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My ref:

Your ref:

30 September 83

Dear Andrew

ABOLITION OF THE GLC AND MCCs: FINANCIAL CONTROLS

The Prime Minister is to meet my Secretary of State and other members of MISC 95 on 3 October to consider one or two points on abolition that need to be resolved before the text of the White Paper can be agreed.

The Secretary of State has suggested that I set out the points that appear to him to remain at issue. They are:

1) Financial Controls The Chief Secretary has proposed

- a) transitional control of total expenditure by joint boards and of their manpower expenditure; and
- b) the sanction of an efficiency audit, backed up by manpower controls if necessary, over the boroughs and districts.

The Prime Minister has also queried whether block transfer of staff would secure the savings in staff numbers being sought.

MISC 95, apart from the Chief Secretary, came to the conclusion that for joint boards, control through the precept would be a better course to follow, and that for Boroughs/Districts it would be better to rely upon the general measures that will already be available to restrain expenditures.

I attach the background note on these issues promised by my Secretary of State in his minute of 28 September.

2) Elections in May 1985 Whether the elections should be deferred, or another body substituted for the GLC/Metropolitan Counties when their time expires.

A further item, if the PM agrees, is the terms for staff made redundant. The Chief Secretary has proposed that the White Paper should not refer to the possibility of offering higher redundancy terms. Other members of MISC 95 consider that

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some guarded reference is needed if the necessary co-operation of staff in the handover of powers is to be secured.

I am copying this to Private Secretaries of members of MISC 95 and Richard Hatfield.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Background Note

Control of Joint Boards

1. Joint boards are proposed for police, fire and public transport (PTAs) in the metropolitan counties, and for fire and education in London. The majority view of MISC 95 members, as reported in the Secretary of State for the Environment's minute of 20 September to the Prime Minister, was that detailed control of manpower would be impractical because Departments would be swamped by the resulting workload and there would be the possibility of extensive challenge in the Courts. They concluded that joint board precepts should be controlled for a transitional three year period.
2. Precept control would operate in broadly the same way as the selective rate limitation scheme (except that all joint boards would be automatically included). Ministers would set an acceptable maximum total expenditure figure for each board, and from that determine a maximum precept taking account of grant entitlement. This would limit the cash available to each board; and, since manpower will account for about three quarters of the costs of each of the boards (except the PTAs), Ministers would thus be able to apply considerable pressure on staffing levels.
3. In setting the expenditure figure on which the precept would be based, account would be taken of the information already available about the manpower and other costs of each service in each area; and if any board sought a derogation from the proposed limit on their precept the Government should be able - indeed obliged - to look very closely at their proposed budget for the year.
4. The Chief Secretary is concerned about the flexibility available to authorities within the overall financing limit fixed by precept control. He accepts that detailed manpower controls are impractical, but he suggests that the Government should seek to control budgets so as to have direct control over staff costs, since otherwise there may be a risk that during the transitional period the boards will make short term economies in other expenditure while leaving staffing levels untouched.

5. The practical effect of precept control needs to be clearly understood. It will be based on a judgement about expenditure needs, and it will set a limit on the amount of finance available to each joint board. The relevant service Departments have sufficient information to ensure that the limits, though realistic, are tightly drawn, and leave little room for manoeuvre. Once set, the limit will be self-enforcing. The Board will have to constrain its expenditure within the total finance available.

6. The Chief Secretary proposal for budget control need to be set out in greater detail. If central government were to set a maximum figure for each board's total expenditure and for appropriate elements of the total (including manpower) it would have to monitor spending against profile on each of those elements throughout the year. There could be no means of enforcing these limits during the year, even if spending was departing from profile, since authorities would be able to claim that they intended to redress any imbalance later. It would not be clear until audited accounts were available - ie well after the end of the year - whether an authority had complied with the limits; and it would be necessary to devise sanctions for authorities whose outturn expenditure diverged unacceptably from the limits set. This could lead ultimately to full takeover of a joint board by Commissioners.

7. Reliance upon precept control would avoid these consequences. Precept control can effectively constrain a board's total expenditure, and exert a powerful influence on its manpower levels and costs. Detailed control of budgets will not work, unless central government were in effect to take over the day-to-day operation of the boards.

8. The Prime Minister has queried how staff savings are to be secured in bodies like ILEA if all staff are to be transferred by statute to the new boards. The reason for block transfer is that the service Ministers concerned do not feel that they have the information necessary to enable them to decide what staff savings might be made at the time of transfer (the transitional controls will, however, enable Government to put pressure on the boards to secure economies from the date of transfer.) Block transfer has the added advantage of making it easier to secure the transfer of staff which will have to be accomplished in a very short period between Royal Assent and implementation.

9. So far as ILEA is concerned, it is almost inevitable that they will be selected for the rate limitation scheme in 1985/6. That control will put strong pressure on them to make staff savings in that year since staff represent 76% of ILEA's current expenditure. As long as ILEA receives no RSG, precept control will allow control of almost the whole of the Authority's income (87% in 1983/84) and consequently of their budget.

Control over boroughs and districts

10. The Secretary of State for the Environment considers that the Chief Secretary has understated the extent of the measures available against boroughs and districts which increase manpower. First, they will be subject to the general restraints on spending incorporated in the local government finance system. Second, high spenders will be liable to selection under the rate limitation scheme which will have a powerful effect on manpower - intensive operations. Third, the proposed staff monitoring scheme will expose to public scrutiny areas in which authorities appear to have taken on unnecessary extra staff. Fourth, these authorities will be subject to the new audit arrangements under the Audit Commission which include value for money audit.

11. These measures, taken together with the Secretary of State, power to require the Audit Commission to direct an extraordinary (ie immediate) audit, will enable the Government to impose the necessary disciplines on the boroughs and districts. This should not however, be spelt out in detail in the White Paper, to avoid giving the impression that the authorities cannot be relied upon to make our policy effective. Moreover, reference to the Audit Commission's role at this time could be counter productive given its independent status.

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