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PRIME MINISTER

Local Authority Current Expenditure 1980-81
(E(80) 93 and 94)

BACKGROUND

These papers by the Secretaries of State for the Environment and for Scotland make recommendations to deal with the likely overspend on current account by local authorities in 1980-81. Following the revised budgets presented in August, the planned excess in England and Wales has been reduced to £350 million. The Secretary of State for the Environment advises that with allowance for likely short-fall it would be prudent to assume an excess of around £200 million. The Secretary of State for Scotland judges that without further action his excess will be around £40 million.

2. The Secretary of State for the Environment sets out his proposals for dealing with this in paragraph 8 of E(80) 93. He rejects:-

- (i) A capital moratorium in 1980-81 - saves only £40 million; damaging to the construction industry.
- (ii) Holding back capital allocations for 1981-82 - could be circumvented; reduces capital investment to protect current expenditure.
- (iii) Selective action to deal with individual offenders - not possible without major and controversial legislation.

He recommends -

- (iv) Under the present transitional arrangements a grant cut on most authorities with rates above the threshold level of 155p - the total penalty would be £17.4 million and the cuts by individual authority are listed in Annex D.
- (v) Reordering of the Urban Programme for 1981-82 to penalise the highest spending authorities - negligible savings, but a means for disciplinary action.

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3. His main proposal, in paragraph 8(vi), is to penalise authorities as a whole by an adjustment to the total of the cash limited Rate Support Grant for 1980-81. The bulk of the grant is issued during the course of the financial year but further amounts are paid through Increase Orders which are made one year and two years after the original grant settlement. These payments give scope for implementing either of the alternatives discussed -

- (a) To reduce the cash limit now by £200 million and to reduce the Increase Orders accordingly (as proposed in paragraph 8(vi)); or
- (b) not to adjust cash limits now but to withhold the £200 million at the first Increase Order in November 1980 and to reconsider the position at the second Increase Order in November 1981 when a clearer picture of the 1980-81 outturn will be available.

The second course would appear fairer in that it threatens punishment but only inflicts it if the authorities refuse to repent.

4. The Secretary of State for Scotland recommends that he should deal with his prospective overspend of £40 million by using the second of the alternatives put forward by the Secretary of State for the Environment - namely, to threaten abatement of the cash limit but not to act now. He also proposes to use his powers to reduce Rate Support Grant selectively where individual authorities have incurred excessive or unreasonable expenditure (there are no similar powers in England and Wales).

5. As a separate matter, the Secretary of State for the Environment was asked by E in July (E(80) 24th Meeting, Item 1) to consider whether there were any other means which could be used to bring local authority finances under greater control and to deal with the disadvantaged position of industrial and commercial ratepayers. He discusses this in Annex C of E(80) 93 but concludes that none of the available possibilities is at all attractive. I understand that he may consider this further in the course of his current review of possible alternatives to the rating system which he will probably discuss informally with the Chancellor of the Exchequer, and subsequently with you, in the near future.

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HANDLING

6. After the Secretaries of State for the Environment and for Scotland have introduced their papers it may be easier to deal with England and Wales first. You will wish to cover the following questions:-

- (a) For England and Wales is the estimate of £200 million overspend realistic?

Some Ministers may well argue that in the light of past experience, and the evidence that manpower savings are now being made, it is unduly pessimistic. On the other hand past underspending has been mainly on increasing budgets and, according to paragraph 4 of E(80) 93, a further 90,000 staff will have to be cut by March 1981 if targets are to be met.

- (b) What action should be taken on the cash limit?

While there is room for argument on the likely excess the Committee may well accept that some action needs to be taken now. Uncertainty over the outturn points to the solution in paragraph 10 of E(80) 93 - that is, to abate the first Increase Order but not to take final decisions until more is known of the actual outturn.

- (c) Should authorities with high rates be penalised?

This is the proposal in paragraph 8(iv). The Committee will wish to note the detailed list in Annex D.

- (d) Should the urban programme be reordered?

This is the proposal in paragraph 8(v) designed to hit those high spending authorities who are benefitting from the urban programme. Treasury Ministers may have views on whether any amounts withdrawn should be re-distributed elsewhere or simply logged as savings.

- (e) Are the proposals for Scotland acceptable?

The main issue here is whether to cut the cash limit now or, as the Secretary of State for Scotland would prefer, to defer a final decision until the outturn is known. Any difference in approach between Scotland and England and Wales would have to be justified.

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CONCLUSIONS

7. You will wish to record conclusions:-

(i) For England and Wales on:-

- (a) whether to adjust the cash limit now (paragraph 8(vi) of E(80) 93) or later (paragraph 10), and on how much - £200 million? - to hold back at this stage;
- (b) the proposals in paragraph 8(iv) for penalising high rating authorities under the transitional arrangements;
- (c) the proposals in paragraph 8(v) for reordering the urban programme;
- (d) the timing of an announcement of the Committee's decision.

(ii) For Scotland on whether to abate the cash limit now or later, whether to withhold £40 million as proposed, and on the timing of the announcement.



Robert Armstrong

9th September 1980