



*Prime Minister*  
*You may like to glance at this. After a brief discussion with F.R.B. you may like to reflect on it over the weekend.*

*ce/ky*

*AT 17/5*

*MT*

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MR TURNBULL

Functions of Local Authorities

I attach a note, principally the work of Mr Owen, about the functions of local authorities and the scope for exercising tighter central government control on them, either by transferring them to central government or by prescribing that local authorities carry them out as agents with expenditure limits fixed by central government.

2. The Prime Minister may like to have a word with me about this paper at our bilateral tomorrow morning.

*F.R.B.*

ROBIN BUTLER

17 May 1990

Possibilities for controlling local authority spending on major services.

## Local authority services

1. Local authorities' powers and duties are given to them by central government. What they do, and how much they spend on doing it, can in principle be closely controlled. The problem, from the point of view of control of local taxation and expenditure, is that powers and duties are broadly defined in statute. Councils are free to interpret them widely, and (except for "capped" authorities) to use local taxation at their discretion to support spending.

2. Local authority services are listed in the Annex. Education is by far the largest. It accounts for about half of all local authority current spending (teachers' salaries alone account for about a quarter). The proportions of standard revenue spending accounted for by the main service blocks in 1990/91 will be:

<u>Service</u>	<u>£M</u>	<u>%</u>
Education	14,752.5	49.5
Social Services		
- children	1,275.1 )	
- elderly	1,623.6 )	12.0
- other	693.2 )	
Police	2,124.5	7.1
Fire and Civil Defence	876.6	3.0
Highway Maintenance	1,578.0	5.3
All other services		
- district services	3,891.0 )	
- county services	1,159.3 )	15.1
- other (incl. receipts)	-548.2 )	
Capital financing	2,379.7	8.0
<hr/> Total	<hr/> 29,805.3	<hr/> 100.0

(Housing is a big spender on capital account, but it now has little effect on revenue spending since housing revenue accounts are "ring-fenced".)



3. A rough categorisation of local government services for working purposes might be:

(a) "commercial" services, provided in response to demand and charged for (eg school meals);

(b) "agency" services provided in direct support of government policies (eg weights and measures inspection);

(c) "local" services where there is little national concern to have uniform standards (eg street lighting);

(d) "national" services, where there is a national objective of achieving parity in all areas (eg education).

The boundaries between categories are not clear cut, but the "national interest" element in services such as education and the police is explicitly recognised in statute, and the relevant Secretaries of State have inspectorates to ensure consistency of standards.

4. There is little benefit to be gained, in terms of expenditure control or reduction of local taxation, by altering the funding arrangements for the first three categories of services, though on grounds of economic and operational efficiency the government has an interest in ensuring

- that the maximum use is made of the "commercial" category, with prices set on a full economic basis wherever possible (the ring-fenced housing account is a move in that direction);

- that the supply of services is open to competition.



5. New control arrangements for the major "national" services, however, would have a big impact on spending and community charges.

**Methods of controlling service expenditure**

6. There are three main ways of controlling the discretionary local contribution to expenditure on a service:

(a) central government could take over the service;

(b) funding for the service could be provided by 100% specific grant, ring fenced so that no topping up from local revenues was allowed;

(c) local authorities could continue to top up central grants from their own income, but at a level prescribed by the government.

With options (a) and (b) the whole of the costs would be met by central government, so that - provided expenditure on the remaining services did not increase - community charges would fall. Option (c) would not affect the balance between local and central government funding, but the burden on local taxation would be controlled. All three require the government to decide what the level of spending on the service in each local authority area should be.

7. To have a significant effect on expenditure control, any new arrangements would have to include education - by far the biggest spender - and possibly the police as well. The fire service might also be included, though it is too small to have much effect on spending. These three are widely recognised as "national" services. (Another possibility sometimes canvassed is to transfer the funding of teachers' salaries, or other blocks of education expenditure, to central government; this has few advantages to set against the disadvantage of not controlling the whole of education spending.)



The problem of needs assessment

8. The stumbling block with this sort of approach is the difficulty of making realistic assessments of need. If grant was paid on the basis of inaccurate needs assessments, and there was no scope to compensate through the use of local income, there would be differences in the standards of local services that would be difficult to defend, particularly for services of a "national" character.

9. Standard Spending Assessments (SSAs) are the most recent in a long line of attempts by DOE to improve the needs assessment system for distribution of revenue support grant (RSG) to councils. All of them have relied on a purely statistical analysis. Since SSAs are used to distribute RSG to all authorities, they have to use only data which are available on a consistent basis for all authorities. That leads to a form of averageing which does not take account of special local factors. In consequence, there are differences between SSAs and actual spending levels even where authorities have the same standards of efficiency and policy priorities. Discrepancies are likely to be even greater at the level of individual services than for all services taken together, when "swings and roundabouts" help to improve the overall fit.

10. Needs assessments constructed on this traditional basis could not stand the strain of a move to permanent forms of control which set rigorous upper limits to spending on individual services. Even if spending were brought into line with SSAs gradually, to ease the problems of transition, the pattern of limits eventually established would allow different standards of service in different authorities (because of the approximate nature of statistical needs assessments). Councils could not be allowed to use local income to compensate for the differences without defeating the object of limiting local discretion.



**New approaches to assessing spending needs**

11. The methods of control outlined in paragraph 6 would require a new approach to needs assessment. Statistical procedures would need to be combined with an element of informed judgement to take account of special local factors. There are precedents for this sort of approach in the National Health Service and elsewhere. For example, allocation of housing capital resources to local authorities is based on a two-stage process:

- an allocation to DOE regional offices using the general needs indicator (GNI - a statistical needs assessment similar in principle to the SSA);

- an allocation by DOE regional offices to local authorities based 50% on GNI and 50% on regional office discretion taking account, within the framework of Ministers' policy priorities, of special local needs, the extent of unavoidable commitments, and the likely effectiveness with which resources will be used (allocations for special programmes such as Estate Action are also built in at this stage).

12. New policy developments might help to get needs assessments closer to spending levels and so ease the introduction of new needs assessment methods. For example, the measures under consideration for general limitation of community charges would tend, over a period of years, to bring budgets more closely into line with SSAs in the same way (though on a less discriminating basis) as the Resource Allocation Working Party reduced discrepancies between spending and targets for Regional Health Authorities. But the difficulty of assessing needs for revenue spending accurately from the centre should not be underestimated.

**Implementing the change**

13. DES and the Home Office do not have regional offices like



those of the DOE. To implement new methods of control, they would have to develop a capacity to make on-the-spot assessments of local spending needs for their services. This might be easier for the Home Office, who have always taken a close interest in police complements and have made extensive use of specific grants to influence service levels (they have less knowledge and control of the fire service). DES have traditionally adopted a more hands-off approach, and it is not clear how easily the Inspectorate's expertise, for example, could be converted into judgements about relative spending needs.

14. Judgemental spending needs assessments could provide a basis for any of the methods of expenditure control listed in paragraph 6, though it would be necessary to proceed with caution, implementing cuts over a period of years as local knowledge and experience developed.

15. If it were decided either to take over services, or to fund them wholly through ring-fenced grant, it would be open to the government to decide whether the costs should fall on taxpayers or chargepayers. If extra grant were provided, the planning total would increase, since there would be more central government expenditure, but general government expenditure (GGE, which is the relevant figure for calculating the ratio of government spending to GDP) would be unaffected provided there were an equivalent reduction in local government spending. Alternatively, the increase in grant on controlled services might be matched by cuts in grant on other services, leaving the proportions of central and local spending, and consequently community charges, unchanged (but the education service is so big that this might not be possible).

16. If the control was exercised by fixing limits for local finance, community charges would remain at previous levels.

17. Whatever method were used to control spending on the



"national" services, some councils would respond by increasing spending on non-controlled services. But with over 60% of spending controlled, the scope for major increases in spending on the remaining collection of relatively small services would be limited.

#### Implications for central/local government relations

18. These control arrangements would be an upheaval in the relationship between central and local government. They would require legislation which would be long, complicated, and controversial. It would be necessary to unpick the major statutes on education, the police and fire services, and local government finance.

19. It might also be necessary to consider changes in local government structure. If the "national" services were taken over, it would be hard to see a viable continuing role for the counties. Even if the "national" services were left with them, but with budgets controlled, it might be argued that an elected tier of government was hardly necessary to carry out what amounted to a managerial function. If counties were abolished, arrangements would have to be made for their remaining functions - principally personal social services and highways - to be carried out by the districts, possibly on a collaborative basis

20. A move to a national education service, and perhaps even more a national police service, would be very controversial and bitterly contested by local government, including some of the government's supporters .

#### Conclusions and next steps

21. If we wish to secure close control of local government expenditure on the "national" services, we shall have to be able to make our own decisions on spending levels in individual local authority areas and see that they are enforced. It cannot be impossible to do that: the French already operate the education



service and a large part of the police service on a national basis. But there would be disadvantages:

- major legislation;
- an increase in central bureaucracy;
- political controversy.

It would also be for consideration whether, if such changes were to go ahead, the county tier of local government would be worth retaining.

22. If the Prime Minister feels that it is worth pursuing the possibility of central government's taking direct control of expenditure on education, and perhaps other local authority services, the next step would be to open discussion with the Secretary of State for the Environment, the Chief Secretary, the Secretary of State for Education, and the Ministers responsible for any other services involved. In view of the far-reaching implications of such a change, it would presumably be something for the next Parliament, perhaps to be foreshadowed in the Manifesto.

Local Authority Services in England and Wales

Allotments;

Arts and recreation (including libraries, parks, swimming pools);

Cemetaries and crematoria;

Community charge collection;

Consumer protection (including trade description, weights and measures);

Education;

Environmental health (including building regulations, food safety, refuse collection and disposal, street cleaning);

Fire service;

Footpaths;

Housing;

Licence duties (eg dog licensing);

Markets and fairs;

Planning (including local plans, structure plans, development control, derelict land, listed building control, National Parks);

Police;

Smallholdings;

Social services;

Traffic (including licensing, highway maintenance (for non-trunk roads), street lighting, parking, traffic regulations, transport planning).