Ref: A04935

CONFIDENTIAL

PRIME MINISTER

Local Government Expenditure 1981-82: Scotland
(E(81) 55)

BACKGROUND

My brief of 12th May discussed the memoranda by the Secretary of State for the Environment (E(81) 52) and the Secretary of State for Wales (E(81) 56) on overspending by local authorities in 1980-81 and 1981-82. This supplementary brief deals with the memorandum which the Secretary of State for Scotland has now circulated (E(81) 55).

2. The Secretary of State estimates that, with allowance for likely shortfall, the present budgets of the Scottish local authorities will lead to an excess of £207 million in cash terms over their targets - the comparable figures in England and Wales are £950 million and £25 million. In considering corrective action to deal with this, the Secretary of State is particularly concerned to avoid making worse the acutely difficult problems he already faces from rate increases in Scotland - average increases there in 1981-82 were 35 per cent, compared with 19 per cent in England and 13 per cent in Wales; further big increases in 1982-83 are already in prospect.

3. Against this background, he recommends the measures summarised in paragraph 11 of E(81) 55. The key difference between this approach and that recommended by the Secretary of State for the Environment for England, is that it is selective and step by step rather than an immediate threat of a general hold-back of grant. Under the powers of his Local Government Bill, which should be enacted next month, the Secretary of State for Scotland would take selective action to reduce grant to those authorities which are already showing particularly high excesses over budgets; he would call in early June for revised budgets from all authorities; he would take further selective action, if necessary, in the light of the returns, and give warning of reductions in the grant percentage for 1982-83 if targets were not achieved this year. He would announce this package on 2nd June, concurrently with the statement by the Secretary of State for the Environment.

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4. As explained in paragraphs 9 and 10 of E(81) 55, the Treasury believe that the Secretary of State for Scotland should threaten now to withhold £260 million grant (including £60 million for 1980-81) of which less than half would be by selective action and the rest by general cuts.

HANDLING

5. There was a preliminary discussion of the Secretary of State for the Environment's proposals for England at the Committee's meeting on 13th May (E(81) 16th Meeting, Item 2). You might open the discussion by inviting the Secretary of State for the Environment briefly to re-state his proposals and then invite the Secretaries of State for Wales and for Scotland to make their recommendations. You might then deal with each country in turn, calling on the Chancellor of the Exchequer to comment on each, and the other Ministers with local authority responsibilities to speak on the recommendations for England and for Wales.

6. The main question is whether the Committee agrees with the approach recommended by the Secretary of State for Scotland in his paragraph 11. In considering this, the Committee will need to consider what weight to give to:-

(a) Problems which might arise if an apparently softer approach were adopted for Scotland (and possibly for Wales) by comparison with that recommended for England.

(b) The Treasury's view that Scotland's failure to respond to a selective approach in 1980-81, and their generally poor record in reducing local authority expenditure, points to the need for threatening general cuts now.

CONCLUSIONS

7. In the light of the discussion the Committee will wish:-

Either to endorse the approach recommended by the Secretary of State for Scotland in paragraph 11 of E(81) 55;

Or to record conclusions calling for a different approach, perhaps by way of announcing now a general threat to cut grants unless budgets are revised.

Robert Armstrong

(approved by Sir R Armstrong and signed on his behalf)

18th May 1981