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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND IN 1980-81

Memorandum by the Secretary of State for Scotland

1. In E(80)94 I had proposed action in Scotland similar to that proposed in E(80)93 by the Secretary of State for the Environment but with some provision for my different statutory powers. On further consideration I concluded that it would be preferable to adopt a different approach to curtailing local authority expenditure. That approach has, however, been contested by the Chancellor of the Exchequer (with the support of the Secretary of State for the Environment). The purpose of this memorandum is to explain my proposal more fully.

The Pattern of Over-Budgeting

2. Since 1976-77 current expenditure guidelines have been issued to each of the 65 local authorities in Scotland: 9 regional councils (providing the major services and accounting for some 85 per cent of total expenditure), 53 district councils and 3 small all-purpose island area councils. Comparison between the purely indicative guidelines and budgets broadly indicate the extent to which the three groups of authorities and individual authorities are complying with expenditure policy.

3. 8 of the 9 regional councils have budgeted close to guidelines, their proposals showing a net excess of just over 1 per cent. They are now known to be making strenuous efforts to curb expenditure in response partly to inflationary pressures and partly to my repeated enjoinders to secure economies. I expect out-turn for these authorities to be materially below the guideline total. I am bound to have particular regard to the situation in Strathclyde, which has 47 per cent of the total population in Scotland and faces considerable problems of urban deprivation, despite which the Regional Council has behaved responsibly in expenditure matters. The ninth regional council, Lothian, has budgeted for expenditure £25m (12.5 per cent) above the guideline. It does not intend to curb expenditure and is clearly bent on political confrontation.

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE IN SCOTLAND IN 1980-81

Memorandum by the Secretary of State for Scotland

In E(80)94 I had proposed action in Scotland similar to that proposed in E(80)93 by the Secretary of State for the Environment but with some provision for my district authority powers. On further consideration I concluded that it would be preferable to adopt a different approach to controlling local authority expenditure. That approach has, however, been considered by the Ministerial Committee on Economic Strategy (the 'Committee') with the support of the Secretary of State for the Environment. The purpose of this memorandum is to explain my proposal more fully.

The Pattern of Over-Budgeting

Since 1978-79 current expenditure guidelines have been issued to each of the 68 local authorities in Scotland. The guidelines provide for a 10 per cent increase in total expenditure, of which 7 per cent is to be met by the local authority and 3 per cent by the central government. The guidelines also provide for a 10 per cent increase in total expenditure, of which 7 per cent is to be met by the local authority and 3 per cent by the central government. The guidelines also provide for a 10 per cent increase in total expenditure, of which 7 per cent is to be met by the local authority and 3 per cent by the central government.

Of the 9 regional councils have budgeted close to guidelines, 3 showing a net excess of just over 1 per cent. It is not known to me which of the 8 regional councils have budgeted in excess of guidelines. I expect to be asked to make arrangements to secure compliance with the guidelines by these authorities to be available before the end of the year. I have particular regard to the 8 regional councils, which are 7 per cent of the total expenditure in Scotland and have a considerable proportion of their expenditure in expenditure matters. The main regional council, which has budgeted for expenditure £22m (10.2 per cent) above guidelines, does not intend to curb expenditure and is likely to be on political competition.

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4. Total budgeted expenditure for District Councils originally showed an excess over guidelines of 12 per cent. Following my request for revised budgets and taking account of inflationary pressures together with slippage, the present plans of district councils are consistent with an excess of about half the original level.

The island authorities show some excess but their expenditure is small in scale and two, Orkney and Shetland, are facing acute difficulties due to the impact of oil development.

5. In summary, my difficulties are centred mainly on a single regional council which accounts for 60 per cent of the total excess of £40m currently indicated, together with a sizeable group of district councils some of which show substantial percentage excess on relatively small expenditure figures.

The Effect of Abating the Increase Order

6. The effects of a reduction in grant payable under the first increase order for 1980-81 would bear no relationship to the pattern of over-budgeting and would have damaging consequences. If a reduction of £40m were made, the reduction for regional councils as a whole would be £35.5m. Lothian would lose only £4.5m so that £31m would be lost by the other 8 whose expenditure is expected to be within guidelines. In particular Strathclyde exhausted its credit balance at the start of the year in order to contain the rate level in 1980-81, and made low provision for inflation. It already faces a deficit of some £40m. That would increase to £58m if the increase order were abated by £40m. Several other regional councils including Borders, Grampian and Tayside which sympathise with our general policies would also be severely affected. The loss of grant to Lothian, the principal offender, would on the other hand represent under 2 per cent of planned expenditure.

7. The effect on district councils would be relatively much less than on regional councils. The total reduction would be some £4.6m or 2 per cent of expenditure. As with Lothian Regional Council, the grant reduction would therefore be much less than the percentage excess.

8. In short, a £40m reduction in the increase order would not simply affect co-operative and unco-operative authorities alike: its effects would be severe on the 8 regional councils which account for the greater part of expenditure and which are on the whole responding well to Government policy, and would have a relatively much less severe effect on those mainly responsible for the planned excess. This effect is the more pronounced because needs element forms a higher proportion of grant than in England, and its distribution is not directly affected by expenditure patterns, being mainly

determined by demography. In political terms, action on these lines would cause the Convention of Scottish Local Authorities to close ranks against Government policy. We would alienate our own supporters and encourage more extreme elements in two regional councils which, although Labour controlled, are at present adopting comparatively moderate policies.

Selective action

9. In paragraph 9 of E(80)93, the Secretary of State for the Environment explained that his proposal to withhold part of the increase order involved a measure of rough justice, but that this was the only weapon available. In Scotland, however, I can adopt an alternative course of action. I therefore seek the agreement of the Committee to a more selective approach in Scotland, using my statutory powers to reduce grant payable to authorities which have in my opinion incurred excessive and unreasonable expenditure (described in paragraph 5 of E(80)94). Local authorities in Scotland have already been warned of my intention to do so. Since the amount of any such reduction depends upon the out-turn for 1980-81, I cannot at present quantify the reduction or specify on which authorities it would fall, but I am convinced that the prospect of the power being used will be more effective in discouraging excessive expenditure than a reduction of grant under the increase order. I would propose to examine the out-turn of each local authority against the same criteria as were used to set its guideline, which is based on expenditure for 1978-79 updated for population change. I shall then take into account any mitigating factors, such as oil-related developments. I shall also have regard to per capita expenditure on particular services, compared with that by similar authorities, and to expenditure trends. The appropriate grant reduction will have to be determined separately in each case, and take account of the representations made by each of the authorities affected, which have to be reported to the House when I seek approval for the proposed reductions. Whilst I cannot undertake to secure a reduction in grant equal to the excess in expenditure, it should be borne in mind that the procedure would enable me to secure a reduction greater than the excess if one or two local authorities have substantial excesses but others have secured net reductions. The advantage of this procedure is that I shall be acting in relation to a known out-turn figure and against identified over-spenders. This procedure would

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be fairer and more acceptable to co-operative authorities; less co-operative authorities are more likely to be persuaded by direct action related to over-spending than by the more uncertain effects of a cut in the increase order. When I inform the Convention of Scottish Local Authorities of the line which I propose to take, and in the subsequent public announcement, I shall make clear how seriously I regard the prospect of over-spend and that I intend to act as severely as is consistent with my powers.

10. As to later years, I will seek extended powers in a Bill next Session to effect grant reductions related to excessive expenditure intentions; authorities are aware of this and should be discouraged from seeking to offset reduction in grant for 1980-81 by rate increases rather than expenditure reductions.

11. I therefore seek the Committee's agreement that there should not be an abatement in the first 1980-81 RSG increase order for Scottish local authorities, but that I should take selective action under my existing statutory powers against individual local authorities which have incurred excessive or unreasonable expenditure.

G.Y.

SCOTTISH OFFICE  
29 September 1980

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