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Ref. A02972

PRIME MINISTER

I am afraid that there is some confusion about the decision taken by the Ministerial Committee on Economic Strategy on 10th September about the action to be taken to eliminate overspending by local authorities in Scotland (E(80) 32nd Meeting, Minute 1).

2. In the memorandum which he circulated (E(80) 94) the Secretary of State suggested, in paragraph 7, that the amount to be paid under the first RSG Increase Order for 1980-81 might be abated by £40 million, with the local authorities being informed that the second Increase Order might provide for the payment of all or part of the abatement, provided that the outturn for 1980-81 did not disclose excess expenditure. If an excess was disclosed, the amount of Grant payable would be adjusted accordingly. The Secretary of State went on to refer to his powers to recover from individual authorities by selective action.

3. Our records show that at the meeting the Secretary of State for Scotland said that the overspend was expected to come down to very little or nothing by the end of the year, but that nonetheless he accepted that some action had to be taken now. He said that he would like to use his power to withhold Grant from any authority which was overspent. Under present powers he could not do this until after the outturn was known, and he was proposing to take legislation in order to do it during the course of the financial year. He said that he would prefer to proceed in this way and not to abate the RSG generally.

4. It was not clear to me from what the Secretary of State said at the meeting that he was in fact departing from the proposals in his memorandum, and abandoning the idea of abatement; and I am not sure that it would have been clear to other members of the Committee, since our records show that you invited the meeting to approve the proposals in the Secretary of State's paper, and that they did so without the Secretary of State demurring.

5. The Secretary of State has asked that I should revise the minutes in accordance with the proposal which he actually put to the Committee. There is clearly some confusion about what was actually agreed, and in the circumstances

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I propose to issue a corrected version of the minutes accordingly. The main amendment would be in your summing up, where the relevant sentence would read: "In Scotland the Secretary of State would not make a general abatement of RSG but would make it clear that, when the time came for the second Increase Order for 1980-81, he would use his powers to withhold Grant from those authorities who were overspent at the end of the year".

6. Before I circulate a revised version of the minutes, I should be grateful to know whether you are content. I am sending a copy of this minute to the Secretary of State for Scotland; I am also sending copies to the Chancellor of the Exchequer and the Secretary of State for the Environment, so that they should be aware of the background to the changes proposed and have a chance to comment if they think it necessary to do.

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ROBERT ARMSTRONG

12th September, 1980