

CONFIDENTIAL

BF 14/3 BF 21/3 BF 10/3
16/3

FROM: A TURNBULL
DATE: 8 MARCH 1988

CHIEF SECRETARY

cc

Chancellor
Financial Secretary
Economic Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips
Mr Monck
Mr Scholar
HEGs

Mr Odling-Smee
Mr Sedgwick
Mr Spackman
Mr Potter
Mr Gieve
Mrs R J Butler
Mr Richardson
Mr Perfect
Mr G C White
Miss Walker
Mr Kidman

any more recent pps on this? m.

A NEW PLANNING TOTAL

When the Chancellor and Mr Ridley discussed the new planning total with the Prime Minister, she agreed that, as from March this year, the circle of consultation could be widened to take in other departments.

2. We have been working with DOE officials on a number of issues and though not all of them have been finally settled, we have reached agreement on sufficient of them to put proposals to other departments. The two issues we felt it important to resolve before going wider were:

i. local authority capital control: a near final draft of a consultation document on a new control regime for local authority capital, other than housing, has just been circulated to departments at official level. You have written to DOE with proposals on how that regime would be incorporated into the new planning total, ie capital grants and borrowing permissions above the line, use of capital receipts and revenue contributions below the line and we expect that to be agreed. We have yet to finalise the way these new borrowing permissions would be allocated to individual services but that is something that can only be agreed with all departments. Separate proposals on housing will be coming from DOE shortly. Mr Ridley will be seeking agreement to the proposals for housing and for other services at E(LF) before the end of the month;

ii. the NNDR: the Chancellor has put a counter proposal to Mr Ridley in which the NNDR is above the line but shown separately from other central government expenditure. I am now reasonably confident that this will be accepted.

3. There are other issues where a final position has not been reached but this need not hold up the wider consultations:

i. the timetable for E(LA) discussions on grant where we are still talking to DOE about whether the whole process should be geared to producing an announcement in the Autumn Statement (which would be the logical consequence of the new planning total); or whether as now decisions are taken at the July Cabinet and announced before the Recess (which would help local authorities in planning their budgets and spreads the workload within government);

ii. the way capital grants should be paid after 1990 where we have agreed with DOE and the Scottish Office that grants should relate to capital spending and not to the debt servicing payments which continue for years afterwards. For Scotland, we have agreed that payments relating to past capital spending should be capitalised by a lump sum payment from central government which is used to repay PWLB borrowing. In return, they have also agreed that home improvements and other grants would no longer be paid as specific grants but have to be met out of RSG. We are discussing with DOE how to deal with the continuing payments in England where the amounts involved are very much larger and there is no proposal to wind up any of the specific grants.

4. We need to consider:

i. how to bring the discussion within government to a point where we are ready to announce our intentions to the outside world;

ii. when and how to make the public announcement.

5. On (i), we propose the following steps.

a. Once we have confirmation of agreement on the NNDR, you should minute the Prime Minister, copied to Cabinet colleagues, attaching an updated version of the paper we sent to the Prime Minister and Mr Ridley. This is slightly artificial in the sense that the Prime Minister has been approached already but it seems better than writing to, say, Mr Hurd or Mr Baker which would highlight the degree to which prior discussions have gone on already. Attached at Annex A is a draft minute and at Annex B a draft of the paper.

b. The minute would not seek endorsement from Ministers nor invite reactions, though it would be helpful to inspire a low-key response from the Prime Minister indicating that she was content with the procedure proposed and reinforcing the message about confidentiality in the last paragraph of the minute.

c. Instead, the Treasury would convene a meeting of PFOs to clarify the proposals and agree arrangements for discussing outstanding issues.

d. Beneath PFOs, we might ask each department to nominate a contact. This would be a circulation list for papers rather than a committee membership. The Treasury would call meetings ad hoc to resolve particular issues.

e. Around June, you would minute colleagues again, but this time seeking confirmation of the proposal.

6. On (b), DOE are anxious to be a position to tell local authorities associations what is planned around the end of July. As work on the 1988 RSG announcement reaches a conclusion there are likely to be questions about the preparatory work for the next round. We agree that an announcement in July would be

helpful. This would allow those who wish to comment to do so before final decisions are taken in early 1989 on how the Survey for that year is to be conducted. If, for example, the TCSC were not given anything until November, they would probably not react until well into the new year as they would be dealing with the Autumn Statement as their first priority.

7. There are a number of ways in which the publication could be made:

- White Paper;
- Green Paper;
- Treasury consultation document addressed, in particular, to the TCSC and local authority associations.

8. In choosing the means we need to consider just what profile we want to give this exercise. Is it to be presented as a major change in the relationship between local authorities and central government? Or a major change in the way public expenditure is planned and controlled? Or is it a technical change which brings the basis for public expenditure planning into line with the reform of local government finance? My own instinct is to go for a lowish profile. The more we emphasise the political message the more difficult it will be to achieve a consistent presentation with DOE. We will want to be stressing the advantages for public expenditure control and they will want to be offering reassurance to local authorities that this is not a major extension of central government power. This does not need to be decided now though it would be useful to have your reactions.

AT

CONFIDENTIAL

DRAFT MINUTE TO PRIME MINISTER AND COLLEAGUES

A NEW PLANNING TOTAL

From time to time there have been suggestions that we should restructure the public expenditure planning total so that it includes the grant central government pays to local authorities and excludes the expenditure local authorities finance from their own resources rather than, as at present, including all local authority spending. This suggestion was made at the July Cabinet meeting on public expenditure last year, and I indicated that it was a subject to which I was giving some thought.

2. The danger we have faced hitherto in making such a change is that it would inevitably be interpreted as a weakening of the Government's determination to restrain the growth of local authority spending. However, the introduction of the community charge and the national non-domestic rate provide an opportunity to re-examine the present definition of the planning total and its relationship with our objectives for public spending.

3. The attached paper discusses the case for making the change in that context. This would not imply any change in our underlying objective of reducing general government expenditure (which will continue to include local as well as central government spending) as a

proportion of GDP. Inclusion of forward plans for grant in the planning total will help us break away from the framework in which we are always reacting to whatever level of spending local authorities decide upon.

4. There are a number of issues which will need to be considered. These include the way local authorities self-financed expenditure is shown in the individual chapters of the White Paper; the treatment of local authority borrowing and capital grants for housing and for other services; any implications for the territorial formulae; and the timetable for E(LA) and consultations with local authority associations.

5. Before committing ourselves to these proposals, we need to consider the implications with departments. Rather than inviting reactions from colleagues at this stage, I suggest that the Treasury sets in hand discussions at official level. I will then report further to colleagues with my recommendations.

6. There is an important caveat to be made. Although I believe that changing the planning total in the way suggested would not weaken our ability to restrain local authority spending, indeed it should buttress the other reforms that are being made, especially the introduction of the Community Charge, there is a danger that the proposal could be misunderstood if it were not explained properly. It would, for example, be

damaging if local authorities felt, albeit wrongly, that there was a weakening in our resolve to restrain local spending and reduce the burden of taxation. If we do decide to go ahead, it would be essential, therefore, when the time comes to broach this with the outside world (possibly in the summer when the RSG for 1989-90 is announced and the local authority consultative machinery starts to look forward to the next round) that the presentation should be carefully made. In the meantime, consideration of the proposal should remain confidential within Government.

7. I am copying this minute and the attached paper to Cabinet colleagues and to Sir Robin Butler.

[JM]

A NEW PLANNING TOTAL

One of the characteristics of the way the Government in this country plans its expenditure is that it includes the spending of both central and local government in its planning total. Very few other industrial countries do this. For federal states such as Germany, the US or Canada this would be inappropriate; but even in other unitary states such as France or the Netherlands, the government makes plans only for central government expenditure.

2. There are understandable reasons why the Government makes and legislates for policies which may be implemented by either central or local government. Responsibility for education, roads and law and order is shared between the two. It is helpful in planning policy to draw together all the expenditure, irrespective of the level at which it is incurred.

3. The Government also has policies for the burden of taxation and the community charge will be just as much part of that burden as VAT. Finally, the Government has policies for the role and scope for the public sector as against the private sector and its share of national output.

4. While drawing all public sector spending together, either in aggregate or for individual departmental programmes, has a number of advantages, it also has disadvantages. Our present procedures lump together expenditure for which government has differing degrees of responsibility and thus blur 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 or with local government.

5. 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 provide 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 is a major influence on what local authorities spend and it represents money which central government has to raise in taxes.

6. The "Paying for Local Government" reforms provide both an opportunity and a justification for rethinking our system. One of the objectives is to increase local accountability, ie to make it clear to local electorates when local spending rises whose responsibility this is, so that they can draw the appropriate conclusions. The present arrangements do not do this.

7. We see advantage in restructuring our planning of public spending on the following lines:

i. There would be no change to our underlying objectives for public spending, ie the aim of reducing public spending as a proportion of GDP would continue to be expressed in terms of general government expenditure (ie central plus local spending) as a proportion of GDP.

ii. But within general government expenditure the planning total would become the sum of central government's own expenditure, the grants it provides to local authorities, the permitted level of local authority borrowing for capital purposes, payments from national non-domestic rates and the external finance of public corporations, plus a reserve.

iii. The current expenditure which local authorities finance for themselves through the community charge and the capital spending financed from revenue contributions or use of receipts, would be outside the planning total but still within GGE as debt interest is now. The attached table shows how the accounts would look.

8. The new planning total would have a number of advantages:

i. It would comprise those elements for which central government has a direct responsibility and it would exclude that spending which local authorities decide for themselves.

ii. It would contain the grants paid to local authorities. These would have to be planned for 3 years ahead and not just one as at present. This would not only give local authorities a better basis on which to plan their finances,

but would make it clearer to the local electorate who was responsible for increases in local taxation. It would also create a baseline against which next year's discussion about grant would take place. It would help stop grant being determined by previous years' overspending.

9. There is one danger in adopting such a system. It could be interpreted as a decision by central government to give up its attempt to influence locally financed spending and to cut the local authorities free. This can be avoided if the change is made in the proper context. The proposals in the Local Government Bill will:

- i. establish a national framework for non-domestic rates;
- ii. increase pressures of accountability through the community charge.

To make the change in the context of these reforms will make it clear that the Government is still concerned about local authority spending. Continuing to express our objective in the MTFS in terms of general government expenditure (ie central and local) will also make it clear that the Government is still concerned about the level of taxation and borrowing for the whole public sector.

10. The logical time to make the change would be with effect from April 1990. This would imply that the 1989 Survey and RSG discussions would be conducted within the new framework and the 1989 Autumn Statement and 1990 PEWP would announce the results on the new basis. The precise timetable for RSG discussion and for the announcement of grant in future years is still for decision. To conduct the 1989 Survey on the new basis it would be necessary to have resolved all the issues of classification and control by the autumn of 1988, so that a baseline on the new basis can be constructed by early 1989.

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A NEW PLANNING TOTAL AND GGE

f billion

	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Central government's own expenditure	85.0	92.0	98.4	104.6	109.7	114.2
Central government grants to local authorities						
Current grants	19.0	19.6	19.6	21.1	23.0	23.3
Capital grants	0.2	0.2	0.4	0.5	0.8	0.8
Central government expenditure (1)	104.3	111.8	118.4	126.2	133.6	138.4
National non-domestic rate 'payments'	6.1	6.2	6.5	7.3	7.9	9.0
Local authority capital spending/ borrowing (2)	4.4	4.5	3.7	3.2	2.9	3.1
Public corporations						
Nationalised industries' EFLs	2.3	3.8	1.7	0.4	0.5	0.7
Other public corporations	1.0	1.1	0.9	0.8	0.6	0.8
Reserve	0.0	0.0	0.0	0.0	0.0	3.0
Privatisation proceeds	-1.1	-2.1	-2.7	-4.4	-5.0	-5.0
NEW PLANNING TOTAL	116.9	125.3	128.6	133.5	140.5	149.9
Other local authority expenditure (excluding debt interest)	3.4	4.4	5.1	5.8	6.2	6.4
Local authority debt interest	3.9	4.1	4.5	4.3	4.4	4.5
Central government debt interest	10.6	12.0	13.2	13.3	13.4	13.6
Accounting adjustments	5.3	4.4	6.9	8.0	8.1	8.5
GENERAL GOVERNMENT EXPENDITURE	140.1	150.2	158.2	164.8	172.6	182.8

(1) Excluding finance for public corporations.

(2) The element in this line will need to be defined.