



Tim, this is an annex to
the Chancellor's Cabinet briefing
which the PM may find helpful
for this afternoon.

With the Compliments
of the
Chancellor of the Exchequer's
Private Secretary

MMA

Treasury Chambers,
Parliament Street,
S.W.1.

25/1/80

17. Econ PD.

2.

LOCAL AUTHORITY MANPOWER (OUTSTANDING ISSUE)

The tables circulated as background to C(80)3 show the implications for local authority current expenditure and manpower (excluding housing - see para 4 below) of the plans as they now stand (including reductions already agreed in the current exercise), compared with actual levels in 1978-79. Mr Heseltine's proposed cumulative 1% annual reduction in local authority current expenditure from 1981-82, secured through manpower savings, is regarded in C(80)3 as fully additional to the savings incorporated in the tables.

2. Given the limitations of central government's influence over local authorities (RSG, exhortation, guidance etc), it is doubtful whether such additional savings are in practice deliverable. Significant manpower reductions are already expected on all the main local authority services, except police (which is a priority area) and personal social services, where you have accepted modest increases for demographic reasons. If the whole of the extra reduction were taken on manpower costs, each 1% cut in expenditure would involve a manpower reduction of about $1\frac{1}{4}\%$; to the extent that police and personal social services were protected, the cut in manpower on other services would need to be higher (about $1\frac{3}{4}\%$ on non-protected manpower for each 1% of total expenditure - ie an extra $5\frac{1}{4}\%$ reduction in numbers by 1983-84).

3. The savings so far agreed involve policy changes and pressure for efficiency savings in the various local authority programmes concerned (for examples, see footnotes to the manpower table), not simply pruning administrators. We suggest you take the line that additional savings can realistically be scored only if the responsible Ministers are prepared to accept the implications for their services (ie reduced services, if further efficiency improvements are not attainable) and to take action to deliver the savings. This of course applies to Mr Heseltine himself, who is responsible for local environmental services, where the

manpower reductions at present expected are much lower than on the other main non-protected programmes. He might therefore be pressed to deliver the full 1% cumulative reduction on this programme, whatever the outcome elsewhere.

4. The tables exclude housing because housing management and maintenance do not score in PES but are covered in the subsidy figures. We do not know the wages and salaries component. The housing subsidy savings already agreed assume a 2% efficiency cut in management and maintenance from 1981-82 (not cumulative). But if Mr Heseltine can offer manpower savings here, we should accept them.

5. It may be suggested that, because of the uncertainty about how and where savings will be achieved, the extra reductions should not be allocated to programmes, but be presented as a separate line in the White Paper. We would advise against this. It would leave no Minister with responsibility for delivering the savings (or for finding alternatives if in time they were seen to be unattainable) and would damage the general credibility of the published plans.

Efficiency and waste

6. The Prime Minister or Mr Heseltine may possibly refer to the Rayner/Berrill proposals for a Government campaign to improve efficiency and reduce waste in local government, which were circulated with her Private Secretary's letter of 18 January. The proposals include the mobilisation of public interest in the cost-effectiveness of local services; Government publication of a series of guides on value for money and on the management role of local councillors and officials; publication of data on comparative expenditure and manpower levels; and a greater emphasis in the work of district audit - and also possibly the Government Inspectorates - on value for money issues. Leaving aside their effectiveness, there must be a question mark over the local authority reaction to a number of these proposals, to the extent that they involve more detailed Government intervention in their affairs.

7. It will be important to have Mr Heseltine's considered views on the likely efficacy and practicability of the proposed initiative, bearing in mind that there is a good deal of overlap with the action he has already taken (eg through a number of the provisions of the Local Government Bill) to improve local accountability. Obviously Treasury Ministers will not wish to put a damper on any new proposals which may improve local authority efficiency. But, from the point of view of the immediate decisions needed on public expenditure, our advice is that it would not be justifiable to score any additional savings on local authority current expenditure on the basis of a possible campaign of the kind proposed.

HOUSING

Outstanding Issues

Further housing cuts to be sought if local authority manpower reductions are insufficient

1. The paper records the original Treasury targets

300	500	500	600
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A revised spread was agreed with Mr Heseltine

300	450	550	600
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The latter is the baseline for further reductions.

2. You have still to decide whether you will accept private finance for housing associations towards Mr Heseltine's reductions. You said at the bilateral that if you rejected it you would not ask the Environment Secretary to make the £50m per year in savings in another way. If this can be regarded as subject to Cabinet discussion, the shortfall on the target is:-

					4 year total
Targets (revised spread)	300	450	550	600	1900
Savings agreed so far	225	364	415	420	1424
Gap	75	86	135	180	476

If Mr Heseltine is allowed to score private finance (or the equivalent is conceded) the savings to be sought are:-

25	36	85	130	276
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Tactics

3. Avoid detailed debate about the size of the new housebuilding programme which is needed. We suggest that you should

(a) seek global cuts in local authority housing capital in general; without attribution to particular programmes;

(b) argue new housebuilding reductions on realism rather than merits;

(c) mount an attack on the council house improvement programme in particular (NB This is different from the improvement grants programme which is for the private sector).

Arguments

4. (a) The cuts agreed in local authority capital are less than half the options illustrated by the Treasury:

					4 year total
Illustrated by Treasury	228	357	454	492	1531
Accepted by DOE	108	180	220	230	738
Rejected by DOE	120	177	234	262	793

(b) None of the options rejected by DOE is inherently more difficult than what is having to be done on other programmes and on the whole they are a good deal easier: Examples follow:

(c) New housebuilding: possible further savings £200 million over 4 years. This means 30,000 approvals a year from 1981 only 5000 below the level to which approvals have already declined.

(d) Council house improvements; possible further savings £220 million over 4 years. There is still fat on this programme. Has been expanded - not cut at all - since Government took office. Much of this expenditure has little or nothing to do with hardship. The houses are not unfit. Money mostly goes on things like ^{new} kitchens, central heating etc for council tenants. Politically popular but could be slashed without real pain. If this is councils' highest housing priority, - they prefer it to new housebuilding - there must be very little real housing need left. Baseline falls in later years, but further cuts would not bring hardship.

(e) Private sector improvement grants: could also be cut more - say £100m over 4 years: by concentrating on real need in terms of state of housing stock and individual means. Only a small proportion of these grants go to the poorest households and the worst houses.

5. All of this suggests that local authority housing capital can be cut by whatever is needed to make up your original targets, with or without the abatement for private finance.

HOUSING

AGREED SAVINGS THAT MAY BE CONTESTED

Insulation cuts

1. Energy Secretary may challenge the decision to cut domestic insulation schemes.

Amounts involved (public and private sector schemes combined)	25	25	25	25
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Points

(a) Proposal merited on principle (higher fuel prices - people don't need further incentive) and realism (underspending).

(b) Environment Secretary chose these cuts from range of Treasury proposals. If Energy Secretary can persuade him to make them in other ways while still meeting the reductions agreed or sought for housing, so be it.

Cuts in housing affected by change in economic assumptions

2. The new economic assumptions are likely to increase the cost of housing subsidies in 1980-81 and to reduce them in 1982-83 and 1983-84. No Cabinet discussion is necessary. The precise figuring should be available later this week when DOE and Treasury officials will discuss urgently whether and if so how far the agreed housing ^{totals} should be adjusted, reporting to Ministers as necessary.

25 JAN 1980

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