

*Original in G/Loom*

cc DOE  
William Owen  
Fred Mulley  
Roy Mason

BK



*CF to note*

10 DOWNING STREET

THE PRIME MINISTER

6 December 1979

*Dear Committee Members,*

Thank you for your letter of 28 November.

I note that you criticise our plans for public expenditure by comparing them with the plans of the Labour Government. However, these plans were quite unrealistic and would have had to be cut whichever Government was in power. What we have done is to stabilise the level of public expenditure over the three years 1978/79 to 1980/81. This was essential. The country simply cannot afford continued growth in public expenditure at a time when there is no growth in the economy. We should be living in a fool's paradise if we pretended otherwise.

We have asked local authorities to achieve a phased reduction in current expenditure of 2½% over two years. This will bring the volume of expenditure back to the 1977/78 level. The scale of reductions is rather less than the 2% in one year which the Labour Government required in 1976. We are also introducing measures which will give authorities the flexibility they need to concentrate their resources on the priority areas. This is

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This is scarcely the "attack on compassion" which you suggest.

I am afraid there is a misunderstanding about some of the figures you mentioned in the rate support grant settlement. The figure of £18.5 bn you mention is one estimate of what relevant expenditure might be at outturn prices. The settlement figures of £15.7 bn is of course at current (November 1979) prices. Relevant expenditure at outturn prices will inevitably be higher, and as usual we will pay additional grant to local authorities in respect of pay and price changes subject to cash limits. These are compatible with year-on-year price rises affecting local authorities of 13%, plus an allowance for outstanding comparability awards; they are fair and realistic. We have not repeated the mistakes of the Labour Government, whose quite implausible pay and price assumptions last year created such grave problems for local government.

The rate support grant settlement we announced on 16 November combines stability in distribution with a sensible approach to the problem of inflation. We now look to local authorities to play their part in the battle against inflation by negotiating moderate pay settlements, reducing costs and increasing efficiency so as to eliminate all unnecessary expenditure, and increasing rates by not a penny more than is absolutely necessary.

*Yours sincerely*

Councillor Roy Thwaites

*Raymond Thwaites*