



Local Govt

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P.0809

PRIME MINISTER

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

(E(82)57 and the letter of 22 June from the Secretary of State for the Environment's Private Secretary to your Private Secretary. (E(82)43 to 46 set out the starting point in detail)

BACKGROUND

Local authorities in England, Scotland and Wales are budgeting for total current expenditure in 1982-83 well above the Government's expenditure plans. At the Committee's previous discussions (E(82)13th and 14th Meetings) it was agreed that the Government should respond by making selective reductions in rate support grant (RSG), to the extent of £312 million in England, but not by making a general reduction in RSG as well. The only further penalty to be considered was a scheme advanced by the Chief Secretary, Treasury and explained in more detail in the annex to the letter circulated with E(82)57. It would reduce RSG to English local authorities by about £80 million, concentrated on high-spending authorities.

2. The Chief Secretary was invited at E(82)14th Meeting to try to reach agreement on this basis with the Secretary of State for the Environment (and on the consequentials for Scotland and Wales with the appropriate Secretary of State). For the reasons set out in the attachment to the letter of 22 June from the Secretary of State for the Environment's Private Secretary such an agreement has not been reached.

MAIN ISSUES

3. The main issue before the Committee is simple: should the Government impose the £80 million holdback proposed by the Chief Secretary or rest on the selective reduction in RSG already agreed? There is no other possibility.

CONFIDENTIAL

4. In favour of action is the argument that English local authorities will be spending about £1.4 billion more than the Government's plans; that they appear largely to have budgetted already for these selective reduction in RSG; and that for the Government to take no further action to enforce spending disciplines would expose it to ridicule and jeopardise compliance with any future restrictions on expenditure.


5. On the other hand, it can be argued that a reduction of £80 million is so small in comparison with the prospective overspend as to risk seeming absurd; that it will be hard to convince opinion that the proposed action is consistent with assurances by Government's spokesmen that the Government will not take selective action against local authorities beyond what has already been agreed, and may fail to secure the necessary Parliamentary approval; and that it would bear heavily on, among others, authorities with responsibilities for police expenditure (who may respond by reducing that expenditure rather than their other programmes). It is also suggested that there might be legal difficulties, though it is not obvious why this should be so, since it is admitted that the Chief Secretary's proposal is formally consistent with the Government's publicly stated position (and therefore presumably with the legislation).

Scotland

6. If the Committee decides to take no action against English local authorities, it will no doubt take a similar view regarding Scottish local authorities. If it favours positive action, it should be necessary to do no more than invite the Chief Secretary and the Secretary of State for Scotland to reach agreement on appropriate consequential action, and to report the result to the Committee.

7. However, there is one particular point, which is discussed in paragraph 5 of E(82)46 and which the Secretary of State for Scotland may wish to raise at the present meeting.

8. The Secretary of State suggests that a reduction in rates induced by threats of selective grant reduction should equate to a grant reduction. Presumably he means that if he threatens grant reduction of £45 million, and the authority concerned responds by reducing its rate call by, say,


CONFIDENTIAL

£10 million, the grant reduction should then be only £35 million.

9. This seems logical at first sight. But a rates reduction of £10 million does not mean that current expenditure will necessarily be reduced by the same amount (there are various accounting devices available to local authorities in this area); and in any event, the public sector borrowing requirement will remain largely unaffected and, presumably, at a higher level than the Government would wish.

10. You may therefore wish to avoid accepting the Secretary of State for Scotland's opposition as a general principle even if, in the particular circumstances that he has in mind, he may have to be allowed to make concessions to the local authority concerned in his negotiations with it.

Wales

11. The Committee has accepted that the appropriate scale of action in Wales should be decided in the light of what is agreed for England and Scotland: originally, the Secretary of State for Wales proposed holdback of the order of 50 per cent of the prospective overspend in 1982-83, but indicated that he would have to reconsider this if, as now seems inevitable, holdback in England and Scotland is of the order of only 20 to 25 per cent of the prospective overspend. (On the other hand, unlike England and Scotland, there has so far been no penalty imposed on Welsh local authorities for overspending in 1981-82). Again, the Chief Secretary and the Secretary of State for Wales can be invited to agree on appropriate consequentialia and to report the result.

Publicity

12. The responsible Secretaries of State are likely to want to announce the Government's decisions before the Summer recess: there is a meeting of the English Consultative Council on Local Government and Finance on 19 July. It is desirable that the presentation of the decisions should do what is possible to encourage restraint in public expenditure in both 1982-83 and 1983-84. You may wish to invite the Secretaries of State to circulate drafts of any proposed announcements to the Committee.



CONFIDENTIAL

HANDLING

13. It will probably be best to concentrate the first part of the discussion on England. You could invite the Chief Secretary, Treasury and the Secretary of State for the Environment to open the discussion. Any of your colleagues may wish to comment; but you may wish the Lord President of the Council or the Chief Whip to advise on the Parliamentary implications, and the Attorney General on any legal arguments.

14. When the Committee has reached a view on what is appropriate for England, you might invite the Secretaries of State for Scotland and Wales to mention any particular points relevant to the Scottish and Welsh consequentials.

CONCLUSIONS

15. You will wish the Committee to reach conclusions on the following:

- (i) Whether the scheme for £80 million holdback of rate support grant from English local authorities in 1982-83 as proposed by the Chief Secretary, Treasury, should be accepted or rejected.
- (ii) The consequentials of the decision for Scotland and Wales.
- (iii) The announcement of the Government's decision.

PLG
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