

Local Govt

Ref A02574

PRIME MINISTER

Local Authority Current Expenditure 1980-81
E(80)63

BACKGROUND

The Secretary of State for the Environment discusses possible measures which might be taken in September if the request to local authorities to reduce their budgets for 1980-81 does not produce satisfactory results. In the meantime he seeks views on these options; and specifically invites colleagues to agree that until final decisions are taken in September approvals should be given only to essential capital schemes.

2. The Secretary of State concludes that after the call for new budgets, we may end up with a predicted overspend of 2-3 per cent (£300 - £500 million) of which about half might actually in the event be spent. He then discusses the following possible courses for action -

In 1980-81

- i. Accept the new budgets and do nothing (paragraph 7)

This would be in the hope that overspend would not materialise but **is** rejected as too weak.

- ii. Impose a moratorium on capital expenditure from September (paragraph 8)

This would penalise authorities indiscriminately; would be criticised as further discrimination against capital investment; and, to the extent that it involved withdrawing capital approvals already given might well be challenged in the courts. But to leave open the possibility of raising £40 million it is proposed to limit capital approval forthwith.

- iii. Reduce the RSG cash limits (paragraph 9)

This would cut grant, not expenditure, and would apply to authorities indiscriminately, although it would have greatest consequences for the "poorest" authorities with greatest needs, and least resources.

iv. Use the RSG transitional arrangements (paragraph 10)

This would probably be envisaged anyway, as a means of penalising the 20 or so authorities who are spending highly in relation to assessed need. But those 20 will include some who have tried to make budget reductions since 1979-80, and will omit other authorities who have increased their volume of expenditure since 1979-80. Thus it does not attack the specific problem.

From 1981-82v. Use Block Grant system (paragraph 11)

From 1981-82 the new block grants system will penalise high spenders - but they are not necessarily the ones who have not cut volume; and this does not help this year's overspend problem.

vi. Reduce the 1981-82 capital expenditure as a penalty for 1980-81 current spending (paragraph 13)

This could only legally be done as an overall cut and not on a basis which discriminated between authorities. It could not logically be said to tackle the current year spending problem. A 2 per cent "clawback" would knock one-third off capital spending for next year.

vii. Hold back future year's capital allocations until satisfactory budgets for those years are submitted (paragraph 13)

This only tackles the problem for future years, but might be a more effective weapon for them. But to hold back even the equivalent of 2 per cent of current expenditure would knock one third off the planned capital expenditure for that year (perhaps additional to the clawback mentioned in vi. above). The amount held back would need to be released fairly promptly as soon as budgets were available and vetted, if the spend was to be achieved in the year.

viii. Adjust "urban programme" resources (paragraph 16)

This could be done in a reasonably discriminatory way to pick out high spenders overall, or other authorities who were not following Government policy.

3. None of the options is very attractive, and the Secretary of State has been examining the possibility of specific powers to penalise individual authorities. The annex sets out the problems in doing this, which the Committee may well feel are insuperable.

HANDLING

4. After the Secretary of State for the Environment has introduced his paper, the Secretary of State for Scotland might comment on any differences in the Scottish position. The Chief Secretary and the main local authority Ministers will then wish to comment. It is likely that the discussion will focus mainly on the case for a capital investment moratorium.

5. You might remind the Committee that no firm decisions are needed today, apart from that on capital approvals between now and September if the possibility of a capital moratorium is to be kept in play. Although none of the options is ideal, or can be made to apply pressure to the specific wrongdoers, the Government's overall stand can have a major effect on public opinion, and on opinion within the local authority Associations. The Committee might therefore prefer not to rule out any of the possible options at this stage. They may well accept, however, that there is no real scope for legislation to control spending in individual authorities (for the reasons set out in the annex).

CONCLUSION

6. You will wish to record conclusions -

i. Inviting the Secretaries of State for the Environment and for Scotland to bring forward specific proposals for possible measures once the revised budgetary submissions have been received.

ii. On whether the option of applying a capital moratorium should be kept open, and whether therefore all colleagues should immediately establish a close control over approvals from their Departments for local authority capital schemes.



iii. Noting any other options which are either ruled out or to be added to the list.

iv. On whether there is any scope for pursuing further the possibility of legislation to control current expenditure of specific local authorities.

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