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4 December 1987

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Prime Minister

There are risks in this timetable, whatever the Treasury say. But the paper makes a strong case for not delaying until 1989. If the change is to be made discussions have to begin in 1988, and they might as well begin in March as July. Agree, reluctantly?

Dear David,

A NEW PLANNING TOTAL

At the Prime Minister's meeting on 10 November, the Chancellor was asked to circulate a note on the latest timetable for consultation and decision which would allow the change of definition to be made in April 1990.

I now attach a note, which has been prepared in consultation with officials in Department of the Environment. If the change is to be implemented in 1990, the 1989 Public Expenditure Survey and RSG negotiations will have to be launched using baselines constructed on the new basis; this requires at least a further six to eight months of preparatory work within Whitehall. The latest time for bringing in Departments would be the middle of 1988, but given the extensive work programme we recommend it should be March 1988.

DOE are likely to continue to receive questions from local authorities and others about how local authority expenditure will be handled under the new system of local Government finance, especially now the Rates Bill has been published. They may face further questions when consultations on the 1988 RSG settlement get underway next spring. These queries can be parried for some time, but the department believes that by the time the RSG settlement reaches its conclusion in July it will need to say something about the way the following years' settlements will be conducted.

I am copying this letter to Mike Eland (Lord President's Office), Robin Young (Department of the Environment) and Trevor Woolley (Cabinet Office).

Yours
Alan

A C S ALLAN

Principal Private Secretary

DRN
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Yes
not

NEW PLANNING TOTAL: TIMETABLE FOR CONSULTATIONS

Note by HM Treasury and Department of the Environment

Introduction

At the Prime Minister's meeting on 10 November it was agreed in principle that a new planning total should be introduced, and that this should be done with effect from the start of the financial year 1990-91 to coincide with the introduction of the community charge in England. Concern was expressed that announcement of this could influence the behaviour of local authorities in determining their budgets for 1989-90 and lead them to increase spending and set higher rates than they would otherwise have done. A note was called for setting out the latest point to which consultations on the proposal, both within Government and outside, could be delayed.

Consultation within Government

2. It has been agreed that the proposal would come into effect in 1990-91 in the sense that the control totals set for that year would operate on the new basis. To achieve this, the discussions on the 1990-91 RSG proposals which would normally be announced in July 1989, and the 1989 Survey whose results would be announced in November 1989, would have to be conducted on the new basis. In particular, the baselines for departmental programmes against which bids are submitted would need to reflect the new definitions of what is in or out of the new planning total. The request to departments to submit the returns (running tallies) from which the baselines are constructed needs to go round by end-January 1989. This is the point by which the various technical issues about definition need to be resolved.

3. Among the issues that will need to be resolved to complete the work by the deadline are:

i. The treatment of the non-domestic rate. Is it appropriate to regard this as local authorities' own income or as income of central government which is passed on as grants? Although this is largely for DOE and Treasury, DTI will certainly have an interest and consultation with the Scottish Office will be needed as the NDR arrangements are different there.

ii. The territorial block formula. At present, changes to the block are calculated as a proportion of the corresponding changes in expenditure in England. But if the planning total comprises central government expenditure plus grants to local authorities, the formula will have to

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be adapted so that it relates to changes in grant. This issue is likely to require protracted discussions.

iii. All the various specific grants will need to be examined and understandings reached on how they are to be scored and controlled. There are also complex proposals for changing the way the grants are paid (ie a move to lump sum capital payments instead of annual payments to reimburse loan charges).

iv. Departments whose policies are to a large degree implemented by local authorities, eg DES and Home Office, will need to be consulted about how the White Paper should deal with local authorities' self-financed expenditure.

v. The new planning total will incorporate some measure of local authority borrowing. Discussions with departments on a new control regime have begun but it will be very difficult to conduct these with other departments if they are not told how the new regime will relate to the planning total.

4. All this represents a substantial programme of work. We consider that July 1988 would be the latest time that departments could be brought in. However, there would be significant advantages in beginning discussions with departments in the spring so that the work would take place in spring and summer rather than in the autumn when work on the Survey is at its peak.

Consultations outside Government

5. At some stage, there will have to be consultations with local authority associations about the way the new three-year grant arrangements will operate; and with the TCSC on the change in the framework of public finance. There would be a number of advantages in making an early announcement of the proposed changes.

6. First, informed commentators have already suggested that the implication of the Government's view that the community charge will increase local accountability ought to be the exclusion of local government spending from the Government's own planning total. This point is likely to be pressed in Parliament - indeed there have already been questions from the Opposition. Early announcement of the proposed change would ensure that the initiative rested with central government and that the change was presented on the

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Government's terms and was seen as a logical consequence of government policy rather than a concession to outside pressure.

7. Secondly, the Rate Reform Bill, to be published on 4 December, will change the basis on which the Secretary of State is required to consult local authorities about grant. In addition DOE are proposing to cut back the cumbersome and time-consuming consultation machinery, ie the joint government/local authority association groups which look annually at local government spending and will need to agree the approach with other government departments. Questions about how consultations will be carried out under the new regime and how local government spending is to be handled in PES could start from the time the Bill is published. The first meeting of the Consultative Council on Local Government Finance will be held in late March/early April 1988 to start the 1989-90 round and questions could also arise at this point about the future arrangements. When the first part of the work on the 1989-90 RSG Settlement reaches its conclusion around July with the announcement of provision and AEG, discussion will naturally turn to the basis for conducting the work in the following year. Departments could be left in a very difficult position if they were unable to say anything about the new proposals beyond this point.

8. Finally, the Treasury has given an undertaking to the TCSC that it will consult it about any proposal to change the definition of the planning total. Although they would become aware of the proposal at the same time as local authorities associations we could delay putting a paper to them until November 1988, to coincide with the Autumn Statement.

1989-90 Budgets

9. We doubt whether the announcement of a proposal to revise the planning total would provoke an increase in local authority spending. If we believed it would, we should not be pursuing the policy at all. Our arguments are based on the premise that the inclusion within the planning total of local authority spending from its own resources has not been markedly successful in controlling spending and that the change in the planning total does not mean that we are giving up the attempt to restrain local government spending but are seeking to devise an alternative and more effective framework. After 1990, the key elements will be the accountability of the community charge (with charge-capping as a fallback); and the greater discipline on grant which will be brought about by its inclusion in the planning total. In setting their 1989-90 rates local authorities will be influenced by the fact that

*Not a
inclusive
argument!*

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it will be the last year that they will control the non-domestic rate and the last year before the introduction of the community charge. In some cases this may encourage them to try to boost their reserves. However, they will also be motivated by whether they think the ratepayers will bear this, having in mind county elections in 1989 and London elections in 1990. We do not think they will be influenced by advance notice of a future change in the Government's framework for planning expenditure.

Conclusions

10. We therefore reach the following conclusions:

- i. although the planning total would relate to 1990-91, it would need to be in use during the 1989 Survey and the 1989 RSG negotiations;
- ii. to set up the baselines in time for the 1989 Survey and RSG negotiations, the main questions of definition and operation need to be settled by around January 1989;
- iii. to complete the large number of complex issues to be resolved, consultations with departments need to begin no later than July 1988;
- iv. questions on the way grant will be operated in the new regime could come from local authority associations as soon as the Rate Reform Bill is published. While these can be parried for a while, this will become increasingly difficult. If nothing is said by July 1988, departments will be in an unsustainable position;
- v. there is no way in which consultation either, within government or outside, can be delayed until after March 1989 when 1989-90 budgets will be finalised. Equally, there is little additional advantage in delaying once the 1988-89 budgets have been finalised in March 1988;
- vi. as the legislation on the new regime is debated, the idea of a change in the planning total is likely to be increasingly canvassed. An early announcement by central government would allow it to dictate the terms of the discussion;
- vii. we recommend that discussions with departments should begin in March 1988, those with local authorities no later than July 1988, and a paper should be put to the TCSC in November 1988.

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10 DOWNING STREET
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From the Private Secretary

14 December 1987

Dear Alex,

A NEW PLANNING TOTAL

The Prime Minister has seen your letter to me of 4 December about the possible change of definition of the planning total.

The Prime Minister continues to believe that there are risks in beginning discussions and consultations too far ahead of the 1989-90 financial year. But she accepts that if the change is to be made discussions have to begin in 1988 and in that case the risks are not greatly increased by starting in March. On this basis she agrees, albeit reluctantly, that preparatory work within Whitehall should begin in March 1988.

I am copying this letter to Mike Eland (Lord President's Office), Robin Young (Department of the Environment) and Trevor Woolley (Cabinet Office).

Yours,

David

DAVID NORGROVE

Alex Allan, Esq.,
HM Treasury.

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