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12 July 1982

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

Note by the Secretaries

The attached letter from the Chief Secretary to the Treasury's Private Secretary to the Prime Minister's Private Secretary is circulated for consideration by the Committee.

Signed ROBERT ARMSTRONG
P L GREGSON
M S BUCKLEY

Cabinet Office

12 July 1982

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Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
Downing Street
London SW1

21 June 1982

Mr Michael,

CAL AUTHORITY CURRENT EXPENDITURE 1982-83

Committee invited the Chief Secretary and the Secretary of State for the Environment to try to agree bilaterally on the Chief Secretary's proposal for additional hold-back of £80 million of Support Grant in the current year. They met last week, but were unable to reach agreement.

The attached short paper sets out the problem and the solution proposed by the Chief Secretary. He wonders whether it might be possible to resolve the issues in a meeting of the Ministers directly concerned under the Prime Minister's Chairmanship, rather than take the whole thing back to E Committee again, and hopes the Prime Minister will feel able to proceed in this way.

I am sending copies of this letter and the paper to David Edmonds and to David Wright.

Yours sincerely

Terry Matthews

T F MATHEWS
Private Secretary

LOCAL AUTHORITIES CURRENT EXPENDITURE 1982-83

Paper by the Chief Secretary

Local authorities in England have budgetted to spend nearly £1½ billion more this year than we allowed for in the RSG settlement. Last autumn we agreed to raise our provision for this year by over £1 billion precisely in order to provide a realistic target. The £1½ billion excess over the increased figure has been the response to that decision.

2. We have already said that overspenders will lose rate support grant. We announced a scheme of penalties before we knew the size of the problem. This will impose cuts in the RSG of £312 million. That is an inadequate response to the overspending we now face. Local authorities have in any case allowed for these penalties in their budgets.

3. To do nothing further would be irresponsible. The press are already justifiably mocking us for our impotence.

4. We agreed in E Committee that any further reduction in grant must protect our supporters, and in particular those spending less than GRE, so far as possible. It must also not conflict with the undertakings we have given. I have now developed a scheme which would meet these requirements. It is described in the annex. It could only achieve a fairly small - £80 million - reduction in RSG. But it would focus the grant cut pretty precisely. For instance, shire counties and outer London boroughs would lose nothing.

5. I have discussed this with Michael Heseltine and Tom King. They agree that the scheme I propose would be feasible and consistent with their undertakings during the passage of the the Local Government Finance Bill. At the time they were made I specifically asked for those undertakings to be suitably limited, so that the action I am now proposing should be available to us. But

Michael and Tom are concerned that any further reduction in grant may appear contrary to the spirit, if not the letter, of what they promised. Allegations about the spirit of an undertaking can always be made, but in the context of a modest cut with the impact of the kind set out in the annex I do not think this would be well founded.

6. I appreciate that any measure to cut grant to local authorities will be unpopular. I also accept that the effect on local authority expenditure may only be marginal at this stage in their financial year. But that makes it more, rather than less tolerable when its affect is so overwhelmingly on the worst overspenders.

L.B.

ANNEXProposal to Cut RSG in England for 1982-83 by £80 million

Local authorities' claims for RSG for 1982-83 amount to £81 million more than the cash limit. So the claims must be scaled down to fit the cash limit. This is called "close-ending".

2. There are several ways of doing this. Last year we arranged that each local authority lost RSG worth about 6p on the rates. This amounted to rough equality of misery. We could do the same again.
3. Alternatively, grant claims could be shaded down selectively. I propose that we follow this course. Thus we could deduct the £81 million from the high spenders. The others would lose nothing.
4. But even those who are not high spenders are at the moment expecting to lose something by the normal close-ending process. We could make them lose the amount they are expecting by simultaneously reducing the rate support grant across the board. The overspenders would lose from this as well as from the operation described in paragraph 3.
5. The net effect would be to leave low spenders where they expect to be and high spenders worse off.
6. To illustrate, the table below gives examples of how this proposal would alter local authorities' grant, compared to what they are currently expecting from close-ending:

	<u>Authority</u>	<u>£ million</u>
High spenders	GLC	-26.3
	Lambeth	- 2.4
	Greater Manchester	- 1.9
	South Yorkshire	- 4.7
	Newcastle	- 2.1
Others	Buckinghamshire	+ 0.01
	Croydon	+ 0.004
	Kensington	+ 0.002
	Wakefield	+ 0.003
	Southampton	-