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PRIME MINISTER

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Education and Local Authority Current Expenditure
in 1981-82

C(80) 48

BACKGROUND

At their meeting on 24 July the Cabinet agreed that the local authorities should be told before the Recess that their total current expenditure in 1981-82 should be 2 per cent below the Government's planned figure for 1980-81 (CC(80) 30th Conclusions, Minute 7). The Cabinet did not however reach agreement on the detailed savings required to achieve this objective or on the Chief Secretary's proposal that they should be found from the education programme.

2. The Chief Secretary has reported that he failed to reach agreement in his further discussions with the Ministers concerned. His objective remains to save £87 million gross on the total education programme in England, or £50 million net after allowing for the loss on school transport.

3. The Secretary of State for Education has offered gross cuts of £45 million (see the table in paragraph 3 of C(80) 48) compared with the £20 million to £25 million he had offered previously. Of this £45 million, only £15 million is from local authority current expenditure. Unless further savings are agreed, the total reduction on local authority current expenditure will be only 1.6 per cent.

4. The Chief Secretary therefore offers a choice for reaching the target of 2 per cent, with his detailed proposals listed in columns 5 and 7 of the Annex to his paper:-

Either £67 million from education current expenditure

or £39 million from education with pro rata cuts on other services, except law and order.

He advises against the second course because it would fall in part on the personal social services and the local environmental services, where there

are already problems in reducing overspending, let alone looking for further cuts. He also warns that the Secretary of State for the Environment has threatened to reconsider his agreement to cut £65 million off housing if the Secretary of State for Education does not make the full savings proposed.

HANDLING

5. After the Chief Secretary, Treasury has introduced his paper the Secretaries of State for Education and for Wales will wish to reply. The Secretaries of State for the Environment and Social Services, the Minister of Transport, the Home Secretary and the Chancellor of the Duchy of Lancaster will each wish to comment on the option for spreading the cuts across the various local services. Although the Secretary of State for Scotland has agreed to make his 2 per cent reduction, he might have second thoughts if less were to be required of England and Wales.

6. There are broadly four options:-

- i. To accept a cut of 1.6 per cent, or something lower than 2 per cent, in total local authority current expenditure.
- ii. To insist on £67 million off education local services.
- iii. To find the total by spreading the cuts among all the local services, other than law and order, as proposed in column 7 of the Annex to C(80) 48.
- iv. To try and find other savings including, if necessary, savings from exempt services like the Police, perhaps by imposing a uniform cut across the board. Such a cut might be best imposed in the figures in column 3 and would need to be of 0.5 per cent.

7. The Cabinet has already agreed that the total cut should be of 2 per cent. If any Minister were to propose that that decision should be re-opened the main objections are:-

- i. If the proposed savings are not made on local authority current expenditure they will have to be found elsewhere, and this is probably impracticable in view of the formidable task of finding savings to offset the increases on the nationalised industries.

ii. Anything less than 2 per cent off local authority current expenditure would be to go back on the objective in the last Public Expenditure White Paper.

iii. If England and Wales were to be cut by 1.6 per cent then Scotland could demand similar treatment and that would lose a further £10 million.

8. The Secretary of State for Education remains firmly of the view that further cuts on the schools programme would mean going back on the Government's commitment to maintain and improve the quality of education. You will recall that he won some support last week for this view, partly on the grounds that further cuts would be unfair to those local authorities who have given their full co-operation so far in reducing and controlling their budgets. On the other hand, the Chief Secretary and the Secretary of State for the Environment believe that the cuts could be made without reducing the quality of teaching.

9. If the Cabinet does not agree to the full cuts falling on education, the available solutions are either to spread the pain as in column 7 of the Chief Secretary's table or to impose a uniform cut on all programmes under the 'column 7' option. The education programme would still have to find cuts of £39 million. Full spreading of the load would reduce the cut in education to £33 million, but would impose eg a cut of £8 million on the police. On the face of it the cuts on the other services are relatively modest. The main objection to them, which you will wish to probe, is that they could be unrealistic if there is already a probability of overspending on those services. The alleged threat by the Secretary of State for the Environment to withdraw his offer to cut £65 million from his housing and other programmes is probably a negotiating ploy, and you may not wish to give too much weight to it.

CONCLUSIONS

10. To enable a statement to be made before the Recess on the total reduction, the Cabinet must decide now where the savings will be made.

In the light of the discussion, and on the assumption that the decision to reduce local authority current expenditure by 2 per cent stands, you will wish to record:-

Either that the education programme should be reduced as proposed by the Chief Secretary, Treasury

or that the necessary cuts should be spread over other local services, either as in column 7 of the Annex to C(80) 48 or in some other way acceptable to the Ministers concerned.



ROBERT ARMSTRONG

30 July 1980