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ELP (O) (85) 1st Meeting

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CABINET

STEERING COMMITTEE ON LOCAL GOVERNMENT FINANCE STUDIES

MINUTES of a Meeting held in Conference  
Room C, Cabinet Office, Whitehall on  
MONDAY 17 JUNE 1985 at 2.30 pm

PRESENT

Mr P Owen  
Department of the Environment  
(In the Chair)

Mr J R Jameson  
Treasury

Ms J E Reisz  
Home Office

Mr N W Stuart  
Department of Education and Science

Mr I D Penman  
Scottish Office

Mr M G Jeremiah  
Welsh Office

Mr R A J Mayer  
Department of the Environment

Mr I Yass  
Department of Transport

Mr J M Beckett  
Northern Ireland Office

Mr C J S Brearley  
Cabinet Office

THE FOLLOWING WERE ALSO PRESENT

Mr D Brereton  
Department of Health and Social  
Security

Mr A Whiting  
Department of Trade and Industry

Mr O Letwin  
Prime Minister's Office

SECRETARIAT

Mr J E Roberts  
Ms J Rutter

SUBJECT

WORK PROGRAMME

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## WORK PROGRAMME

The Committee considered a Memorandum by the Chairman (E(LF)(O)(85) 2) setting out the proposed working arrangements and timetable for the next phase of the Local Government Finance Studies. They also had before them a Letter to the Chairman from Mr Houghton (Inland Revenue) dated 13 June.

THE CHAIRMAN said that following Ministers' consideration of the initial reports produced from the Local Government Finance Studies it was now necessary to set in hand further work to exemplify various packages, so that at their next meeting Ministers could assess what combination of policies might be acceptable. It was therefore proposed to set up six working groups under Department of the Environment (DoE) chairmanship to examine various elements of the proposals which had been put to Ministers. They would cover distributional effects, grant mechanisms, local taxation, targetted grants, fees and charges, and the Budgetary framework. In addition there would be a further group under Inland Revenue chairmanship to look at a possible modified property tax. The working groups would be informal, and would operate flexibly. They would need to complete their work in time for DoE Ministers to prepare a further report for their colleagues by mid-September. The Committee would serve to keep interested departments informed of progress, and would ensure that the work was carried out in an orderly way. It was essential that confidentiality should be maintained, and the papers produced for the Committee and the working groups should be circulated strictly on a 'need to know' basis.

In discussion the following points were made -

- a. Ministers had agreed that a fundamental reform of the Local Government Finance system was necessary but had asked to see further exemplifications of the effects of possible changes before reaching firm decisions. While they had seen attractions in establishing a national non-domestic rate and pooling receipts, of simplifying the grant distribution mechanism and of replacing rates with a residents' charge, they had also identified a number of points of concern and had not ruled out a number of other possibilities.

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b. The Treasury was considering undertaking work to examine the effects of possible changes to the social security, personal taxation, and local taxation systems in combination. This would be relevant to the Committee's work.

c. The Distribution Working Group would produce exemplifications of various proposed packages, showing the effects by reference first to Local Authorities and then to households. The relevant data was being assembled at present. The aim was to start the detailed work at the beginning of July, and to agree by the end of that month the format of the material which would be presented to Ministers. The Group would examine first the distributional effects of the package as originally proposed, including minor changes to remove the more unacceptable consequences, secondly the possibility of combining a residents' charge with some form of property tax, thirdly the possibility of a graduated residents' charge, and finally and to the extent that time permitted other ideas such as local sales or income taxes. Once the methodology for producing exemplifications had been established, it would be possible within reason to examine a wide range of possibilities, including for example the retention of a property tax either in whole or in part.

d. Various possibilities had been suggested for changing the mechanism for financing education with the aim of reducing the weight which would need to be placed on a residents' charge and of providing central Government with greater leverage over local education authorities' policies. The main options were -

- i. to introduce an identifiable element within a block grant, leaving authorities flexibility to spend at a different level;
- ii. to introduce specific grants to support education spending; and
- iii. to transfer to Central Government responsibility for financing either all or part of the cost of the education service.

The first option could be encompassed in the work of the Grant Mechanisms Group, but the second and third raised more difficult methodological problems because it was not possible to produce exemplifications until

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the policy aims which would guide the distribution of resources had been defined. The Working Group on Distribution would need to take some account of the possible implications of options two and three, even if full exemplifications could not be produced, and the Working Group on Targetted Grants would need to examine option two in particular.

e. The main task of the Working Group on Grant Mechanisms would be to consider how to compensate for differences in need. But it would also look at whether an element of resource equalisation was necessary if either a modified property tax or a graduated resident's charge were introduced. It would also need to consider the effects of whatever mechanism was proposed on Local Authorities' expenditure levels.

f. The Group on Local Taxation would look at a wide range of practical issues, including the possibility of introducing a graduated residents' charge. It would also need to take account of the results of the Inland Revenue's Working Group on a possible property tax.

g. The Working Group on Targetted Grants would examine the need for a specific grant to help urban areas. Such assistance was regarded as necessary because it was feared that the residents' charge would be unacceptably high in inner cities, that transitional help would be required while the current high level of overspending were reduced, and because of a lack of confidence that the needs assessment adequately reflected the cost of providing services in inner cities. All these issues could in principle be examined in other working groups, but it would be helpful to draw them together and to consider whether there was a rationale for a specific city grant which was consistent with the philosophy underlying the proposed reforms.

h. The Working Group on Fees and Charges would examine the scope firstly for raising greater revenue from existing charges and secondly for extending charges into areas not yet covered. The Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA) had valuable experience on the first and might be invited to contribute, although it would not be appropriate to consult them without informing

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Ministers collectively. The second raised more sensitive policy issues, although it would be useful to have a broad indication of the practical possibilities in order to assess whether further work was justified.

1. The Working Group on the Budgetary Framework would examine important but less urgent issues, which might be left until later.

THE CHAIRMAN, summing up the discussion, said that the Committee approved the formation of the Working Groups proposed in E(LF)(O)(85) 2 and in the letter from Mr Houghton. Departments should inform the Secretaries or, in the case of the Group on Modified Property Tax, Mr Houghton of their nominees for particular groups. In cases where the territorial departments were not members of the group but nevertheless had a substantial interest in their work they might receive papers and attend on an occasional basis where this would be helpful. The Groups would begin work almost immediately in order that it could be completed by mid-September. The Minister for Local Government and Mr Waldegrave would continue to have responsibility for this work in DoE, and the outside experts who had been appointed at the start of the study would continue to make an informal input.

The Committee -

1. Took note, with approval of the Chairman's summing up of their discussion.
2. Invited departments to inform the Secretaries or Mr Houghton as appropriate of their nomination to Working Groups.

Cabinet Office

18 June 1985

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