Ref: A04955

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PRIME MINISTER

Local Government Expenditure
(E(81) 55, 56, 59 and 60)

As agreed at the Committee's meeting yesterday (E(81) 17th Meeting) the Secretary of State for the Environment has circulated a memorandum (E(81) 60) summarising his proposals in the light of the Committee's discussions so far. He now invites the Committee to reach decisions so that he can announce the outcome to Parliament on Monday, 1st June. The Committee also has to discuss the recommendations by the Secretaries of State for Scotland and for Wales in their memoranda, E(81) 55 and 56.

2. You will see from paragraph 3 of E(81) 60 that the forecast excess over targets for the English authorities would fall from £950 million to £840 million if the figures for the Metropolitan police, whose budget is approved by the Home Secretary and not by the local authorities, were taken out of account. The proposed holdback of £900 million, which was not intended to be a precise figure anyway, happens to fall in the middle of this range. The Secretary of State for the Environment argues in his paragraph 5 that, since overspending by the Inner London Education Authority is just under £40 million by comparison with their volume target, this is not sufficiently significant to be taken into account in fixing the overall level of threatened holdback. You will be aware that the possibility of a £900 million cut is now public knowledge - see the article on the front page of today's Financial Times.

3. I do not think it necessary for me to offer any further detailed advice on the proposals for England, or to add to my briefing on the recommendations for Wales (paragraphs 11-13 of my brief of 12th May) and for Scotland (my brief of 18th May). You may find it helpful to have the following check-list of the points on which you will wish to record conclusions:

England E(81) 60

(i) The level of grant holdback to be threatened - £900 million or less? (paragraphs 6 and 7).

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(ii) Whether the distribution of the holdback is to be based on the "lower Grant Related Expenditure (GRE) differential" with the aim of avoiding too severe a burden on urban areas (paragraph 8).

(iii) No announcement now of possible exemptions for authorities below GRE, but further consideration in July (paragraph 9).

(iv) Announcement now that the grant percentage for 1982-83 will be substantially influenced by performance in 1981-82 (paragraph 10).

(v) Announcement of intention to proceed, subject to consultations, with the four medium term measures listed in paragraph 12: limit on non-domestic rate increases; revaluation of non-domestic sector; new supplementary rate scheme subject to referenda or re-elections; a new management efficiency and audit body (i.e. the Accounts Commission under a new name) -

NB. (a) All of these measures, except revaluation, depend on Cabinet agreeing that the proposed legislative programme should be revised to accommodate them.

(b) Since the proposals are subject to consultation, it is not necessary to decide now between referenda (of the whole electorate) and re-elections

(c) The further measures listed in paragraph 14 would be dropped.

(vi) Reference in the Parliamentary Statement to the reasons for rejecting the Public Accounts Committee's recommendations on local authority audit arrangements and a short White Paper replying to the PAC (paragraph 3 of the Chief Secretary's paper, E(81) 59).

(vii) Announcement that further work on alternatives to domestic rates will be narrowed to local income, sales or poll taxes or 100 per cent central government financing - details of timetable of further work in paragraph 17.

(viii) Announcement that this further long term work will cover the possibility of abolishing the GLC and the Metropolitan counties when any new form of local finance is approved (paragraph 18).

(ix) The above to be announced by the Secretary of State for the Environment in Parliament on 1st June, and to the Consultative Council on Local Government Finance on 2nd June; the draft to be cleared in advance (paragraph 19).

Wales E(81) 56

(x) Whether the Welsh and English local authorities should be told now that the Government will restore at least part of the £200 million grant withheld for 1980-81 if the outturn figures available in the Autumn justify it, or whether no such promise should be made now (paragraph 15 a).

(xi) Whether the Secretary of State for Wales should simply warn his authorities that he will act in 1982-83 if their 1981-82 outturn is too high (paragraphs 15 b and c) or whether he should call for revised budgets from all of them now.

Scotland E(81) 55

(xii) Whether the recommendations in paragraph 11 are endorsed or whether (as in England) a general threat should be made now to cut grants by a specified amount unless budgets are re-revised.

D. L. Wright

Robert Armstrong

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

20th May 1981