

LOCAL GOVERNMENT FINANCE

POLICY GROUP *L.A.*

Control of Spending

*Scale*

We take the view that there are serious shortcomings in the overall control of local government finance and that there is a need for a limit in cash terms. We believe that the real freedom of local government is in the decisions taken concerning the provision of services and the spending of money rather than in the raising of revenues. We think, therefore, that there should be a very much larger element of discretion in the conduct of powers and duties, and the provision of services within an overall cash limit. This will mean the repeal of many minor statutory provisions, and a general streamlining of circulars for Government Departments. Constant reference to Whitehall for approval of quite minor activities should cease. This will mean considerable reductions in staff both in local authorities and Central Government Departments.

Cash Limits

Together with the greater discretion for local decision-taking, we believe that Central Government should have a power, where necessary, to fix an absolute limit in cash terms on local government expenditure. The Government should, through negotiations between DcE and the local authority associations, determine in advance the total level of expenditure appropriate in the following financial year based on agreed estimates of local needs and resources, not on previous levels of spending.

The Government Grant would be expressed in terms of cash limits and there would be no provision for an increase order. The Consultative Council on Local Government Finance should supervise the monitoring of local authority expenditure and manpower. We envisage that this would bring together numerous ad hoc bodies already dealing with monitoring.

Problems arising from cash limits

We recognise that there may be a number of contingencies which lead to overspending or local authorities running out of money before the financial year ends. These are:-

(a) unexpected levels of inflation

Increase orders would be incompatible with the cash limits principle. Local authorities would have to make economies, if necessary reducing services and staff.

(b) additional duties or commitments given to local authorities by Central Government

New legislation and nationally agreed pay settlements add to the outgoings of the local authorities. In these circumstances a specific

....grant should

grant should be made in respect of the cost of additional commitments during the financial year. New legislation should be accompanied by an appraisal, agreed with the local authority associations, of the revenue and manpower implications for local authorities.

(c) Local mismanagement

Where local authorities are responsible for overspending, they should not be rescued by Central Government. There is merit in identifying extravagance and mismanagement in the minds of the electorate.

Capital Expenditure

Capital expenditure should be subject to the same overall limits as revenue expenditure. We believe that there is a strong case for dispensing with key sectors and dealing with all loan sanction through the Department of the Environment, through a block loan allocation. Local authorities and the Government should fully appraise the manpower and revenue implications of all loan sanctions for capital expenditure.

Local Revenues

The Party has pledged itself at the last election and on several occasions since to:

"abolish the domestic rating system and replace it by taxes more broadly based and related to people's ability to pay."

We take the view that the abolition of all rating would be desirable (although we consider a property based tax below). Without domestic rates the political sanction of the system will virtually disappear and commercial and industrial ratepayers would be vulnerable to savage rate increases by individual labour authorities. We believe however, that there is no alternative to the retention of commercial rates, and we recommend that this tax is transferred to the Exchequer. The problem of small business ratepayers remains. We recommend that the measures outlined by John McGregor's Local Government (rate relief for small businesses) Bill should be implemented:-

- (a) the right to pay rates by monthly instalments;
- (b) eligibility for domestic relief.

Precepting

We believe that as far as possible the revenues of counties and districts should be separated. This is a relatively simple matter in respect of the Government grant.

It is possible also to devise a system to provide both counties and districts with locally raised revenues.

.... / Difficulty arises

Difficulty arises because the responsibility for major services (education and social services) is placed at different levels in metropolitan and non-metropolitan areas.

Let's  
L.A.  
Valuation  
Annual  
Properties

A local supplement on VAT would be capable of operation at county level throughout the country and this would be required to meet the cost of providing county services (excepting, in non-metropolitan areas, education and social services). An additional 3 per cent on VAT would collect about £1000 million. A household tax, based on property valuation but including a surcharge to cover earning non-householders would be collected by district councils and this would be required to meet the cost of providing district services (except, in metropolitan areas, education and social services). A viable alternative to the household tax would be a poll tax on all employees collected at a flat rate via PAYE. This would have the merit of raising a substantial sum from all employed people, without the complication and the possibility for evasion inherent in using the electoral register. A tax of £1 per head per week or £50 per annum could raise about £1250 million.

£1500

£12,173

£m.

£m.  
£m.  
£m.

The bulk of the cost of education and social services (at county level in non-metropolitan areas and at district level in metropolitan areas) would be borne by a 90 per cent government grant. This would be the largest part of a two-element exchequer grant: needs element paid to metropolitan districts and non-metropolitan counties, and a much smaller resources element for which any authority would be eligible if its local resources fell below a national standard. The table at Annex A summarises the relationship of the different revenues. In addition we propose that a number of optional minor revenues might be available to district councils: lotteries, planning application charges and a tourist tax collected from hotels. We have devised a framework for local government finance with certain options, which we now propose to discuss with the Shadow Treasury team.

## Economies in Local Government

### Charges

We recognise the need to move to more economic levels of charges for local authority services. This would apply not only to rents for council housing, the major charge made by local authorities, but also to charges for recreational facilities, e.g. swimming pools, where the current level of charges is on average 25 per cent of the cost of the service, and charges for a range of environmental and social services. A number of education services should charge the full cost: school meals, milk and transport. We also support the introduction of charges for dealing with planning applications.

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### Manpower

The manpower requirements of all local authorities should be strictly monitored. We believe that staffing establishments in local authorities should reflect the minimum routine demands of work, and that local authorities should hire temporary staff or engage consultants to meet peak demand.

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Nationally agreed pay settlements for the police and teachers are subject to the direct approval of the Home Secretary and the Education Secretary respectively. We believe that pay agreements negotiated through the national joint councils for other local authority employees should be subject to the approval of the Secretary of State for the Environment.

### Streamlining Services

It is not Party policy to reorganise local government and certainly not to leave half open doors for the advocates of regional government. The 1972 Act has created a number of expensive problems stemming from the two-tier system and the duplication of services at county and district level, in particular continual bickering over agencies.

Planning is an obvious candidate for streamlining. Development control and local plan making should be allocated to district councils.

Transportation should be the responsibility of county councils, and staff should not be retained at district level for this service.

Recreation Services are logically provided by district council. With very few exceptions, county museums and certain country parks, districts should provide these services, and county recreation departments should be disbanded.

The provision of Consumer Advice Shops in metropolitan areas if necessary at all, should be the responsibility of county councils.

Refuse Collection and Disposal are the responsibility of districts and counties respectively. Collection must be carried out on a district basis and there are economic and planning reasons for dealing with disposal on a county basis. Collection is a service which could be contracted out to private operators, but the contracts must be made by local authorities and not householders.

Agency Agreements have generally worked badly. Highways agencies are causing a good deal of friction and additional expenditure in administration. There is no reason for continuing this type of agency if establishment costs are going to be so high.

Library agencies have also created problems and we see merit in avoiding agency agreements, and leaving the function with education authorities,

Direct Labour departments in England and Wales employ over 200,000 people. We believe that it is wrong to contemplate any further expansion of direct labour services and that it is essential to recognise the full costs of running direct labour departments. We endorse the recommendations of the CIPFA working party.

### Financial and Legislative Effects

#### Financial Effects

The policy group has been considering ways of  
..../ controlling

controlling growth in local government spending, and alternative sources of revenue for local authorities. We expect to see increases in spending abated, and substantial saving in administration would result from the abolition of domestic rating. The transfer of taxes between local and central government may affect the regulator.

In addition we have been considering ways of streamlining local government services and we anticipate a saving of at least £150 million in a full year.

#### Legislative Effects

There would need to be a new Local Government Bill to give effect to our proposals for reforming finance and it may or may not be possible to include in this amendment to the 1972 Act to give effect to streamlining of services, and to repeal sections of earlier Acts. If this is not possible a further Local Government (Miscellaneous Provisions) Bill will be necessary.

LOCAL REVENUES

Metropolitan Areas		Non-Metropolitan Areas	
COUNTY	DISTRICT	COUNTY	DISTRICT
local supplement on VAT		local supplement on VAT	
	household tax (collected via rate-collection machinery) based on register or poll tax		household tax (collected via rate-collection machinery) based on register or poll tax
	* grant (needs element) (90% of education, social services)	* grant (needs element) (90% of education, police social services)	
Grant (resources element) where appropriate	Grant (resources element) where appropriate	Grant (resources element) where appropriate	Grant (resources element) where appropriate
	lotteries		lotteries
	planning application charge		planning application charge
	tourist tax		tourist tax

\* Note Commercial rates transferred to Central Government.