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## CABINET

## MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL GOVERNMENT EXPENDITURE 1981-82 IN SCOTLAND  
MEMORANDUM BY THE SECRETARY OF STATE FOR SCOTLAND

1. Scottish local authority expenditure plans for 1981-82 indicate a significant overspend compared with the RSG settlement for 1981-82, the average increase in 1981-82 domestic rates is 35 per cent, substantially above the rate of inflation. This paper contains my proposals for action in the short term.

Estimated Out-turn 1980-81

2. Last financial year Scottish local authorities planned to spend 4.9 per cent (£83m at 1979 prices) above the 1980-81 RSG settlement. Total out-turn is in line with budgets (£1765m compared with £1766m at November 1979 prices). That is due in part to exceptional expenditure of £21m incurred by a single authority. Discounting this, out-turn is just under 4 per cent above the planning figure: half of this can be attributed to a small minority of authorities. Annex B compares 1980-81 out-turn for each of the 9 regional councils, for district councils in aggregate and for islands councils in aggregate with indicative guideline figures, and compares percentage contributions to the total excess (measured on the basis of guidelines) with percentage shares of an unselective grant reduction. The wide disparity between percentage shares of the total excess and of unselective grant reductions indicates that unselective grant reduction can have only a limited effect on the expenditure excess and a discouraging effect upon authorities showing relative moderation in planned expenditure. That is why I abjured an across-the-board withholding of RSG last year, after discussion with colleagues (/(80)35th Meeting).

1981-82 Budgets

3. Crude budget returns indicate a planned excess in the volume of expenditure of 8.8 per cent (£181m at November 1980 prices) or in cash terms 10.6 per cent (£235m) above settlement assumptions. The cash excess comprises the 8.8 per cent volume excess and an

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excess of 1.9 per cent in local authorities' assumptions about pay and prices over those in the cash limit. Annex C gives information for 1981-82 as in Annex B: Annex D gives further information for 1981-82. After allowance for over-budgeting (there is some evidence of tighter budgeting than in recent years) my Department's estimate is that, in the absence of corrective action, the overspend could be some 7.5 per cent in volume (£154m at November 1980 prices or in cash terms £207m) above settlement assumptions. Annex E compares expenditure planned by authorities for 1981-82 on a programme basis with settlement assumptions.

4. Before allowance for slippage, authorities are planning for expenditure volume in 1981-82 0.7 per cent above budgets for 1980-81; their plans are stabilising although they have not yet turned down. Annex A illustrates the trend in actual and planned expenditure for all authorities relative to the plans of the previous administration and of the Government. But it is worth noting that, discounting the figures for six authorities, aggregate spending plans show a year-to-year decrease of 1%.

5. I will take selective action to withdraw grant as soon as possible from the authorities openly ignoring Government policy, both to reduce significantly the gap between planned spending and the settlement figure for 1981-82 and to warn other authorities. Indiscriminate action would lose public support and make moderate authorities recalcitrant. We should not consider only percentage excesses over the PES expenditure plans, which reflect our decisions to secure ad hoc overall reductions in local authority expenditure.

#### Corrective Action and Rate Levels

6. We must take into account the effect of corrective action on rate levels in 1982-83. Several measures to restrain expenditure are under separate consideration. Cash planning is likely to reduce the effective grant percentage. The Secretary of State for the Environment has canvassed a reduction in the nominal grant percentage in 1982-83. Cmd 8175 envisages a volume reduction of 1 per cent in relevant expenditure. Such measures in combination would effectively reduce the aggregate amount of support which I regard as far more significant in pushing up rates than either the effective or nominal grant percentage.

7. Big rate increases in 1982-83 are already in prospect. They will be blamed by our opponents on grant and by our supporters on a failure to control directly expenditure or rates. Direct action to constrain rate increases requires legislative amendment. There seems no prospect of that before 1983-84. The deluge of complaints about rate increases in 1980-81 and 1981-82 shows that public support for our policies on local government finance is dwindling fast. If we are not careful, action to reduce grant in 1981-82, especially if it is arbitrary and unselective, will produce even bigger rate increases. Local authorities will be quick to express the grant reduction in

terms of the effective grant percentage. I would expect that line of argument to make considerable public impact (1 percentage point represents some £26m). So we must weigh carefully both rating consequences and the effect on the grant percentage before deciding on any general measures (as distinct from selective action) to discourage expenditure through rate support grant. If we cannot quantify yet the rating consequences of the various measures under consideration, because we need to consider first the effect of cash planning, it would be premature to decide and announce a total reduction at this stage. It is a question of judgement what reduction in grant is the appropriate response to a given expenditure excess - there is no direct relationship between the two amounts.

8. In E(81)52 the Secretary of State for the Environment has proposed alternative schemes of holdback of £300m and £900m in grant, the level of withholding to be determined in the light of revised budgets from authorities. My selective powers make it less appropriate to determine an aggregate reduction in RSG in advance. If these do not look like producing a sufficient reduction, I will assess in July to what extent a general abatement of the increase order will be necessary. Its size would be settled after taking into account that Scottish local authorities do not have balances of the same order as those of English authorities, and cannot strike supplementary rates. Scottish authorities subject to selective grant reductions will have hardly any alternative to reviewing planned expenditure in 1981-82, whereas in England it will be open to authorities to offset grant reduction by supplementary rates or borrowing. I must avoid setting individual authorities an unattainable target reduction: that could lead to default and breakdown of services. This consideration - the absence of which in England has led to the question whether a reduction there of £300m is adequate - will influence the amount recoverable by selective action.

9. The Treasury consider that selective action alone, without backing of announcement of action on RSG generally in terms more specific than I propose, will not produce cuts sufficient to make reasonable progress towards implementation of our plans for public expenditure contained in Cmnd 8175. They have noted that the threat of selective grant reductions failed to secure any expenditure reduction among Scottish local authorities in 1980-81, whereas significant economies were achieved in Wales, (where the political persuasion of the majority of councils is similarly antagonistic to our own) by means of a general grant reduction. They find it unsatisfactory that Scottish local authorities are planning to exceed even the previous government's plans and therefore believe that strong counter-vailing action of a general as well as a selective nature is demanded.

10. The Treasury therefore consider that the total reduction in grant in respect of 1981-82 should be £200m, with a further cut of up to £60m in respect of 1980-81. These cuts would be commensurate with, respectively the £900m reduction proposed by the Secretary of

State for the Environment for 1981-82 and the £200m grant withheld from local authorities in England and Wales in 1980-81. Since it appears that less than a half of this could be withheld from local authorities by selective action, the remainder of the cut would have to be obtained by abating the RSG distributed to local authorities generally. As with the £200m cut in England and Wales in 1980-81, the distribution of such grant reduction would not closely match the pattern of overspending, but, since so few local authorities are planning to comply with the guidelines, the Treasury regard a general penalty as appropriate. Moreover, even under block grant the distribution of grant cuts proposed by the Secretary of State for the Environment for 1981-82 does not achieve a precise match between overspending and grant reductions. If it is not possible to exact the full amount of the grant cut sought by the Treasury in 1981-82 by abating the Increase Order, or because of doubt about the practicality of very large selective grant reductions, it would be necessary to exact the remainder of the £260m by abating RSG generally for 1982-83. The Treasury would of course be prepared to reconsider the size of the grant cut if evidence was available before the Increase Order was laid to suggest that the scale of overspending had been moderated. A statement to this effect at the time of calling for revised budgets would give local authorities an incentive to make the necessary cuts.

11. I have carefully considered the Treasury's comments but in my view they seriously understate the imbalance between the distribution of unselective grant reductions and the incidence of expenditure excess (Annexes B-D) and take insufficient account of rating consequences (paragraphs 6 and 7). I therefore propose the following corrective action:-

(1) Under the powers I am seeking in the Local Government (Miscellaneous Provisions)(Scotland) Bill I will seek first of all to reduce grant to the authorities in Scotland showing particularly high excesses in their expenditure plans for 1981-82: I must avoid precipitating default and breakdown of services. I put the aggregate reduction for these authorities at £50m to £60m, but I cannot announce this as a target, since that would prejudice the exercise of my discretion. If the Bill is enacted by mid-June, the authorities concerned would be given early preliminary notice - carefully drafted to avoid prejudice either to the Bill or subsequent action - of my assessment of their expenditure plans in order to obviate criticism that they have been given insufficient opportunity following enactment for their statutory representations. I hope then that my proposals for reduction may be available for debate in the Commons in July. These powers are more flexible than existing powers to make reductions in response to past expenditure levels. The amount of the reduction would take account of expenditure levels in 1980-81 in addition to planned expenditure for 1981-82;

(b) Early in June I would call for revised budgets from all authorities, and reaffirm the warning I have given of a likely overall withholding of grant; I would state that the grant percentage for 1982-83 would be influenced by the extent to which they attempt to achieve our 1981-82 expenditure targets; I would also serve notice on a second batch of individual authorities planning expenditure excesses in 1981-82 of statutory action to reduce grant (in their case the formal process - of representation and report to the Commons - could not be completed until after the summer recess);

(c) I would remind authorities whose expenditure proposals appeared to me excessive of the power to be conferred upon them by the Bill to reassess their expenditure and reduce their rate poundage if grant reductions are in prospect, as a further incentive to reduce their expenditure plans for 1981-82;

(d) In July I would consider the need for further action by way of selective reductions (in respect of 1980-81 or 1981-82) or an overall withholding of grant from the increase order for 1981-82 in the light of:-

- (i) the response by authorities;
- (ii) the provisional decisions we have taken by then on cash planning and related matters; and
- (iii) our subsequent decisions on local authority expenditure and rates.

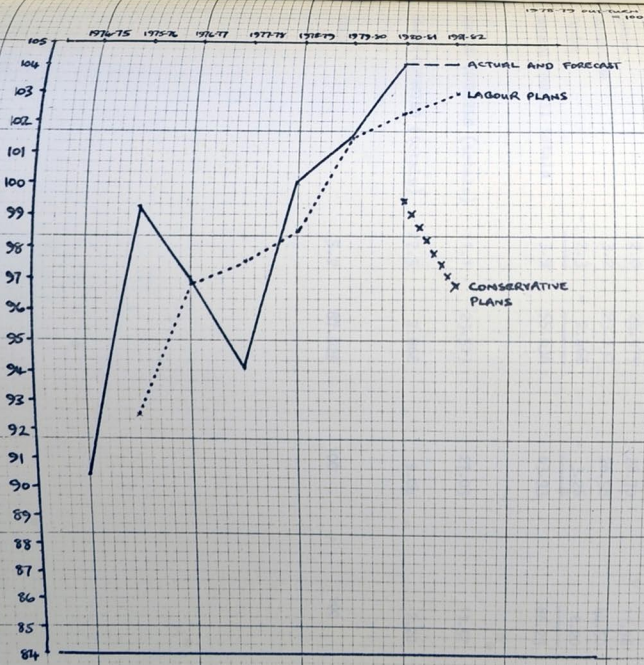
When proposing, in July, the total number of the reductions to be imposed, I shall take into account that selective action should make a direct impact on expenditure levels in Scotland since the authorities concerned can neither increase the 1981-82 rate poundage nor borrow (without my consent) to offset a grant reduction. These constraints do not apply in England.

(e) Since a substantial proportion of local authority audits in Scotland is conducted by private firms of accountants appointed by the Commission for Local Authority Accounts in Scotland, I will encourage the Commission to undertake value for money audit both through these auditors and their own audit staff.

12. I seek the agreement of colleagues that I should proceed upon this basis, and make an announcement to this effect at the same time as the announcement proposed by the Secretary of State for the Environment in E(81)52.

Scottish Office  
15 May 1981

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AMEX A

November 1979  
prices

	1980-81 excess of OT over guideline		% of total excess	% share of unselective grant reduction
	%	£m		
<u>REGIONAL COUNCILS</u>				
Borders	0.3	0.088	0.10	1.85
Central	1.4	0.997	1.15	3.71
Dumfries and Galloway	- 0.5	- 0.196	- 0.22	2.37
Fife	6.2	5.209	5.99	5.02
Grampian	1.6	1.970	2.26	7.06
Highland	3.3	1.921	2.21	4.34
Lothian	12.0	24.979	28.70	11.18
Strathclyde	3.2	23.132	26.58	44.50
Tayside	- 2.3	- 2.466	- 3.26	6.20
Regional Council totals	3.9	55.634	63.93	86.23
DISTRICT COUNCILS (totals)	11.1	23.523	27.03	11.57
ISLANDS COUNCILS (totals)	27.5	7.868	9.04	2.20
TOTALS	5.2	87.025	100	100

November 1980  
prices1981-82 excess  
of budget over  
guideline% of  
total  
excess% share of  
unselective  
grant reduction

%      £m

REGIONAL COUNCILS

Borders	3.0	1.06	0.59	1.68
Central	3.6	3.10	1.73	3.73
Dumfries and Galloway	0.2	0.09	0.05	2.19
Fife	7.0	7.30	4.07	5.21
Grampian	3.0	4.46	2.49	7.17
Highland	2.9	2.13	1.19	4.16
Lothian	24.7	63.20	35.25	10.55
Strathclyde	3.4	29.16	16.26	45.44
Tayside	4.7	6.16	3.44	6.22
<b>TOTAL REGIONAL COUNCILS</b>	<b>6.5</b>	<b>116.48</b>	<b>64.97</b>	<b>86.35</b>

DISTRICT COUNCILS (totals) 21.0 50.58 28.21 11.60

ISLANDS COUNCILS (totals) 34.9 12.23 6.82 2.05

TOTALS 8.8 179.29 100 100.00

	1981-82 Budget £m @ Nov '80 prices	EXCESS OVER GUIDELINES			Share of un- selective Grant reduc- tion	
		£m	%	Share of Total Excess  %	%	%
<u>BERKSHIRE REGIONAL COUNCIL</u>	36.061	1.061	3.0	0.59	1.68	
Districts:						
Reading	0.570	-	-	-	0.02	
Reading & Lauderdale	1.226	0.256	26.4	0.14	0.04	
Reading	1.228	0.078	6.8	0.04	0.06	
Reading	0.490	0.020	4.3	0.01	0.02	
<u>BERKSHIRE REGIONAL COUNCIL</u>	36.061	1.061	3.0	0.59	1.68	
Districts:						
Reading	0.570	-	-	-	0.02	
Reading & Lauderdale	1.226	0.256	26.4	0.14	0.04	
Reading	1.228	0.078	6.8	0.04	0.06	
Reading	0.490	0.020	4.3	0.01	0.02	
<u>BERKSHIRE REGIONAL COUNCIL</u>	89.100	3.100	3.6	1.72	3.73	
Districts:						
Blackburn	2.574	0.334	14.9	0.19	0.10	
Blackburn	7.644	0.364	5.0	0.2	0.20	
Blackburn	4.943	1.463	42.0	0.81	0.19	
<u>BERKSHIRE &amp; GALLOWAY REGIONAL COUNCIL</u>	47.413	-0.087	-0.2	-0.05	2.18	
Districts:						
Reading & Eskdale	1.118	0.208	7.9	0.12	0.05	
Reading	1.650	-	-	-	0.08	
Reading	0.765	0.115	17.7	0.06	0.03	
Reading	0.910	0.150	19.7	0.08	0.04	

CITY	1981-82 Budget £m @ Nov '80 prices	EXCESS OVER GUIDELINES			Share of un- select- ive Grant reduc- tion	
		£m	%	Share of Total Excess	%	%
				%		
<u>GLASGOW REGIONAL COUNCIL</u>	112.298	7.298	7.0	4.05	5.21	
Districts:						
Glasgow	5.677	1.327	30.5	0.74	0.22	
Highly	7.403	1.503	25.5	0.83	0.31	
North East Five	3.243	0.353	12.2	0.2	0.12	
	0.817	0.213	2.3	0.12	0.04	
<u>PERTH REGIONAL COUNCIL</u>	155.462	4.462	3.0	2.48	7.17	
Districts:						
Perth City	11.393	2.843	33.3	1.58	0.34	
Perth & Buchan	3.415	0.945	38.3	0.52	0.12	
Perth	2.096	-0.184	-8.1	-0.1	0.09	
Perth & Deeside	1.126	0.006	0.5	0	0.06	
Perth	3.824	0.994	35.1	0.55	0.12	
	5.023	1.613	47.6	0.90	0.13	
	25.540	3.190	15.3	1.80	0.74	
	4.903	0.773	21.9	0.43	0.14	
	5.791	1.631	39.7	0.51	0.21	

CONFIDENTIAL

	1981-82 Budget £m @ Nov '80 prices	EXCESS OVER GUIDELINES			Share of un- selective Grant reduction	
		£m	%	Share of Total Excess  %	%	%
<u>HIGHLAND REGIONAL COUNCIL</u>	76.130	2.130	2.9	1.18	4.16	
Districts:						
Aberdeenshire & Strathspey	0.335	0.035	11.7	0.02	0.02	
Aberdeenshire	1.078	0.268	33.1	0.15	0.04	
Aberdeen City	2.232	0.302	15.6	0.17	0.05	
Aberdeen District	0.812	0.212	35.3	0.12	0.04	
Aberdeen City	0.314	0.006	-1.9	-	0.01	
Argyll & Bute	1.452	0.122	9.2	0.07	0.08	
Argyll & Lochalsh	0.329	0.059	21.9	0.03	0.02	
Highland	0.561	0.031	5.8	0.02	0.02	
<u>WELSH REGIONAL COUNCIL</u>	319.199	63.199	24.7	35.1	10.55	
Districts:						
West Lothian	5.003	1.613	47.6	0.90	0.13	
Walsingham City	25.568	3.398	15.3	1.89	0.74	
West Lothian	4.303	0.773	21.9	0.43	0.14	
West Lothian	5.791	1.631	39.2	0.91	0.21	

	1981-82 Budget £m @ Nov '80 prices	EXCESS OVER GUIDELINES			Share
		£m	%	Share of Total Excess %	of un- selective Grant reduc- tion %
<u>GLASGOW REGIONAL</u>	922.916	29.916	3.4	16.62	45.43
<u>Districts:</u>					
Glasgow & Bute	5.477	1.107	25.3	0.61	0.17
Glasgow & Milngavie	2.256	0.456	25.3	0.25	0.10
Glasgowbank	3.453	0.623	22.0	0.35	0.17
Glasgow & Kilsyth	3.102	0.632	25.6	0.35	0.15
Glasgow & Doon Valley	2.238	0.578	34.8	0.32	0.11
Glasgow & Heminghame	8.363	1.743	26.3	0.97	0.29
Glasgow & Inverclyde	4.904	1.054	27.4	0.59	0.18
Glasgow & West Kilbride	4.662	0.782	20.2	0.43	0.16
Glasgow & Westwood	2.548	0.278	12.2	0.15	0.10
Glasgow & Glasgow City	65.803	10.923	19.9	6.07	3.19
Glasgow & Hamilton	4.975	0.535	12.0	0.30	0.28
Glasgow & Inverclyde	5.543	0.553	11.1	0.31	0.26
Glasgow & Warramock & Loudoun	4.389	0.599	15.8	0.33	0.18
Glasgow & Clyde & Carrick	6.686	0.296	4.6	0.16	0.25
Glasgow & Clyde & Darnley	2.822	0.252	9.8	0.14	0.11
Glasgow & West Lothians	5.903	1.083	22.5	0.60	0.30
Glasgow & West Lothians & West Lothians	7.679	0.649	9.2	0.36	0.37
Glasgow & West Lothians & West Lothians	16.169	4.509	38.7	2.50	0.55
Glasgow & West Lothians & West Lothians	5.086	0.966	23.4	0.54	0.19

	1981-82 Budget £m @ Nov '80 prices	EXCESS OVER GUIDELINES			Share of un- selective Grant reduc- tion %
		£m	%	Share of Total Excess	
<u>WESTSIDE REGIONAL COUNCIL</u>	136.660	6.160	4.7	3.42	6.22
Districts:					
Dumfries	4.035	0.295	7.9	0.16	0.15
Dumfries City	11.427	3.517	44.5	1.95	0.47
Dumfries & Kinross	4.392	-0.058	-1.3	-0.03	0.19

<u>ISLANDS AREAS</u>					
Orkney	11.511	3.011	35.4	1.67	0.43
Shetland	18.961	7.961	72.4	4.42	0.58
Western Isles	16.756	1.256	8.1	0.70	1.03

CURRENT EXPENDITURE BY SERVICE - SCOTLAND, 1981-82

£m at 1980 prices

	<u>Settlement Assumption</u>	<u>Budget Estimates</u>
Education	99.2	1,054.8
Libraries and Museums	29.6	36.0
Social Work	212.2	221.9
Police	191.0	188.6
Fire	44.4	47.3
Other Law and Order	5.4	4.4
Roads and Transport	191.8	228.2
Water, Sewerage and Environmental Services	154.6	172.6
Planning	6.6	10.5
Leisure and Recreation	65.5	90.9
Miscellaneous	76.9	82.6
Central Administration	93.2	102.3
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	2,063.4	2,240.1
Less interest receipts	- 10.0	- 5.8
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	2,053.4	2,234.3
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