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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

CONTROL OF LOCAL AUTHORITY CURRENT EXPENDITURE (SCOTLAND) -
INTERIM MEASURES

Memorandum by the Secretary of State for Scotland

BACKGROUND

Until 1981, the main influence Central Government exercised over the current expenditure of Scottish local authorities was through the level of rate support grant, indicative guidelines (which illustrate for each authority the implications of the aggregate relevant expenditure figure in the RSG settlement) and exhortation. Further pressure could be exerted by reducing or withholding grant, payable under the increase order, in respect of pay and price increases. The power to reduce an individual authority's rate support grant retrospectively, provided that the House of Commons approves a report by the Secretary of State to the effect that that authority had incurred excessive and unreasonable expenditure, has never been used. It still exists.

As the following figures show, in the period 1976 to 1980 the total expenditure of local authorities was reasonably consistent with the level of expenditure assumed in the rate support grant settlement, but in 1980-81 and in planned expenditure for 1981-82, there was a marked excess over that level.

Out-Turns Compared with RSG Settlement Assumptions

1976-77	+0.3%	1979-80	0.0%
1977-78	-3.3%	1980-81 (provisional)	+4.9%
1978-79	+0.8%	1981-82 (original budgets)	+8.8%

1981-82

Accordingly in the Local Government (Miscellaneous Provisions) (Scotland) Act 1981 I took powers which enable me to reduce rate support grant payable to individual authorities planning to incur excessive and unreasonable expenditure. For 1981-82 expenditure for this purpose was defined as RSG relevant expenditure excluding loan charges. These powers have already been used to reduce rate support grant to three authorities, and proposals affecting other authorities are at present under consideration.

Scottish local authorities do not have power to strike supplementary rates. Restrictions on temporary borrowing for current expenditure were reinforced by the 1981 Act to preclude borrowing to offset grant reductions. The imposed grant reductions have therefore ensured reductions in planned expenditure for 1981-82. These reductions in grant and in expenditure will significantly limit the extent to which unselective grant reductions - particularly disliked by responsible authorities - have to be made at increase order stage in response to planned overspending.

NEW POWERS

Encouraging progress has therefore been made by use of my power to reduce rate support grant but, like the Secretary of State for the Environment, I consider that further powers to control rate levels are necessary. I propose therefore to include in the Local Government and Planning (Scotland) Bill provisions authorising the Secretary of State to intervene in the rate fixing process if satisfied that in determining its rate poundage an authority has planned for an excessive and unreasonable level of expenditure. I envisage that, if so satisfied, the Secretary of State should be able to direct the authority to use from the start of the financial year a lower rate of a prescribed amount. That rate would subsist throughout the year unless a proposal to re-adopt the rate originally determined were endorsed by a referendum (probably of all voters) by 31 July. I do not propose to introduce provision for supplementary rates the absence of which gives greater control over total expenditure by local authorities in Scotland.

As an alternative to the referendum procedure, I have considered whether it would be preferable to provide that the imposition of a lower rate should be contingent on approval by the House of Commons. That would be consistent with the provisions relating to selective grant reductions. I have concluded however that it is preferable to rely on referendum partly to avoid imposing on the Parliamentary timetable if a substantial number of cases required consideration and partly because provision for the exercise of local influence over rate fixing would go a long way to meet recent criticisms from local interests about high rate levels.

New provision on these lines would form a logical extension of my present powers. I would evaluate planned expenditure for purposes of rate-reduction by similar principles to those established in 1981-82 in dealing with proposals for grant reduction. I would still have the option of grant reduction whether or not a reduction in rates were imposed, although careful judgement would be necessary before use of both powers in any individual case.

TIMING

The Local Government and Planning (Scotland) Bill, on present indications, is unlikely to be enacted in time for these new provisions to become effective in the financial year 1982-83. I do not however propose to announce immediately a target date for their introduction: I would do so when we have had the

opportunity to gauge the likely rate of progress with the Bill. If the provisions were not available for 1982-83 I would rely on vigorous use of the power to make selective grant reductions as the main means of influencing local authority expenditure levels in that year.

CONCLUSION

I seek the agreement in principle of colleagues to the proposal for early legislation on selective control of rate levels outlined in paragraph 5 above.

G.Y.

Scottish Office
17 September 1981