

Briefing Note

THE TRUTH ABOUT LOCAL GOVERNMENT EXPENDITURE

No. 38
17.11.82

Some observers have claimed to detect a contradiction between the Government's general policy of downward pressure on public authority spending, and Ministers' recent exhortations to local authorities to spend more on capital projects. There is no contradiction; two quite different aspects of expenditure are at issue.

The Government is indeed anxious to see substantial further reductions in the burden of public expenditure. Great progress has been made in the past three years, but there is a long way still to go.

Last year the increase in public expenditure was held below its expected level. The estimates for 1983-84 actually point to a fall in cost terms. In Central Government the reduction in the number of civil servants is well on course from 730,000 to the target of 630,000 by 1984. At the Department of the Environment one in four posts has been eliminated.

However, in the particular area of local government outlay on capital projects, actual expenditure in both 1981-82 and the current year has fallen well below planned expenditure. This sort of shortfall is helpful to nobody; it means a shortage of work for the construction industry and it means that desirable works, for which money has already been allocated, are not being carried out.

As a general rule, this underspending is not occurring because of planning delays or other practical obstacles, but because certain local authorities see in it a way of thwarting the Central Government's intentions. All too often, resources intended for capital projects have found their way into current account expenditure - on excessive wage and salary increases for example.

Local Government's Record. For the last eight years, and more, most local authorities have increased current spending at the expense of capital investment. This point was highlighted by Mr. Michael Heseltine, Secretary of State for the Environment, in a speech on 20th October: "between 1974-75 and 1981-82 current expenditure by local government in England has gone up, in real terms, by about 6 per cent, over the same period capital expenditure by local government has gone down, in real terms by 62 per cent ..."

Mr. Heseltine went on to compare local government spending with the provision made for it in the Government's own expenditure plans: "Take current expenditure first: in 1981-82 local authorities spent some £1.3 billion above provision; that is about 8 per cent. In 1982-83 they are budgeting to overspend by about the same cash amount or 7 per cent of this year's cash provision. Then take capital. In 1981-82 authorities underspent provision by some £600 million. For 1982-83 it looks like being £1 billion."

The attack on capital spending was led by the Labour Government in 1976, when it ordered local government to cut capital spending by nearly £400 million over the 3 years 1976-7 to 1978-9.

Insufficient Staff Reduction in Local Government. Too many local authorities are still overstaffed; this is crucially important to their expenditure totals, since staffing costs amount to come two-thirds of all local government current expenditure. Between June 1979 and June 1982 staff

numbers in local government fell by only $4\frac{1}{2}$ per cent, compared with a reduction in the Civil Service of 10 per cent over the same period. In the Department of the Environment staff numbers fell by 26 per cent in the three years 1979-82.

New Flexibility in Capital Spending. This Government has substantially increased local authorities' discretion over their capital spending. No longer do local authorities have to submit each project to the detailed scrutiny of government departments. This has been replaced by a control on the total of local authority capital expenditure, within which local authorities enjoy much greater discretion. Most important of all, authorities can now reinvest the proceeds of capital disposals. The Government has strongly encouraged authorities to dispose of surplus assets which are lying idle. There has been a good response from many authorities. Sales of assets, including council housing, yielded £1,000 million in the last financial year. Other capital receipts produced another £400 million. These are very considerable sums when it is recognised that total capital expenditure allocations in 1981-82 were £3,000 million.

There are many reasons why local authorities fail to apply their capital receipts to new capital expenditure: For example, there are long lead times for capital investment. But the main reason is that local authorities have been using capital receipts to make loans from one department to another within the authority and releasing rate fund balances for revenue expenditure.

The Prime Minister's Letter. It was this failure to invest capital receipts which was the main reason behind the Prime Minister's letter of 2nd November to the leaders of the local authority associations. In it she reiterated the Government's firm policy of restraint in public expenditure as a whole, but pointed out that there was scope for a shift from current to capital spending. "That is why local authorities have been enabled, and indeed encouraged, to increase their capital expenditure by using capital receipts to supplement their capital allocations."

Labour's Red Herring. The Labour Party, through its Environment spokesman, Mr. Gerald Kaufman, has sought to make political capital and scare the local authorities by claiming that additional capital expenditure will generate fresh revenue spending, for example on staff, and hence involve them in penalties under the grant system. Mr. Heseltine dealt with this in the debate on Urban Affairs on 5th November: "many capital projects do not have ... staffing consequences, although they all have interest charge consequences. For example, home improvement grants and derelict land projects do not have such staff consequences. Many infrastructure programmes on local government's capital account do not have those staffing consequences ... It is possible for local authorities to increase their capital expenditure in many cases without running into penalties from the Government" (Hansard, Col. 284).

Some other capital schemes such as energy conservation measures, replacement of Victorian schools, or modern, efficient offices could even reduce revenue expenditure. Mr. Heseltine has also urged local authorities to buy completed, or nearly completed, low-cost homes direct from house builders for sale, under shared ownership arrangements, to first-time buyers and those on the waiting list.

Future Capital Spending. Local authority association leaders have also expressed concern over the future commitment to capital expenditure levels after March 1983. This anxiety will have been allayed by Mr. Heseltine's statement on 15th November when he said that sales of council houses and other assets should be worth about £1,750 million in 1983-84. "This allows for a market increase in certain capital programmes" (Hansard, Col. 19).

TH/JLS