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Prime Minister

LOCAL GOVERNMENT FINANCE

At the meeting of E on Thursday 21 May, I was invited to circulate a draft announcement to be made on local authority expenditure in England (E(81)18th meeting). However, could I first deal with the timing and the form of the announcement?

You will recall that there was a preference within the Committee for decisions to be announced by a Written Answer on 1 June, the day before the Consultative Council on Local Government Finance. However, from a Departmental point of view I believe that if we followed this route then we would have to expect the Opposition to seek to provoke a major Parliamentary row. This would inevitably give the Government the appearance of being on the defensive and would diminish the impact of the statement. I would, therefore, be grateful for your agreement, and that of the business managers, to making an oral statement.

As to timing, the Consultative Council meeting has been fixed for the afternoon of Tuesday 2 June. I am publicly committed to consulting local government before making any public statement. I therefore propose that I should bring forward the meeting of the Consultative Council to 2.00pm on that afternoon before going on to make an oral statement to Parliament. This would have presentational advantage in terms of relationships with local government and would fulfil my commitment to consultation. I should be grateful for the agreement of colleagues to proceed on this basis.

A draft of the statement I propose to make is attached. Given the timetable to which we are now working, it would be most helpful if any comments by colleagues could reach me by mid-day on Friday, 29 May. I will circulate tomorrow a technical memorandum and tables of figures showing the effects of holdback which I would propose to deposit in the Library at the same time as the statement is made.

The figures in the tables will show the effect of holding back about £450m, as we agreed at E, though they may still be subject to final correction for a few authorities whose returns have recently been amended. Following the discussion in E, the method of holdback involves "steepening the poundage schedule" so as to place more of the burden of holdback on authorities spending high in relation to GRE, but not so much as to place an excessive burden on London and other urban areas, which have already lost substantial amounts of grant under the original settlement.

The figures do not show an exemption for authorities spending below GRE. We have not at present established a firm legal basis for doing this, bearing in mind that GREs will themselves be amended at Supplementary Report. And in any case there would be strong policy objections to undermining our call for further expenditure cuts by conceding an exemption to those below GRE immediately. I believe that for the moment we must therefore continue to press all authorities to achieve the volume of reduction we set them in January. We can look at this again in the summer when revised budgets are in, and before the Supplementary Report is made. But we should not concede this at this stage or even hint at doing so, lest we undermine the call for further

expenditure cuts and cause legal complications.

I am copying this to those colleagues who attended the last meeting of E Committee, to the Chancellor of the Exchequer, to the Chief Whip and to Sir Robert Armstrong.

MWA

MH

27 May 1981

RAFT ORAL STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT, TUESDAY 2 JUNE 1981

With permission, Mr Speaker, I will make a statement on current expenditure by local authorities.

My Department has now analysed the revised estimates of local authorities for the volume of their current expenditure in 1980/81 and their budget plans for 1981/82.

In the light of this analysis I have today put proposals to the Consultative Council on Local Government Finance.

Hon Members will recall that when local authorities in England and Wales originally submitted their budgets for 1980/81 these suggested a planned excess in the volume of current expenditure of some £740 million at November 1979 prices.

This was 5.6% above the Government's public expenditure plans. As a consequence, in June last year I called for revised budgets which led to local authorities to reduce this planned excess to some £350 million at 1979 prices, or 2.6% above the Government targets.

In order further to reduce this remaining excess, the Government asked the House to approve the withholding of £200 million from the Increase Order for England and Wales made in November 1980 on the understanding that we would be prepared to restore all or part of that sum if the outturn figures for 1980/81 showed

an acceptable reduction.

The analysis of the revised estimates for 1980/81 indicate that there will still be a volume excess which the Local Authority Associations estimate could range from £50 million to £250 million in England.

Final figures for the outturn expenditure in 1980/81 are however not yet available.

I shall have to wait until the outturn figures are available in the autumn before considering restoration of grant.

The budgets for 1981/82 indicate current expenditure of about £800 million or 5.2% above the Government's target level at November 1980 prices.

[In cash terms the gross budgeted excess is about £1250 million.]

Since actual expenditure normally falls short of budget it is reasonable to argue that the £800 million budgeted volume excess could in the outturn reduce to £400 million (2.6%). This suggests that the Government is faced with a problem of similar proportions to last year.

The Government believes that although we have made some progress in reducing local authority current expenditure we must stick to the targets we have already set.

I am therefore asking all local authorities to review their budgets by the end of July in order to achieve levels of

expenditure consistent with the Government's public expenditure plans.

If the call for revised budgets does not produce a satisfactory response, I propose to ask the House in the autumn to approve a reduction in the total amount of grant available this year by about £450 million on present spending plans.

I have made it clear that authorities which achieve the Government's targets will not be affected by these reductions in grant.

Those close to their targets will be partially exempted.

Details of these proposals as they would affect individual authorities are in the Library.

It lies entirely in the hands of local authorities both collectively and individually to revise their plans so as to achieve the necessary reduction of public expenditure and thus to avoid loss of grant.

So far more than a third of all local authorities have already ensured that they are within the Government guidelines and thus would not lose any grant.

The traditional relationship between central and local government rests on the convention that local government keeps within the overall financial policies of the central government

The Government believes that this ^{Convention} ~~concentration~~ must be upheld.

We are therefore considering further measures which may be needed to bring home to individual authorities and their electorates the consequences of high-spending policies.

I shall be announcing consultative proposals on these measures in the next few weeks with a view to legislation next session.

But at the heart of the problem lies the inequities of the domestic rating system.

I intend to issue a consultation document on the alternatives to domestic rates in the autumn with a view to legislation in 1982/83.