



NBRM AT 2517

Unlikely for questions?

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AT
Observe!
AT 2517

My ref:

Your ref: 24 July 1984

Dear Andrew

AUDIT COMMISSION SECTION 27 STUDY

One further issue which the Opposition might latch on to in the next few days is the forthcoming Audit Commission report on block grant. Robin Butler spoke to Terry Heiser about this last Friday.

The Report will deal with the way the local government finance control systems have operated over the last four years, with a view to identifying the extent to which they have made it either easier or more difficult for local authorities to achieve value for money.

Last week, a working draft of the Report fell into the hands of the Financial Times, and Ms Hazel Duffy ran the attached article on it. Her story line was that the report revealed that the complexities of the Rate Support Grant could have cost ratepayers £1.5 billion, as authorities have been forced to build up internal funds as a hedge against further uncertainty.

We have not seen a copy of this working draft but our first reaction is that we would not accept that there is any casual connection between the alleged complexity of the RSG system and the build up of internal funds. These are built up for all sorts of reasons, including for instance "creative accounting" to minimise grant penalties and for use to keep rates down in election years.

The Opposition repeated the gist of Ms Duffy's article in the debate on 18 July on the Rate Support Grant Supplementary Reports (Hansard Col 367). You will see my Secretary of State refused to be drawn. The fact is that the Commission have not yet approved a final version of the Report, and we understand will not do so until after Recess.

I attach a short speaking note if the point is raised with the Prime Minister at any time.

I am copying this letter to David Peretz (Chancellors Office), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Yours sincerely
John Ballard
JOHN BALLARD
Private Secretary

Andrew Turnbull Esq
10 Downing Street

SPEAKING NOTE ON AUDIT COMMISSION REPORT ON RATE SUPPORT GRANT

I have nothing to add to what my Rt hon Friend the Secretaryh of State for the Environment told the House on 18 July. We have not yet seen a copy of the Report. The Financial Times article appears to have been based on a working draft which is still subject to further discussion and approval by the Commission. I advise the Hon Member should reserve his judgement until he sees the final report whcn issues with the authority of the Commission itself.

The economies that may have cost £1.5bn

THE INDEPENDENT Audit Commission has concluded from its first major investigation into local government finance that the complexities and uncertainties associated with block grant distribution could have cost the ratepayer up to £1.5bn in the past three years.

The report of the investigation, now in draft, is expected to be published next month. It could prove highly embarrassing for the Government, which has made control of local authority spending a central plank in its efforts to keep overall public sector spending under control.

The report also suggests that the Government may have got it wrong in considering that there has been excessive spending by local authorities. It concludes that real overall local government spending last year was pro-

bably about in line with target.

The Audit Commission was set up by the Government in 1982 to act as an independent check on local authority financing with the aim of securing greater economy, efficiency and effectiveness. Its job is not to challenge government policy, or the policies of local authorities, but to look at the effects of the existing arrangements from a managerial standpoint.

The report is categorical in its conclusion, however, that "the uncertainty associated with the present arrangements for distributing block grant to local authorities has led to higher rates than are necessary."

The commission maintains that the uncertainties inherent in the block grant system of distributing central government grant have led to local authori-

ties taking very short-term views of their current expenditure plans.

In order to manage these uncertainties, councils have increased their general rate fund balances and resorted more to special funds.

For ratepayers, "this means that rate bills in the last three years have probably been some £1.5bn in total higher than would have been necessary had there been fewer external uncertainties outside authorities' control."

The growth in balances and reserves has been highest where uncertainty as to future grants is greatest. This has been most marked in London and shire districts where penalties and the unpredictability of housing GRE (grant related expenditure, which is the Government's

assessment of expenditure needed to provide a standard level of services) have the greatest effect.

They are lowest in shire counties where there has been less uncertainty, because GREs and targets have been relatively predictable.

Some 68 per cent of the local authorities responding to the commission's request for information put their planning horizon for current expenditure at only one year.

The commission comments: "Failure to plan more than 12 months ahead is inevitably wasteful in a changing environment."

Local authorities are well aware of the risks involved in not planning ahead. But, in general, they have failed to do so—and cite as a major reason

the uncertainties involved in present arrangements for distributing central government grants.

The related findings of the commission on actual spending by local authorities could be just as damaging to the Government's policy on targets and penalties.

The draft report says: "On present evidence, for instance, on outturn expenditure, it is entirely possible that while the Government acts as though it believes that aggregate local authority revenue expenditure is well above target, real spending last year (1983-84) may in fact have been about in line with target overall—especially since the impact of premature debt repayment or changes in financing have not been included."

Grant system 'pushes up rates'

BY HAZEL DUFFY

THE SYSTEM of distributing grants to local authorities has led to complexity and uncertainty which has cost the ratepayer up to £1.5bn in the last three years.

This is the conclusion of an unpublished report from the independent Audit Commission, set up by the Government two years ago to promote good housekeeping among local authorities.

The report, in its final revision stages, also suggests that even though the Government persists in acting as though local councils are spending well above their targets, in reality current spending last year (1983-84) may have been about in line with the overall target.

These conclusions from the Commission's first major study will make it much harder for Mr Patrick Jenkin, Environ-

ment Secretary, to defend the Government's complex system and penalties for overspending, in today's Commons debate on Rate Support Grant.

Mr Jack Straw, Opposition spokesman on the Environment, described the Commission's findings as a "bombshell." "It demonstrates that overspending by councils is an illusion produced by a system of Byzantine complexity."

Before the debate, Mr Jenkin is expected to make a statement on plans for curbing capital spending by local authorities, which is running substantially over the cash limits of £2.45bn for the current year.

Councils claim that they are doing nothing wrong in spending on capital projects, which the Prime Minister was exhorting them to do two years ago.

They say it is the rigidity of the system which is at fault.

Similarly, the uncertainties in the distribution of block grant—emphasised by the fact that one of the supplementary reports to be discussed this afternoon is the final revision of grant as far back as 1981/82—has led councils to take very short-term views of future expenditure plans and to increase their rate fund balances to cope with the uncertainty.

The commission says this prevents efficient planning. "Rate bills in the last three years have probably been some £1.5bn in total higher than would have been necessary had there been fewer external uncertainties outside authorities' control."

Details and Spending curb options, Page 8

1. Mr Malcolm Bruce (Gordon): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

THIS MORNING I PRESIDED AT A MEETING OF THE CABINET AND HAD MEETINGS WITH MINISTERIAL COLLEAGUES AND OTHERS. IN ADDITION TO MY DUTIES IN THE HOUSE I SHALL BE HAVING FURTHER MEETINGS LATER TODAY.

2. Mr Peter Thurnham (Bolton North East): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

I REFER MY HON FRIEND TO THE REPLY THAT I GAVE SOME MOMENTS AGO.

3. Mr David Penhaligon (Truro): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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4. Mr Gareth Wardell (Gower): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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5. Mr Eddie Loyden (Liverpool, Garston): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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6. Dr Oonagh McDonald (Thurrock): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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7. Mr Greville Janner (Leicester West): To ask the Prime Minister, if she will list her official engagements for 26th July.

I REFER THE HON AND LEARNED GENTLEMAN TO THE REPLY THAT I GAVE SOME MOMENTS AGO.

8. Ms Harriet Harman (Peckham): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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9. Mr Peter Bruinvels (Leicester East): To ask the Prime Minister, if she will list her official engagements for Thursday 26th July.

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