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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83 AND 1983-84

Memorandum by the Chief Secretary, Treasury

The paper E(82) 45 by the Secretary of State for the Environment reveals a serious overspend of £1.4 billion on English local authorities' current expenditure. This is so much more than our plans that we must take effective counter measures.

2. It is essential that local authorities play their part in curbing public expenditure, of which they account for about a quarter. Otherwise it may be impossible to achieve the reductions in public expenditure as a share of GDP for which we have planned in the medium term financial strategy, and on which our hopes for lower tax levels depend. The only alternative would be further reductions in services elsewhere in the public sector. It would be quite wrong to have to make savings on other programmes just because local authorities have failed to exercise economy.

3. We have already adjusted our plans to meet local authorities' spending patterns which we felt we could not control. Last year we agreed to increases in the local authority sector of £1.3 billion - over a quarter of the total rise in our public expenditure plans for 1982-83. That was done on grounds of realism, because of our limited ability to control local authority current expenditure. If we are to get back on course for future years it is vital that local authorities' expenditure this year should be as close to our plans as possible, particularly as we have already specifically added to those plans so substantially in this area.

4. The action we took on last year's overspend was largely ineffective. Local authorities did not moderate their spending last year, and the budgets for this year have not responded to the RSG settlement.

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5. We cannot afford to fail again. That means we must take tougher action this year. Local authorities will be forbidden supplementary rates so they will be unable to continue to finance their extravagant budgets if we cut their grant. In England they have already anticipated the grant penalties announced at the RSG settlement by rating up to provide sufficient money, even allowing for the grant penalties, to implement their own desired levels of spending. So to get the necessary expenditure reductions this year the only course open to us is to cut grant more.

6. I should prefer to reduce grant in a way which protected those authorities which have heeded our plans, as the Secretaries of State for Scotland and Wales intend to do. But amendments to the Local Government Finance Bill, and promises made in the House during its passage, now make that impossible. So we shall have to seek a substantial cut in RSG in England across the board. I realise that the cut may not be shared fairly among local authorities. But I consider that we have no choice if we are to have any hope of achieving our expenditure plans. A steeper block grant poundage schedule could not ensure that the penalty fell only on those deserving it but would spare those who do not deserve it and bear proportionately harder on the worst offenders. The alternative might have to involve corrective action elsewhere in the economy and I doubt whether Parliament would find that any more palatable than cutting RSG.

7. I see little point in asking for revised budgets before reducing RSG for this year. They have not had much effect on local authorities' expenditure in the last few years. Besides, if we announce a substantial further cut in RSG now local authorities will have more time to seek and secure economies.

8. The Secretary of State for the Environment is concerned that reducing grant will force some local authorities to seek additional temporary borrowing now that supplementary rates are to be forbidden. I doubt whether this will be a serious problem. The purpose of reducing grant is, of course, to force expenditure cuts, rather than to force local authorities into other ways of financing expenditure. But those local authorities which really cannot adjust their spending to balance their books are likely to be able to draw on their reserves (most in England have appreciable balances), rather than seek supplementary borrowing consents. Consequently the number of applications for consent is likely to be small and any legal challenge therefore containable.

9. I cannot be precise about the appropriate general abatement of grant without some idea of how it would be distributed among local authorities. Since the effect of a cut would partially be reflected in drawing on balances or additional borrowing in anticipation of revenue, we will need a substantial grant cut for it to have a substantial effect on actual expenditure. I propose that we invite the Secretary of State for the Environment to exemplify the effect of lowering grant this year by £200 million, £300 million and £500 million.

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10. For the time being I believe we should tell the local authorities that we intend, as a minimum, to implement the grant holdback scheme announced at the time of the RSG settlement. We should also indicate that we are considering further action which will be announced subsequently.

11. For next year, I agree with the Secretary of State for the Environment that it would be desirable to indicate our intentions soon, preferably along with our further response to this year's budgets. I am extremely reluctant to contemplate another significant addition to the plans for 1983-84. And we must certainly not plan for a relatively generous RSG settlement as we did last autumn. At this stage it is neither necessary nor desirable for us to reach any specific decisions on 1983-84. The best way to give a clear signal that we will not finance excessive expenditure in 1983-84 is to take firm and rigorous action this year.

HM Treasury
11 May 1982

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