CONFIDENTIAL

Prime Minister

This warning note reveals a very serious situation with local authorities budgeting for far higher expenditure than we envisaged. Mr Heseltine will come back with proposals for dealing with it.

TL

SECRETARY OF STATE FOR THE ENVIRONMENT

7 May 1980

cc Mr Whitmore
Mr Hoskyns
Mr Lyster

PRIME MINISTER

LOCAL AUTHORITIES - RETURN OF EXPENDITURE AND RATES

My Department has been examining the returns of local authorities' revenue budgets for 1980/81 and their revised estimates for 1979/80. Officials will be discussing the figures with the local authority associations next week, but on the face of it I find the results most unsatisfactory.

Briefly, the returns imply that for 1979/80 the volume of current expenditure was some 1% above the original RSG settlement level (ie that made by my predecessor in November 1978) and therefore 4% above the revised level which I requested when we came into office. For 1980/81, the figures look even blacker. They imply a volume of current expenditure at least 4½% above the level which we envisaged in making the RSG settlement for this year. (I understand that an almost identical overspend is planned by local authorities in Scotland).

The local authority associations will argue on the basis of past performance that planned budgets normally exceed actual out-turn by some way. Nevertheless, my officials believe that normal shortfall could only reduce the planned excess to between 2-3%. I consider that such an overspend is a totally unacceptable response on the part of local authorities to our requests for economies and can only serve to distort the Government's public expenditure plans. We must, therefore, decide in the near future what the Government's response should be.

We can call for revised budgets - I understand that George Younger is proposing to ask Scottish authorities to revise their budgets in the light of a similar volume excess in Scotland. But this is probably the least we should do. We have to consider what action we should take if a call for revised budgets does not result in the elimination of what we finally judge to be the degree of volume excess in the current budgets. I think that

follow-up action in this event will probably involve use of the Rate Support Grant mechanisms, including possibly the transitional arrangements provided for in the Local Government Bill to reduce grant in relation to overspenders. But any decisions must await a detailed analysis of which authorities are responsible for the excesses and why. This exercise is in hand and I will report to colleagues as soon as possible. Certainly we must be ready with a response by the time the Consultative Council meet on 3 June.

I propose to circulate detailed proposals to colleagues for consideration in the week beginning 19 May, after our officials have met the local authority associations to discuss the budget returns on 15 May.

In the meantime, if the figure of 4½% excess becomes public, I suggest our public stance should be one of real concern, and intention to discuss with local government at the Consultative Council on 3 June.

I am copying this to other members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

MICHAEL HESELTINE