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PRIME MINISTERLocal Authority Expenditure - 1981-82  
(E(81) 52 and 56)

## BACKGROUND

General

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The Local Authority budgets which were received in late April show that the English authorities are planning to spend, with allowance for short-fall, about £950 million cash over the targets set them by the Government and assumed in the Public Expenditure White Paper (E(81) 52); the comparable excess for Wales is £25 million cash (E(81) 56). In response, the Secretary of State for the Environment proposes that, at the meeting already fixed for Tuesday, 2nd June, he should inform the Consultative Council for Local Government Finance that the English local authorities should each submit revised budgets to him by mid-July and warn them that, if necessary, he is willing to hold back up to £900 million grant in 1981-82. He recognises that this is an aggressive stance, which will add fuel to the confrontation which is probably coming with the Labour controlled authorities anyway, and that it may well lead to yet further rate increases. He wishes, therefore, to attempt to reduce the criticism by also outlining on 2nd June some possible medium-term measures (E(81) 53 and 54) for improving the rating system and increasing the discipline on the local authorities, and by announcing a longer term study into the alternatives to the rates. These medium term measures would require legislation in 1981-82 for which there is no provision in the legislative programme put forward by the Home Secretary in C(81) 22. If he cannot announce the medium term measures, the Secretary of State for the Environment may feel unable to recommend a threat to hold back as much as £900 million in grant.

2. Thus, although for convenience the medium term measures are dealt with in separate papers, the Secretary of State for the Environment's proposals should be seen as a package designed to confirm the Government's resolve to

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bring local authority expenditure under control. The issues are substantial and difficult, and a resumed discussion at the meeting arranged for Tuesday, 19th May, is almost inevitable. The Secretary of State for Scotland will in any case not be ready with his proposals before then. On the other hand if the Secretary of State for the Environment's proposals are to be implemented, the discussions must be concluded on 19th May. The local authorities will need about 6 weeks to prepare revised budgets and Ministers will then have to consider the outcome. If the Consultative Council were to slip beyond 2nd June this timetable could not be completed before the Summer holidays and the chance of influencing the outturn for 1981-82 would be substantially reduced.

England - E(81) 52

3. In January 1981 the Secretary of State for the Environment issued each local authority with specific volume targets for 1981-82 current expenditure of 5.6 per cent below their 1978-79 levels. The Public Expenditure White Paper states that relevant current expenditure in Great Britain is expected to fall by a further 1 per cent in 1982-83 and  $\frac{1}{2}$ -1 per cent in 1983-84.

4. The authorities' April returns show that in total they are planning to overspend by £1,350 million cash in 1981-82. In previous years there has been a record of short-fall against budgeted plans, but the Secretary of State judges (his paragraph 7) that this will be less significant in 1981-82 because of savings already made and the fact that with change of political control some authorities will be unwilling to reduce expenditure. His judgment is, therefore, that the present returns point to a cost excess for 1981-82 current expenditure of £950 million cash.

5. While there is room for dispute over this estimate of the excess, to ignore it would lead the authorities to think that the Government had backtracked on its determination to hold down expenditure in 1981-82 and to achieve its targets for reductions in the later years. The Secretary of State recommends, therefore, that he should announce the Government's reactions on 2nd June both in Parliament and at the Consultative Council



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meeting. He would then warn of his willingness to hold back grant and require each authority to submit revised budgets by the middle of July. Those authorities which then came into line would not be penalised, but the rest would have grant held back on a sliding scale related to the degree of planned overspend. The precise amount of grant to be held back would be decided by E Committee in July. These proposals are set out in more detail in paragraph 11 of E(81) 52.

6. The Secretary of State discusses whether the amount of threatened hold-back should be £300 million or £900 million. He judges (his paragraph 13) that £300 million would be too low because the authorities could deal with it by manageable rate increases which would leave their volume plans virtually intact. He recommends £900 million as in line with his estimate of the present excess, but he recognises (in paragraph 13) that this could lead to substantial increases in rates and/or cuts in services. This is why he advises that £900 million could be adopted only if it were placed in the context of convincing proposals for controlling expenditure and rates in the medium term.

7. Table 1, annexed to E(81) 52, shows how the total provisional hold-back would be split between classes of authority, with the Secretary of State's recommended course (described in his paragraph 14) in the right-hand column - NB. the total of £900 million in the main paper is a rounding of £880 million. Table 2 shows the effect for each individual authority.

8. It is likely that some Ministers will contest the proposal to threaten to hold-back as much as £900 million because:-

- (i) It is far too much - but it is open to authorities to revise their budgets so that they are exempt from hold-back.
- (ii) It could lead to large cuts of services, particularly of education services - but the proposals do not attempt to seek cuts below the provision for services in the Public Expenditure White Paper.

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- (iii) If services are not cut and authorities persist with their present plans, the result will be higher rates, on top of the average of 19 per cent already this year, and this will feed through into the RPI, industrial costs and interest rates - this is true in the short term, but without action now the Government will fail to meet its public expenditure targets for 1981-82 and for the later years.
- (iv) There will be serious effects on inner city authorities adding to the social pressures already on them - but many of them are persistent overspenders.

9. There will also be complicated arguments as to whether withholding of grant should be related to volume targets or to Grant Related Expenditure (GRE is a cash indication of the level of expenditure which each authority is likely to incur in the light of its social and economic characteristics, and covers all its current expenditure including revenue contributions to capital; volume targets are in Survey prices, confined to current expenditure on wages, goods and services, and in terms of a percentage cut on what the authority was spending in 1978-79). A number of authorities, and in particular the Shire Counties, are below their GREs but above their volume targets. It could be argued, therefore, that such authorities should be exempted from the cuts. The counter arguments are:-

- (i) Ministers agreed in January that the basis for the targets should be the volume figures.
- (ii) Either the volume targets would have to be abandoned or the excesses would have to be clawed back from too few authorities (i.e. those which were above both their GRE and their volume targets) for the exercise to be realistic.

10. You will recall that £200 million of grant in respect of 1980-81 was held back pending evidence that volume reductions had been made. Outturn figures for 1980-81 will not be available until the Autumn, and the Secretary of State recommends (in his paragraph 4) that in the meantime the £200 million



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should remain withheld. To release it while there were still doubts over the outturn would weaken the impact of the pressure which is proposed for 1981-82.

Wales - E(81) 56

11. The Secretary of State for Wales accepts that the £200 million for 1980-81 should continue to be withheld from the English and Welsh authorities until the outturn for the year is known in the Autumn. He recommends, however, that the local authorities should be told now that at least part of the sum will be handed over later, the actual amount pending on the outturn figures. He judges that this is necessary to avoid discouraging those who have reduced expenditure and provoking the overspenders.

12. The volume figures for 1981-82 for the Welsh authorities are, after allowing for shortfall, pretty well in line with the target. The cash excess is in the order of £25 million. The Secretary of State does not wish to take similar action to that proposed for England, but to warn the Welsh authorities of the need to keep to target, with the threat that if necessary grant will be withheld from them in 1982-83.

13. The Treasury question this approach on the grounds that there is a case for requesting revised budgets by July at least from those Welsh authorities which are above target. They are concerned that the stance taken in England should not be undermined by an apparently softer approach in Wales.

HANDLING

14. You might begin by pointing out to the Committee that there will be an opportunity to continue discussion of these, and the other local authority papers, at the meeting fixed for Tuesday, 19th May. After the Secretaries of State for the Environment and for Wales have introduced their papers, you might ask the Chancellor of the Exchequer to comment first. The Ministers with local authority responsibilities who will wish to comment are the Secretary of State for Education and Science, the Home Secretary, the Secretary of State for Transport and Sir George Young, who is representing



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the Secretary of State for Social Services. The Secretary of State for Scotland will be putting forward a paper on the Scottish position for the meeting on 19th May, but he may wish to give the Committee some indication now of his views.

15. The main questions for discussion on 1981-82 are:-

- (i) Should the Secretary of State for the Environment ask on 2nd June for revised budgets from each English local authority by mid-July?
- (ii) If so, should the approach be as outlined in his paragraph 12, should the threat be to withhold grants totalling £900 million, and should the methods of achieving the holdback be as summarised in his paragraph 14?
- (iii) Should the Secretary of State for Wales be required to call for revised budgets similarly or should he simply warn that he will act in 1982-83 if the 1981-82 outturn is too high (paragraph 15(b) and (c) of E(81) 56)?

16. For 1980-81 the issue is whether, as proposed by the Secretary of State for Wales, the local authorities should be told that the Government will restore in the Autumn at least part of the £200 million grant for 1980-81 if the outturn figures justify it, or whether no such promise should be made now.

17. In looking at these questions, the Committee will wish to strike a balance between the objectives of ensuring that public expenditure totals are not exceeded and of maintaining pressure on the local authorities to keep in line and, on the other hand, the risks that action as proposed will lead to confrontation and the local authorities seeking to blame the Government for any cuts in services and further increases in rates which might follow. If action is to be taken to deal with overspend in England it seems essential for decisions to be taken quickly so that the Secretary of State for the Environment can announce them on 2nd June.



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CONCLUSIONS

18. You will wish to sum up the discussion - almost certainly provisionally at this stage - with reference to the recommendations in:-

- (i) Paragraph 18 of the Secretary of State for the Environment's paper E(81) 52.
- (ii) Paragraph 15 of the Secretary of State for Wales's paper E(81) 56.

Robert Armstrong

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