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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE

Memorandum by the Secretary of State for the Environment

1979/80

1. The local authority Returns of Revenue and Expenditure (RER) have now been discussed with the local authority associations. Officials consider that the out-turn for 1979/80 will be about the level of the original RSG Settlement made by our predecessors but 3% above our revised volume target for local authority current expenditure. The associations argue that it will be marginally less than 3% above the revised volume target.

1980/81

2. The RER suggests a "raw" budgeted excess of 5.6% for 1980/81. Officials consider however that the excess could be in the range 2% - 3%, because authorities' budget plans have tended to exceed out-turn. However, this forecast of 2% - 3% might be moderated depending on the movement of prices and the outcome of future pay settlements. The associations accept this but argue that authorities' reductions in revenue contribution to capital expenditure should be taken into account. This argument is of dubious validity.

3. In any event, we must be seen to respond vigorously and promptly to the "raw" budgeted excess of 5.6% because otherwise the Government's determination to curb and reduce the volume of resources consumed by the public sector will be called into question. This is important in view of the scepticism of the Parliamentary Committee on the Treasury and the Civil Service about our ability to bring down expenditure as planned by 1983/84. I am due to discuss the RER in the Consultative Council on Local Government Finance (CCLGF) on 3 June. I must be in a position to announce our intentions on that day.

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REVISED BUDGETS

4. I propose that we should inform the Council that we intend to call for revised budgets by the first week in August. But we must do all we can to convince local government that we mean business. I therefore also propose that at the same time we should announce that we want to open discussions immediately at official level with the associations to consider by what means, however unpalatable, we can ensure that local government comply with our annual volume targets. I suggest that we invite local government to put forward their own proposals, but I should like the agreement of colleagues to raise all or any of the following options in discussion if necessary.

OPTIONS

5. First, presentation of the figures to each authority based on the 1980/81 RER, which would show how far it has come within or exceeded the national current expenditure volume reduction sought. Although this information on the present RER does not permit very accurate comparison at local level, nevertheless, it should give some indication of the prospective performance of each authority in volume terms.

6. Secondly, the improvement of the information on the RER - and regular forecasts within each year - in future years so that central government can make a more accurate estimate of the probable volume performance of local government as a whole and all individual local authorities.

7. Thirdly, a cut in the Rate Support Grant (RSG) cash limit for 1980/81. A cut in the cash limit takes effect as an equal percentage cut in all authorities' RSG entitlements. It therefore hits hardest those authorities most dependent on grant. There will be no necessarily close coincidence between those most affected by a cash limit cut and those with large volume increases. For these reasons we may not wish to apply this sanction even if revised budgets still suggest a volume excess; it is nevertheless worth putting forward as it may prompt a more positive response than would otherwise be the case.

8. Fourthly, the possibility that in future financial years annual capital allocations under the new capital control system will be reduced on a pro-rata basis to the extent that RER may suggest a volume excess. This would of course only help delivery of the total volume target for local government - capital and current taken together - and not delivery of the local authority current expenditure target alone.

9. I have looked again at the possibility we considered last year of imposing statutory cash limits on individual authorities. We rejected this course then for a number of reasons. These are still valid. There would be an important constitutional issue affecting the balance of responsibility between central

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and local government. There would be the problem of setting realistic cash limits and of enforcement; and there would be risks of confrontations of the kind that emerged at Clay Cross (E(79) 10th Minutes).

BLOCK GRANT

10. The block grant system can be used to varying degrees to discourage high spenders from consuming disproportionate shares of available resources. But this system, subject to enactment of the relevant legislation, cannot be brought into force before 1981/82.

11. Transitional arrangements 1980/81 are intended to deal with high overall spending levels. I do not recommend that we use these arrangements in dealing with the current threat of volume excess. Cuts in grant effected through these relatively crude arrangements involve an element of rough justice, particularly outside the metropolitan areas. The problems would be severe if the arrangements were applied to more than the 20 or so highest spenders. Furthermore we have indicated that the arrangements would be applied to no more than about 20 authorities. I will be consulting the Secretary of State for Wales before putting forward detailed proposals in due course.

CONCLUSION

12. I invite colleagues to agree that we should inform the Consultative Council on 3 June that we propose

(i) to call for revised budgets (paragraph 4);

(ii) to open discussions with the associations at official levels on ways and means of securing compliance of local government as a whole with national volume targets (paragraphs 5-8).

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