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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

SUB-COMMITTEE ON LOCAL GOVERNMENT FINANCE

MINUTES of a Meeting held in
Conference Room A, Cabinet Office
on THURSDAY 19 DECEMBER 1985 at 9.00 am

PRESENT

The Rt Hon Viscount Whitelaw
Lord President of the Council
(In the Chair)

The Rt Hon Leon Brittan QC MP
Secretary of State for Trade and Industry

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Norman Tebbit MP
Chancellor of the Duchy of Lancaster

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment

The Rt Hon John MacGregor MP
Chief Secretary, Treasury

The Hon William Waldegrave MP
Minister of State, Department of the Environment (Minister for the Environment, Countryside and Local Government)

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon John Wakeham MP
Parliamentary Secretary
Treasury

Mr David Waddington QC MP
Minister of State
Home Office

Mr Michael Ancram MP
Parliamentary Under-Secretary of
State, Scottish Office

SECRETARIAT

Mr J B Unwin
Mr A J Langdon
Mr J E Roberts

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1. CONTROL OF LOCAL AUTHORITY CAPITAL EXPENDITURE

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment covering a draft chapter of the Green Paper on local government finance describing proposals for the control of local authority capital expenditure. They also had before them a letter of 13 December from the Secretary of State for the Environment to the Chief Whip.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that it was necessary to consult on the proposals to reform the system for controlling local authority's capital expenditure. The Sub-Committee had agreed at an earlier meeting that the Green Paper should put forward a system based on gross expenditure. A key issue was the way in which receipts accumulated under the present system should be treated. His predecessors had given commitments that local authorities would over time have the full benefit of the use of such receipts. It was estimated that accumulated receipts stood at £6 billion, but of these, only about half were cash-backed: the remainder had been used to redeem existing borrowing or to finance expenditure in substitution for new borrowing. He proposed that in setting allocations the Government should allow local authorities the benefit (over three years) of cash-backed receipts only. This would be controversial, but he believed that it was not inconsistent with the assurances that had been given previously.

The draft text was not specific on the arrangements which would reply to new receipts, but he had in mind that local authorities might have spending power equivalent to not more than 50 per cent of receipts, spread over three years. This would be broadly consistent with the existing prescribed proportions.

These proposals might be seen by local government as being unduly harsh, and it was therefore desirable to include some other elements of flexibility in the package. He believed it would be right to canvass the possibility of local authorities increasing their capital spending power by budgeted contributions from revenue, and that the existing power to vire allocations between services should continue.



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THE PARLIAMENTARY SECRETARY, TREASURY, said that provided the Government proceeded carefully with full consultation, he believed it would be possible to secure support for the proposals from Government backbenchers.

THE CHIEF SECRETARY, TREASURY, said that he was broadly content with the Secretary of State for the Environment's proposals. It was crucial that the spending power associated with accumulated receipts should be limited to £3 billion. Subject to that being achieved, he was content with the proposals for dealing with new receipts, and that the possibility of revenue contributions should be canvassed. He remained concerned that local authorities would have complete freedom to vire, but he accepted the arguments put forward by the Secretary of State, and would not press the point. He was concerned, however, that it was not legally possible at present to take account of individual authority's accumulated receipts in setting allocations: this might be re-examined.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that the Sub-Committee endorsed the proposals put forward by the Secretary of State for the Environment. The draft text should be included in the Green Paper, subject to the amendment which had been agreed between the Secretary of State and the Chief Secretary to make clear that the commitment to allow full use of accumulated receipts would apply only to those backed by cash. If following consultation it proved impossible to hold this line, it would be necessary to reconsider whether revenue contributions could be used to increase capital spending, and whether local authorities should continue to have complete freedom to vire. The Secretary of State for the Environment should also re-examine the legal position relating to allocations for individual authorities.

The Sub-Committee -

Took note, with approval, of the Lord President's summing up of their discussion, and invited the Secretary of State for the Environment to be guided accordingly.







2. NATIONAL NON-DOMESTIC RATE

The Sub-Committee considered a Memorandum by the Secretary of State for the Environment about the implications of setting a common non-domestic rate poundage across the whole of Great Britain (GB).

THE SECRETARY OF STATE FOR SCOTLAND said that because the valuation base for industrial rates in Scotland and in England and Wales were different, because industrial derating applied to manufacturing industry, and because in Scotland the local authority rate covered also water and sewerage, it was not easy at present to draw direct comparisons between rate bills. But this would change when non-domestic rate poundages were established centrally. It would then be essential to set a common poundage for the whole of Great Britain; he would not be able to justify to Scottish industry and commerce a higher rate of tax than applied in England. This would, however, leave a significant shortfall in yield in Scotland, amounting perhaps to £1½ billion. It would be necessary to tackle this problem through appropriate transitional arrangements. If rates reform when ahead in Scotland sooner than in England and Wales, he proposed to cap existing non-domestic poundages in the period up to 1990, when it would become feasible to set a national rate.

He had previously suggested that non-domestic rateable values should take account of turnover, but he was now prepared to withdraw that suggestion and accept a common basis for the 1990 valuation.

In discussion the following points were made -

a. exchequer grant already met a higher proportion of local authority expenditure in Scotland than in England and Wales, and it would not be acceptable to see a further substantial increase in grant;

b. it would not be acceptable to increase the non-domestic poundage in England in order to make good the shortfall in Scotland; it would be difficult enough to win support for setting a central rate at the present English average, and to go higher than this would jeopardise support for the whole package;

c. in principle, either Scottish domestic rate payers would have to be prepared to pay more, or Scottish local authorities should reduce their spending to come more into line with levels in England and Wales; but the latter would take time.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said the the Sub-Committee had not reached agreement on how the problem should be tackled, although there was a strong view that the existing financial balance between Scotland, England and Wales should not be disturbed. If the Scottish non-domestic poundage were set at the same level as in England, it might well be appropriate to leave Scottish local authorities with the alternative of reducing their spending or of raising the necessary revenue through the community charge. The Green Paper should, however, be drafted so as to leave open the option of different rate poundages in different parts of Great Britain.

The Sub-Committee -

Took note, with approval, of the Lord President's summing up of their discussion.





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3. INTERACTION WITH THE HOUSING BENEFIT SCHEME

The Sub-Committee considered briefly how the application of the Housing Benefit Scheme to the community charge should be presented in the draft Green Paper.

THE LORD PRESIDENT OF THE COUNCIL said that the Secretary of State for Social Services, in conjunction with the Secretary of State for the Environment and the Chief Secretary, Treasury, should devise a form of words for inclusion in the Green Paper which, while maintaining the principle that all electors should pay something towards the cost of local services and that the least well off should receive some assistance, kept open all possible options for the way the community charge and Housing Benefit schemes would interact.

The Sub-Committee -

Took note.

Cabinet Office

20 December 1985