal, and the Secretary of State for the Environment.

Cabinet Office

4 October 1985



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# SUBJECT

MOST CONFIDENTIAL RECORD

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CABINET  
MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY  
SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

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MOST CONFIDENTIAL RECORD  
E(LF) (85) 3rd MEETING MINUTES  
THURSDAY 3 OCTOBER 1985 AT 9.00am

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1. LOCAL GOVERNMENT FINANCE AND EDUCATION

The Sub-Committee considered a Memorandum by the Secretary of State for Education and Science about arrangements for funding the education service (E(LF) (85)6).

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that although central Government provided a substantial amount of the resources for the education service, he had no direct influence over the way local authorities spent the money and was therefore not in a position to make sure that the Government's national policy objectives were delivered. He therefore proposed a modification to the grant arrangements in the local Government finance proposals described by the Secretary of State for the Environment at the previous meeting (E(LF) (85)4). There should be a separate needs assessment for the education service, and a separate block grant for which he would be responsible. Coupled with the increased use of specific grants, this would enable the Secretary of State to exercise a much stronger leverage over local authorities to ensure that the Government's objectives were met.

If the Sub-Committee were not prepared to accept that the Exchequer grant to local authorities should be hypothecated to particular services, he would argue instead that he should have greater power to make specific grants. At present half of one per cent of education spending was funded in this way, and this had proved useful. It might be possible to go a little further, for example, in using specific grants to fund in-service training of teachers. But if specific grants were increased to





account for perhaps 12 per cent of total spending by local authorities on education he would be able to exert a much greater positive influence.

In discussion the following points were made:

- a. The proposal to split the block grant by services ran counter to the main thrust of the DOE package with its emphasis on local accountability.
- b. The identification of specific needs assessments for specific services could stimulate pressure for higher standards of provision and additional expenditure.
- c. A distinction should be drawn between secondary schools and Colleges of Further Education. There was a stronger case for funding the latter through specific grants.
- d. It had only been possible to fund the Technical Education and Vocational Initiative through the Manpower Services Commission. It would be desirable for the Secretary of State to have power to undertake such initiatives himself.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee recognised the importance of being able to ensure that national policy objectives were achieved. But they were not prepared to accept that the proposed block grant to local authorities should be hypothecated to particular services in the way that the Secretary of State for Education and Science had suggested: this would run counter to the main thrust of the DOE package. The proposal that the Secretary of State might have greater scope to make specific grants was more attractive, and it should be examined further in the inter-departmental Working Group under Treasury chairmanship which it was proposed should examine the role and extent of specific grants in funding local authority services.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Chancellor of the Exchequer to arrange for a Working Group under Treasury chairmanship to examine the role and extent





of specific grants in funding local authority services with particular reference to the proposals by the Secretary of State for Education and Science for greater use of such grants to fund education.





## 2. LOCAL GOVERNMENT FINANCE STUDIES: DISTRIBUTIONAL EFFECTS

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment setting out the results of further work on ways in which the more extreme distributional effects of the proposed reform package might be moderated (E(LF)(85)8).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that under the original package average domestic local tax bills would rise in areas which were overspending (particularly Inner London and the northern cities) because in future the extent to which they could raise resources from industry and commerce would be limited, and in low resource areas, principally the North of England. In practice, a hidden and unjustifiable subsidy from the South to the North of England was inherent in the present arrangements. The paper ELF(85)8 sets out four ways in which the effects of removing the subsidy could be reduced or eliminated. The proposal to cap industrial and commercial rates (rather than centralise them) had initial attractions, but it would freeze the inequalities inherent in the present system, and without some equalisation system would result in large windfall gains for authorities such as Camden. He therefore recommended that the proposal to centralise commercial and industrial rates should stand. His preference was to introduce a "safety net" grant (his fourth option) calculated so that no authority suffered a loss of resources in the first years of the new system. The effect would be to eliminate the redistributional effects of the package between areas, while keeping the basic proposals for block grant intact and making the subsidy to the North of England explicit. The cost of this device (which was of the order of £600 million a year) could be found either from additional Exchequer grant, or from within existing resources by reducing the quantum of standard grant correspondingly. It was proposed that the grant should be fixed in cash terms; it would therefore decline in real terms over the years. Under this proposal the extent to which individual households benefitted or lost through the reform would depend only on the nature of the proposed community charge and household structure, and not on the local authority area concerned.

In discussion the following points were made:

- a. The proposed grant could be criticised as being a subsidy for high spending authorities, and was therefore contrary to the thrust of the DOE package. But making it explicit and transparent would be a genuine gain.





- b. Authorities would have an incentive to increase their spending in the year before reform in order to boost their share of the safety net grant. This could be prevented, however, by fixing a set cash sum in relation to an earlier base line.
- c. Local authorities in the South of England, who felt they had borne the burden of high spending in the North for too long already, might be expected to oppose an explicit subsidy. It would in any case be necessary to consider very carefully the precise distributional effects of the proposal on individual areas.
- d. The grant system in Scotland was different, and it would be necessary to see how whatever option was agreed should apply there.

THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee agreed in principle that there should be a safety net grant on the lines proposed by the Secretary of State for the Environment in order to prevent authorities losing resources under the proposed reform of industrial and commercial rates. They would, however, wish to see further details of the distributional effects at household level before reaching a firm conclusion; and it was clear that no additional Exchequer resources could be provided. Further thought needed to be given to the duration and presentation of the safety net regime in the context of transitional arrangements generally. The Secretary of State for the Environment should set in hand further exemplifications and report to a future meeting of the Sub-Committee. He should also discuss the results with the Chancellor of the Duchy of Lancaster.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Secretary of State for the Environment to set in hand the work as indicated in the summing up.





## 3. LOCAL GOVERNMENT FINANCE STUDIES: TIMETABLE

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment setting out possible timetables for further work on the Local Government Finance Studies (E(LF)(85)7).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that at the previous meeting he had been asked to aim to produce a Green Paper in time for it to be published before the second reading in the House of Commons of the Social Security Bill. He understood that this bill would need to be debated before Christmas, or at the latest very early in January. In practice, he doubted if it would be possible to produce a Green Paper on this timetable: there were still a substantial number of issues to be resolved. The earliest realistic date was sometime in either January or February. If it would help the Secretary of State for Social Services in explaining the implications of his proposals, however, he would be prepared to make a statement before the second reading explaining in general terms the principles behind and the likely effects of the local Government reforms. It also had to be recognised that the legislation necessary to implement the proposals would be lengthy and controversial: it would take considerable time to prepare thoroughly.

In discussion the following points were made:

- a. There was a considerable risk that making a statement before the full text of the Green Paper was available would give rise to more criticism and complaint than having no statement at all. Opponents of the Social Security Bill would seek to make capital out of the issue whatever course the Government followed.
- b. Since the package largely stood as a whole, it was desirable that the White Paper announcing firm proposals should be little different from the Green Paper. A period of extensive consultation might not therefore be necessary.
- c. The Government had made a previous manifesto commitment to reform the rating system, and what was needed now was firm proposals and a convincing determination to see them through.





THE PRIME MINISTER, summing up the discussion, said that the Sub-Committee was concerned that the Secretary of State for the Environment should complete the outstanding work with the greatest speed and urgency. Although the Green Paper was to be consultative, it would be necessary to put forward clear and firm views in order to demonstrate the Government's determination and to satisfy public expectations. The Sub-Committee did not believe it would be helpful to have a statement in advance of the Green Paper, but the Social Services Secretary should discuss with the Lord President of the Council, the Lord Privy Seal, and the Secretary of State for the Environment the best arrangements for the Parliamentary handling of the Social Security Bill in relation to the local Government finance studies.

In the longer term, the Sub-Committee had not reached decisions about the appropriate timetable for legislating and implementing reform in relation to the election, but it was important that all options should be kept open. The Department of the Environment should give all priority to this work, and should aim to have a Bill ready by Autumn 1986 so that legislation could be introduced in the 1986/87 Parliamentary Session if that appeared desirable.

In the meantime there must be no disclosure of the Sub-Committee's deliberations to the media. The record of the discussion would be given a most restricted circulation.

The Sub-Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussions.
2. Invited the Secretary of State for the Environment to prepare a Green Paper with the utmost urgency.
3. Invited the Social Services Secretary to discuss the handling of the Social Security Bill in relation to the local authority finance Green Paper with the Lord President of the Council, the Lord Privy Seal, and the Secretary of State for the Environment.

Cabinet Office

4 October 1985



