



PRIME MINISTER

2 To note.

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LOCAL GOVERNMENT FINANCE

I chaired a meeting of E(LF) on 19 December to settle some of the remaining issues for the draft Green Paper on local Government finance reform.

2. On the control of local authority capital expenditure, the key issue is the treatment of accumulated receipts. These now stand at about £6 billion, and the spending power associated with them has been a major cause of the overspending against the cash limit in recent years. The Environment Secretary has proposed that under the new system local authorities should be allowed to undertake additional spending only to the extent that their accumulated receipts are backed by cash. Where the receipts have been used to redeem existing debt, or in substitution for new borrowing, the spending power will be lost. This proposal was acceptable to the Chief Secretary, and the Chief Whip judges that it should be possible to secure acceptance from our supporters in the House. The Committee therefore agreed that this proposal should be set out in the Green Paper, although we fully recognised that it could prove very controversial.

3. On the basis that the spending power associated with accumulated receipts will be restricted to £3 billion, the Chief Secretary was able to accept the Environment Secretary's proposals that local authorities should be able to increase capital spending to a limited extent by using budgeted contributions from revenue, and also that they should retain freedom to vire allocations between services. But the sub-Committee accepted that if we cannot hold the line on receipts, these issues could be reopened.



4. We discussed again the implications of setting the centralised non-domestic rate poundage higher in Scotland than in England and Wales. The Scottish Secretary remains concerned about the political implications of this, but my colleagues were firm in their view that the problem should not be solved at the expense of England and Wales. They suggested that, after a suitable transitional period, the Scottish non-domestic poundage might be brought into line with that in England and Wales, leaving Scottish local authorities with the alternative of either bringing their spending into line with that south of the border, or of passing on the cost in the community charge to domestic ratepayers in Scotland. We were unable to reach agreement now on how this problem should be solved, but we did agree that the Green Paper should leave open the option of different non-domestic poundages in different parts of Great Britain.

5. We did not discuss the implications of the community charge for the Housing Benefit Scheme, but we agreed that the Social Services Secretary would settle an appropriate form of words for the Green Paper with the Environment Secretary and Chief Secretary in order to keep all options open.

6. The way is now clear for the Environment Secretary to finalise his draft Green Paper, for Cabinet to consider on 9 January.

7. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to read 'J. M. Wright'.

(Approved by the Lord President
and signed in his absence)

Privy Council Office
23 December 1985

