



Prime Minister

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RATE LIMITATION LEGISLATION

Yes. I favour Option B and Model 2. Am very pleased with the way the work is shaping up.

Agree, subject to colleagues,

to this basis for the White Paper?

Or would you prefer to await colleagues' views?

In our Manifesto we promised to "legislate to curb excessive and irresponsible rate increases by high spending Councils, and to provide a general scheme for limitation of rate increases for all local authorities to be used if necessary". We also promised certain reforms to the non-domestic rating system. We have now confirmed in The Queen's Speech that legislation will be introduced this session. The Bill needs to be enacted by the summer of 1984 so that we can take steps to limit the rates of selected authorities for 1985-86. It must therefore be introduced no later than January; which means that we must settle the details of both the selective and general schemes and complete instructions to Counsel by the early autumn.

MCS 1/7

In my speech in the Debate on the Address on 23 June I gave a very general indication of our intentions. I suggest that the next step should be the publication of a White Paper setting out our proposals in more detail. This will also serve as a response to the Second Report of the Environment Committee on the Government's Green Paper "Alternatives to Domestic Rates" (Command 8449). It should therefore include not only our proposals for rate limitation, but also details of the other rating reforms which we propose. I shall be consulting colleagues further on these other reforms, including the two specific topics which the Cabinet invited my predecessor to consider further: reevaluation and a possible discount



scheme (CC (83)17th). Meanwhile this minute sets out the main features of the rate limitation schemes, which I invite you and other colleagues to endorse as the basis for preparing a White Paper.

I attach a detailed paper by DOE officials on how the selective and general schemes might be designed. It has been discussed with other Departments at official level. Paragraph 57 (of which a separate copy is immediately below) summarises the issues for decision. In this minute I draw attention to the most important issues listed in that paragraph.

I THE SELECTIVE SCHEME

Number of authorities to be controlled B(i)

Under the selective scheme we might aim to bring about 15 authorities within control. The main constraints on the numbers brought into control are the nature of the Parliamentary procedure (see paragraph 14 below); and the desirability of keeping numbers down to avoid legal challenge on grounds of inconsistency in decisions, especially as we will be breaking new ground in establishing a control system. I also believe that it will be important in terms of Parliamentary handling to show that the Government is concerned with relatively few high spending authorities under the selective scheme.



Criteria for selection B(ii)

I am sure that we should seek powers to select authorities for control by reference to a very general criterion, such as "excessive expenditure". This will give us maximum freedom of manoeuvre, and allow us to discriminate between authorities that are genuinely trying to comply with Government guidelines and those that are not. In practice we shall want to be able to take account of such matters as a) levels of expenditure (eg in relation to grant related expenditure assessments (GREs)); b) increases in expenditure; and c) increases in rates. And we shall want to be able to adopt different criteria from year to year.

We shall certainly come under pressure to specify the criteria in the main legislation. This would constrain us too much; but I believe that we should be willing to provide in the Bill for a requirement on the Secretary of State to report to Parliament each year, for information, the criteria used for selection. We may ultimately be forced to concede a procedure in which the criteria have to be approved in an annual Order subject to affirmative resolution but I would certainly not want to go that far in the White Paper.

We shall need to consider what arrangements to make for the joint boards created on abolition of the Greater London Council and Metropolitan County Councils. One possibility would be to apply the same criteria for selection to them as to any other authority. But it may well be better to apply a general



control to all the joint boards, at least initially. The control could later be replaced by the normal selective approach. The issue could be left open in the White Paper on rate limitation and reform; but we shall need to make our intentions clear in the autumn White Paper on abolition.

De Minimis Exclusion - B(iv)

I believe that we need powers to exclude authorities whose expenditure is too small to affect the aggregates significantly. If, for example, we were to exclude authorities spending less than £10m a year, this would automatically eliminate 276 of the 296 shire districts. Since the shire districts as a whole account for only about 7% of local authority current expenditure, this would have little or no effect on local government expenditure as a whole. And since the numbers to be controlled in the selective scheme are limited we do not want to displace a high spender, in relation to the Grant Related Expenditure, with a large budget of over say £100m, with a high spender with a budget of less than say £10m. Moreover a firm undertaking to make an exclusion of this kind could be presentationally very helpful, since it could be expected to reduce the hostility of the Association of District Councils. I will further consider the terms of the undertaking in preparing the White Paper.

Rate Reductions - B(vi)

✓ It is important that we take powers to require rate reductions as well as to restrain increases.



Form of Control - B(vii)

There are two possible ways in which the control system could operate. Under Option A - the approach outlined by my predecessor in his paper E(LF)(83)11 - selected authorities would be required to submit their budgets for scrutiny from about July each year. An alternative approach - option B - would involve giving to selected authorities formula based expenditure targets from which it would be for them, if they wished, to seek derogations. (In both cases an expenditure figure determined by the Secretary of State would be the basis for setting rate limits once grant entitlements had been determined in the RSG settlement.)

Colleagues will recall that in previous discussions the Attorney General advised that a system of control which places the onus on a local authority to seek a derogation from the Secretary of State is less susceptible to successful legal challenge. Bearing this in mind, I believe that option B has several advantages over option A:

- i. Scrutiny will be costly and time-consuming. Under option B we would look in detail only at the budgets of those authorities seeking derogations.
- ii. Under option B, authorities would have to give us the facts to justify their applications for derogations, whereas under option A the onus would be on us to seek and obtain the necessary information.



iii. Since under option B it would be for local authorities to provide the relevant facts, there would be a smaller risk of successful legal challenge to the Secretary of State's decisions, on the grounds that he had overlooked particular points.

✓ I favour option B, and suggest that it should be the basis for the description of the scheme in the White Paper. If we continue to have individual expenditure targets for all authorities, this approach will fit in very well with them; but it would also be compatible with a block grant system without targets and holdback.

Balances - B(x)

Once an expenditure limit is agreed (in July or later) and the grant level determined (in December) it will be possible to determine the rate limit. We need to decide whether we wish to be able to take an authority's accumulated balances into account when deriving its rate limit. To do this we should need to examine each authority's accounts in detail and to make judgements on prudent levels of balances. Balances can only be used once and are not large in absolute terms; and we may in due course decide that the effort of taking account of them is not worthwhile. But in my view we should take powers to enable us to take account of balances if we so wish, not least in order to discourage authorities from rating up in 1984-85 before the controls are in place.



Future of Targets - B(xii)

There can be no doubt that we should make the passage of the legislation much easier if in introducing the Bill we were able to promise an end to the system of targets and grant holdback system for authorities in general. But the target system is part of our armoury for restraining local authority aggregate expenditure, and I believe that we shall need to keep targets and holdback for 1984-85 in order to discourage spending up in the last year before the control scheme comes into force. And it is too early to decide about 1985-86. We shall need to keep this issue in mind, however, during the passage of the Bill.

Parliamentary Procedure - B(xiv)

It is clearly right that Parliament should have the power to approve or reject rate level determinations in cases of disagreement between the Secretary of State and the local authority. I would judge the best vehicle to be Orders laid before both Houses, but subject to affirmative resolution only ✓
 ✓ in the House of Commons, as under the present Scottish arrangements. There is a further choice between individual Orders for each authority (as under the Scottish arrangements), or composite Orders covering a number of authorities. It might be that individual Orders would create further pressure on Parliamentary time and further work, thus limiting the number of authorities that could be controlled. I should welcome the



Chief Whip's advice on whether composite Orders would be preferable in terms of use of Parliamentary time. My own present preference is for composite Orders, on the grounds that they would - at least in principle - allow the possibility of controlling a larger number of authorities.

Interim Rates - B(xv)

It will not always be possible to set an authority's rate limit before the start of the rating year. We shall therefore need a power for an authority to set first an interim rate, and subsequently a final rate. We must avoid calling the latter a "supplementary rate", following the abolition of authorities' powers to levy such rates last year. We must also leave open the option of allowing temporary borrowing instead of an additional rate in appropriate cases.

Advice from Other Departments and Agencies - B(xvi)

It will be very important to ensure that DOE, other Government Departments concerned, and agencies such as the MSC, HSE and National Health Service avoid encouraging authorities through circulars or subordinate legislation to spend money in ways inconsistent with the control scheme. Arrangements will have to take account of the fact that different Departments in England have a formal statutory role in respect of different services.



II THE GENERAL SCHEME

Form of Control - C(ii)

I have considered two alternative models for the general scheme. Under the first (model 1) we would set standard limits on rate increases for each class of authority, without considering the expenditure levels and needs of individual authorities. Each authority's permitted expenditure would then be derived from its rate limit and its grant entitlement; and the pattern of permitted increases would be irregular. Under the second (model 2) we would in July set appropriate expenditure levels for all authorities (as under the selective scheme), which would then be translated into rate limits after the RSG settlement. Under model 2 rate increases would be controlled indirectly, and their pattern would be more irregular than under model 1.

Model 1 looks presentationally simple and attractive, and controls rate increases directly. But I believe that politically it would be difficult to defend because it takes no account of individual authorities' circumstances; for that reason we should get a very large number of applications for derogations, and would have great difficulty in handling them without incurring legal challenge. Model 2, using individual expenditure levels, would be more readily defended and should produce fewer applications for derogations. It would also follow on more naturally than model 1 from option B of the selective scheme since under both the Secretary of State would set explicit expenditure figures for each authority controlled. The transition from the selective to the



general scheme, if it ever occurred, would thus be easier. Moreover model 2 would do as well as, if not better than, model 1 in controlling aggregate expenditure since rate increases and grant would both be controlled under either model; and we should probably be able to concede fewer derogations under model 2. For all these reasons, but especially sensitivity to individual authorities' circumstances, I favour model 2, and I propose that the White Paper should be drafted accordingly.

We shall of course come under great pressure to be specific about the circumstances that would trigger the transition from the selective to the general scheme. We cannot be specific; the judgment that would have to be made would be a complex political one (and different considerations might apply in England, Scotland and Wales). Our supporters who are sympathetic to local authority interests are more likely to be hostile to the general scheme than the selective one, and so we shall have to stress the reserve nature of the general powers.

There would be many more applications for derogations under the general scheme than the selective one, because it will apply to all authorities. The workload problem could become acute, and it would be necessary to seek so far as possible to develop standard criteria for the granting of derogations. It would also be desirable to provide for a de minimis exemption, as under the selective scheme. It would be necessary, under either model 1 or model 2, to ensure that achievable limits are set in order to avoid legal challenge. This also points to the need for allowing some headroom in the limits set.



Parliamentary Procedure - C(vii)

I am clear that rate limits should be approved by a single Order, without the need for further reference to Parliament of agreed derogations.

III DEFAULT AND OBSTRUCTION

The possibility of default and/or obstruction has to be considered in the context both of rate limitation and of local government restructuring. There is a difficult judgment to make - in both cases - as to whether explicit provisions in respect of default (including a power for Commissioners to take over running of some or all services) would be provocative and counter-productive; or would show that the Government means business. There are various legislative opportunities, including the rate limitation Bill itself this session, or a possible separate Bill in the 1984-85 session if it became clear then that legislation were needed. We cannot take a firm view until the pattern of reaction to our proposals becomes clearer, and a final decision is not needed in the context of the White Paper, which does not have to go into details on this subject. But in the meanwhile I have put contingency work in hand with the aim of having Instructions to Counsel ready by October in cases our decision at that stage is to go ahead with legislation this session in either or both contexts.



IV NEXT STEPS

I should be grateful for your agreement that work should proceed on the basis outlined in this minute. Subject to your views and those of colleagues I would then propose to circulate a draft White Paper early next month.

I am copying this minute to Cabinet colleagues, the Attorney-General, the Chief Whip and to Sir Robert Armstrong.

PJ

P J

29 June 1983

V SUMMARY OF ISSUES FOR DECISION

57. The following is the list of issues for decision identified in this paper. Officials recommendations are incorporated.

A. Scope for legislation

(i) The legislation should apply to England and Wales; Scotland will have its own Bill (paragraph 5);

(ii) Rates control in England and Wales should be operated separately by the territorial Secretaries of State (paragraph 5).

B. Selective control

(i) No more than about 15 authorities should be selected for control at any one time. (NB. Transitional problems with joint boards following abolition of GLC and MCCs) (paragraph 9);

(ii) The criteria for selection should only be delineated in the Bill by a general reference, for example to "excessive expenditure" (paragraph 10).

(iii) The selection of authorities should be determined according to principles applying to all authorities in a particular class and not subject to specific Parliamentary scrutiny (paragraph 11).

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(iv) The Bill should include a power to exclude authorities whose expenditure is below a minimum level. A limit of £10m would exclude all but 20 shire districts (paragraph 12).

(v) The expenditure and precepts of minor authorities (parishes and others) should not be controlled individually, but should count against the expenditure and rate limit of the rating authority (paragraph 13).

(vi) The Bill should provide for the Secretary of State to require rate reductions, as well as to restrain rate increases (paragraph 15).

(vii) Ministers should express a preference on the form of operation of selective control as between Options A and B (paragraphs 17-21);

- Option A Authorities rate limits set on the basis of expenditure figures approved after detailed scrutiny of draft budgets sent in October by all selected authorities.

- Option B Authorities rate limits set on the basis of formula expenditure targets set in July as amended on derogations from authorities unable to manage within target.

Officials recommend Option B because it would reduce the risk of legal challenge and be much simpler administratively.

(viii) The Bill should provide for a power to attach conditions to the determination of a rate (paragraph 23).

(ix) There should be no specific statutory role for management consultants in negotiations about rate levels (paragraph 24).

(x) Approved expenditure can be translated into maximum rate limits on the basis of a formula or, after taking into account the balances held by authorities (paragraphs 26-27). Ministers are asked to express a preference.

(xi) The Secretary of State should take powers to require the provision of information and to make assumptions, which would not be legally challengeable, if authorities failed to co-operate (paragraph 30).

(xi.a) Scrutiny of authorities' budgets may require the Secretary of State to have regard to rents and fares. The implications of legislation on Protected Expenditure Levels (PELs) and rents will need to be investigated (paragraph 22).

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Relationship with expenditure targets

(xii) Decisions on the future of targets in the context of selective control need not be taken until 1984; until then Ministers need say publicly only that the relationship with the control scheme is being considered (paragraph 34).

Parliamentary procedure

(xiii) Where agreement is reached between the Secretary of State and the local authority on expenditure and rate levels, rate limits should be set by direction or Order by the Secretary of State without reference to Parliament (paragraph 35).

(xiv) Where there is disagreement about expenditure levels, or agreement about expenditure but not about rate levels, those rate levels should be set by an Order subject to affirmative resolution. Such an Order should preferably be capable of covering several authorities at a time (paragraph 35 and 36).

(xv) Authorities should have power to set an interim rate where agreement has not been reached before the normal date for setting a rate; and power subsequently to levy a larger final rate if a limit higher than the interim is eventually agreed, or to approve temporary borrowing in appropriate cases (paragraph 35)".

(xvi) Arrangements in Government should be made to ensure that Departmental circulars and subordinate legislation do not impose financial burdens on authorities inconsistent with the control scheme (paragraph 27).

C. General control scheme

(i) A transfer from selective to general control should be effected by statutory instruments subject to affirmative resolution (paragraph 40).

(ii) Legislation should be prepared on the basis of either Model 1 or Model 2, described in paragraphs 38-47.

- Model 1 Standard rate increases determined by the Secretary of State - subject to adjustments to base line rates. Authorities' permitted expenditure determined in December each year by combination of rate income and grant entitlement. Applications for derogations dealt with after RSG Settlement.

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- Model 2 Authorities set reasonable expenditure levels in July - applications for derogation made from late summer onwards. After RSG settlement approved expenditure translated into permitted rate levels for each authority sufficient to finance approved expenditure.

Officials recommend Model 2.

(iii) The Secretary of State should have power to attach conditions to derogations granted (paragraph 48(i)).

(iv) One such condition might be to require a review by consultants of particular aspects of an authority's services (paragraph 48(ii)).

(v) Power should be taken to allow the Secretary of State to take into account authorities' balances (paragraph 48(iii)).

(vi) Grant holdback would be superfluous under a general scheme (paragraph 48(iv)).

(vii) Parliament would approve rate levels for all authorities in a single order. Derogations from the general limits could be granted by the Secretary of State without further reference to Parliament (paragraph 48(v)).

(viii) As in the selective control scheme, there should be a power to set interim rates and allow higher or lower final rates and approve temporary borrowing where appropriate (paragraph 48(vi)).

(ix) Small authorities should be excluded from general control (paragraphs 48(vii)).

(x) Further consideration of whether parish precepts should count against the expenditure and rate limit of the rating authority, and a submission will be made in due course.

(xi) Authorities' income from fees, rents, fares and charges should be allowed to remain as safety valves, as officials recommend (paragraph 48(x)).

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1. Default and intervention

(i) Whether to prepare legislation in anticipation that authorities resisting control may default from their obligations; by providing for the appointment of Commissioners (paragraph 52).

(ii) Whether to legislate in the main Control Bill; in a separate Bill in the 1984/85 Session; or to be ready to legislate in the light of authorities' response to control (paragraphs 52-54).

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CONTROL OF RATES

I INTRODUCTION

1. The Cabinet agreed on 10 May that the Government would now cease the search for alternative local taxes to replace rates and legislate in 1983/84 for a scheme to control the rates of selected high spending authorities from 1985/86; and also for a more general scheme of rate control, to be introduced if the selective scheme did not produce the desired results. A commitment to this effect was included in the Conservative Party Manifesto.

The timing of supporting legislation on obstruction and default is for decision.

2. This submission discusses the next main steps (paras 3-8). The rest of the submission is organised as follows:

Part II (paragraphs 8 to 37)	Selective Control Scheme
Part III (paragraphs 38 to 48)	General Control Scheme
Part IV (paragraphs 49 to 56)	Default and Intervention
Part V (paragraph 57)	Summary of Issues for Decision
Annex 1	Summary of Block Grant Arrangements
Annex 2	Criteria for Selection
Annex 3	Timetables for Selective Control

Background

3. Ministers of the previous Administration had not decided on the detail of either the selective control scheme or the scheme of general control. Two substantial rating reform issues also remained undecided (a) whether to allow discounts from the rate bills for certain categories of householder; and (b) the basis on which domestic property should be valued.) Moreover the previous Government had not replied to the Second Report of the Environment Committee: "Enquiry into methods of financing local government in the context of the Government's Green Paper (Cmnd 8449)". This was published in September 1982 and followed a period of public consultation on the Government's Green Paper "Alternatives to Domestic Rates" which had been published in December 1981.

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4. This submission sets out the issues which Ministers will have to decide. Some of the issues can be finally decided a little later in the course of preparing the White Paper. Full submissions on these issues will be made in due course, but they are explained here in some detail so that Ministers can see clearly the choices they will have to make.

5. There is already Scottish legislation providing for a selective, but not a general, scheme of rate control. Scottish officials believe that their Secretary of State may prefer to have completely separate Scottish legislation on rate control and rating reform. This submission is based on that assumption. The Bill for England would, however, apply also to Wales. Rate control there would be operated by the Secretary of State for Wales.

6. In taking their decisions immediately before the Election was called Ministers had before them a report by officials (the "RP Report") which, in response to the remit previously given by Ministers meeting in the Local Government Finance Sub-Committee of the Economic Strategy committee (E(LF)),

- a) set out options for a general scheme of rate control; and
- b) discussed longer term options for supplementary or alternative local taxes.

Now that Ministers have decided that rates are to remain as the sole local tax, (b) is no longer relevant. The first part of the report, however, on options for a general control scheme, remains relevant, and is the basis for part III of this submission. The report did not discuss options for a selective control scheme, since this was not part of the remit given to officials. No detailed work had been done on selective controls since an earlier discussion by Ministers meeting in MISC79 during the summer of 1982.

7. Ministers may find it helpful in considering both the selective and general control schemes to refer to the descriptions of the existing grant, target and holdback arrangements in Annex 1.

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II SELECTIVE CONTROL SCHEME

8. This section considers under the following headings the main issues for decision on the selective system of control.

- (i) Criteria for selecting high spending authorities
- (ii) Procedure for setting the rate limit
- (iii) Relationship with existing expenditure targets
- (iv) Parliamentary procedures.

(i) Criteria for selecting high spending authorities

9. In previous discussions between Ministers it has been generally assumed that a selective scheme would be operated so as to catch about 15* authorities each year. This is consistent with the Manifesto commitment to control the rates of "high spending" authorities. But there is no simple or uncontentious definition of what "high spending" means. Annex 2 discusses some options, and shows the authorities which are the highest spenders on different criteria, including

- (i) percentage overspend on expenditure target (as used for determining grant holdback);
- (ii) percentage overspend on grant related expenditure assessment (GRE);
- (iii) per capita overspend on GRE;
- (iv) cash overspend on target.

These criteria could be used either singly or in combination.

Other options are possible including in particular expenditure increases over two or more years. It is of course possible to combine some criteria eg on absolute spending levels and relative changes in spending.

10. If Ministers wish to have maximum discretion in selecting authorities for control, the main legislation should specify the criteria for selection in general terms. The present Scottish legislation allows selection of authorities whose expenditure is "excessive and unreasonable".

* On abolition of the GLC and MCCs arrangements should be made to bring the 40 separate joint boards proposed within the control scheme, at least initially.

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The precise form of words to be used in the English legislation will need further consideration with lawyers in the preparation of the Bill. A full submission will be made later. For the time being Ministers are invited to agree that a simple general formula only should be incorporated in the legislation and that public references to the objectives of the control scheme should refer to an intention to select authorities whose expenditure is excessive.

11. Parliament will no doubt expect the Secretary of State to act equitably and consistently in selecting authorities for control, and it may be necessary to provide in the legislation for his discretion to be constrained accordingly. Possible constraints - in ascending order of severity - include:

- (i) an explicit requirement for the Secretary of State to act "in accordance with principles applicable to all authorities or all authorities in the appropriate class" (Provisions of this kind already constrain him in setting expenditure targets and determining block grant under existing legislation);
- (ii) a requirement to report to Parliament each year - for information rather than approval - the criteria used for selection;
- (iii) a requirement to set out the criteria in an annual Order subject to affirmative resolution.

Officials' preliminary views are in favour of option (i).

A de minimis exclusion

12. A requirement to act on principles applying to all authorities would allow Ministers to exclude from the possibility of selection authorities with budgets below a de minimis level. Spending by such authorities does not seriously affect the Government's expenditure plans. But unless excluded, some such authorities fall within the criteria for control because their expenditure is often very variable between years. A limit of £10m expenditure per annum would exclude all but the 20 largest shire districts and the Isles of Scilly. Their exclusion would

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considerably simplify the operation of either a selective or a general control scheme. For this reason officials recommend a separate explicit power to exclude groups of authorities.

13. Parish councils and other lower tier precepting bodies would anyway need to be excluded from independent scrutiny. But, where relevant, their expenditure would be included in the control totals of the rating authorities potentially subject to scrutiny. Where the numbers in control are small any problems can be dealt with by consideration of local circumstances. It would not be worth considering any more fundamental solutions.

(ii) Procedure for Setting Rate Limits

14. The appropriate rate for an authority will depend on

- a) an approved level of expenditure - which will have to take account of likely income from fees rents and charges.
- b) its grant entitlement.
- c) the availability of funds held in balances or special funds from the previous year.

15. Rate limits for a future year cannot be set until after the Rate Support Grant settlement in the preceding December which fixes authorities' grant entitlements. Authorities will need much earlier notice if they are to achieve necessary expenditure reductions. Therefore the control scheme will have to operate by first approving expenditure levels and, subsequently, controlling rates to a consistent level. There could be disagreements with authorities at both stages of this procedure. The power to determine rate levels should encompass a power to require rate reductions compared with the previous year.

16. The Scottish system of selective control operates only after rates have been set, and allows the Secretary of State both to withdraw grant and to require a rate reduction. In earlier discussion Ministers did not favour a simple adaptation of the Scottish system for England and Wales, since intervention by the Secretary of State would come too late to be effective.

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Determining an approved level of expenditure

17. The annual timetable of two alternative procedures for setting an approved level of expenditure are set out in detail in Annex 3.

18. Under Option A, authorities would be selected for possible rate control between April and July of the preceding year. Those selected would be required to submit draft budgets to the Secretary of State by the autumn and the draft budgets would be subjected to detailed scrutiny by the DOE, in consultation with the other Departments responsible for local government services. In the light of that scrutiny, which would take account of such sources of income as rents, fees and charges, the Secretary of State would determine an approved level of net expenditure. This approach was originally described by Mr Heseltine in the discussions in MISC 79 in 1982, and by Mr King in his paper E(LF)(83)7. It was outlined in comments made by Mr King during the Election campaign.

19. Ministers have recognised that this approach has some major disadvantages. In particular:

- (i) Detailed scrutiny of this sort would make heavy demands on the resources of the Department. It would involve complex negotiations with individual authorities, many of which would be unwilling to co-operate, and with other Government Departments, which have an interest in protecting the local government services for which they are responsible.
- (ii) There would be a substantial risk of legal challenge to the decisions of the Secretary of State. It would be his responsibility to ensure that he had taken account of all relevant considerations. This would be particularly difficult where authorities declined to submit information requested of them or even failed to volunteer information which they could later argue to be relevant.

20. Under Option B, the authorities selected for control would each be given a target expenditure figure, based on a general formula rather than on the scrutiny of draft budgets. Any authority which was unwilling to accept the target

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expenditure figure would be able to seek a derogation from the Secretary of State, submitting whatever material they thought appropriate in support of their application. This approach would have several advantages, as compared with Option A:

- (i) A formula figure could be set earlier in the year, perhaps in July. The formula could be related to - or perhaps identical with - the formula used for setting expenditure targets for all authorities as a basis for grant holdback (if such targets are retained - see paragraphs 31 to 34 below).
- (ii) It would be the responsibility of the authority to show that it could not comply with the formula figure and produce relevant information rather than that of the Secretary of State to show that it could. This would reduce the risk of legal challenge.
- (iii) It would not be necessary to scrutinize all the details of an authority's budget unless it applied for a derogation and then only such details as the authority provided to support their case.

21. It would be difficult to draft the legislation in general terms, so as to allow Ministers to adopt either option in any year. Parliament may anyway be reluctant to agree to powers in such general terms. It would be helpful if Ministers could express an early preference as a basis for work on the White Paper and the Bill. Officials recommend Option B.

22. Both detailed scrutiny under Option A and consideration of applications for derogation under Option B, may require the Secretary of State to have regard to the levels of fees, rents and charges in an authority's income. In relation to rents the scope for increases varies from authority to authority and is ultimately constrained by the requirement that rents must be reasonable and that authorities must be seen to be exercising their own local discretion in setting them. Regard must also be had to any statements about spending levels made by other Ministers. The Protected Expenditure Levels (PELs) determined by the Secretary of State for Transport under the Transport Act 1983 has major implications for the levels of local authority fares. We will consult with the Department of Transport to see whether the PEL system will pose special difficulties for rate control.

Conditions

23. In determining a rate level Ministers may find it helpful to attach conditions requiring authorities to put in hand longer term programmes to reduce expenditure. Authorities would be required to report to the Secretary of State on progress in achieving conditions. Failure to comply could be alternative grounds for selecting an authority for a further year's rate control even if their expenditure levels did not otherwise meet the criteria for selection.

Use of management consultants

24. It was suggested in earlier Ministerial discussions that management consultants might be used to advise the Secretary of State on the appropriate level of expenditure for an authority subject to selective control.

Officials consider that

there are arguments against using management consultants in this way:

- (i) They are unlikely to be able to help where the issues are essentially matters of political choice (eg about the appropriate level of service).
- (ii) There could be a problem for the consultants of conflicting responsibilities to the local authority and to the Secretary of State.
- (iii) Firms might be reluctant to involve themselves in a potential legal dispute between the Secretary of State and the authority or to prejudice their commercial relationships with local government.

25. As an alternative approach, the Secretary of State might make it a condition of approving an expenditure or rate figure that the authority should commission an independent examination of a specified aspect or aspects of its services.

Translating the approved level of expenditure into a rate limit

26. Once an approved expenditure figure has been set, an equivalent rate poundage figure can be calculated in the light of the RSG settlement. There are two options:

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- a) a purely formulaic calculation, using the "grant related poundage" in the case of authorities receiving block grant, and the estimated product of a penny rate for those not receiving grant; or
- b) an individual calculation for each authority, taking account in particular of the funds available to it in balances from the previous year.

(a) is simple but inflexible; (b) allows for greater equity, but requires a more detailed examination of each authority's financial position.

27. The use of balances can significantly alter the rate actually charged by an authority compared with the grant related poundage level derived from the grant arrangements. In order

to avoid determining excessively high rates and allowing balances to be diverted into excess expenditure it would be necessary to take a power to have regard to levels of balances in setting rates. Such a power would be particularly advantageous in the first year of the scheme to deter authorities from rating for substantial additions to balances in 1984/85 before the controls are in place.

28. However, by introducing a separate set of judgements about the contribution which could be made from balances, Ministers would be compelled to consider any representations about those judgements - after they had completed negotiations about expenditure levels.

29. Ministers may wish to bear in mind that in any case the relationship between an authority's expenditure and its rate in any two successive years is not simple; and that even a small increase in expenditure may require a larger increase in the rate. This could happen if either (a) an authority used balances in Year 1 to reduce or keep down its rate and was unable to do so in Year 2; or (b) an authority lost a large amount of grant in the RSG settlement.

Requirement to Supply Information

30. At all stages of the control scheme the Secretary of State will need to be able to seek and require relevant information from the authority about its expenditure and possibly its balances. There are 2 approaches to enforcement:

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- i) the duty to supply information could be placed on the officers of the authority rather than the authority itself. There are considerable problems in devising sanctions to support such an approach. A chief officer could be faced with industrial action by his subordinates or the authority could apply extreme pressure on him as their employee;
- ii) the Secretary of State could arm himself with a power to make assumptions where information was withheld (in the way the Inland Revenue now do). Any such assumption would have to be protected statutorily from challenge in the Courts.

(iii) Relationship with Existing Expenditure Targets

31. A separate submission is being made on the options for expenditure targets and consequent grant holdback in the 1984/85 RSG settlement. Ministers will also need to consider whether targets and holdback should be retained in 1985/86 and later years, when their function of influencing local government expenditure will be partly superseded by the direct control of the expenditure and rates of selected authorities. This submission outlines the main issues for discussion.

32. It has been a feature of the expenditure target system operated in 1981/82, 1982/83, and 1983/84 that the targets have implied large expenditure reductions for high spending authorities - perhaps larger in some cases than an authority could actually achieve within the year. If targets continue to be set on this basis, the addition of a system of selective control could produce anomalies. For example, assume that a group of high spending authorities are all set an expenditure target of 100, and that one of them is selected for direct control. It may then be found, either on scrutiny of that authority's budget (under Option A above), or on consideration of an application by it for derogation (under Option B), that it cannot reasonably be required to reduce its expenditure to less than 105. The result would be that the non-selected authorities would continue to have a non-binding target of 100, while the selected authority had a binding target of 105. This might appear anomalous.

33. It would also be necessary to decide whether controlled authorities should be subject to grant holdback and the consequent higher rates. This problem presents a dilemma. For if the selected authority in the previous example is allowed to spend

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at 105 but is subject to holdback in respect of expenditure between 100 and 105, it will seem that it is being penalized for expenditure which the Secretary of State has accepted as unavoidable. If, on the other hand, it is exempted from holdback, its ratepayers will benefit from lower rates than those of uncontrolled authorities spending at the same relative level; this would be likely to provoke criticism from ratepayers in such uncontrolled authorities.

34. These problems may either be accepted on the terms that targets and holdback are necessary to constrain expenditure generally, in conjunction with the selective control scheme, or avoided by abandoning targets and holdback. Ministers would need to consider the implications of the latter course on those authorities, the majority, not subject to selective control. It is a difficult judgement whether the threat of a general control scheme without targets and holdback would sufficiently deter expenditure increases. On the contrary, it could encourage spending up to establish better expenditure and rate bases for authorities in anticipation of general control. This itself could increase the risk that general control will have to be introduced. Decisions on targets for 1985/86 need not be taken for another year. In the meantime Ministers can say that they are considering their future in the light of the control arrangements. Abandoning targets does not require legislation.

(iv) Parliamentary Procedures

35. The two stage procedure for setting the rate limit (determination of an approved level of expenditure, followed by calculation of a corresponding rate limit) may or may not end in an agreement between the authority and the Secretary of State on appropriate expenditure and rate levels. Where there is agreement, it would seem appropriate for the Secretary of State to determine the rate limit by direction or order but without any need for Parliamentary approval. In the case of disagreement, however, more complex arrangements will probably be needed, including:

- a) a power to set an interim rate limit where it seems likely that further discussion may resolve disagreements but the new financial year is imminent (with the proviso that authorities will be able to make a supplementary rate, with the Secretary of State's approval, in cases where discussions eventually lead to agreement on a higher rate limit);
- and

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- b) a power to make a report to Parliament proposing a rate limit which would become binding on approval by the House of Commons.

36. It is assumed that Parliament would insist on having the power to approve or reject the Secretary of State's proposed determinations in cases of disagreement, as it already has under the Scottish system of selective control. Ministers will need to consider whether to propose separate orders for each authority or composite orders incorporating the rate limits for a number of authorities. The choice is between the administrative convenience of composite orders and the sensitivities of the House. Ministers may like to take the views of the Chief Whip on whether composite orders would be acceptable. The Joint Committee on Statutory Instruments objected to a composite Scottish order of this sort, although the grounds for doing so were said to be that the Scottish legislation did not give express authority for a composite order. If separate orders are to be required this is likely to limit further the number of authorities which can be controlled. For this reason officials favour composite orders.

Consistency with Central Government

37. Ministers will wish to consider the establishment of machinery within central government to ensure that new circulars and subordinate legislation presented by all central departments, and relevant quangos, does not contain advice or commitments on expenditure which would be inconsistent with the Government's strategic policies for holding down local expenditure and perhaps be used in support of a legal challenge to selective control.

III GENERAL CONTROL SCHEME

38. The powers for a scheme of general control will only be exercised if the selective control scheme does not produce the desired results. The first point at which it will be possible to take a view on this will be in May 1985 on the basis of expenditure and rates for 1985/86. A general control scheme could be introduced for 1986/87. It is assumed that Parliament would expect to approve the transfer from selective to general control, presumably effected by an order subject to affirmative resolution. Ministers will need to decide whether that will require approval by both Houses of Parliament or just the Commons. There should be a power to make the transition separately in England and Wales.

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39. Alternative schemes of general control were extensively considered in Part III of the RP report, but were not discussed in detail by Ministers. The earlier report will form the basis of detailed submissions to Ministers later. Meanwhile this section of the submission outlines the main options. Ministers will need to decide which scheme they favour, before Instructions to Counsel are prepared.

40. If Ministers favour a selective control scheme of the kind described in Part II above, the present RSG system, which compensates ("equalizes") authorities for differences in their needs and rateable resources, can be retained in much like its present form. It is assumed that if Ministers ever wished to move from a selective to a general scheme of control they would still wish to retain the RSG system. (A more radical option, described in the RP report, in which RSG no longer equalized for differences in needs and resources but became a simple deficit grant bridging the gap between an approved expenditure level and the income from an approved rate limit, could not be legislated for in the time available.)

41. The RP report (para 140) listed a number of issues on general control schemes on which Ministers would have to take a view in due course. One is of particular significance. In order to limit the numbers of applications for derogation, PES plans should be brought fully into line with what local government could reasonably be expected to need in the first year of control (ie allowed to increase more than the Government would normally allow).

42. On the assumption that the RSG system is retained, there are two main models for a general scheme of rate control: a "uniform rate increase" model (Model 1) and an "individual rate increase" model (Model 2).

43. Under Model 1 the Secretary of State would set a maximum increase in rates for all authorities or, more probably, for all authorities in the same class (ie, there would be different permitted increases for shire counties, shire districts, London boroughs etc, since each class has different groups of functions and different average rate levels). Each authority's permitted expenditure would then depend a) on its rate limit and b) on its grant entitlement.

44. Under Model 2 the Secretary of State would set for each authority a "reasonable expenditure level", probably using a general formula as in the setting of the present expenditure targets. The maximum rate would then be that needed to

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finance expenditure at the reasonable level so determined, after taking account of the grant entitlement determined in the RSG settlement (and possibly the availability of balances).

45. Thus Model 1 would operate directly on rates, leaving permitted expenditure to be determined as a residual; while Model 2 would operate directly on expenditure, leaving rates to be determined as a residual. In both cases the Government would be able to limit the aggregate of rate increases in any year.

46. In both cases individual authorities would be free to seek derogations from the rate limits or expenditure levels set by the Secretary of State. Applications for derogations will have to be fully and carefully considered, and there will be a risk of legal challenge to the decisions that the Secretary of State takes on them.

47. The main differences between the two models are as follows:

(i) Model 1 might produce a more uniform pattern of rate increases between different authorities - a feature of the scheme which might be particularly attractive to ratepayers. The pattern of expenditure increases would be more uneven, however. Successful derogations, adjustments to baselines to reflect changed responsibilities following boundary changes and reorganisation in the Metropolitan Counties and London, and the effects of abandoning grant holdback would all prevent a uniform pattern of rate increases emerging in practice, particularly in the early years.

(ii) Model 2, on the other hand, would allow a more uniform pattern of increase in expenditure (apart from any skewing away from high spenders) and for that reason might be easier to operate and less strongly opposed by local government. The pattern of rate increases would be more irregular, reflecting in part the degree of change in grant entitlements in each years RSG settlement.

(iii) Since Model 2 operates directly on expenditure it would probably be a better means of restraining local government expenditure as a whole.

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- (iv) Under Model 1 the permitted rate increases could be announced in say July, but authorities would be unable to calculate the implications for their expenditure until after the RSG settlement in, say, December. Under Model 2 authorities would be given 'reasonable expenditure' figures in July and could start the budget cycle in the light of them. Thus under Model 1, applications for derogations could not be made before about January. Under Model 2 applications could be made as soon as authorities' planning cycles had reached a sufficiently advanced stage - from the late summer onwards.
- (v) Model 1 would be more likely to lead to successful applications for derogations since it could not make any specific allowance for authorities' reasonable expenditure needs. It would also be more vulnerable to legal challenge, since the permitted expenditure levels would not be based on formulae of general application.
- (vi) Model 2 would be more similar in form than Model 1 to the selective control scheme, in that both would start from figures of reasonable expenditure. The transition from a selective to a general scheme would thus be easier if Model 2 were adopted for the general scheme.

48. The detailed issues discussed in relation to selective control arise also on the general control scheme. In general there is no reason for Ministers to take a different view on these issues as between the two schemes.

- (i) Power to attach Conditions Granting of a derogation should be subject to a power to attach conditions. The sanction for failure to meet conditions could no longer be the threat of remaining in selective control but would have to be, by implication, a threat to take a less compromising line on future derogations.
- (ii) Use of Consultants A review by consultants might be an optional condition to attach to a derogation.
- (iii) Balances Ministers would have to decide whether to take account of past use or the present availability of balances in setting rate levels

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or granting derogations. To make individual assumptions about balances for authorities in a general control scheme would be much more difficult than in a selective scheme.

- (iv) Grant Holdback Grant holdback under a general control scheme would be superfluous.
- (v) Parliamentary Procedure Rate increase limits (Model 1) or reasonable budget figures (Model 2) would be set by Parliamentary order. The Secretary of State would be able to grant derogations to soften the general limits without further reference to Parliament.
- (vi) Interim Rates There will need to be a power to set interim rates where negotiations about rate levels run into the financial year. There will have to be a consequent power to make supplementary rates.
- (vii) De Minimis Exclusion The value of applications for derogation would be more manageable if all authorities with expenditure below a deminimis level (say £7.5m - £10m pa) could be excluded.
- (viii) Lower Tier Precepts Parish precepts could be counted against the expenditure and rate limit of the rating authority. With the larger number of authorities potentially involved, however, Ministers may like to commission some further work on alternative approaches.
- (ix) Power to Require Information An identical power and sanction would be required as for the selective scheme.
- (x) Authorities' incomes from fees, rents, fares and charges should be left as safety valves for authorities to influence their net expenditure.
- (xi) Central monitoring of advice should be established within central government and agencies to avoid excessive financial demands on local authorities.

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IV DEFAULT AND INTERVENTION

49. Some authorities may refuse to co-operate in or actively seek to obstruct the operation of the control system (whether selective or general). Those bent on confrontation with the Government might spend until they ran out of cash to fulfil statutory duties and meet contractual commitments.

40. This issue was considered in the RP report, which concluded (para 94) that "in cases of determined challenge through default, the Government would have to be ready, and have available the necessary powers, to appoint a Commissioner to run all the authority's functions and meet its statutory obligations". It went on to say that "a Commissioner in these circumstances would undoubtedly have a formidable task. Even if authorities defaulted on a very limited scale, there would be significant implications for central government departments both in terms of manpower numbers and staff costs, particularly for DOE".

51. The discussion in the RP report was in the context of a general control scheme, but it is equally relevant to a scheme of selective control.

52. Ministers will need to consider whether to provide from the outset for powers of direct intervention, or whether to wait for the local authorities' response before deciding whether to take such powers. If they wished to make provision at the outset, the rating legislation might include provisions which either a) set out the detailed machinery for default action or b) allowed the Secretary of State to specify default arrangements in an Order subject to affirmative resolution of the House of Commons. There might however be Parliamentary objection to an order making power on such a major issue.

53. There are two objections to including default provisions in the main Bill:

- a) By being seen to anticipate obstruction the Government might provoke it.
- b) No detailed work has yet been done on the details of default provisions. In order to be effective the legislation would probably need to be complex, and there is little time to work out a comprehensive scheme and have instructions to Counsel ready by October.

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54. A possible compromise would be to deal with default legislation in a separate Bill introduced at the beginning of the 1984/85 Session, for enactment by March 1985, just before the control system would start.

55. There has been some press speculation that some authorities might adopt obstructive tactics which fall short of default. A fuller submission on the question of obstruction which arises also in the context of the abolition of the GLC/MCC's is being prepared.

56. The draft initial statement says nothing about default and intervention. Ministers may wish to give guarded answers in reply to questions on the subject.

V SUMMARY OF ISSUES FOR DECISION

57. The following is the list of issues for decision identified in this paper. Officials recommendations are incorporated.

A. Scope for legislation

(i) The legislation should apply to England and Wales; Scotland will have its own Bill (paragraph 5);

(ii) Rates control in England and Wales should be operated separately by the territorial Secretaries of State (paragraph 5).

B. Selective control

(i) No more than about 15 authorities should be selected for control at any one time. (NB. Transitional problems with joint boards following abolition of GLC and MCCs) (paragraph 9);

(ii) The criteria for selection should only be delineated in the Bill by a general reference, for example to "excessive expenditure" (paragraph 10).

(iii) The selection of authorities should be determined according to principles applying to all authorities in a particular class and not subject to specific Parliamentary scrutiny (paragraph 11).

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(iv) The Bill should include a power to exclude authorities whose expenditure is below a minimum level. A limit of £10m would exclude all but 20 shire districts (paragraph 12).

(v) The expenditure and precepts of minor authorities (parishes and others) should not be controlled individually, but should count against the expenditure and rate limit of the rating authority (paragraph 13).

(vi) The Bill should provide for the Secretary of State to require rate reductions, as well as to restrain rate increases (paragraph 15).

(vii) Ministers should express a preference on the form of operation of selective control as between Options A and B (paragraphs 17-21);

- Option A Authorities rate limits set on the basis of expenditure figures approved after detailed scrutiny of draft budgets sent in October by all selected authorities.

- Option B Authorities rate limits set on the basis of formula expenditure targets set in July as amended on derogations from authorities unable to manage within target.

Officials recommend Option B because it would reduce the risk of legal challenge and be much simpler administratively.

(viii) The Bill should provide for a power to attach conditions to the determination of a rate (paragraph 23).

(ix) There should be no specific statutory role for management consultants in negotiations about rate levels (paragraph 24).

(x) Approved expenditure can be translated into maximum rate limits on the basis of a formula or, after taking into account the balances held by authorities. (paragraphs 26-29). Ministers are asked to express a preference.

(xi) The Secretary of State should take powers to require the provision of information and to make assumptions, which would not be legally challengeable, if authorities failed to co-operate (paragraph 30).

(xi.a) Scrutiny of authorities' budgets may require the Secretary of State to have regard to rents and fares. The implications of legislation on Protected Expenditure Levels (PELs) and rents will need to be investigated (paragraph 22).

Relationship with expenditure targets

(xii) Decisions on the future of targets in the context of selective control need not be taken until 1984; until then Ministers need say publicly only that the relationship with the control scheme is being considered (paragraph 34).

Parliamentary procedure

(xiii) Where agreement is reached between the Secretary of State and the local authority on expenditure and rate levels, rate limits should be set by direction or Order by the Secretary of State without reference to Parliament (paragraph 35).

(xiv) Where there is disagreement about expenditure levels, or agreement about expenditure but not about rate levels, those rate levels should be set by an Order subject to affirmative resolution. Such an Order should preferably be capable of covering several authorities at a time (paragraph 35 and 36).

(xv) Authorities should have power to set an interim rate where agreement has not been reached before the normal date for setting a rate; and power subsequently to levy a larger final rate if a limit higher than the interim is eventually agreed, or to approve temporary borrowing in appropriate cases (paragraph 35)".

(xvi) Arrangements in Government should be made to ensure that Departmental circulars and subordinate legislation do not impose financial burdens on authorities inconsistent with the control scheme (paragraph 27).

C. General control scheme

(i) A transfer from selective to general control should be effected by statutory instruments subject to affirmative resolution (paragraph 40).

(ii) Legislation should be prepared on the basis of either Model 1 or Model 2, described in paragraphs 38-47.

- Model 1 Standard rate increases determined by the Secretary of State - subject to adjustments to base line rates. Authorities' permitted expenditure determined in December each year by combination of rate income and grant entitlement. Applications for derogations dealt with after RSG Settlement.

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- Model 2 Authorities set reasonable expenditure levels in July - applications for derogation made from late summer onwards. After RSG settlement approved expenditure translated into permitted rate levels for each authority sufficient to finance approved expenditure.

Officials recommend Model 2.

(iii) The Secretary of State should have power to attach conditions to derogations granted (paragraph 48(i)).

(iv) One such condition might be to require a review by consultants of particular aspects of an authority's services (paragraph 48(ii)).

(v) Power should be taken to allow the Secretary of State to take into account authorities' balances (paragraph 48(iii)).

(vi) Grant holdback would be superfluous under a general scheme (paragraph 48(iv)).

(vii) Parliament would approve rate levels for all authorities in a single order. Derogations from the general limits could be granted by the Secretary of State without further reference to Parliament (paragraph 48(v)).

(viii) As in the selective control scheme, there should be a power to set interim rates and allow higher or lower final rates and approve temporary borrowing where appropriate (paragraph 48(vi)).

(ix) Small authorities should be excluded from general control (paragraph 48(vii)).

(x) Further consideration of whether parish precepts should count against the expenditure and rate limit of the rating authority, and a submission will be made in due course.

(xi) Authorities' income from fees, rents, fares and charges should be allowed to remain as safety valves, as officials recommend (paragraph 48(x)).

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h). Default and intervention

(i) Whether to prepare legislation in anticipation that authorities resisting control may default from their obligations; by providing for the appointment of Commissioners (paragraph 52).

(ii) Whether to legislate in the main Control Bill; in a separate Bill in the 1984/85 Session; or to be ready to legislate in the light of authorities' response to control (paragraphs 52-54).

LOCAL GOVERNMENT SPENDING AND RATE SUPPORT GRANT

A. BACKGROUND

1. The three main developments since 1979 have been

- a. introduction of block grant;
- b. the introduction of a new way of measuring local authorities' spending needs;
- c. the introduction of expenditure targets for individual authorities, and holdback of grant if these targets are exceeded.

a. Introduction of Block Grant

2. Block grant has some similarities to the "unitary grant" proposed by the Layfield Committee in 1976. It was introduced in time for use in the 1981/82 Rate Support Grant (RSG) settlement. It replaced the old needs and resources elements of RSG by combining them. Its main objectives remain the same as the old needs and resources elements; that is

- i. to compensate authorities for differences in their rateable resources;
- ii. to compensate authorities for differences in their expenditure needs.

3. The main differences are:

First grant is based on expenditure in the grant year rather than, as in the case of the old resources element, the amount that authorities choose to rate for. This means that final grant entitlements cannot be made until after the end of the grant year when outturn expenditure is known.

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Second by use of a tariff of rate poundages, known as the poundage schedule, it sets the level of rate contribution from ratepayers required for any level of spending and makes explicit the relationship between expenditure, rates and grant. In practice, by use of a taper in the poundage schedule, block grant has operated in such a way that more of the burden of financing high level of spending - measured in relation to the assessed costs of providing an average standard level of service - falls onto local ratepayers.

Third it compensates more effectively for differences between authorities in their rateable resources. It no longer allows the richest authorities in rateable terms to keep the full benefits. This means that such authorities have "negative" marginal rates of grant" - that is as their expenditure increases, their grant falls. Depending on the level of each authority's expenditure, £1 extra expenditure per head is deemed to cost the ratepayers either a 0.6p rate or a 0.75p rate. If the yield of a 0.6p or a 0.75p rate is greater than £1 per head, then block grant is reduced accordingly. This is not a penalty. It prevents the richer authorities from being able to finance extra expenditure at lower rate poundages than poorer authorities.

Fourth block grant, unlike its predecessor, is now paid directly to all classes of authority - including metropolitan counties and non-metropolitan districts.

Fifth it incorporates simpler arrangements for sharing the benefits of the very high rateable values in central London both between London and the rest of the country, and within London.

b. Grant Related Expenditure Assessments

4. Before 1981/82, local authorities' expenditure needs were measured by needs of regression analysis, which aimed to "explain" authorities' expenditure in terms of a range of factors. In 1981/82 this method of assessment was replaced by grant related expenditure

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assessments. These assessments are done on a service by service basis. The basic method is a unit cost client/group approach under which needs are measured as follows. Needs = number of clients (e.g. schoolchildren) MULTIPLIED by unit costs - where assessment of both their numbers and unit costs varies between local authorities. In practice this approach covers a large proportion of GRES, including education and personal social services. There are however other services where this approach is not feasible and where GRES are based either on regression analysis or standard amounts per head.

5. Because it is service based, the new approach incorporates many more new indicators (up to 60) than its predecessor, and these are chosen to reflect the particular circumstances of each service. Because regression analysis is used less widely, and for a more limited purpose, GRES are less closely related to actual patterns of spending.

6. The new system is more flexible than its predecessor. There would be no undue difficulty in making the adjustments necessary to secure a different overall pattern of grant distribution. But as with its predecessor, the effects on individual authorities cannot be manipulated in advance. Grant shares by class of authorities since 1980/81 are shown at Table 1.

c. Local Government Spending Since 1979

7. Since 1979, local government current expenditure in England has continued to rise in volume and cost terms as well as in cash. (The volume series is expenditure adjusted for changes in pay and prices of the inputs employed by local authorities. The cost terms series is expenditure adjusted for changes in prices in the whole economy as measured by the GDP deflator.) Although the volume of expenditure fell in 1980/81 and again in 1981/82, local authorities' budgets for 1983/84 show expenditure 4% above the 1978/79 level (see Table 2).

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d. Aggregate Level of Exchequer Grant (AEG)

8. AEG in England has fallen from 60.1% of planned expenditure in 1980/81 to 52.8% in 1983/84 (before grant holdback) - equivalent to a £1.6 billion in grant support. The grant percentage has fallen from 57.2% of local authorities' actual spending in 1980/81 to 51.1% of their budgeted expenditure in 1983/84 (before grant holdback). This reduction in grant support has been one method of putting pressure on local government to reduce expenditure. Because authorities have not met the previous government's expenditure targets, the burden of rates has increased.

e. Expenditure Targets and Grant Holdback

9. Before 1981/82, pressure on local government expenditure was imposed in aggregate terms, through exhortation and cuts in the grant percentage. The imposition in 1981/82 and onwards of expenditure targets and grant holdback for exceeding these targets enabled further pressures to be imposed on individual authorities directly.

10. For 1983/84, most high spending authorities were given a target of 1982/83 budget minus 1%. Most low spending authorities were given a target of 1982/83 budget plus 4%. For each of the first two percentage points of spending above target, authorities' block grant is reduced by the equivalent of a 1p rate at ratepayer level. For each percentage point thereafter, grant holdback is set at 5p at ratepayer level.

11. The City, Westminster, Camden, the GLC and ILEA will not be subject to holdback in 1983/84, since they will not be receiving block grant. Our latest estimate of holdback for 1983/84 is £290m (compared with £301m in 1982/83).

July.

Criteria for Selection for Control

1. There is no unambiguous measurement of high spending. Authorities' expenditure can be compared with a number of other measures: eg

1. With GRE - a formula based assessment of the cost of providing an average standard of service.

2. With Expenditure Targets - these are set each year with the aim of representing the maximum expenditure reduction that an authority could be expected to achieve.

3. With Expenditure in a base year - this simply shows the relative increases in authorities' spending. There is no agreed neutral base year for such comparisons.

2. Each of these bases of comparison can be multiplied

1. Comparison with GRE can be measured in percentage points or percapita. Percapita comparisons are used in determining grant entitlements.

2. Comparison with expenditure targets is usually in percentage points but comparisons in cash identify the largest contributors to aggregate overspending.

3. Changes in Expenditure from a base year can be measured in terms of total expenditure ie all expenditure failing to be met from rates after deducting income from fees, rents and charges and specific and supplementary grants. Alternatively comparisons can be made of changes in current expenditure ie broadly that part of an authority's expenditure not going to finance debt, capital programmes or the Housing Revenue Account.

Different base years are available from 1981/82 in the case of total expenditure comparisons or for many years in the case of current expenditure - certainly from 1978/79, the Government's first year of office.

3. There are also proxies for comparing expenditure

1. Rate levels - which correspond closely with expenditure per head comparisons with GRE because of the operation of the grant system.

2. Rate increases - over 1 year, rate increases are very unpredictable because of the use of balances. Over a longer period they are a proxy for expenditure increases but are far from perfect because of the effect of grant distributional changes.

3. Comparative Manpower Levels - on average manpower accounts for 70% of local authority costs. High relative manpower levels could therefore be a measure of relative spending but it is a very indirect measure and the data collected for each authority is not available as full time equivalents to allow for fair comparisons.

4. Authorities expenditure can look very different on different expenditure criteria. The attached table shows how authorities' different expenditure measures compare by ranking them on 4 different criteria. Comparison of the rank order markings is an indication of the extent of variation.

5. This variability could lead to some difficulties in defending any particular selection of authorities for control on the grounds that their expenditure is excessive. The attached diagram attempts to show the extent to which different characteristics of overspending overlap and the extent to which they do not.

CHOICE OF LOCAL AUTHORITIES FOR SELECTIVE CONTROL
(RER Budgets, Settlement GREs)

(Omitting authorities with RER budgets less than £10m)

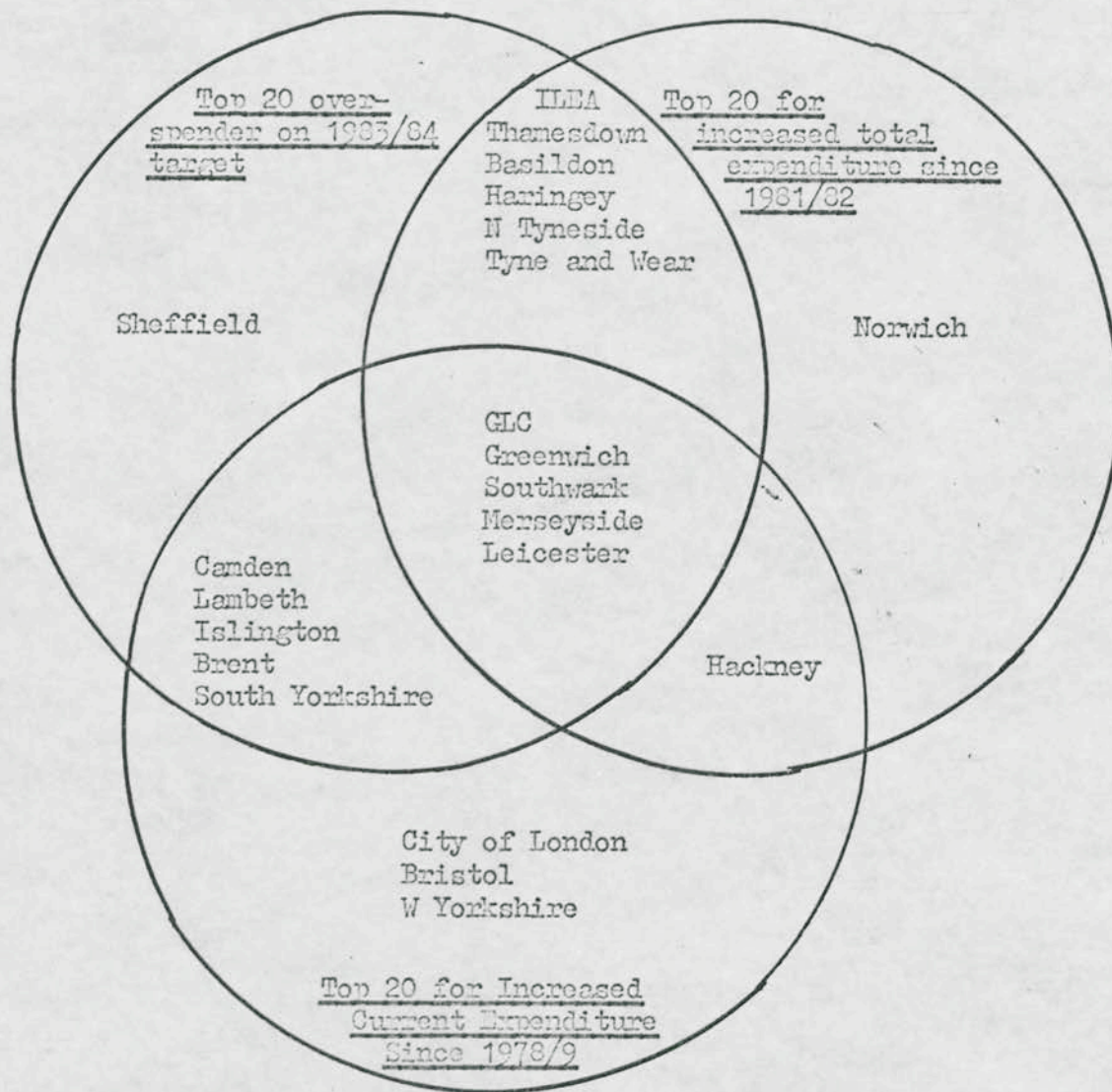
	-----OVERSPENDING ON GRF-----		OVERSPENDING ON TARGET		++++SPENDING INCREASE++++			
	---Percentage---	---Per capita---			SINCE 81/82 REVISED BUDGET			
	RANK	AMOUNT	RANK	AMOUNT	RANK	AMOUNT		
City of London	1	229.72%	1	£7,262.43ph	69	1.73%	134	2.95%
Thamesdown	2	86.18%	24	£43.81ph	16	6.79%	7	20.73%
GLC	3	80.66%	20	£56.58ph	1	53.24%	1	91.55%
South Yorkshire	4	76.03%	21	£55.55ph	20	5.95%	39	14.03%
ILEA	5	65.91%	5	£143.53ph	5	12.78%	6	23.03%
Camden	6	64.74%	2	£233.18ph	11	8.63%	92	9.44%
Greenwich	7	62.93%	9	£113.11ph	2	20.98%	4	26.15%
Tower Hamlets	8	60.20%	4	£163.15ph	47	2.54%	71	11.04%
Lansborough	9	51.34%	36	£30.29ph	138	-4.04%	118	6.53%
Lewisham	10	50.73%	10	£107.41ph	36	3.43%	129	4.67%
Basildon	11	50.22%	40	£27.49ph	6	10.49%	19	17.10%
Lambeth	12	39.15%	6	£119.89ph	8	9.53%	64	11.29%
Hackney	13	37.28%	7	£118.63ph	27	4.50%	5	24.89%
Harlesey	14	36.77%	3	£169.85ph	10	8.75%	8	20.08%
Bristol	15	34.52%	49	£21.02ph	137	-3.62%	138	-1.60%
Southwark	16	34.48%	8	£116.89ph	3	16.73%	11	18.12%
Middlesbrough	17	33.81%	43	£25.34ph	85	.57%	95	8.65%
Norwich	18	33.29%	50	£21.00ph	77	1.32%	9	19.28%
Reading	19	33.11%	54	£19.39ph	80	1.12%	133	3.09%
Merseyside	20	31.61%	39	£28.04ph	9	9.14%	16	17.76%
Newcastle upon Tyne	21	30.99%	12	£104.76ph	25	4.57%	78	10.53%
Islington	22	28.00%	14	£99.22ph	7	9.83%	62	11.95%
Tyne and Wear	23	27.43%	41	£27.04ph	12	8.01%	13	18.04%
Blackburn	24	27.24%	52	£20.47ph	82	.76%	83	10.11%
Sheffield	25	26.47%	15	£84.34ph	14	6.93%	58	12.21%
Manchester	26	25.64%	11	£107.39ph	76	1.36%	132	3.19%
Leicester	27	24.07%	60	£17.26ph	4	13.77%	2	30.73%
Brent	28	22.96%	13	£103.80ph	17	6.59%	23	16.69%
North Tyneside	29	22.04%	18	£69.93ph	18	6.21%	12	18.11%
West Yorkshire	30	21.98%	62	£16.64ph	55	2.00%	131	3.88%
Hammersmith and Fulham	31	21.81%	19	£66.12ph	89	.30%	74	10.76%
Brighton	32	20.58%	64	£14.96ph	128	-.23%	65	11.26%
Waltham Forest	33	18.87%	16	£78.64ph	83	.68%	88	9.89%
Greater Manchester	34	18.78%	63	£15.11ph	15	6.88%	27	15.19%
Stockton-on-Tees	35	17.89%	75	£9.60ph	106	-	137	1.12%
Newham	36	15.32%	17	£78.38ph	19	6.15%	37	14.15%
Hounslow	37	13.52%	22	£50.59ph	30	3.89%	117	6.61%
Rochdale	38	13.51%	23	£48.20ph	41	2.93%	70	11.05%
Doncaster	39	12.99%	26	£41.64ph	39	2.93%	109	7.36%
West Midlands	40	12.88%	72	£10.39ph	13	7.58%	135	2.51%
Barkings and Basenham	41	12.05%	25	£41.76ph	112	-	136	2.24%
Gateshead	42	11.73%	27	£38.00ph	26	4.51%	38	14.11%
Barnsley	43	11.67%	31	£35.76ph	51	2.30%	121	5.94%
Hillingsdon	44	11.15%	29	£37.79ph	70	1.72%	102	7.79%
Harrow	45	11.02%	32	£35.75ph	62	1.99%	84	10.06%
South Tyneside	46	10.87%	28	£37.83ph	53	2.24%	111	7.13%
Avon	47	10.29%	34	£32.04ph	22	5.14%	24	16.16%
Liverpool	48	9.50%	30	£36.67ph	45	2.66%	110	7.23%
Salford	49	9.44%	33	£33.15ph	43	2.83%	86	9.98%
Portsmouth	50	9.39%	77	£7.46ph	32	3.76%	59	12.16%
Sunderland	51	8.61%	38	£28.13ph	24	4.63%	98	8.54%
Tameside	52	8.59%	37	£28.58ph	37	3.27%	75	10.67%

	-----OVERSPENDING ON GRE-----				OVERSPENDING ON TARGET		++++SPENDING INCREASE++++	
	--Percentage--		----Per capita----		RANK	AMOUNT	RANK	AMOUNT
	RANK	AMOUNT	RANK	AMOUNT			RANK	AMOUNT
Cleveland	53	8.13%	35	£30.41ph	34	3.64%	97	8.59%
St Helens	54	7.16%	44	£24.54ph	29	4.06%	91	9.63%
Knowsley	55	7.07%	42	£26.40ph	50	2.33%	82	10.22%
Kinston upon Hull	56	6.57%	85	£4.68ph	38	3.10%	60	12.15%
Haverins	57	6.55%	48	£21.28ph	123	-	127	4.81%
Wigan	58	6.50%	51	£20.98ph	72	1.66%	101	8.36%
Bexley	59	6.46%	46	£21.96ph	64	1.92%	116	6.70%
Richmond-upon-Thames	60	6.34%	56	£18.70ph	46	2.57%	108	7.37%
Cheshire	61	6.31%	47	£21.63ph	40	2.93%	73	10.84%
Bedfordshire	62	6.30%	45	£27.07ph	63	1.98%	42	13.60%
Bury	63	6.06%	55	£18.79ph	68	1.78%	85	10.05%
Durham	64	5.73%	57	£18.41ph	48	2.50%	114	6.83%
Westminster	65	5.68%	58	£18.34ph	98	-	55	12.78%
Humberside	66	5.67%	53	£19.94ph	31	3.86%	34	14.32%
Cumbria	67	5.40%	59	£17.88ph	23	4.71%	72	10.94%
Nottinshamshire	68	4.98%	61	£16.92ph	49	2.45%	53	12.84%
Calderdale	69	4.46%	45	£14.58ph	54	2.06%	66	11.26%
Northumberland	70	4.11%	67	£13.73ph	33	3.71%	79	10.40%
Derbyshire	71	4.01%	69	£13.15ph	28	4.35%	10	18.54%
Rotherham	72	3.98%	70	£12.90ph	91	.16%	130	4.17%
Walsall	73	3.94%	66	£14.02ph	42	2.85%	43	13.56%
Bradford	74	3.78%	68	£13.39ph	71	1.70%	22	17.05%
Somerset	75	3.42%	71	£10.67ph	56	2.00%	29	15.12%
Barnet	76	3.24%	73	£10.30ph	110	-	90	9.75%
Northampton	77	3.11%	93	£1.92ph	122	-	105	7.62%
Berkshire	78	2.88%	76	£9.32ph	52	2.24%	21	17.06%
Coventry	79	2.78%	74	£10.01ph	109	-	61	12.04%
Enfield	80	2.08%	78	£7.29ph	73	1.63%	104	7.67%
Blackpool	81	2.05%	95	£1.41ph	21	5.24%	44	13.52%
Staffordshire	82	2.04%	79	£6.76ph	67	1.80%	52	12.98%
Hertfordshire	83	1.93%	80	£6.19ph	84	.59%	77	10.57%
Mirral	84	1.82%	83	£5.94ph	78	1.25%	68	11.22%
Kinston-upon-Thames	85	1.82%	81	£5.96ph	95	-	125	5.21%
Herton	86	1.76%	82	£5.95ph	75	1.39%	103	7.71%
Wakefield	87	1.72%	84	£5.29ph	124	-.01%	126	4.94%
Leeds	88	1.32%	86	£4.21ph	130	-.42%	35	14.32%
Kirklees	89	1.20%	87	£4.08ph	61	2.00%	50	13.03%
Lancashire	90	.92%	88	£3.11ph	60	2.00%	40	13.88%
North Yorkshire	91	.85%	91	£2.69ph	94	-	89	9.77%
Warwickshire	92	.83%	90	£2.70ph	81	.96%	18	17.47%
Ealins	93	.74%	89	£2.90ph	125	-.08%	80	10.33%
Isle of Wight	94	.70%	92	£2.29ph	74	1.52%	26	15.46%
Sutton	95	.47%	94	£1.48ph	121	-	107	7.48%
Oxfordshire	96	.42%	96	£1.29ph	115	-	96	8.60%
Buckinghamshire	97	.18%	97	£.62ph	35	3.45%	14	17.80%
Metropolitan police	98	.01%	98	-	93	.01%	3	30.20%
Suffolk	99	-	99	£-.01ph	88	.32%	31	15.08%
Bromley	100	-.03%	100	£-.09ph	127	-.09%	112	7.07%
Surrey	101	-.08%	103	£-.24ph	65	1.90%	57	12.36%
Southampton	102	-.25%	102	£-.16ph	126	-.09%	122	5.54%
Derby	103	-.27%	101	£-.15ph	116	-	94	9.16%
Hampshire	104	-.28%	104	£-.90ph	114	-	67	11.24%
Gloucestershire	105	-.37%	105	£-1.18ph	129	-.39%	69	11.06%
Trafford	106	-.41%	106	£-1.31ph	117	-	87	9.95%
Wolverhampton	107	-.45%	108	£-1.75ph	119	-	120	6.27%
Dorset	108	-.54%	107	£-1.63ph	118	-	128	4.74%

	-----OVERSPENDING ON GRE-----		OVERSPENDING ON TARGET		++++SPENDING INCREASE++++			
	--Percentage--		---Per capita---		SINCE 81/82 REVISED BUDGET			
	RANK	AMOUNT	RANK	AMOUNT	RANK	AMOUNT		
Stockport	109	-0.79%	110	£-2.43ph	131	-0.50%	93	9.19%
Oldham	110	-0.88%	115	£-3.25ph	90	.18%	63	11.49%
Cambridgeshire	111	-0.99%	114	£-3.24ph	57	2.00%	33	14.37%
Kensington and Chelsea	112	-1.02%	112	£-2.69ph	132	-1.48%	115	6.82%
Leicestershire	113	-1.08%	116	£-3.66ph	96	-	15	17.78%
East Sussex	114	-1.32%	117	£-3.90ph	97	-	99	8.47%
Hereford and Worcester	115	-1.38%	119	£-4.48ph	99	-	46	13.45%
Devon	116	-1.38%	118	£-4.30ph	59	2.00%	28	15.13%
Lincolnshire	117	-1.62%	120	£-5.38ph	100	-	47	13.34%
Essex	118	-2.02%	121	£-6.45ph	101	-	25	15.66%
Bolton	119	-2.05%	123	£-7.09ph	92	.08%	45	13.49%
Redbridge	120	-2.09%	122	£-6.86ph	134	-1.96%	100	8.47%
Northamptonshire	121	-2.11%	125	£-7.39ph	103	-	17	17.50%
Wiltshire	122	-2.21%	124	£-7.26ph	102	-	48	13.19%
Sandwell	123	-2.29%	126	£-8.33ph	104	-	119	6.49%
Norfolk	124	-2.92%	127	£-9.15ph	87	.39%	56	12.56%
Shropshire	125	-3.58%	131	£-12.17ph	108	-	30	15.12%
Cornwall	126	-3.69%	129	£-11.99ph	58	2.00%	32	14.47%
Nottingham	127	-3.79%	111	£-2.64ph	44	2.77%	76	10.62%
West Sussex	128	-4.09%	128	£-11.92ph	105	-	51	13.02%
Stoke-on-Trent	129	-4.21%	109	£-2.31ph	86	.48%	36	14.30%
Kent	130	-4.51%	134	£-14.69ph	66	1.89%	49	13.05%
Sefton	131	-4.67%	133	£-14.52ph	79	1.17%	81	10.24%
Southend-on-Sea	132	-4.69%	113	£-3.17ph	133	-1.54%	113	7.00%
Wandsworth	133	-5.39%	132	£-13.11ph	135	-2.08%	123	5.48%
Solihull	134	-6.15%	135	£-20.36ph	111	-	54	12.80%
Birmingham	135	-6.19%	138	£-23.39ph	136	-3.23%	124	5.23%
Croydon	136	-6.27%	136	£-21.69ph	113	-	106	7.56%
Dudley	137	-7.66%	137	£-23.01ph	120	-	41	13.68%
Plymouth	138	-21.31%	130	£-12.01ph	107	-	20	17.08%

FLGR Division 23 June 1983

DIAGRAM ILLUSTRATING OTHER HIGH SPENDING CHARACTERISTICS EXHIBITED BY THE 32 MAJOR AUTHORITIES SPENDING MORE THAN 20% ABOVE GRE IN 1983/84



Ten authorities more than 20% above 1983/84 GRE do not come into any of the other categories of high spending: Tower Hamlets, Langbaugh, Lewisham, Middlesborough, Reading, Newcastle on Tyne, Blackburn, Manchester, Hammersmith and Fulham, Brighton.

1. Top 20 overspenders on target are all more than 6% above 1983/84 targets.
2. Top 20 for increased total expenditure since 1981 have all increased by more than 17% in cash.
3. Top 20 for increased current expenditure since 1978/9 have all increased by more than 97% in cash.

3 Authorities in category 1, 7 in category 2 and 6 in category 3 are not among the 32 Authorities spending more than 20% above target.

Major authorities have been taken to ^{be} those spending more than £10m in 1983/84.

YEARLY TIMETABLE FOR SELECTIVE CONTROL OF HIGH SPENDING AUTHORITIES

April to June Identify authorities for control on the basis of budget returns and rate levels.

July (Year 0) (Scheme A)

Selected authorities informed that draft budgets for following year must be submitted by mid-October and that they cannot make a rate for Year 1 until the Secretary of State determines an interim or final figure.

October draft budgets submitted.

DOE scrutinises them in consultation with other service Departments and the authority.

December Authorities told of maximum expenditure level the S of S proposes to accept in setting maximum rate after the RSG settlement. Authorities may still be in disagreement.

July (Year 0) (Scheme B)

Target expenditure levels for selected authorities or all authorities, for Year 1 announced. Selected authorities told their rate levels will be set on the basis of their targets.

Late summer - December Selected authorities ^{select} derogations from target (increases in the expenditure level on which rates will be set). Some targets are revised (subject to any conditions). Authorities may still be in disagreement.

January On the basis of the RSG Settlement, rate limits proposed for selected authorities corresponding to the level of expenditure proposed and the authority's grant entitlement possibly making an allowance for changes in balances. Authorities are asked to say by a specified date whether they accept the proposed rate limit (and any conditions imposed with it). For authorities which accept, a formal determination of the maximum rate is made; any higher rates levied will be ultra vires. For authorities which do not accept, an interim rate determination is made, and further representations are considered. Authorities may disagree with the proposed rate limit because of the expenditure assumption or the way that has been translated into a rate level.

(into Year 1)

February - Onwards / The Secretary of State completed his further consideration and presents an order to Parliament seeking approval to those determinations of rate levels where disagreement remains. Where authorities have already levied an interim rate, following Parliamentary approval, they will be authorised by the Secretary of State to raise a supplementary rate or, in certain circumstances, make temporary borrowing.