

Ref: A05038

PRIME MINISTER

Local Authority Current Expenditure: Public Expenditure Survey Options
C(81) 28

BACKGROUND

On 7 May the Cabinet approved the Chancellor of the Exchequer's recommendations, in paragraph 19 of C(81) 20, for the guidelines for conducting the 1981 Public Expenditure Survey. In C(81) 28, the Secretary of State for the Environment argues that he should not be required to seek the views of local authorities on the consequences of 3 and 5 per cent options for reductions in 1982-83 and of 5 and 7½ per cent in the later years. Although he recognises that it is public knowledge (following a detailed article in the Financial Times) that the Government is examining these options across the board, he argues that the exercise should be conducted 'in-house'. He is, however, willing to let the local authorities have the provisional inflation assumptions.

2. You will recall that the Cabinet had a long discussion on the options for reductions which were to be identified. It was recognised that for some programmes the application of such cuts would be politically indefensible and impracticable, and that the very discussion of the options - particularly where it was necessary to discuss them with outside bodies - could create needless and damaging uncertainty and misunderstanding. It was, nevertheless, agreed that the possibilities should be analysed for every programme. The record of your summing up of the discussion makes the status of the exercise very clear:-

"Each Department should aim to identify realistic options for cuts, taking the opportunity to review the possibilities for radical changes and for the cutting out of main functions, and to bring out fully the implications of making the cuts identified. It should be clearly understood that the level of the costed options which were to be identified did not in any way represent a view by the Cabinet of the reductions in public expenditure which it might wish to make. The object of the present exercise was no more than to provide the Cabinet with a comprehensive analysis on which it could draw later in the year when it came to its substantive discussions of the public expenditure programmes."



It is true that the Cabinet did not specifically discuss whether local authorities should be given the range of options (as distinct from the inflation assumptions). It is equally true that the Secretary of State for the Environment did not seek to make the point that they should not be consulted or that they should be to any degree exempt from the exercise.

3. There can be no question of allowing any exemption for local authority expenditure in the preliminary analysis of possible cuts. The question is whether the local authorities themselves should be consulted on possible cuts in local authority current expenditure or whether the exercise should be carried out in-house. It will be necessary to adopt the same procedure for England, Wales and Scotland. In paragraph 2 of C(81) 28 the Secretary of State for the Environment argues against consultation on the grounds that, following the threatened withdrawal of £450 million grants for 1981-82, any substantial reductions in the later years would be unrealistic and that discussion of them would be provocative both to the Government's supporters and to opponents in local government.

4. The Chief Secretary, Treasury, the Secretary of State for Wales and the Secretary of State for Education and Science (each in letters dated 29 May) have all argued strongly that the local authority expenditure groups should be consulted. They point out that the local authorities are aware of the options exercise and argue that, while they will undoubtedly strongly oppose the application of such cuts, they would be highly critical of the Government if, contrary to usual practice, they were not consulted. As the Secretary of State for Wales puts it, 'an appearance of dark scheming in our own closet will do nothing to help our relationship with the local authorities'. The Chief Secretary has made the further point that he would be most reluctant to give the erroneous impression that any area of public expenditure was exempt from the options exercise.

HANDLING

5. You will want to keep discussion of this question short and to avoid any attempt either to re-open the decisions already taken on the public expenditure guidelines or to pre-judge the substantive discussions which the Cabinet will be having later in the year. After the Secretary of State for the Environment

Yes
CS
Ed
Tr.Env. No
Soc Services
Aff.
Sc.
Ch. D. H.
HooarFolkes
Army

has introduced his paper you might ask the Chief Secretary, Treasury, and the Secretaries of State for Wales and for Education and Science to say whether they confirm the line they have taken in correspondence. You might then ask whether any other Minister supports the views of the Secretary of State for the Environment on this issue - in particular you will wish to know how the Secretary of State for Scotland wishes to deal with his authorities and to hear the advice of the other Ministers with local authority responsibilities - the Home Secretary and the Secretaries of State for Social Services and for Transport.

6. If it were to be agreed that for the local authorities the exercise should be conducted in-house, I suggest that you should make very clear that this does not imply any exemption from the general requirement to identify the full range of option cuts.

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions:

either that the Secretaries of State for the Environment, for Wales and for Scotland, should consult their local authority associations forthwith on the agreed options for reductions;

or that they should conduct the exercises in-house.



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10 June 1981