



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

sent to Lushka
PRIME MINISTER

PUBLIC EXPENDITURE:- GUIDANCE TO LOCAL AUTHORITIES

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In the light of the Cabinet discussion on 26th July, I have now revised the draft statement to local authorities, consulting other colleagues concerned. The main changes are as follows:

(i) The list of "law and order" services (paragraph 4) has been extended to include the intermediate treatment of young offenders. I had wondered whether it was right to include court services, and would want to leave open the possibility of cutting back on the provision of new capital facilities for courts; but this sentence relates to current spending, and I am content to let it stand.

(ii) The passage on education, in paragraph 5, has been strengthened, to balance the promotion of higher standards of achievement in education (the Manifesto wording) against the proposed legislative changes in peripheral services.

(iii) The end of paragraph 6 asks authorities to review all their programmes, pointing out that quality does not automatically depend on level of spending.

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(iv) Paragraph 7, on capital spending, now warns the authorities that we shall be announcing further reductions (including housing) in the autumn.

(v) For later years (paragraph 8), again we decided to keep the statement general. This rules out any consultation with the local authorities on percentage "option" cuts; but there would have been little time for this before September, and we have decided to reconsider the whole question of publishing precise programme figures for the later years. So a general warning of continuing restraint seems the right line for this statement.

(vi) The final paragraph asks the associations to send the statement on to their members "in confidence". This is necessary if, as we agreed in Cabinet, the local authorities are to be guided by it in their planning - though of course, as we also recognised there will be leaks. I must emphasise the importance of getting the authorities to plan now to achieve the reduced level of spending next year. Therefore, if the associations were unwilling to forward the guidance to their members, I would have to ask that we should reconsider the alternative of a circular which would be the standard procedure.

2. The draft has been discussed at Ministerial and official level with the departments concerned, so that if you are content I hope it can be agreed for the Secretary of State for the Environment to use when he sees the local authorities on Tuesday, 31st July. A similar message is also being given to the Scottish local authorities. /x

3. I am sending copies of this minute to our Cabinet colleagues, and to Sir John Hunt.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

300 JUL 1979



pt attached to Minute
from Chf Exchequer to PM
dated 27 July 1979 on

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Public Expenditure - Guidance to
Local Authorities.

Y/

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. What I have to say to you now concerns England and Wales. The Secretary of State for Scotland has already been in touch with the Scottish local authorities, and his consultations with them are continuing.
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. For its part, the Government intends to seek certain legislative changes to give them more latitude in achieving the total. But the Government considers 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 £12,163 million. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80.
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

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would 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 and for intermediate treatment for young offenders should not undergo any reduction.

5. The Government was elected to promote higher standards of achievement in education. However, faced with the overriding need to contain public expenditure the Government recognises that spending on education services cannot be exempt. We intend to 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.

6. 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. In all the difficult decisions that local authorities are going to have to make the Government must point out that the quality of provision is not automatically dependent on the level of expenditure. Local authorities should review all their programmes in the light of local experience and need.

7. For local authority capital expenditure as a whole (including housing), the Government intends to announce further reductions when public expenditure plans are published in the autumn.

8. In planning for later years, local authorities should take account of the clear need to continue the policy of restraining public expenditure in the interests of curbing interest rates, holding down inflation and reducing the net tax burden.

9. The Government does not propose to issue this statement as a circular, but asks the associations to forward it to their members in confidence.

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30 JUL 1979

