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Ref. A02704

PRIME MINISTER

Public Expenditure 1981-82: Local Authorities

(C(80) 44 and 45)

BACKGROUND

The Chief Secretary, Treasury recommends in C(80) 44 that the Government should announce before the Recess that the provision for the total of local authority current expenditure in 1981-82, in England and Wales and in Scotland, should be 2 per cent below the Government's planned total for 1980-81. This reduction is in line with the assumption in the last Public Expenditure White Paper, Cmnd 7841. It is necessary to announce the total now in order to influence the local authorities in the planning of their budgets over the next few weeks.

2. Although the local authorities themselves decide on the allocation of this total among the various services, the Government has to form its own view of the service totals preparatory to more detailed work on the Rate Support Grant and, in due course, for publication. The Chief Secretary's proposals for the service totals for England and Wales are listed in column 4 of his Annex 1 (not Annex 2 as his paper says). They give rise to the two problems described in paragraph 7 of his paper.

3. First, it currently looks as though the provision for local environmental services in England could be overspent by about £80 million in 1981-82. The Chief Secretary's table makes no allowance for this possibility. It may well be that the local authorities can be persuaded to come back into line, and this would turn in part on the current discussions of their 1980-81 expenditure. If there is still a prospect in September of overspending on this service, it will be necessary to choose between further cuts on other local authority services - very difficult, as the Chief Secretary points out - or to look for savings elsewhere in the Secretary of State for the Environment's programme. For the moment no decisions are necessary.

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4. Secondly, there is a major dispute over the education programme. The Chief Secretary is seeking additional savings of £87 million gross on the total of Department of Education programmes. £37 million of this is to cover the loss of savings on school transport, leaving a net reduction of £50 million. The most the Secretary of State for Education will offer is £20 to £25 million, mainly from provision for polytechnics and universities and from local authority capital expenditure. The dispute is over the difference of £62 million which the Chief Secretary argues should be found from economies in schools which would reduce local authority current expenditure. If this saving were not made the total reduction on local authority current expenditure in 1981-82, by comparison with 1980-81, would be only 1.6 per cent. It would then be necessary to look for savings from other local authority services in order to reach the target of 2 per cent.

5. The Secretary of State for Education puts his case in C(80) 45. He argues that if the cuts were made it would be impossible for the Government to honour the commitment in The Queen's Speech that 'the quality of education will be maintained and improved'. He rejects the Chief Secretary's argument that in present economic circumstances it is reasonable to concentrate on 'basic skills', as in the Manifesto, rather than 'quality'. His main arguments are in his paragraphs 3 and 4.

6. The Chief Secretary further proposes the 1981-82 totals for capital expenditure listed in column 3 of his Annex 2. It is possible that the Secretary of State for Trade will bid for a greater increase than that already offered for local airports capital expenditure.

7. The Chief Secretary proposes a reduction of £65 million in the provision for housing in England in 1981-82. This total cut is acceptable to the Secretary of State for the Environment, though he may wish to find some of it from his other programmes.

HANDLING

8. After the Chief Secretary has introduced his paper you might suggest that before turning to the major dispute over education the Cabinet should first deal with the other proposals on which the Chief Secretary generally appears to have reached agreement with his colleagues.

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9. Dealing first with the services other than education you might:-

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- (i) Invite the Secretary of State for the Environment to give his general comments and to deal in particular with the Chief Secretary's proposals for local and environmental services (his paragraph 7(i)) and housing (paragraph 10).
 - (ii) It should not be necessary to discuss those services on which there is agreement, but you might give other Ministers an opportunity to raise any points they wish. The Secretary of State for Trade may wish to ask for higher provision for local airports capital expenditure than the Chief Secretary was willing to accept in the bilaterals (see paragraph 9(i)).

10. Turning to the education programme you might then invite the Secretary of State for Education to speak to his paper C(80) 45 and the Chief Secretary to reply. The main questions are:-

- (i) Does the Cabinet accept the Chief Secretary's view that The Queen's Speech commitment on the quality of education need not rule out some savings on the schools, or indeed elsewhere in the education programme?

It is worth noting that a reduction of £62 million on total schools expenditure of £3,922 million is equivalent to only 1.6 per cent.

- (ii) If the reduction is not accepted, where else can the savings be found if the Government's overall public expenditure objectives are to be maintained?

CONCLUSIONS

11. In the light of the discussion, and with reference to paragraph 13 of the Chief Secretary's paper, you will wish to record conclusions on:-

- (i) Whether it should be announced that the Government's view is that the total of local authorities' current expenditure relevant for RSG purposes for 1981-82 should be 2 per cent less than the corresponding planned total for 1980-81.
- (ii) Whether for purposes of calculating the RSG distribution in England and Wales the totals for individual services should, except for education, be as in Annex 1 column 4 subject to further review in September.

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- (iii) Whether the total for the education programme in 1981-82 in England should be reduced by £50 million net.
- (iv) Whether the totals for local authority capital expenditure should be as listed in column 3 of Annex 2.
- (v) Whether the proposed reduction of £65 million from the Secretary of State for the Environment's programmes in 1981-82 is acceptable.
- (vi) Failing agreement on any of these proposals where else the savings should be made.

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(Robert Armstrong)

23rd July, 1980