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13 June 1985

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CABINET  
STEERING COMMITTEE ON LOCAL GOVERNMENT FINANCE STUDIES

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WORK PROGRAMME

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Memorandum by the Chairman

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1. We need to agree the working arrangements and the timetable for the next phase of the Local Government Finance Studies.
2. I attach at Annex A the minute sent by my Secretary of State to the Prime Minister setting out the background and his proposals for taking work forward.
3. It seems likely that E(LF)'s next meeting will take place in the week beginning 23 September. The next phase of our work will need to have been substantially completed by the end of the first week in September.
4. To carry out the work on that tight timescale we propose to set up the six informal working groups referred to in the Secretary of State's minute. Annex B sets out the details of the proposed membership and tasks for these groups. In addition, the Treasury are setting up a group to consider the possible form of a continuing property tax. We need to consider the degree of involvement of the Departments involved in the work of these groups.
5. For the purpose of E(LF)'s next meeting, the key group is the distribution group. This will assemble and exemplify illustrative packages. The data base is still being built up. The group is unlikely to have its first meeting before the first week in July, and detailed exemplifications of the effects for households will not be available before the end of July.
6. The final report to E(LF) will be a report by DOE Ministers, not by E(LF)O. Our objective is not therefore to produce a Report, but to satisfy ourselves that the options are correctly appraised. The disciplines of the tasks assigned to the groups are initial sighting shots. As the work develops, they might well need to branch off in other directions. If so, I shall keep the Committee informed.

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7. The timing of all our meetings will to a large extent depend on the output from the working groups. For the present, I propose that we aim to meet again towards the end of July to review the progress of the working groups, and then again at the beginning of September to consider the household exemplifications. Other meetings can be slotted in as appropriate.

CONCLUSIONS

8. The Committee are invited

1. to agree the proposed timetable and working arrangements;
2. to nominate representative(s) for the working groups.

Department of the Environment

P F OWEN

13 June 1985



PRIME MINISTER

LOCAL GOVERNMENT FINANCE STUDIES: FOLLOW UP TO E(LF) MEETING OF 21 MAY

The purpose of this minute is to let you and E(LF) colleagues know the arrangements being made to follow-up the E(LF) meeting of 21 May. My remit is to develop the proposals we outlined on 21 May, in the light of the Committee's views, and to report further; I understand that a meeting is being fixed for the last week of September.

The overall direction of the work during the next phase will be steered by an inter-departmental official committee (E(LF)(0)) under the chairmanship of my department. It will be meeting for the first time within the next week.

The day-to-day conduct of further development work will be in the hands of a series of informal topic-related working groups whose members will be drawn from the departments with direct interests.

The working groups will cover the following topics:

- a) Distribution This group will develop a range of possible packages (including exemplifications of alternatives to the main package which were not ruled out by E(LF), such as partial retention of property tax and capping of non-domestic rates) and show their effects on areas, households and businesses. It will also consider the likely effect on expenditure of the new finance regime.
- b) Grant Mechanisms This group will develop the technical arrangements for standard grant, adjustments for London, and transitional arrangements. It will also start longer term work on new needs assessment methodologies.



c) Tax Mechanisms This group will develop technical aspects of the residents' charge (administration, enforcement, feasibility of graduation etc). It will also consider the feasibility of a locally variable tourist tax and VED, and the option for assigned revenues.

d) City Grant This group will develop the City Grant proposal and examine the possibility of greater use of specific grants (eg for education) in urban authorities.

e) Fees and Charges The first task will be to assemble a fees and charges data base. We are considering contracting out much of the detailed work, possibly to the Audit Commission.

f) Tighter operating framework This will refine our ideas on the steps necessary to promote "sincere" budgets by local authorities.

The detail of departments' contributions to the work of these groups will be discussed at the first meeting of E(LF)(0)).

No further technical work will be done on annual elections. This is essentially a political question to which we must return in September.

Work on developing effective mechanisms for controlling capital spending will be proceeding in parallel. Other departments are already involved.

E(LF)(0)) will be kept in touch with the progress of the working groups and will be able to respond to new issues as they arise. The final conclusions of the working groups will be drawn together in September and will form the basis of the further report to E(LF)

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In addition to these arrangements, in which my department will be taking the lead, the Treasury are to set up a working group to develop the modifications to the rating system put forward by Nigel Lawson at our meeting on 21 May. I believe that the Treasury may be considering setting up a wider-ranging committee to consider the combined effects of the proposals for change in personal taxation and income support together with changes in the local government financial system.

I am copying this minute to E(LF) colleagues and to Sir Robert Armstrong. I would be grateful if it could be circulated within departments on a strict "need to know" basis.

P J

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DISTRIBUTION

CHAIRMAN: R A J Mayer, Dept. of the Environment

Departments represented: H.M. Treasury; Dept. of Education; Dept. of Health and Social Security; Dept. of Transport; Home Office; Welsh Office; Scottish Office.

**TASKS**

I General

(1) To develop and test a range of alternative packages within the E(LF) remit, for presentation to Ministers.

(2) To examine the distributional implications of proposals developed by the working groups on Grant Mechanisms, Taxation and Targetted Grants and to consider how far these should be incorporated in the final packages.

(3) To assess the effectiveness of alternative levers in dampening the scale of distributional changes both for areas and households.

(4) To consider how far particular distributional concerns might be met by:

- a) modifications to the basic package, and
- b) transitional arrangements

and to exemplify alternative transitional mechanisms.

(5) To consider the general presentation of results and the co-ordination of the results for England, Scotland and Wales.

II Specific Tasks.

1. To consider how the effects of the E(LF) package on the distribution of domestic tax burden between areas might be modified by the various proposals developed by the other working groups on local finance. This will involve assessing the impact of the various levers on the scale of shifts in domestic tax burden and on the levels of residents' charge in different areas.

2. To consider the effects on the distribution of tax burden between households of specific proposals put forward by the Local Taxation working group.

3. In the light of results of the exemplification work on area and household levers to assemble and exemplify for presentation to Ministers, a limited number of packages, designed to illustrate inter alia the effects of the following:

retaining a proportion of domestic rates

the use of assigned revenues to reduce the average level of residents' charge

- alternatives to a national non domestic rate
- forms of graduated residents' charge.
- the use of targetted grant for inner cities.

The exemplification of these packages would show:

a) the effects on domestic tax burden between areas.

b) numbers of households gaining and losing nationally and their characteristics. (ie household size, composition, income)

c) numbers of households gaining and losing in particular types of area (eg inner cities, London, Shire counties, etc.)

and d) the impact on businesses in different types of area (before the effects of revaluation).

4. To exemplify and assess the effects of a range of **transitional mechanisms**, proposed by the working group on Grant Mechanisms.

5. To agree on a standard format for the exemplifications at area and household level and how the separate results for **England, Scotland, and Wales** should be incorporated in the report to Ministers.

GRANT MECHANISMS

CHAIRMAN: R Bright (Department of the Environment)

OGDs: Treasury/DES/DHSS/DTp/Home Office

TASKS

1. NEEDS ASSESSMENT

(i) Examine what is "wrong"

(a) with existing GRE assessments (ie to what extent are they unrealistic)

(b) with existing GRE methodology (eg is it too complex? too ambitious? does it take insufficient account of actual expenditure?)

(ii) Decide what short-term adjustments need to be made to GRE assessments to produce more "acceptable" results for E(LF) modelling purposes (eg a general uprating of GREs or some damping process to reflect actual expenditures)

(iii) Establish what principles ought to guide the longer term reform of needs assessment methodology (eg fewer factors, perhaps relating only to statutory services; type of factors to be used; different methodologies for different classes more use of judgemental weightings; less use of regression analysis) and draw up a programme of work.

2. MECHANICS OF NEW GRANT SYSTEM

(i) Devise detailed technical specification of new lump sum needs grant (ie basis of equalisation, distribution between tiers; treatment of new joint boards and Metropolitan Police)

(ii) Devise detailed technical specification of standard grant (eg treatment of tiers)



- (iii) Devise detailed technical specification of pooling and distribution mechanisms for non-domestic rate income (eg treatment of tiers)

3. LONDON ARRANGEMENTS

Consider the nature of the "London problem" in the new grant system and whether there is a rationale for permanent special grant arrangements for London; and if so what those arrangements should be (eg Whether London should retain some of its non-domestic rateable value income; how far any "London problem" will be resolved by improvements to GRE methodology).

4. TRANSITIONAL ARRANGEMENTS

Consider and specify possible mechanisms to moderate the effects of the new regime for a transitional period (eg safety net payments to moderate effects on domestic taxpayers; phased reduction in London's resource advantage to pre-determined level; damping of needs assessments (if new methodology produces major changes in assessments); phasing out of domestic rates rather than outright replacement by residents' charge; phasing in of national non-domestic rate, rather than immediate implementation)

5. THE GRANT SYSTEM IN RELATION TO NEW TAX SYSTEM

Consider how grant system interacts with new local tax structure (including possible partial retention of domestic rates, multiple taxes, and modification of residents' charge).

6. THE GRANT SYSTEM IN RELATION TO PESC:

- (i) Consider how the grant quantum should be determined under the new regime in the first year and thereafter (eg how do we determine needs element and standard grant quanta, including possible use of assigned revenues and availability of national non-domestic rates)
- (ii) Consider the relationship between PESC service "control totals" and needs assessments under the new regime, bearing in mind the desirability of year-on-year stability in grant distribution.

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LOCAL TAXATION

Chairman: P D Ward (Department of the Environment)

Departments Represented: Treasury, Inland Revenue, Customs and Excise, Home Office, Department of Trade and Industry, Department of Transport, Scottish Office, Welsh Office, Department of Health and Social Security.

Tasks

1. Residents' charge - Administration and enforcement;  
in particular definition of residence;  
compilation of register; sanctions for non-registration; collection; payment methods; sanctions for non-payment;  
- Rebates - link to review of social security;  
- Modifications - exemptions, feasibility of graduation.
2. Other local taxes - Locally variable Vehicle Excise Duty (link to Grant/Distribution Groups)
3. Assigned Revenues - options for assigned revenues: impact on local finance over the longer term; effect on overall progressiveness/regressiveness of tax system (link to Distribution group);
4. Non-domestic sector - mechanics of setting a uniform non-domestic rate;  
- modification of non-domestic rate; tourist tax on hotels and boarding houses;  
- collection procedures for a national non-domestic rate (collection procedures for capped NDR);  
minor issues e.g. contributions in lieu of rates;
5. Rateable Value - implications of ceasing to value domestic property (for e.g. water rates etc.)

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TARGETTED GRANTS WORKING GROUP

CHAIRMAN: R A J Mayer (Department of the Environment)

OGDs: Treasury, DES, DTp, Home Office, DHSS

TASKS

1. Develop policy on targetted grants:

a. to inner urban areas;

and b. linked to specific service initiatives.

2. On (a) look at the size, scope and form of "City grant". Examine rationale and method of payment. Explore criteria for selection of authorities and administration of the grant.

3. On (b) look at the present range of specific grants. Examine rationale and method of payment. Examine case for introduction of new specific grants designed to promote new initiatives across the country.

NOTE

5. Some of this work, particularly under 1 and 2, might be contracted out to the Audit Commission under supervision by the working group.

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**FEEES AND CHARGES WORKING GROUP**

**CHAIRMAN:** P D Ward (Department of the Environment)

**OGDs:** Treasury; DHSS; DES; DTp; Home Office

**TASKS**

1. A review of statutorily determined fees and charges
  - identify all such fees and charges (including fees for licence applications) and transfer to local authority discretion unless there is an overwhelming case for not doing so.
2. Devise a Code of Practice on charging
  - devise a code which authorities would be required to follow in an annual review of all fees and charges, covering e.g. market analysis; scope for maximising fee and charge income; case for subsidies etc.
3. Consider areas where new charges could be introduced
  - e.g. fire service, libraries, museums, nursery education.
4. Examine scope for increased charging of non-domestic ratepayers and devise methodology for doing so.

**NOTE**

5. Some of this work, particularly under items 1 and 2 might be contracted out to the Audit Commission and/or CIPFA, under supervision by the working group.

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BUDGETARY FRAMEWORK WORKING GROUP

CHAIRMAN: R Bright (Department of the Environment)

OGDs: Treasury

TASKS

1. Nature of Problem

- Identify, examine and analyse evidence of unsatisfactory budgetary practices (e.g. deficit budgetting, misuse of reserves, creative accounting).

2. Legal requirements to prepare a "sincere" budget

- Develop criteria for judging whether budgets are sincere (e.g. realism of expenditure/inflation estimates; realism of revenue estimates).

3. Budget vetting procedures

- Identify "triggers" to select those budgets needing to be vetted for "sincerity" by the auditor (e.g. authorities with a deficit in the previous year or with a history of qualified accounts).
- Specification of operational aspects of vetting procedures (e.g. timetable, involvement of the auditor, remedies).

Note

4. Much of this work may be undertaken in conjunction with the Audit Commission.

Department of the Environment

13 June 1985

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