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E(80)94

COPY NO 55

8 September 1980

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE (SCOTLAND) - 1980-81

Memorandum by the Secretary of State for Scotland

1. The budget estimates submitted by Scottish local authorities in April implied a crude planned excess on current expenditure of 4.9 per cent. (£83m at November 1979 prices). In response to my request for revised budgets, a few authorities offered quantified savings and others undertook to look for the opportunity to make economies throughout the financial year. More than half overtly declined to identify savings but I expect many of them to spend less than their budgets. When I met the Convention of Scottish Local Authorities on 5 September, and impressed upon them the importance of securing an acceptable level of current expenditure in 1980-81, as well as further reductions in 1981-82, I was assured that individual authorities were reviewing their expenditure plans and would effect further reductions in them, though £20-£30 million would still remain in excess.
2. Having considered this response, I conclude nevertheless that out-turn would remain some 2.5 per cent (or £40 million) above the rate support grant settlement assumption unless further pressure can be put on authorities. This conclusion is supported by the evidence of manpower returns. Although the manpower figures suggest that the underlying improved trend has been halted, they do not suggest that authorities left to themselves will reduce expenditure from 1979-80 out-turn as much as would be required to eliminate the residual estimated excess of 2.5 per cent.
3. The table at Annex illustrates the scale of slippage that has occurred in local authority spending plans in recent years. Some allowance for such slippage has been made in the estimated excess of 2.5 per cent.

Possible courses of action

4. I agree with the Secretary of State for the Environment (E(80)) that no action should be taken to reduce or defer capital expenditure in response to the prospective excess on current expenditure. Redistribution of urban programme grant in Scotland would have little effect on expenditure levels but I shall be reviewing the urban programme in any event.

5. It is however open to me to reduce rate support grant selectively where individual authorities have incurred excessive or unreasonable expenditure (under statutory powers with no counterpart in England and Wales) and I propose to adopt this course. Returns of actual expenditure available in May 1981 will identify those authorities mainly responsible for any excess in total expenditure. I propose at that stage to set in hand arrangements (requiring the approval of the House of Commons) for such reductions. I have already warned the Convention of Scottish Local Authorities of my intention both to proceed in this way and to seek additional powers enabling me with effect from 1981-82 to reduce grant at the start of the financial year to authorities which plan for an excessive and unreasonable level of expenditure.

6. In my view it would be most unwise to take a final decision at present on the amount of the cash limit. As the Secretary of State for the Environment shows in paragraph 7 of E(80)93, the effect of a reduction implemented through the first increase order would be quite unrelated to the incidence of excess expenditure. It would hit particularly hard a number of major authorities which have shown responsibility in their original budgets. The effect on the authorities mainly responsible for the excess would be relatively less severe.

7. I suggest that instead, without reducing the cash limit, the amount to be paid under the first RSG increase order for 1980-81 in December 1980 might be abated by an amount equivalent to the expected excess - in Scotland by not more than £40 million within the present cash limit of £194 million. Local authorities would then be informed that, with the cash limit intact, the second increase order for 1980-81 due in December 1981 might include provision for the payment of all or part of this abatement, provided that the out-turn for 1980-81 disclosed that the expected excess had not occurred. If an excess was disclosed by the 1980-81 out-turn, the amount of the grant payable in December 1981 could be adjusted. In Scotland, it would also be possible to have regard to the amount of grant which I could recover from individual authorities as proposed in paragraph 5. Selective action by this means would be widely regarded as equitable, would avoid alienating the authorities in Scotland which have supported the Government's expenditure policies and would offer the best prospect of reducing the current expenditure excess. More generally, the Government would be seen to be acting reasonably by awaiting the out-turn before reaching a final decision on the abatement of the cash limit which was of course calculated by reference to the level of current expenditure recommended by the Government in the rate support settlement. By making a reduction in the increase order in December 1980, the Government would secure a reduction in central Government expenditure in 1980-81, but the possibility of restoring grant would be a strong incentive to local authorities to conform.

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE (SCOTLAND) - 1980-81

Memorandum by the Secretary of State for Scotland

4. The budget estimates submitted by Scottish local authorities in April 1980 included a certain planned excess on current expenditure of 2.5 per cent (E(80)93) in response to my request for revised budgets, a few authorities offered quantified savings and others sought to look for the opportunity to make economies throughout the financial year. More than half overtly declined to identify savings but I expect many of them to spend less than their budgets. When I met the Convention of Scottish Local Authorities on 2 September, and increased upon the importance of securing an acceptable level of current expenditure in 1980-81, as well as further reductions in 1981-82, I was assured that individual authorities were reviewing their expenditure plans and would allow further reductions in their budgets, though £100 million would still remain in excess.

5. Having considered this response, I conclude nevertheless that the rate support grant settlement assumption unless further pressure can be put on authorities. This conclusion is supported by the evidence of manpower returns. Although the manpower figures suggest that the underlying improved trend has been halted, they do not suggest that authorities left to themselves will reduce expenditure from 1979-80 out-turn as much as would be required to eliminate the residual estimated excess of 2.5 per cent.

6. The table at Annex illustrates the scale of savings that has occurred in local authority expenditure plans in recent years. Some allowance for such savings has been made in the estimated excess of 2.5 per cent.

7. I agree with the Secretary of State for the Environment (E(80)93) that no action should be taken to reduce or delay capital expenditure in response to the prospective excess on current expenditure. Reduction of urban programme grant in Scotland would have little effect on expenditure levels but I shall be reviewing the urban programme in any event.

8. I strongly recommend that we should not at this stage announce a final decision as to the 1980-81 RSG cash limit which will be very badly received by local authorities to the long-term detriment of our relationship with them. A two-stage process such as I have proposed seems to me both more equitable and more effective.

G.Y.

Scottish Office

8 September 1980

It is however open to us to reduce rate support grant selectively where individual authorities have incurred excessive expenditure (as in Wales) and I propose to do this in the form of a grant supplement in May 1981. I will identify those authorities which are in excess in total expenditure. I propose to award the grant supplement to such authorities (subject to the approval of the House of Commons) for each reduction. I have already warned the Commission of Scottish Local Authorities of my intention both to proceed in this way and to seek additional powers enabling me with effect from 1981-82 to reduce grant at the start of the financial year to authorities which risk an excessive and unreasonable level of expenditure.

In my view it would be most unwise to take a final decision at present on the amount of the cash limit. As the Secretary of State for the Environment shows in paragraph 7 of E(80)25, the effect of a reduction implemented through the first increase order would be quite unrelated to the incidence of excess expenditure. It would hit particularly hard a number of major authorities which have shown responsibility in their original budgets. The effect on the authorities mainly responsible for the excess would be relatively less severe.

I suggest that instead, without reducing the cash limit, the amount to be paid under the first RSG increase order for 1980-81 in December 1980 might be set at an amount equivalent to the expected excess - in Scotland by not more than £40 million within the present cash limit of £104 million. Local authorities would then be informed that, with the cash limit intact, the second increase order for 1980-81 due in December 1981 might include provision for the payment of all or part of this amount, provided that the out-turn for 1980-81 disclosed that the expected excess had not occurred. If an excess was disclosed by the 1980-81 out-turn, the amount of the grant payable in December 1981 could be adjusted. In Scotland, it would also be possible to have regard to the amount of grant which I could recover from individual authorities as proposed in paragraph 5. Selective action by this means would be widely regarded as equitable, would avoid affecting the authorities in Scotland which have supported the Government's expenditure policy and would allow the Government to reduce the current expenditure excess. More generally, the Government would be seen to be acting responsibly by waiting the out-turn before reaching a final decision on the amount of the cash limit which was to be calculated by reference to the level of current expenditure recommended by the Government in the increase order in December 1980. By making a reduction in the increase order in December 1980, the Government would secure a reduction in central Government expenditure in 1980-81, but the possibility of restoring grant would be a strong incentive to local authorities to conform.

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I strongly recommend that we should not at this stage announce a final decision as to the 1980-81 budget. I have been advised by local authorities that the 1980-81 budget will be a very badly received one. I have also been advised that the 1980-81 budget will be a very badly received one. I have also been advised that the 1980-81 budget will be a very badly received one.

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ANNEX

LOCAL AUTHORITY CURRENT EXPENDITURE, SCOTLAND

1. The following table indicates the extent to which budgets have over-stated the actual level of out-turn.

Year	Percentage by which original budgets exceeded RSG settlement	Percentage by which revised budgets exceeded settlement	Percentage by which out-turn varied from settlement
1976-77	4.6	4.4(a)	+ 0.9
1977-78	0.3	-	- 1.4
1978-79	3.2	-	+ 1.1
1979-80	3.3	-	+ 1.0
1980-81	4.9	+ 4.9	not available

(a) Revised budgets called for by Labour Government.

2. The difference between out-turn and budgets in these years, expressed as a percentage of the RSG settlement figure was -

Year	%
1976-77	2.6
1977-78	1.7
1978-79	1.4
1979-80	2.0

Scottish Office
8 September 1980

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