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CABINET

MINISTERIAL STEERING COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held in
Conference Room A, Cabinet Office on
MONDAY 4 NOVEMBER 1985 at 10.00 am

PRESENT

The Rt Hon Viscount Whitelaw
Lord President of the Council
(In the Chair)

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade
and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP
Secretary of State for the
Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education
and Science

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Baker MP
Secretary of State for the
Environment

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

The Hon William Waldegrave MP
Minister of State, Department of
the Environment (Minister for the
Environment, Countryside and
Local Government)

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary,
Treasury

The Rt Hon Barney Hayhoe MP
Minister of State, Department of
Health and Social Security
(Minister for Health)

Mr Michael Ancram MP
Parliamentary Under-Secretary of
State, Scottish Office

SECRETARIAT

Mr J B Unwin
Mr A J Langdon
Mr J E Roberts

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1. LOCAL AUTHORITY CAPITAL EXPENDITURE CONTROL IN ENGLAND

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about possible alternative methods of controlling the capital expenditure of local authorities in England (E(LF) (85) 14).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the present system of control over capital expenditure was imperfect. It had failed to match spending to the level of provision, or to give local authorities a stable framework within which to plan their programmes. It was therefore necessary to seek a new system. The objective was to find arrangements which were effective in controlling aggregate capital expenditure, provided control over local authority borrowing, and provided a stable framework. He had considered five possibilities.

Local authorities would prefer a system modelled as closely as possible on that which had operated in the 1970s; ie control over new borrowing. But this would provide unacceptably little control. In practice there were two realistic options: to control the net external borrowing of individual authorities, or to control their gross capital expenditure. Ideally it would be desirable to control both spending and borrowing, but in practice it would be extremely difficult to set external borrowing limits for individual authorities. He proposed that this option should be set out in the Green Paper, but with a very clear description of the difficulties which the Government foresaw.

The principal option, therefore, was a system based on the control of gross capital expenditure. Both he and the Chancellor of the Exchequer favoured this approach, which he believed would offer better aggregate control than the present system, and would remove the threat to the cash limit posed by the spending power derived from accumulated capital receipts. It would still be necessary to build in some incentive for local authorities to maximise the receipts from the sale of surplus assets, but this could be allowed for. It would also be necessary to include an element of flexibility, leaving authorities free as at present to carry forward or anticipate a small proportion of allocations between years. It would also be desirable to give local authorities a

provisional indication of the likely level of allocations for more than one year ahead in order to provide greater stability in planning capital programmes. He also proposed that authorities should be allowed to increase their spending power by the use of budgeted revenue contributions in addition to the national control total.

In discussion the following points were made -

a. As an alternative to introducing a new system, it might be possible to modify the present system, under which net capital expenditure formed the basis for control, to make it more effective. This would cause less disruption, and was likely to be more acceptable to local authorities.

b. There were grave doubts about whether a system of external borrowing limits could be made to work, and there were therefore dangers in canvassing it. But equally, local authorities might be more prepared to accept a system based on gross expenditure control if it were made clear that alternatives had been thoroughly considered and dismissed for good reasons.

c. The Government had given commitments that local authorities would over time have the benefit of all the spending power of their accumulated receipts. Under a system of gross capital control, past receipts would provide no automatic increase in spending power, but the commitment could be honoured through suitable transitional arrangements.

d. It would be helpful to local authorities if they could be given assurances about minimum levels of allocations for more than one year ahead, but it was important that such figures should be presented as provisional ones and that they should not pre-empt decisions in the annual public expenditure survey.

e. At the time when the Government had taken powers to control local authority capital expenditure in 1980, the Government had conceded an unlimited power to vire expenditure between different services. This meant that the provisions in the public expenditure White Paper for individual services were entirely notional, although in practice local authorities exercised the power in relation only to accumulated receipts.

rather than net allocations. In any new system it might be desirable to give local authorities power to vire only up to a certain proportion of the allocation for each service.

f. To permit budgeted revenue contributions to score as an addition to the national control totals would provide a useful small element of flexibility, and would be a counter-weight to the removal of the discretion to spend accumulated receipts implied by a switch to control of gross capital expenditure. But there was a risk that until the changes envisaged in the rating system had been implemented, local authorities would raise rates unduly and at the expense of business and commerce in order to finance capital expenditure outside their allocations; the case for flexibility on revenue contributions was less strong so long as local authorities retained flexibility on the use of capital receipts.

g. Legislation on capital controls could not now be introduced until the 1986-87 session of Parliament. It would just be possible to introduce a system based on gross expenditure by 1 April 1987, but this would require the Secretary of State to notify authorities of their allocations before the Bill had received Royal Assent.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the Sub-Committee welcomed the offer of the Secretary of State for Wales to circulate a note on ways in which the existing system of control of net capital expenditure might be improved. The Secretary of State for the Environment and the Chancellor of the Exchequer should consider these proposals further. But if it did prove necessary to introduce a new system, the Sub-Committee were strongly of the view that control of gross capital expenditure presented the best option. Subject to advice from the Parliamentary Secretary, Treasury that a Bill embodying this system would secure a majority in Parliament, in the light of the commitments which had been made about the use of receipts, this option should be put forward as the preferred one in the Green Paper. The Sub-Committee saw grave practical difficulties in introducing a system based on external borrowing limits, but they were content for it to be raised in the Green Paper provided that the difficulties were fully explained. The Sub-Committee were concerned that local authorities might have complete

discretion to vire allocations between services, and the Secretary of State for the Environment should therefore bring forward proposals which, while maintaining essential flexibility, would provide the Government with greater influence in securing appropriate levels of expenditure on particular services. The proposal that local authorities should have some limited power to make budgeted revenue contributions towards capital expenditure could be set out in the Green Paper, but anxieties had been expressed in the Sub-Committee, and they should be reflected. In particular, the flexibility that could be offered in revenue contributions was linked with the treatment of receipts, where the Secretary of State would be discussing with the Parliamentary Secretary, Treasury. Subject to consideration of the proposals to be circulated by the Secretary of State for Wales, the Secretary of State for the Environment should prepare and circulate a draft section of the Green Paper for the Sub-Committee to consider further. The option of introducing the system in time for the 1987-88 financial year should be kept open.

The Sub-Committee -

1. Took note, with approval, of the Lord President's summing up of their discussion.
2. Invited the Secretary of State for Wales to circulate a Note, for consideration in particular by the Chancellor of the Exchequer and the Secretary of State for the Environment, on ways in which the existing system of control of net capital expenditure might be modified.
3. Subject to 2, invited the Secretary of State for the Environment to discuss the question of receipts with the Parliamentary Secretary, Treasury and to circulate a draft section for the Green Paper on the lines indicated in the summing up.

LEGISLATIVE IMPLICATIONS OF LOCAL CHARGE LIMITATION

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about the legislative alternatives for securing powers to limit the local domestic charge (E(LF)(85) 9).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Sub-Committee had decided that it would be prudent to retain a reserve power to limit the spending of the most extravagant authorities (E(LF)(85) 2nd Meeting). Given the fundamental changes envisaged for the local domestic tax, the provisions of the Rates Act 1984 would require substantial amendment, unless it was intended that the power should apply only to any property related element of the local charge. There were two options for taking new powers. The first would be to include the relevant clauses in the main legislation giving effect to the rates reform package, but this could be controversial and would add to the difficulties of taking the Bill through Parliament. Alternatively the Government could make clear its intentions, but could delay introducing legislation until the need for it was proved by experience.

In discussion the following points were made -

- a. Some local authorities might seek to increase their spending under cover of the turbulence caused by the introduction of the new financial regime, and the criticism for increased local tax bills would fall on the Government rather than the authority. Limitation powers were therefore likely to be most necessary at the outset.
- b. There was an argument for not seeking to limit the residents' charge on the basis that so long as local electors bore the full cost of excessive expenditure the need for Government intervention was less. But this should not be overstated.
- c. If the limitation powers were discretionary and were themselves subject to parliamentary control (as were the current powers), little would be gained by requiring a commencement order before the powers could be initiated. It might, however, be possible to devise a

simpler limitation system than operated at present which would require less Parliamentary procedure, and in that case a commencement order could be appropriate.

d. The present rate limitation arrangements in Scotland were different from those in England, and the Green Paper should make clear that different arrangements might be appropriate in the future also.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the Sub-Committee were firmly of the view that the powers to limit expenditure should be taken at the outset. It was less clear whether there was merit in requiring a commencement order before the powers took effect, and the Secretary of State for the Environment should give further thought to this in the light of the points made in discussion.

The Group -

Took note, with approval, of the Lord President's summing up of their discussion, and invited the Secretary of State for the Environment to be guided accordingly.

ANNUAL ELECTIONS

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about the possibility of changing the local electoral system so that every local authority in England was subject to annual elections (E(LF) (85) 11).

THE MINISTER FOR THE ENVIRONMENT, COUNTRYSIDE AND LOCAL GOVERNMENT said that there was concern about the way local authorities manipulated their balances in order to reduce rate rises just prior to elections. In some cases there was now no relationship between the increase in expenditure and the increase in rate bills in any particular year. While it was true that in the longer term there was no discernible difference in the levels of expenditure of those councils which faced elections by thirds and those which faced re-election only every fourth year, he believed it was important that local authorities should not have an incentive to manipulate balances artificially, and he therefore saw some advantage in moving towards a system under which some councillors would face re-election each year.

THE LORD PRESEIDENT OF THE COUNCIL, summing up a brief discussion, said that while the Sub-Committee saw arguments in principle both for and against annual elections, experience had shown that any proposal to amend local electoral arrangements was likely to generate considerable opposition. Moreover, the need to change the warding arrangements in London and in Scotland would give rise to much local controversy. The Sub-Committee therefore considered that the proposal for annual elections should not be considered further, and should not be raised in the Green Paper.

The Group -

Took note, with approval, of the Lord President's summing up of their discussion.

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THE LOCAL AUTHORITY BUDGETRY FRAMEWORK

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about means of tightening up the budgetry framework for local authorities (E(LF)(85) 12).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that it was necessary to strengthen the framework within which local authorities prepared their annual budgets in order to prevent malpractices. The present imprecise framework was allowing authorities, particularly those facing stringent financial pressures, to manipulate their finances so as to minimise the effect of those pressures. Some authorities could be storing up potentially serious long-term financial problems by such manipulation. It was difficult to design a framework which would eliminate all such practices. He had concluded that the proposal made earlier that the District Auditor should be empowered to vet authorities' budgets in advance would not be effective. He therefore now proposed instead a self-policing approach, in which a statutory duty would be placed on local authority Treasurers to guarantee the legality and propriety of their councils' financial affairs. The Treasurer might be required to certify that the authority's proposed rate was adequate to meet its expenditure and that the estimated expenditure represented a fair and reasonable statement of its policies. We might also be required to make formal public reports to the council and the auditor if at any time a proposed item of financing mechanism was illegal or improper, or if he considered that its resources were likely to be inadequate to finance its estimated expenditure. Such reports had often been made in the past, but only in private. If they were made in public, the district auditor or other interested parties would have sufficient warning to be able to take appropriate legal action. Preliminary discussions with the Chartered Institute of Public Finance and Accountancy (CIPFA) had indicated that such an approach might be acceptable to them.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that the Sub-Committee endorsed the approach outlined by the Secretary of State. They saw some danger that local authorities might be tempted to

appoint weak or politically motivated treasurers, but the proposals which would flow from the Widdicombe inquiry would minimise these risks. Subject to further discussion with CIPFA, the proposal should be floated in the Green Paper.

The Sub-Committee -

Took note, with approval, of the Lord President's summing up of their discussion, and invited the Secretary of State for the Environment to be guided accordingly.

5. SALES FEES AND CHARGES

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about increasing the extent to which local authority services were financed out of revenue from sales fees and charges (E(LF)(85) 13).

THE MINISTER FOR THE ENVIRONMENT, COUNTRYSIDE AND LOCAL GOVERNMENT said that where appropriate local authorities should fund services from sales, fees and charges rather than local taxation. The strategy for increasing such income must therefore provide local authorities with both the means and the incentive to recover more in this way. At present there were over 600 different fees and charges. Some were regulated by central Government, and many were set at unrealistically low levels. He therefore proposed that there should be a Ministerial review to identify areas in which central Government control of charging areas might be abolished or relaxed, to consider what further services might be brought into the scope of charging, and what guidance or principles the Government might set out on charging policy.

In discussion the following points were made -

a. While the principle of setting appropriate charges for services was accepted, it was important that local authorities should not exploit the business community. It was entirely appropriate to recover the cost of providing services, but local authorities should not seek to tax the economic benefit conferred by (for example) planning consents.

b. Although it had been decided not to proceed with legislation in the 1985/86 Parliamentary session to require local authorities to put more services out to tender, there was a great deal of support for their in Parliament and legislation might well be introduced in a future session.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the Sub-Committee endorsed the principle of encouraging local authorities to raise a greater proportion of revenue from sales, fees and charges. They agreed that it was necessary to review the scope for charging service by service, and that there should be a Ministerial review of Government controls over levels of charges. Such a review might also identify any services for which minimum financial performance objectives could be set, and also consider the case for a statutory code of conduct on charging.

The Sub-Committee -

1. Took note, with approval, of the Lord President's summing up of their discussion.
2. Invited the Secretary of State for the Environment to arrange for a group of junior Ministers to be convened to review on a service by service basis the scope for extending charging powers, the need for Government controls over charging levels, and guidance on charging policies.

Cabinet Office

5 November 1985