

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 11th July 1988

PRIME MINISTER

NEW PLANNING TOTAL

flap p 34

I proposed in my minute of 23rd March that we should ask officials to examine the implications of a redefinition of the public expenditure planning total, to coincide with the introduction of the new financial regime for local authorities in England and Wales. This has now been done, and I attach a draft White Paper which I propose that we should publish later this month.

2. The general principle behind the new definition is that it should include those elements for which central government has direct responsibility, and exclude expenditure which local authorities decide for themselves. Thus it includes, for example, the grants to local authorities, but excludes the expenditure which they finance from the community charge. The precise definition now proposed, including the treatment of local authority capital, is summarised in paragraph 19 of the draft White Paper, and explained in more detail in paragraphs 27-36.

3. As I said in my previous minute, the change which I am proposing will not dilute in any way our determination to restrain total public spending, or the size of the public sector. We shall need to maintain all our efforts on that if we are to achieve our aims for reducing the burden of taxation and avoiding public sector borrowing. The purpose is to make the planning total a more effective instrument for controlling spending. This will be better achieved by focusing it in the way now proposed.

4. The reform of local government finance provides the obvious opportunity to do this. A key element in that reform is to clarify local accountability, so that community charge payers will be better able to see the impact of their own council's spending on the charge which they pay. Changing the planning

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total so that it includes the contribution made by the Government, but not any additional expenditure financed by authorities through the community charge, will help to reinforce this transparency.

5. The examination by officials has highlighted a number of particular issues which are addressed in the White Paper. The first is whether and if so how a service breakdown of local authority spending should be provided for future years. The present arrangements are an uneasy and unsatisfactory halfway house between forecasting and prescription. The solution proposed in the White Paper is that we should give no service breakdown of projected local authority current spending but rather provide at the time of the Autumn Statement at least one year's forward figures for GRE for the main services. These correspond to what Government considers local authorities need to spend. Focusing on GREs also has the merit of underlining the fact that if all authorities spend at GRE, their community charges would be identical after the transition ends in 1994.

6. The White Paper proposes that GREs should be shown for "at least" one year ahead. There is a good case for providing figures for all three years as will be done with grants and credit approvals and I would be happy for figures to be provided on that basis if the technical and procedural problems can be overcome. I think, however, that we should avoid committing ourselves publicly to doing so, though I would be happy to start from the presumption that it should be for three years ahead.

7. GREs will play a much more prominent role than at present, being not only an expression of what Government believes local authorities need to spend, but also providing the factual assessment against which the Government will determine the quantum of grant, the role currently played by provision. Service departments are naturally anxious that GREs be set at levels which are realistic so that they can demonstrate that the resources likely to be available are consistent with stated policy objectives. There will inevitably be a tension between this

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and the Government's wish to demonstrate that if local authorities spend no more than is needed on each service, the resulting community charge will be reasonable. While the new planning total would make this tension more transparent, it is a problem which in fact arises in any case with the new system for grant and the community charge. To some degree similar tensions arise in the existing system in determining the level of provision. It is, therefore, not strictly material to the decision on whether to adopt a new planning total and it is a problem which can only be resolved year by year in the discussions on RSG.

8. Adoption of the new planning total will give rise to changes in the coverage of the territorial blocks. Agreement has been reached on the approach to be taken in determining both the coverage and on how the block should be affected in each Survey - see paragraphs 46 and 47 of the White Paper.

9. The new definition of the planning total incorporates the concepts in the new system for controlling local authority borrowing which was announced [yesterday]. ^{last week.} Included in the planning total will be the sum of credit approvals issued to local authorities. The departmental programmes will show the annual capital guidelines (the successor to allocations in the present system) while the receipts taken into account in setting the credit approvals will be shown as a single line under a DOE programme (see paragraph 32).

10. One particular issue remains outstanding. Our recent practice has been to announce AEG, provision and the selection of councils for rate capping in July, though only for the latter is the timing determined by Statute. It is clearly detrimental for the rest of the Survey for local authority current expenditure to be decided in advance of the rest, thereby pre-empting what is available for other programmes; but we have hitherto taken the view that the need to provide early information to local authorities should prevail.

11. Under the new system of local government finance and new planning total, we will need to reassess where the balance between

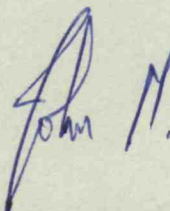
CONFIDENTIAL

provision of early information and conduct of the Survey should be struck. If RSG becomes part of the planning total, the anomaly will become even more apparent, particularly as specific grants and credit approvals will be settled along with the rest of departmental programmes. If RSG is settled in advance it will be difficult to assess priorities between the various elements of the planning total. It will also be difficult to assess the implications of decisions on RSG on the community charge independently of the NNDR which is indexed to movements in the RPI from September to September.

12. While officials recognised that it would be difficult to delay announcements on RSG until the Autumn Statement in November, differing views remained on the merits of July versus September/October. It was agreed, however, that for 1989 a July announcement would be unavoidable as there would be no baseline for grant or NNDR to work from; but that we should not close off our options for future years. I suggest, therefore, that the local authority associations be told that no change in the timing of announcements is envisaged for 1989, but that this will need to be reviewed as experience of operating the new arrangements develops.

13. I seek the agreement of my colleagues to the publication of the attached White Paper. I propose that it should be published during the week beginning 25 July, and I should be grateful therefore if colleagues could confirm that they are content by Wednesday 20 July.

14. I am copying this minute to other members of Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron, and to Sir Robin Butler.



JOHN MAJOR



Cite PM
cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

18 July 1988

Dear Jill,

NEW PUBLIC EXPENDITURE PLANNING TOTAL

The Prime Minister was grateful for the Chief Secretary's minute of 11 July. She is content for the proposed White Paper to be published during the week beginning 25 July, and for the new planning total to be introduced for the 1989 Public Expenditure Survey. The Prime Minister has also noted that for 1989 a July RSG announcement is unavoidable, but that further consideration will be given to the timing of RSG announcements for later years.

I am copying this letter to members of the Cabinet, Eleanor Goodison (Office of the Minister for the Civil Service), Martin Dinham (Foreign and Commonwealth Office), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and Trevor Woolley (Cabinet Office).

Yours,
Paul

Paul Gray

Ms. Jill Rutter,
Chief Secretary's Office.

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PRIME MINISTER

NEW PUBLIC EXPENDITURE PLANNING TOTAL

Last November you agreed to further work being done on the possible introduction of a revised public expenditure planning total to be introduced in parallel with the community charge in April 1990. In March this year you agreed that the Chief Secretary could arrange for proposals to be circulated at official level within Whitehall.

The Chief Secretary's minute below reports that the work of officials has been completed and he attaches a draft White Paper that he would like to publish in the week beginning 25 July.

Your main concern in the 1987 discussions was to avoid giving any signal to local authorities of a weakening of determination to maintain control of expenditure in the period before the community charge was introduced. For that reason, you opposed an early announcement. But I think that point is now overcome given that the RSG statement for 1989/90 has been announced.

The key point in the proposed change is to remove from the planning total the totality of local authority spending and replace it with those elements for which central Government has direct responsibility. This fits in well with the post-April 1990 regime. Expenditure which local authorities decide for themselves - financed principally by the community charge and by capital receipts - will fall outside the planning total but - like debt interest at the moment - will still be included within the general Government expenditure aggregate (GGE). GGE is the aggregate used in calculating the ratio of public spending to national income.

To my mind the main disadvantage in the change is the awkwardness it gives for the presentation of figures for total public spending on the main local authority services like

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education and the police. But that already presents a problem for forward projections under the existing system, because the figures we publish for planned local authority spending generally owe more to hope than expectation. The solution proposed in paragraphs 5-6 of the Chief Secretary covering minute do, I think, provide a reasonable way forward for service breakdowns of local authority spending.

Paragraphs 11-12 of the Chief Secretary's covering minute reveal a continuing dispute between officials on the appropriate timing for announcements on the Rate Support Grant under the new system. But there is agreement that, for 1989 at any rate, the RSG will again have to be announced in July rather than leaving it until the Autumn when it would be closer to the rest of the public expenditure announcements. The position for later years can be considered further in due course.

Content for the White Paper to be published as proposed in the week beginning 25 July, indicating that the new spending total will be brought into use with effect from the 1989 Survey?

Acc.

Yes

PAUL GRAY

15 July 1988

PM2ABY

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON SW1P 3EB

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AK 6
22/7

21 July 1988

Dear Secretary of State

NEW PLANNING TOTAL

I have now received replies to my minute of 11 July endorsing my proposal for a new planning total. I intend to publish the White Paper on Tuesday 26 July.

One issue which emerged from a number of replies was that we need to look further at the way in which both the level of GREs in aggregate and their distribution between services are determined as they will play a role both in indicating publicly what Government believes needs to be spent on particular services and in determining the distribution of grant. There is a balance to be struck between reflecting carefully in the English RSG system the changing needs of individual services and our common concern to achieve maximum stability in the distribution of grant to local authorities. I agree with the suggestion that officials should investigate this further and put advice to us in due course.

I am copying this letter to the Prime Minister, Douglas Hurd, Kenneth Baker, John Moore, Paul Channon, Malcolm Rifkind, Peter Walker and Sir Robin Butler.

Yours sincerely

Caing Evan

JOHN MAJOR

(approved by the Chief Secretary
 and signed in his absence)

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CONFIDENTIAL
DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

ccpv

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

ABM at this stage.

*ALG
2/7*

20 July 1988

Dear John,

NEW PLANNING TOTAL

I have seen your note of ^{*11*} July to the Prime Minister seeking agreement to the publication of a White Paper proposing a New Planning Total for public expenditure.

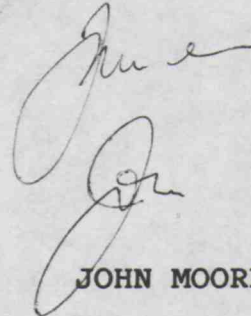
I am content for the White Paper to be published as drafted and indeed endorse the general thrust of your proposals which seem sensible and likely to provide the basis for improved planning of public expenditure.

I am however concerned about the lack of a clear way forward on the issue of the presentation of figures for local authority spending for future years. I accept your point that this problem comes from the tension which already exists between our need on the one hand to set expenditure provision at levels which reflect realistic assessments of the cost of implementing our policies and - on the other - our need to prevent local authorities spending irresponsibly. But the introduction of the new planning total adds a sharper focus to the problem and requires a more urgent resolution that can possibly flow from year-by-year discussion on RSG.

In particular urgent consideration is needed to determine how the "assessed need to spend" for each of the major services should be set at the outset and whether there should be any shortfall relative to actual spending. Equally we need to identify and agree the broad basis on which these figures will be moved on year-by-year to reflect inflation, centrally-initiated legislative and policy changes, demographic factors and any other changes which bear on the "need to spend" at local authority level. I do not accept that these issues can be resolved on an ad hoc basis in the context of collective decisions on RSG each year. They require a more reflective and considered approach and we must ensure that officials make an early start on identifying the range of options available and their implications.

E.R.

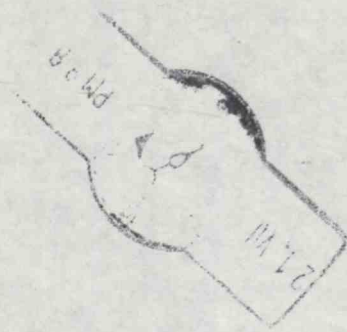
I am copying this letter to the Prime Minister, to other members of Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron, and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'John Moore', written in a cursive style. The signature is positioned above the printed name.

JOHN MOORE

LOCAL GOVT: Relations

PT35



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Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

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20 July 1988

Dear Chief Secretary

NEW PLANNING TOTAL: WHITE PAPER

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I have seen your minute of 11 July to the Prime Minister setting out your proposal to publish a White Paper on the redefinition of the public expenditure planning total. I am broadly content with the redefinition which, as you say, will focus attention on those elements of expenditure for which central government has direct responsibility and that you should proceed as proposed.

In making this change we will of course quite rightly be indicating to local government that we are serious about our intention to operate a meaningful planning system. It is important in doing so that our plans are seen to be realistic and fairly to reflect changes in the circumstances faced by local government, particularly those which result from our own policy developments. Your proposal to provide at the time of the Autumn Statement at least one year's forward figures for GRE for the main services will be an essential part of this process so long as the level is realistic.

It is important also to recognise that good planning by local government will be encouraged if we continue to give them an indication in July of our proposals for the next financial year. I therefore welcome your agreement that there should be no change in the timing of announcements in 1989.

The new planning total will, of course give rise to changes in the coverage of the territorial blocks. In this respect I am content to proceed on the basis of the arrangements which have been agreed.

The Rt Hon John Major MP
Chief Secretary
H M Treasury
George Street
LONDON SW1

/I am sending



I am sending a copy of this letter to other members of the Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew, Kenny Cameron and to Sir Robin Butler.

Yours sincerely

Keith Jones

*Approved by the Secretary of State and
signed in his absence.*

CPD



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBN

ACC

20 July 1988

Dear Chief Secretary

NEW PLANNING TOTAL

I have seen a copy of your minute of 11 July to the Prime Minister.

I welcome the proposals set out in the White Paper which will help us to emphasise the difference between those areas of public expenditure for which Central Government has a direct responsibility and others, such as local authority expenditure financed by the community charge, where it does not.

The new planning total provides an opportunity for ceasing to show in the Public Expenditure White Paper (PEWP) a service breakdown of local authority spending in future years. As you say, the present arrangements are neither a forecast nor are they prescriptive - in practice authorities have budgeted to spend more than has been provided for and have indicated different priorities to those shown in the PEWP.

In the new system greater emphasis will be placed on authorities' need to spend rather than the level at which they choose to spend. We will need to ensure that a reasonable proportion of authorities are able to spend at or below their GRE, otherwise the credibility of the community charge system will be questioned. We shall certainly need a total figure for need to spend in order to calculate community charge figures for spending at need.

I am prepared to accept that totals for need to spend on each main service will still be necessary in order to distribute grant between authorities. But I hope we can avoid a situation where these figures become the subject of annual review and debate, either internally or externally, in the way that current expenditure by service is at present. Otherwise we shall fail to secure a significant gain of the new arrangements, as well as jeopardising our objective of stability in grant entitlements.

I agree that for the first year of the new system we shall need to make an announcement in July about the revenue support grant quantum. But in the new system we shall be publishing forward plans for grant and at such time as credible figures for future years have become established I would hope that July RSG announcements would cease to be necessary.

I am content that the White paper be published as drafted, subject to the detailed points on capital agreed by officials.

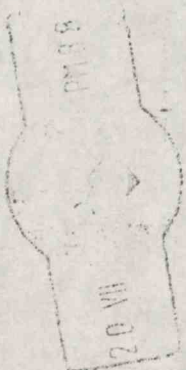
I am copying this letter to other members of Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron, and to Sir Robin Butler.

Yours sincerely,

NR

NICHOLAS RIDLEY

NR (approved by the Secretary of State and signed in his absence)



CONFIDENTIAL

CPD



QUEEN ANNE'S GATE LONDON SW1H 9AT

20 July 1988

*NBPM
RCCG
2/17*

Dear John,

NEW PLANNING TOTAL

par

Thank you for copying to me your minute of 11 July to the Prime Minister enclosing a draft of a White Paper on public expenditure planning.

Under the new local government finance system, the GRE's will become important indicators of Government priorities and concerns. We need to consider carefully the merits or otherwise of publishing figures for the three years of the survey period. I would hope that we could agree upon the principle of establishing realistic GRE's for year 1. This is particularly important in the case of those services, such as police, where grant is paid as a fixed percentage of spending. I see the merits of publishing grant figures for three years ahead in order to assist local authorities in their forward planning, but we will need to consider both the status and the presentation of the figures for years 2 and 3 in the case of those specific grants which are not cash limited. These are issues which can be pursued in the context of our discussions on the 1989 survey, and I am content for the White Paper to be published before the Summer recess. I also agree with your proposals on the timing of next year's announcement on local authority spending.

Copies of this go to the recipients of your minute.

*Love,
Douglas*

The Rt Hon John Major, MP

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LOCAL GOVT. Rele Pt 35

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CEB



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NBM
RC6
2/7

20 July 1988

Dear John,

NEW PLANNING TOTAL

Thank you for copying to me your minute of 11 July, along with a draft of the proposed White Paper.

I have one or two minor drafting suggestions, and these have been passed on to your officials.

I have two other comments to make, both on timing. First, I understand that after 1989, it is hoped to abandon the separate July announcement each year on RSG, so that it is taken at the same time as other decisions in the Survey. I do not disagree with that in principle, but if we do make such a change, it will need to be announced in good time for me in turn to announce my grant distribution proposals by the end of October. The Autumn Statement will therefore be too late. Second, so far as capital expenditure approvals are concerned, we must not lose sight of the fact that the new system will compress an already tight timetable for the determination of distribution within the block. Block provision will be adjusted on the basis of the credit approvals issued to local authorities in England under the new capital control regime but, as I understand it, these will be known only at the very last stages of the PES process for the Whitehall departments. I think our officials should discuss the implications of this further, though that need not hold up publication.

Otherwise, I am content with what is proposed.

I am copying this letter to the recipients of your minute.

Yours ever
Malcolm Rifkind

MALCOLM RIFKIND

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cc PU



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBPM
REC
20/7
29 JUL 1988

Dear John

NEW PLANNING TOTAL

Thank you for sending me a copy of your minute of 11 July to the Prime Minister.

I agree with your proposals, and hope they will make the expenditure planning process more effective, highlighting the mechanisms by which we seek to influence local government spending both in total and in its priorities.

I think the changes will significantly alter the way in which our decisions are arrived at each year - on local current and capital expenditure needs, and on grants. I hope our officials can further consider the mechanics and the information needed during the next six months, so that we can address the issues clearly on the new basis next year.

I am sending copies of this letter to other members of the Cabinet, to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron, and to Sir Robin Butler.

[Handwritten signature]

[Handwritten signature: Paul]

PAUL CHANNON

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ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

nbm

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1P 3AG

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19 July 1988.

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NEW PLANNING TOTAL

Thank you for sending me a copy of your minute to the Prime Minister of 11 July. I am content for the White Paper to issue as you propose, subject only to a detailed drafting point on paragraph 28: the example for the Department of Education and Science should be described as "the funding of universities and the Research Councils". I have a couple of points on your covering minute.

I accept first of all that the proposed service breakdown of GRES meets my concern about a means to demonstrate that the Government has allowed appropriate provision for the education service, and other services, within its expenditure plans. I agree also with what you say about the more prominent role for GRES and the case for providing figures for all three years. Since GRES will provide the factual assessment against which the Government will determine the quantum of grant, I think it is important that we receive further advice from officials about the arrangements to be made for determining the factual assessment. We shall need to settle, for example, how we go about consulting the local authorities in the process.

My second point is a more detailed one. For operational reasons, my specific grants for education support and in-service training need to be announced during the late spring and summer. As in the case of RSG, I think we shall need to settle the baseline for these next year in advance of the main Survey. That would be consistent with your proposal to tell the local authority associations that there would be no change in the timing of announcements for 1989.

I am sending copies of this letter to the Prime Minister, to other members of Cabinet and to Richard Luce, Chris Patten, Patrick Mayhew and Kenny Cameron and to Sir Robin Butler.

[Handwritten signature]

HOUSE Gov't: Relations
Pt 35





A New Public Expenditure Planning Total

Presented to Parliament by
the Chancellor of the Exchequer
by Command of Her Majesty
July 1988

Her Majesty's Stationery Office, London

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DRAFT WHITE PAPER

A NEW PUBLIC EXPENDITURE PLANNING TOTAL

Foreword

This White Paper sets out the Government's proposals for a new definition of the public expenditure planning total which includes those elements of expenditure for which central government is responsible but excludes that expenditure which local authorities finance or determine for themselves.

2. Chapter 1 explains the way in which objectives for public spending are set within the Government's financial strategy, and the role of the planning total in pursuit of those objectives. It reviews the changes that are being made to local government finance and their implications for the way public spending is planned and controlled.

3. Chapter 2 proposes a new definition of the planning total within a framework in which general government expenditure (the aggregate of all central and local government spending) remains the focus of the Government's wider financial objectives.

4. Chapter 3 considers the components of the new planning total in detail.

5. Chapter 4 explains the implications for the Public Expenditure Survey and documents reporting its outcome.

6. Tables 1 and 2 illustrate how the figures would look on the new basis.

CHAPTER 1 - BACKGROUNDThe Financial Framework

In order to create the conditions in which the private sector can expand and to create the incentives for that expansion, the government seeks to limit the role and size of the public sector. The Government's objectives for public borrowing and the burden of taxation constrain the amount of public spending that can be afforded. Since these objectives are defined in terms of the public sector as a whole, because the Government is concerned about the total level of taxation of all kinds, including national taxation and local taxation and national insurance contributions, and the borrowing which is secured upon it, it is total public sector spending which is the main expenditure aggregate and of interest in the macro-economic context.

6. The Government's objective is to maintain the growth of public spending below the growth of the economy as a whole, and thus reduce public spending as a proportion of national income. This implies that the ratio general government expenditure (GGE), ie the combined spending of central and local government including debt interest, to gross domestic product (GDP), should fall over the medium term.

7. For the purposes of planning and control, the Government defines a public expenditure planning total. By controlling expenditure within the target fixed for the planning total, the Government seeks to achieve its wider medium-term objective specified in terms of the ratio of GGE to GDP. The planning total is built up from the control totals set for individual departmental programmes. It is wider than GGE in including all external finance for public corporations and not just that which they obtain from Government; but it is narrower in excluding debt interest, which is affected by Government policy on borrowing and interest rates and is therefore not controlled separately in the planning total.

8. At present, the planning total is built up from each department's expenditure plans which include not only expenditure incurred by the department itself but also expenditure by local authorities on the policies for which it is responsible, plus the external finance of those public corporations for which it is the responsible department. This reflects the fact that in the UK the Government formulates policies which may be implemented by either central or local government. For example, responsibility for providing such services as education, roads, and law and order is shared between the two. It is thus helpful in some contexts to draw together all expenditure on a service irrespective of the authority which incurs it.

9. The inclusion of central and local government expenditure, along with the expenditure arising from public corporations, dates back to the original surveys of public spending which were set up after the report of the Plowden Committee in 1961 (The Control of Public Spending, Cmnd 1432). The annual Public Expenditure White Papers (PEWP) which have been published since 1969 have all been on this basis. While drawing all public spending together, either in aggregate or for individual departmental programmes, has a number of advantages, it also has disadvantages.

10. The present procedures lump together expenditure for which Government has differing degrees of responsibility and this blurs the status of the various aggregates. If the planning total is exceeded, for example, it is not immediately clear whether responsibility for this lies with central government or with local government.

11. A further disadvantage is that by counting the total expenditure of local authorities in the planning total, insufficient attention is paid to the grants which central government provides to local authorities (because they are transfers between parts of the public sector they do not count in the consolidated spending of the two sectors). Yet grant is extremely important - it represents a substantial contribution to local spending and it represents money which central government has to raise in taxes.

12. Very few other industrial countries plan public spending in this way. For federal states, such as Germany, the US or Canada this would conflict with their federal constitutions. But even in other unitary states such as France or the Netherlands the government generally makes budgetary plans only for central government expenditure.

Reform of Local Government Finance

13. The Abolition of Domestic Rates Etc (Scotland) Act 1987 and the Local Government Finance [Bill now before Parliament] introduce fundamental reforms in the way in which local government is financed in Scotland and in England and Wales respectively and call for a rethink of the way local authority spending is handled in the Government's expenditure planning. A key objective of these reforms it is to increase local accountability, so that it is clear to local electors when changes in local spending have taken place and where responsibility for this lies.

14. Domestic rates will be replaced by a community charge which, within certain limited exceptions, all adults will be liable to pay. It will be levied at a flat rate in each local authority area, although students will be required to pay only one fifth of the charge and those on low incomes will receive assistance through the community charge benefit scheme.

15. Under the new proposals businesses will continue to pay rates. In England and Wales there will be a uniform poundage which will be determined nationally rather than by individual local authorities. The legislation provides that the poundage will be indexed in line with inflation, subject to a power for the Chancellor of the Exchequer to set the poundage at a lower level. The proceeds of business rates will be paid into a pool maintained by central government and paid out to all local authorities on a per capita basis. In Scotland non-domestic rate poundages will be based on their 1988-89 levels, subject to similar indexation arrangements, and the grant distribution will effectively redistribute business rate income to authorities on a per capita basis, as in England and Wales.

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16. The effect of these changes will be to ensure that each authority's resources from non-domestic rates and the community charge will depend only on the number of adult residents. The Government will continue to provide substantial assistance through a Revenue Support Grant (RSG) towards the cost of local authority services. This grant will in future need to equalise only assessed differences in needs, eg the age structure of the local population. This will greatly simplify the calculations of grant.

17. The effect of these new arrangements will be to ensure that each pound per head more or less that a local authority spends on its residents will add to or reduce their community charge bills by one pound.

CHAPTER 2 - THE GOVERNMENT'S PROPOSALS

A New Planning Total

18. The changes in local government finance will greatly increase its transparency and so enhance accountability. This process can be further enhanced by redefining the planning total, so that it distinguishes expenditure which is the responsibility of central government from that which is the responsibility of local government.

19. The Government proposes that, to deliver its objectives for general government expenditure as at present defined, there should be a new planning total comprising the sum of:

- central government's own expenditure;
- the grants, current and capital, it provides to local authorities. These can be specific or supplementary grants paid to support particular services or designated items of local authority expenditure; or block grants like Revenue Support Grant which will not be tied to spending on any particular service;
- the expenditure which, under the proposals contained in the consultation paper "Local Authority Capital Expenditure and Finance" (July 1988), will be incurred by local authorities and financed by borrowing or other forms of credit authorised by credit approvals issued by central government departments;
- the external finance of the public corporations;
- payments to local authorities from the yield of non-domestic rates;
- privatisation proceeds;
- a Reserve.

The link with general government expenditure

20. Outside the planning total, but still within GGE, would be the expenditure which local authorities in effect determine and finance for themselves, either through the community charge, the use of capital receipts or through other incomes such as trading surpluses. Like debt interest, which is already outside the planning total, this expenditure would not be planned directly by central government and would not form part of its planning and control totals. It would, however, enter into the wider measure of public spending used in the Government's financial strategy.

21. At present the planning total for 1988-89 is £157.8 billion within GGE of £182.8 billion. Under these proposals, GGE would be unchanged but the planning total would be approximately £143 billion, the difference representing principally the removal of local authorities' self-financed expenditure.

The link with Supply Expenditure

22. A further advantage of the new planning total is that it would produce a closer alignment between the total of Supply expenditure and the planning total. At present only about £83 million out of total Supply of £108 billion scores directly in the planning total of £157 billion. £24 billion of grants voted to local authorities, which are at present treated as intra government transfers and therefore excluded from the planning total, would in future be included. The result would be that virtually all Supply expenditure would score directly in the planning total. This should simplify the reconciliation of the figures in the Autumn Statement and the new departmental reports with those in the Supply Estimates.

Operating a new planning total

23. With this new definition of the planning total the expenditure which local authorities' determine and finance for themselves would be integrated into the Government's financial policies in a different way.

24. Spending by local authorities of their own resources such as the community charge or use of receipts would not be part of the in-year control arrangements and hence any variation from the figures in the Autumn Statement would not affect the Reserve. But if the Government felt that this expenditure was growing too rapidly and, for example, was impeding progress towards its objective for a lower share of public spending in national income, or towards the reduction in the burden of taxation, the Government would need to consider whether to take action to moderate the growth of spending within the planning total, whether its own spending or grants to local authorities. Such judgements would be made as part of the process of setting the objectives for the annual public expenditure Surveys.

Treatment of grants and credit approvals

25. One feature of a new planning total on the lines suggested above would be that the Government would set out plans for the various grants which it pays to local authorities and for credit approvals for three years ahead rather than one as at present. This would not only give local authorities a better basis on which to plan their finances, but it would also help to make clearer to local electorates the determinants of any changes in the community charge. It would also have the effect of creating a baseline against which the following year's discussion about grant would take place.

Timing

26. The reform of local government finance will take effect in Scotland from 1 April 1989, and in England and Wales from 1 April 1990. The latter date would be a convenient time to introduce the new arrangements proposed above. But if expenditure is to be controlled on the new basis from April 1990, the 1989 Survey will need to be conducted within the new framework and the 1989 Autumn Statement will need to announce the results of the Public Expenditure Survey on the new basis. To conduct the 1989 Survey on the new basis, it will be necessary to have resolved all the main issues of classification and control by the autumn of 1988, so that new baselines can be constructed by early 1989 prior to the launch of that year's Survey.

CHAPTER 3 - DEFINITION OF THE NEW PLANNING TOTAL

27. The main criterion for including a class of expenditure within the new planning total is whether central Government can be said to have responsibility for determining that expenditure. The following notes discuss the treatment of the various elements of expenditure both within and outside the new planning total. The new presentation is set out in Tables 1 and 2. The figures are illustrative, but correspond broadly to the levels contained in the 1988-89 plans as set out in the 1988 PEWP (Cm 288).

(a) Elements included in the New Planning Total

(i) Central government's own expenditure

28. This includes direct expenditure by government departments and other central government bodies, whether voted or non-voted, cash limited or demand-led. The largest elements are the defence budget, social security and the National Health Service. Also included is the central government spending for which the Department of Education and Science is responsible, eg its grants to universities and the expenditure of the Research Councils; and Department of Transport's spending on motorways and trunk roads.

(ii) Central government grants to local authorities - current

29. Central government grants towards local authorities current expenditure will comprise Revenue Support Grant (RSG), specific and supplementary grants and subsidy on community charge and housing benefits. RSG, the block grant to local authorities, will be included within expenditure programmes of the Department of the Environment and the Scottish and Welsh Offices. Specific grants will be included within the relevant Departments' programmes; thus, for example, police grant will be shown within the Home Office programme, as Home Office expenditure directed towards assisting local police authorities.

(iii) Central government grants to local authorities - capital

30. Central Government pays to local authorities a range of specific grants towards the costs of capital projects that the Government wishes to encourage. Grants paid as single capital payments would be included in the new planning total. At present, other specific grants are paid in support of loan charges on local authority borrowing in previous years. They would not be included in the new planning total to avoid introducing an element of double counting with local authority credit approvals. However, the Government is consulting the local authority associations with a view to changing these arrangements so that in future all grants in support of capital spending will, as far as possible, be paid as single capital payments. Grants payable on loan charges incurred under existing arrangements will be capitalised as and when it is possible to do so without increasing local authority spending.

(iv) European Community grants to local authorities

31. Central government funds the EC budget and in effect supports EC spending in the UK (as well as a considerable proportion of EC spending outside the UK). Central government is jointly responsible with other governments and the European Parliament for decisions on the level and distribution of EC expenditure. For these reasons, European Community grants to local authorities are included within the planning total. They totalled around £300 million in 1987-88, of which three quarters were capital grants.

(v) Credit approvals issued by central government

32. Central government also sets limits on local authority borrowing. Under the new system proposed for England and Wales in the consultation paper "Local Authority Capital Expenditure and Finance" (July 1988), the amount of capital expenditure which local authorities may finance by means of borrowing and other forms of credit will be regulated by means of credit approvals issued by central government departments. Departments responsible for each of the main service blocks will issue annual capital

guidelines to the local authorities concerned (analogous to capital allocations under the present system). Credit approvals issued to individual authorities will be the sum of the annual capital guidelines for each service for which the authority is responsible less an allowance for the ability of that authority to use its capital receipts. So in the new planning total the figure for credit approvals will be presented as the difference between the annual capital guidelines and the allowance made for receipts. The control arrangements in Scotland are different but the amount of spending that can be financed by borrowing is similarly constrained. The Government's plans for public spending would, for the first time, show the likely levels of annual capital guidelines and receipts to be allowed for, and thus net local authority expenditure financed by credit, for future years. This should help the planning of local authority capital programmes.

(vi) National non-domestic rate payments

33. Although receipts from non-domestic rates are hypothecated to local authorities, the latter have only very limited discretion to influence their size, for example by giving some discretionary rate reliefs. The mechanism for setting these rates is to be laid down by Parliament in Statute which also allows a power of override for the Chancellor of the Exchequer. It would be misleading to lump payment financed by these receipts with expenditure financed by the community charge, where local authorities have a complete discretion over the amount of such expenditure. They are therefore included within the planning total.

(vii) Public corporations

34. For most public corporations, including all the nationalised industries, the present planning total scores their external finance, whether this is raised from Government by grant or loan, or through market or overseas borrowing. Scoring the whole of external finance reflects the way control limits are set and avoids variations arising from what may be relatively unimportant decisions on the precise mix of finance adopted by the industry.

No change is proposed. For a few public corporations, their contribution to the planning total is recorded differently, reflecting their special circumstances. Again no changes are proposed. (For a more detailed account see Chapter 4 of the 1988 PEWP.)

(viii) Privatisation proceeds

35. It is proposed to retain the present treatment which has the merit of recording sales of assets as offsets to expenditure, retaining symmetry with purchases of assets which score as additions. It is recognised, however, that the economic effects of privatisation proceeds, eg the implications for taxation in the longer term, may differ from that of other kinds of expenditure. The Government will continue, therefore, to identify these proceeds separately and, in judging long-run trends, the Government emphasises general government expenditure excluding privatisation proceeds.

(ix) The Reserve

36. As now, the new planning total will incorporate a Reserve which will provide a margin for uncertainties and cover any future additions to departmental spending whether these result from policy changes, new initiatives, unexpected expenditures or revised estimates of demand-led programmes. It will, however, cover changes only in the items of expenditure within the new planning total and not variations in local authorities' self-determined expenditure.

Expenditure excluded from the planning total

37. The Central Statistical Office will continue to publish figures for GGE for the past. In order to derive a path for GGE for the future the Government will make a projection of the expenditure which local authorities in effect determine or finance for themselves. This will be done by estimating total local authority expenditure and then deducting the local authority related items already scored in the planning total eg central government grants, NNDR payments and credit approvals. This will

provide a broad measure of the expenditure which local authorities finance through the community charge, surpluses on their housing account, trading and other miscellaneous income or through use of accumulated and in-year capital receipts.

38. In arriving at the estimate of total local authority expenditure it is proposed to include their total debt interest payments (including those to central government) as these form part of the total expenditure which is eligible for Revenue Support Grant.

39. As now, central government debt interest will remain outside the planning total. However, as it is part of the total of expenditure that has to be financed by taxation it enters into GGE and is thereby integrated into the Government's financial planning.

CHAPTER 4 - OPERATION OF THE PUBLIC EXPENDITURE SURVEYCentral government expenditure

40. For those departmental programmes where expenditure is largely incurred by the department itself, the Public Expenditure Survey will not be affected. Baselines will be derived from the previous published plans; departments will consider what resources they require and will submit proposals in the early summer, together with a statement of the outputs to be achieved with those resources. Following Cabinet consideration in July of priorities and strategic objectives for the Survey, bilateral discussions will take place between the Treasury and the department in the autumn and final decisions will be taken by Cabinet in November. For the nationalised industries, the Investment and Financing Review will be conducted as at present. For those departmental programmes with a local authority component the major change will be that their programmes will include specific grants which will be treated in the Survey and for the purposes of in-year control as comparable central government expenditure is now.

Revenue Support Grant

41. Under the new system, the Government will announce each year its plans for local authority grant for the forthcoming financial year and the two years after that. Local authorities will therefore have much more advance warning of the amount of grant they can expect; at present only one year's grant is announced at a time. Together with the greater stability in the distribution of RSG, which will be an important feature of the new local government finance system, this is intended to give local authorities a much better basis for forward planning of their expenditure.

42. In the Autumn Statement, a three year plan for RSG in England, though determined collectively, will be shown under the Department of the Environment's programme. RSG in Scotland and Wales is the responsibility of the Secretaries of State for Scotland and Wales. As already noted, specific grants will be

included with the departmental spending of which they will be part. Payments financed by the national non-domestic rate will appear in these tables alongside, but separately identified from, RSG.

Service distribution of local authority expenditure

43. For the current and previous years a breakdown of total local authority current spending by service will continue to be provided in the main tables published in the Autumn Statement. For the forward years, the level of this spending will be for the local authorities to determine in the light of their own policies and the implications for the Community Charge. But a projection of the level of local authorities total expenditure, including that which they finance for themselves, will nonetheless have to be made in order to prepare forecasts of GGE for the forward years.

44. The Government considers that, given the nature of this projection as an indicator of what local authorities might decide to spend, it would not be right to go further and provide a breakdown by service of the current expenditure component. Nonetheless the Government has concluded that it would be helpful to provide an indication at least for the year ahead of what local authority current expenditure on each main service would be if it were at the level of the assessed need to spend on that service (ie in English terms, at the level of Grant Related Expenditure or GRE). Taken across all services this would in aggregate be the amount that in the Government's opinion local authorities ought to be spending to provide a standard and acceptable level of service. This information, on a service by service basis, together with the supporting total figures will be published in the Revenue Support Grant Report and will be made available when the Autumn Statement is published.

45. For local authority capital expenditure, a similar breakdown of gross and net capital expenditure by service will be provided for the current and previous years at the time the Autumn Statement and in departmental reports. For the forward years, the Autumn Statement will show the annual capital guideline (ACG) for each service block will be shown in the appropriate departmental

programme; and a figure for receipts taken into account (RTIA) will be included under the Department of Environment and Welsh Office programmes. Separate arrangements will apply in Scotland reflecting the different capital control regime. As with local authority current expenditure, a projection of local authorities' total net capital expenditure will also have to be made in order to prepare forecasts of GGE for the forward years.

Territorial blocks

46. The coverage of the block budgets in Scotland and Wales will be adjusted to produce a definition consistent with the new planning total. The central government programmes at present within the block budget of each territorial Secretary of State will remain in the block and provision will continue to be adjusted in successive Surveys taking account of changes in comparable programmes in England. Grants to local authorities will replace local authority current expenditure within the block; and the level of those grants will, as now, be determined in the light of the particular circumstances of Scotland and Wales.

47. The redefinition of the planning total will have less effect on the coverage of the block in Northern Ireland, given the Secretary of State's present responsibility for many services which in Great Britain are administered by local government. Expenditure on these services will remain within the planning total and will remain part of the Northern Ireland block budget, with provision being adjusted in successive surveys to take account of changes in comparable programmes in Great Britain.

Publication

48. The Public Expenditure Survey will follow broadly the same timetable as now. The results will be announced in the Chancellor's Autumn Statement, normally in the first half of November. The first Autumn Statement embodying the new planning total will be that in November 1989. Table 1 shows how the results of the Survey might be presented when analysed by spending authority; Table 2 shows how the plans for individual departments might be presented.

49. Under the proposals for restructuring the documents reporting public expenditure to Parliament issued in May this year (Financial Reporting to Parliament, Cm 375), the information in the Autumn Statement will be expanded in a number of respects, eg inclusion of figures in real terms and comparison of outturns with previous plans. By 1991, it is proposed that departments should have moved to a new style of departmental report published just before the Budget alongside the Estimates. These would supersede the departmental material in the existing PEWP which would then be discontinued. As indicated in Cm 375, this position can only be reached progressively. In 1990, the first year of operation of the new planning total, there will be the interim arrangement envisaged in Cm 375; a White Paper will still appear in January but it will not contain the policy summary currently found in Chapter 1 of Volume I (as most of this material will have been transferred to the expanded Autumn Statement) and the departmental chapters will be in a number of separate booklets.

CHAPTER 5 - CONCLUSION

50. The Government will continue to have objectives for the role of the public sector and for reducing the overall burden of taxation, whether raised by central or local government. It will continue to exercise restraint over total public spending and to see that better value for money is secured. It will continue to restrain borrowing from the whole public sector. For these reasons the Government proposes to retain the framework of policy for the whole public sector which it has adopted in the Medium Term Financial Strategy.

51. The proposals set out in this White Paper indicate how, within this framework, the planning total can be redefined in a way which:

- identifies more clearly the differing responsibilities which central and local government have for determining different elements of expenditure;
- buttresses the reforms contained in the Abolition of Domestic Rate Etc (Scotland) Act 1987 and in the Local Government Finance [Bill before Parliament] with the objective of increasing local authority accountability;
- brings out more clearly the role played by central government grants to local authorities and provides local authorities with a better basis on which to make future plans.
- produces a closer alignment of Supply expenditure and the planning total.

TABLE 1: PUBLIC EXPENDITURE

	ILLUSTRATIVE FIGURES* £ billion							
	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 estimated outturn	1988-89 plans	1989-90 plans	1990-91 plans
Central government's own expenditure ⁽¹⁾	85.0	92.0	98.4	104.6	109.7	114.2		
Central government grants to local authorities	19.3	19.8	20.0	21.6	22.5	22.8		
Of Which:								
Grants covering expenditure	17.2	17.7	17.7	19.0	19.8	20.4		
Grants covering community charge benefit	2.0	2.1	2.4	2.5	2.7	2.4		
Central government expenditure	104.3	111.8	118.4	126.2	132.2	137.0		
National non-domestic rate payments	7.1	7.5	8.1	9.0	9.6	10.9		
Local authority credit approvals⁽²⁾	2.0	2.0	2.0	2.0	2.0	2.0		
Public corporations	3.2	4.9	2.6	1.1	1.1	1.4		
Privatisation proceeds	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0		
Reserve						2.5		
NEW PLANNING TOTAL	115.5	124.1	128.4	133.9	139.9	148.8		
Total local authority expenditure	35.2	36.9	37.1	39.0	41.5	43.0		
less items included in the planning total	-28.6	-29.5	-30.3	-32.6	-34.1	-35.7		
Local authority self- financed expenditure	6.6	7.4	6.9	6.4	7.3	7.3		
Central government debt interest	12.7	14.3	16.1	16.5	17.2	17.7		
Accounting adjustments	5.3	4.4	6.9	8.0	8.1	9.0		
GENERAL GOVERNMENT EXPENDITURE	140.1	150.2	158.2	164.8	172.6	182.8		

(1) Excluding finance for public corporations

(2) Definition of proxy measure for years 1983-84 to 1988-89 still to be decided

* Based as far as possible on figures included in the Government's Expenditure Plans 1988-89 to 1990-91 (Cm 288), the Supply Estimates for 1988-89 and earlier years, and Financial Statistics

TABLE 1 PLANNING TOTAL BY DEPARTMENT

	1983-84 outturn	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 estimated outturn	1988-89 plans	1989-90 plans	fbillion 1990-91 plans

Departments								
Defence								
Foreign and Commonwealth Office (1)								
European Communities								
Ministry of Agriculture, Fisheries and Food (2)								
Trade and Industry (3)								
Energy								
Employment								
Transport								
DOE - Housing								
DOE - Other environmental services								
DOE - Revenue support grant; national non-domestic rate payments; capital receipts taken into account								
Home Office and legal departments (4)								
Education and Science Arts and Libraries								
DHSS - Health and personal social services								
DHSS - Social security								
Scotland								
Wales								
Northern Ireland								
Chancellor's departments								
Other departments (5)								
Reserve								
Privatisation proceeds								
Adjustments (6)								

NEW PLANNING TOTAL								

Total local authority expenditure (7)								
less								
Items included in the planning total								
Central government debt interest								
Accounting adjustments								

GENERAL GOVERNMENT EXPENDITURE								

The departmental figures for 1989-90, 1990-91 and 1991-92 make no allowance or allocations from the Reserve.

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- (1) Including Overseas Development Administration.
- (2) Including Intervention Board for Agricultural Produce and Forestry Commission.
- (3) Including Export Credits Guarantee Department.
- (4) This group comprises the Home Office, Lord Chancellor's Department, Northern Ireland Court Service, the Crown Prosecution Service, the Serious Fraud Office and the Crown Office, Procurator Fiscal Service and Lord Advocate's Department.
- (5) Including Property Services Agency and Civil Superannuation.
- (6) See paragraph 11(iii)
- (7) See footnote (1) to Table 1

LOCAL ROUT: elebans pt 35

