

Chancellor
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mr A J C Edwards
Mr Potter
Mr Fellgett
PRIME MINISTER



FROM: CHIEF SECRETARY
DATE: 25 November 1988

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. Walker

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