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PRIME MINISTER

PUBLIC EXPENDITURE 1980-81 :
GUIDANCE TO LOCAL AUTHORITIES AND OTHERS

At the Cabinet meeting on 23rd July I was invited to make proposals about giving early guidance to local authorities and nationalised industries on the reductions from planned programmes which they will be expected to make next year, following our decisions on public expenditure.

A. Local Authorities

..... 2. I attach a draft of a possible statement which the Secretary of State for the Environment might be invited to make. The draft has been discussed between officials of the Departments mainly concerned. The main questions which we need to decide in Cabinet tomorrow are:

- (i) Is it agreed that a statement should be made on these lines? It has been emphasised strongly to us that, if the local authorities are to cut back their plans on the scale required, they need to be told before the holidays. Accordingly, even though we have decided not to make a full statement to Parliament about all the reductions in plans, I believe that this guidance should be given to the local authorities.
- (ii) Does Cabinet have views on the best timing of such a statement? The figures in it will need to be checked with Departments following Cabinet's final decisions



(with minor adjustments, e.g. to Table A to a basis familiar to local authorities). Subject to this, the announcement should clearly be made as soon as possible.

- (iii) Should the guidance for 1980-81 be given, for current expenditure, in terms of a single total, or itemised by service? This was discussed in the MISC 11 report (paragraphs 6-9) which recommended the global approach, and in the minute of 18th July from the Secretary of State for Education taking a different view. Clearly we must now resolve this issue, choosing between the alternative versions of paragraphs 3 and 4 in the attached draft.
- (iv) Should the local authorities be consulted about the later years? The draft refers to the consultation on options for reductions in 1980-81 of up to 7½ per cent (as agreed following the letter of 7th June from the Secretary of State for the Environment); and it states the Government's intention to publish its full plans for 1980-81 and later years in the autumn.

If the local authorities are to be consulted about the implications for them of further reductions in the later years, now is the time to do so.

Cabinet agreed on 24th May that, to provide options for getting back by 1982-83 to the adjusted public expenditure total for 1977-78, reductions should be considered of 7½ per cent on the Cmnd.7439 programmes for 1980-81, 12½ per cent for 1981-82, 17½ per cent for 1982-83, and not less than that again in 1983-84 (except for the defence, law and order and health



programmes, and on the other hand except where larger cuts had been identified in Opposition). If we are now to consult on the later years, it should be on the basis of options not less than those needed to get back to the expenditure level of 1977-78. Therefore paragraph 7 of the draft is in terms of reductions, from the revised level for 1980-81, which would in fact achieve the $12\frac{1}{2}/17\frac{1}{2}$ per cent path. The figure required for 1980-81 is in fact intermediate between the 5 per cent and $7\frac{1}{2}$ per cent options suggested. Any consultation on housing (excluded from this paragraph) can be arranged separately, in terms to be agreed between DOE and the Treasury. I hope Cabinet will agree that consultations should go forward on this basis, aimed at reports by end-September when we propose to resume consideration of the later years.

B. Other Agencies

3. We have been planning not to announce the rest of our public expenditure decisions before the autumn. But there may be a few minor cases, besides the local authorities, where it is necessary to take some action going beyond central government, and therefore liable to become public, if the decisions are to be fully effective next year. There may be one example in agriculture (Meat and Livestock Commission).

4. I hope it can be agreed that, if colleagues are satisfied that such action is essential to secure the cuts in any specific case, they should clear what they propose with the Treasury.

C. Nationalised Industries

5. I was also asked to cover the question of guidance to the nationalised industries. This is much less difficult than for local authorities but it is still not straightforward.



6. The last Government made a virtue of aiming to give the industries "by the end of the summer", rather than the end of the year, "approval for 100 per cent of their agreed investment programme for one year ahead" and a declining percentage of the programme for the next two years. We cannot generally say much this year about 1981-82 and 1982-83. But we should be able to say something about 1980-81, provided this can be done in terms that preserve the option of using cash limits in a way that exerts pressure for responsible pay bargaining. I have already told the Chairmen that we have it in mind to set cash limits in advance of pay negotiations. But if they are to be a useful discipline, sponsor Ministers will need to present the volume figures for investment and financing which have been agreed as provisional maxima which are subject to later decisions and discussions on cash limits. I ask sponsor Ministers to consult Treasury Ministers about the way in which our decisions so far should be conveyed to the different industries.

D. Decisions on the later years of the Survey

7. We will need to return to decisions about the later years of the Survey period. We should do so as soon as possible after the holidays if we are to publish a White Paper soon after Parliament reassembles.

8. If you and other colleagues agree, I suggest that the Chief Secretary might circulate proposals which could be discussed in MISC 11 or bilaterally with colleagues prior to further discussion in Cabinet, unless it is practicable to arrange a Cabinet discussion fairly early in September. We could aim in this way to reach as much agreement as possible with a view to settling outstanding issues at Cabinet in the early autumn.

S E C R E T



9. I am sending copies of this minute to our Cabinet colleagues, including Norman Fowler, and to Sir John Hunt.

[Approved by the Chancellor
of the Exchequer and signed
in his absence]

Mark Hall

(G.H.)

25 July 1979

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PUBLIC EXPENDITURE 1980-81

1. Ministers have been considering the public expenditure plans for 1980-81. Given the poor prospect for economic growth next year, world-wide and in the UK, there is a clear need to rein back the inherited plans for public spending. To implement these plans in full would have meant a rate of growth of public expenditure in volume terms, above the revised figures for the current year, of about 6 per cent. This is out of the question, and taken in conjunction with the substantial increases in public service pay, would have been wholly inconsistent with the Government's economic strategy. It would have meant adding to inflationary pressures and pushing up interest rates, and would have made some increase in the net tax burden inevitable.

2. The Government will announce its decisions on the whole range of programmes for 1980-81 and later years in the autumn. However, the local authorities need to know now what the scale of cuts affecting them for 1980-81 will be, as they are planning their budgets now for that year. In considering the scale of reductions for next year, we have taken full account of the consultations with the local authorities on options for cuts of up to 7½ per cent, and the discussion in the Consultative Council on 9th July. The Secretary of State for Scotland will be seeing the Scottish local authorities; what I have to say to you now concerns England and Wales.

3. Within the overall need for spending reductions, the Government thinks it right to give local authorities the maximum freedom to decide on the allocation of funds in accordance with their own local spending priorities. But the Government has decided that local authorities should plan on the basis of a reduction of 5 per cent on the plans for current expenditure in Circular 15/79 for 1980-81 which amounted in total to £12,163m. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80.

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4. We shall want to discuss with you the most realistic allocation among individual services, but the total of relevant expenditure for Rate Support Grant will of course need to be consistent with this overall level of current expenditure. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services should not undergo any reduction.

5. For its part, the Government intends to seek certain legislative changes to give the local authorities more latitude in achieving the total. In the field of education, where the Government's wish is that standards in primary and secondary schools should be maintained, we shall ask Parliament to relax the statutory obligation on local authorities to provide school milk and meals, and to remove the restrictions on charging for school transport, with a view to savings totalling well over £200 million in 1980-81. We shall also ask Parliament to approve primary legislation to allow local authorities to charge for planning permissions, and to reduce the role of the counties in planning procedures; and secondary legislation to charge for the enforcement of building regulations, and amend the General Development Order.

6. For capital expenditure, which is centrally controlled for each programme separately, the Government has decided that the national totals for the programmes for 1980-81 as set out in Cmnd.7439 (revalued to 1979 Survey prices) should be reduced by the amounts set out in the attached table. [B]. Allocations to individual authorities will be made later.

7. For later years, beyond 1980-81, there have not yet been any consultations on the options. The reductions in expenditure in this year and next will need to be carried forward in the three following years, which will be covered in the Government's full public expenditure plans to be published in the autumn. I therefore propose that, in the light of the allocation for 1980-81

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among individual services, expenditure groups should report to the Consultative Council by the end-September how these reductions in later years can best be achieved. To that end they should examine options for reducing the level of total local authority spending now envisaged for 1980-81 (excluding housing, which is being dealt with separately; and law and order), amounting to 5 per cent and 7½ per cent in 1981-82, and in each case a further 5 per cent below these levels in 1982-83 - with the level in 1982-83 continued into 1983-84 which will be the final year in the new public expenditure plans.

8. I intend to issue this statement as a circular to local authorities shortly.

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ALTERNATIVE PARAGRAPHS 3 & 4 IF SERVICE TOTALS ARE TO BE GIVEN

3. The Government has decided that local authorities should plan on the basis of a reduction of 5 per cent on the plans in Circular 15/79 for 1980-81. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80. The total of relevant expenditure for Rate Support Grant will of course need to be consistent with the overall level of current expenditure.

4. The Government's views on the appropriate reductions for individual services to achieve this total are set out in the attached table [A]. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services should not undergo any reduction.

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TABLE A

<u>LA CURRENT EXPENDITURE : ENGLAND AND WALES</u>	<u>£m.</u>
(PES Definition)	
Trade	4
Transport	61
Environment:	
Housing	13
Other	74
Home Office Services	+ 8*
Education (including school transport)	145
School Meals and Milk	200
Arts and Libraries	16
Personal Social Services	<u>114</u>
	619

* Plus 13 for police, courts and probation, less 5 contained in Cmnd. 7439 for ethnic minorities grants.

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TABLE B

<u>LA CAPITAL EXPENDITURE: ENGLAND AND WALES</u>	<u>£m.</u>
Transport	75
Environment:	
Housing	799
Other	93
Home Office	+ 8
Education	26
Arts and Libraries	1
Personal Social Services	11
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	997



25 JUL 1979