

*Wps pr*FROM: A J C EDWARDS
DATE: 17 NOVEMBER 1988

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr FellgettLOCAL AUTHORITIES:
SIMPLIFIED NEEDS ASSESSMENTS

Following our discussion this morning, I registered with Mr Osborn at DOE our concern about the pace and form of Mr Ridley's proposed consultation with local authorities over reform of the GRE system and in particular our anxiety that sending to Local Authority Associations detailed material about the new system could enable them to challenge the Government's rate-capping and expenditure limit decisions and possibly even the distribution of rate support grant.

2. Mr Osborn said that DOE had been mindful of these possible complications but were less worried about them than we were, not least because they were inclined at official level to think that the expenditure limits of some rate-capped authorities should be increased anyway. Local authorities would not, he thought, be able to put together firm figures for total GREs under the new system from the various options which would be displayed for the individual service categories. He did not warm either to the thought that Mr Ridley might send a postscript to his earlier minute which would take care of the points which were troubling us.

3. Mr Osborn did agree, however, that we should meet on Monday to discuss these matters.

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4. In the light of this exchange, I suspect that the best way ahead will be for you to do nothing for now but to send a note to Mr Ridley early next week, after our meeting with Mr Osborn, which would -

(i) make quite clear that the arithmetic circulated by the DOE is no more than a preliminary statistical exercise, not commanding interdepartmental agreement;

(ii) urge even greater caution about consultation with local authorities than Mr Ridley himself has suggested, without suggesting that no consultation of any kind can take place until next March; and probably

(iii) suggest some prior discussion (before substantive consultation) on the main issues of substance, not least key technical aspects and the implications for London of different techniques of needs assessment.

5. If you agree, I will report back to you after Mr Osborn's meeting. In the meantime, Miss Evans has as you know taken the precaution of asking No.10, given the possible legal problems, not to intervene in this correspondence until you have done so.

AJCE

A J C EDWARDS

FROM: A J C EDWARDS
DATE: 23 NOVEMBER 1988

CHIEF SECRETARY

cc **Chancellor**
Sir P Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Potter
Mr Fellgett

Ab.
Items OK to me
AA

**LOCAL AUTHORITIES:
SIMPLIFIED NEEDS ASSESSMENTS**

In accordance with my note of 17 November, which you kindly endorsed, we have discussed the position with DoE officials.

2. We have, I think, achieved a substantial meeting of minds. DoE officials now accept that DoE must avoid giving unnecessary hostages to fortune, in the sense of undermining the existing rate-capping and RSG settlements by implying that new and superior needs assessments are now available. They also accept that a minute from you underlining the fact that we do not have a 'new' set of GREs (certainly nothing worthy of the name) at this stage will be helpful in the light of their legal advice and vis-a-vis other Departments.

3. I attach accordingly a draft minute from you to the Prime Minister, which I trust will be self-explanatory.

AJCE
A J C EDWARDS

DRAFT

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. Nicholas 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 Nicholas 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 Nicholas 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

to 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 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 Nicholas'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.

JOHN MAJOR