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Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq  
Private Secretary  
10 Downing Street  
London  
SW1

26 July 1988

Dear Paul,

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**THE NEW PLANNING TOTAL**

... I attach a copy of the Press Notice and Q and A briefing on the new Planning Total which is the subject of a White Paper to be published at 3.30pm today.

I am copying this letter and attachment to Roger Bright at the Department of the Environment

LONDON

Yours,

Jill

JILL RUTTER  
Private Secretary

## DRAFT PRESS NOTICE

A NEW PUBLIC EXPENDITURE PLANNING TOTAL

The Government today issued a White Paper proposing changes for the public expenditure planning total. In reply to a Parliamentary Question today, the Chief Secretary to the Treasury, the Rt Hon John Major MP gave the following Written Answer:

"The Government's objective for public spending is that it should decline as a proportion of national income. This objective relates to the total spending of central and local government and is expressed in terms of general government expenditure (excluding privatisation proceeds). The Government seeks to achieve this objective by controlling expenditure within the targets for the public expenditure planning total, which are set for three years ahead in the Public Expenditure Survey.

Hitherto the planning total has included not only Government's spending on its own programmes but also the total spending of local authorities. In a White Paper published today, "A New Public Expenditure Planning Total" Cm 441, the Government proposes that when the new arrangements for local government finance come into operation in England and Wales the coverage of the planning total should be changed. In future, it will include spending on

its own programmes, grants paid to local authorities, the credit approvals it issues for local authority borrowing for capital expenditure, the payments to local authorities from the proceeds of the national non-domestic rate, and the external financing limits of public corporations. Thus the new planning total will include those elements for which central government is responsible and exclude spending which local authorities determine and finance themselves.

Redefining the planning total to include only the expenditure for which central government is responsible will make it a more effective instrument for planning and control of central government's operations. In combination with the disciplines on local authority spending introduced by the reform of local government finance, it will help to achieve the Government's wider spending objective, which will continue to be directed towards total government expenditure.

Distinguishing the spending for which central government is responsible from that which results from local authorities' decisions, will also enhance local accountability, thereby reinforcing the changes brought about by the introduction of the community charge.

One feature of the proposals is that plans for grants and credit approvals will be set out for three years ahead rather than one at present. This

will assist local authorities in their expenditure planning.

It is proposed to bring the new planning total into operation from 1 April 1990, the date of introduction of the community charge in England and Wales. This means that the 1989 Public Expenditure Survey, the results of which will be announced in the 1989 Autumn Statement, will be conducted on the new basis.

These changes are designed to improve planning and control of public spending. They do not represent any dilution in the Government's determination to reduce the size of the public sector or to restrict total public spending, whether by central or local government."

#### Notes to Editors

2. The Government's objective for public spending is that its rate of growth should be held below that of the economy as a whole so that public spending falls as a proportion of national income. This objective is specified in terms of general government expenditure (GGE) excluding privatisation proceeds to GDP. GGE represents the total spending of central and local government. The ratio declined from a peak of 46½ per cent in 1982-83 to about 41½ per cent in 1987-88 and is planned to decline further this year and in the next three years.

3. For the purposes of planning and control, the Government defines a planning total comprising the control totals set for individual programmes and a Reserve. By controlling expenditure within the target fixed for the planning total, the Government seeks to achieve a wider medium-term objective specified in terms of GGE. (The precise relationship between the planning total and GGE is set out in Chapter 6 of Volume I of the 1988 Public Expenditure White Paper, Cm 288.)

4. The proposals in this White Paper relate solely to the definition of the planning total. Expenditure objectives remain unchanged.

5. In the future, the planning total will focus on that expenditure for which central government has responsibility and exclude that expenditure which local authorities determine and finance themselves. The main changes are that, instead of including total local authority spending, the planning total will include:

- the grants central government makes to local authorities;
- the credit approvals it issues authorising capital expenditure by borrowing or other forms of credit; and
- the payments made to local authorities from the proceeds of non-domestic rates.

It will therefore exclude the expenditure local authorities finance through the community charge or the use of receipts. This will, however, be included in GGE.

6. Taken together, the reforms of local government finance and the new planning total will strengthen control of public spending:

- there will be greater pressures of accountability on the spending financed through the community charge;

- non-domestic rates will be set nationally rather than by individual local authorities;

- grants will, for the first time, be specifically included in the planning total and will be considered alongside other departmental spending;

- distinguishing expenditure resulting from decisions of central government from that resulting from decisions of local government will reinforce accountability;

- setting out plans for grant and credit approvals for three years ahead rather than one will help local authorities plan their expenditure more effectively.

7. It is proposed that the change in the planning total should take effect in financial year 1990-91 when the new arrangements for local government finance are to come into effect in England and Wales. The 1989 Public Expenditure Survey will be the first on the new basis. The 1988 Survey will be unaffected.

NEW PLANNING TOTAL  
Q AND A BRIEFING

Positive

(i) Framework within which objectives for public spending are set is unchanged. Still look at combined spending of central and local government because the Government is seeking to influence total taxes (central and local) and total public sector borrowing. Thus objective of reducing public spending as a proportion of national income is still specified in terms of general government expenditure (excluding privatisation proceeds).

(ii) Changes affect the planning total. Purpose is to take account of forthcoming changes in regime for local government finance (including the introduction of the community charge) and to make the planning total a more effective instrument for controlling expenditure and delivering the objective above.

(iii) Planning total is based on expenditure control totals (which at present include local authorities' current and net capital expenditure). With change in local authority financing regime, nature of controls will change. Central government will determine grant and credit approvals and non-domestic rates will be set nationally but central government will not determine spending from community charge. Changes in planning total reflect these developments.

(iv) Planning total sharpened by limiting it to those elements of expenditure for which central government is responsible and excluding that expenditure which local authorities determine and finance from their own resources.

(v) In future the planning total will include central government's own spending:

- the grants it pays to local authorities;
- the credit approvals it gives for capital expenditure;



- the payments for local authorities from the proceeds of the national non-domestic rate; and
- the external financing limits it sets for public corporations.

(vi) The reform of local government finances provides an opportunity for change since it too is trying to improve local accountability so that community charge payers will be able to see the impact of the decisions of their own councils on the charge which they pay.

(vii) Under proposals plans for grant and credit approvals will be set for three years ahead rather than one, helping local authorities to plan their spending more efficiently.

(viii) In no sense is this a proposal to cut local authorities free. Government's determination to restrain total public spending and the size of the public sector remains. In fact it will reinforce the pressures on local authorities coming from reforms of local government finance.

#### Defensive

(i) Giving up on controlling local authority expenditure?

Not at all. Need to see change in context of changes in local government finance. Taken together, proposals increase restraint on local authority spending through:

- community charge which increases local accountability;
- national non-domestic rate set centrally;
- inclusion of grants in the planning total alongside other departmental spending.

Over the medium term the Government is still seeking to restrain public spending whether from central or local government.

(ii) A device for reducing the planning total and disguising the trends in public spending?

The change is to the planning total which is an instrument of policy. The objectives of policy are specified, as before, in terms of GGE. Thus the figures for GGE, excluding privatisation proceeds, in real terms and as a proportion of GDP are entirely unaffected.

(iii) If planning total is sum of those things Government controls, why include EFLs of nationalised industries or local authority borrowing?

The criterion is not so much control as responsibility. Are large areas of expenditure where the Government's ability to control in the short-term is limited, eg export credit, agricultural support, social security. But ultimately Government is responsible since it sets terms and conditions for these policies. The Government sets the EFLs of nationalised industries and, under the new capital control regime, will set the credit approvals. Thus the planning total reflects the various control mechanisms in force.

(iv) How does narrowing scope of planning total improve control of wider measure of total government expenditure?

Need to consider combined impact of new financial regime for local authorities and the new planning total. The former will create powerful incentives for economy in expenditure financed by the community charge. Including grants in the planning total alongside central government's own expenditure will sharpen discipline on local authority expenditure financed by central government. The planning total will be a more effective instrument of planning and control because it will be much clearer where, if the outturn deviates from plans, responsibility lies.

(v) You used to argue that policies, eg transport and education, were formulated nationally; therefore necessary to show combined spending with central and local government.

We will continue to show historical figures for spending on local authority services. But we do not plan or control local authority

spending on particular services precisely. At the margin actual spending is decided by local authorities themselves. The new planning total reflects more accurately the way planning and control is implemented.

(vi) What happens if local authorities' self-financed expenditure grows faster than the Government wants?

In first instance this is for local residents to judge but pressures of accountability through the community charge will act as a restraint. Government will also have to consider implications for expenditure under its influence, eg whether to cut back on its own expenditure, restrict grant or reduce credit approvals. But the difference is that these decisions will be taken in the Survey, ie in a medium-term context.

(vii) Will projection of local authorities' self-financed expenditure be more realistic than were the figures for provision?

That is the intention - unlike provision, the projection will in no way be a Government plan and should not be viewed (as provision has been) as a government norm. Government's view on what needs to be spent on individual services will be set out in GREs (ie the level of grant related expenditure which is determined for each service as the level of spending the Government thinks is appropriate).

(viii) Is this a consultation document?

Not formally. The White Paper is primarily about the way expenditure planning and control is conducted within Government, and it sets out how the Government proposes to do this in public expenditure Surveys after this year. But it also affects how the results of these Surveys are published. The Government will therefore welcome any comments by the Treasury and Civil Service Committee, or from other interested parties.

(ix) Does proposal stand or fall on the community charge?

In principle an arrangement like this could have been introduced with rates, but the greater clarity in new regime between effects of Government decisions and effects of local authority decisions strengthens the case for making the change.

(x) Why have you included credit approvals in the planning total?

As the recent consultation document on local government capital expenditure and finance makes clear, controls on borrowing and capital expenditure by local authorities have been exercised by central government ever since local authorities in their modern form were constituted in the last century. The reasons for these controls include the need to manage the national economy; to ensure that investment by local authorities responds to national priorities; to maintain accountability since the financial effect of expenditure financed by borrowing is felt only to a very limited extent when it is incurred; to safeguard the interests of future local taxpayers; and to maintain the high credit standing which local authorities generally still enjoy.

(xi) What if the capital control system is modified in the light of responses to DOE's consultation paper on local authority "Capital Expenditure and Finance" July 1988?

That depends on whether there are any changes to the aggregates which will be subject to control. The intention is that the new planning total should reflect the system of control as it will be operated. Since it is proposed that the Government should control credit approvals they have been included in the planning total.

(xii) Why is debt interest still outside planning total?

Interest rates are a separate policy instrument. Would be wrong to subordinate them by setting a limit on debt interest payments within the planning total. But debt interest is undoubtedly part of public expenditure which has to be financed so it is included in GGE.

(xiii) What is role of Reserve?

Reserve is there to ensure that contingencies can be met within the planning total. Variations in local authorities' self-financed expenditure within the year will not be charged to the Reserve.

(xiv) Conduct of Survey

No change to 1988 Survey. 1989 Survey will be on new basis, which will relate to plans from 1990-91 onwards. Grants to local authorities will then be part of departmental programmes. Presumption will be, as for central government's own expenditure, that increases in grant will have to be met within existing provision. Will for the first time be a trade-off between grant and direct government expenditure.

(xv) Timetable for announcement of RSG

Will be an announcement in July 1989 but position thereafter will be reviewed in light of experience of operating new arrangements.

(xvi) Does this mean death of expenditure planning and triumph of control?

It will tighten control but will also provide a more certain and stable basis for planning in the medium-term.