

A05301

PRIME MINISTERLocal Authorities' Current Expenditure 1982-83

C(81) 38

C(81) 40

BACKGROUND

The Chief Secretary (C(81) 38) and the Secretary of State for the Environment (C(81) 40) both propose that the local authorities should be given guidance before the summer break about the Government's plans for their current expenditure in 1982-83. They disagree about what should be said, in particular about the extent to which, in translating into cash the volume plans in the last Public Expenditure White Paper (Cmnd 8175) the Government will allow for ("validate") the extent to which increases in the prices and wages paid by local authorities between 1980-81 and 1981-82 have outrun the 1981-82 cash limit factors.

2. The two key elements in the background to this discussion are the continuing battle to restrain local authority expenditure and the introduction of cash planning for the 1981 Public Expenditure Survey (PES).

3. In real terms local authority expenditure in 1981-82 is likely to be 3-4 per cent above the level indicated in the last Public Expenditure White Paper, which shows a further reduction of 1 per cent between 1981-82 and 1982-83. The Secretaries of State for the Environment and Scotland are currently taking steps to try and restrain expenditure this year; the Ministerial Committee on Economic Strategy will be considering in September their proposals for any withholding of grants in 1981-82 and for further possible ways of influencing local authority expenditure in the medium term (capping the industrial rate, supplementary rates subject to referenda/re-election and so on).

4. Previously the Government's plans for local authority current expenditure would have been set in constant price terms and, before the next RSG settlement, expenditure planned for 1982-83 would have been revalued by factors broadly consistent with the actual pay and price increases experienced by local authorities between 1980-81 and 1981-82; revaluation, that is, would have "validated" whatever level of pay and price increases took place.



Under the new cash planning system the Government's plans have been converted to cash by revaluing by predetermined cash factors (6 per cent for pay and 11 per cent for prices between 1980-81 and 1981-82 and, provisionally, 7 per cent between 1981-82 and 1982-83). There is a presumption that, under cash planning, public expenditure plans will not automatically be increased if pay and prices go up by more than the predetermined cash factors allowed for. In other words the new system carries forward any cash squeeze in a current year unless there is a specific decision to mitigate or remove this effect by admitting an additional bid for more cash.

5. The Chief Secretary proposes that the local authorities should be told that the Government will not take final decisions on cash programmes before the autumn, when the inflation factors for 1982-83 will be reviewed and programmes as a whole considered further. Meanwhile, local authorities should work on the assumption that the cash total for current expenditure in 1982-83 which will be included in the Government's plans and used in the RSG settlement will be derived by revaluing the White Paper figures to 81-82 prices using the 11 per cent and 6 per cent cash limit factors agreed for this year's RSG and cash limits; and then revalued forward to 1982-83 using the 7 per cent factor provisionally adopted and used in this year's PES discussions with local authorities. Since local authority pay and prices are likely to increase between 1980-81 and 1981-82 by 2-3 per cent more than the cash limit factors this would mean that, to meet the Government's targets for 1982-83, local authorities would have to reduce the volume of their spending by another 2-3 per cent on top of the volume reductions referred to in paragraph 3 above. In total the Chief Secretary's proposals, therefore, imply a volume reduction of about 7 per cent between actual local authority expenditure this year and the Government's plans for next year - or constant expenditure in cash terms. The Chief Secretary suggests that any bids to modify the effects of his proposal should be considered in the autumn together with other public expenditure bids; in other words, he would be prepared to consider adding something back at that stage.



6. The Secretary of State for the Environment argues that even those local authorities which have previously done all the Government have asked to restrain expenditure would regard as unrealistic cuts of the scale implied by the Chief Secretary's paper. He suggests that a statement on the lines proposed by the Chief Secretary might be counterproductive; and that the Government should set its sights no higher than achieving the 4 per cent volume saving already set out in Cmnd 8175, with the cash totals for planned public expenditure increased fully to allow for pay and price increases which have already occurred. He proposes that he should tell the local authorities that they should plan in 1982-83 for the volume of expenditure set out in Cmnd 8175 expenditure White Paper and give as good guidance as possible at this stage about future increases in pay and prices.

HANDLING

7. After the Chief Secretary and the Secretary of State for the Environment have introduced their papers you will wish to invite comments from the other Ministers with responsibilities for local authority expenditure: the Secretaries of State for Scotland, Wales, Education, Social Services and Transport and the Home Secretary. Most of them are likely to support the Secretary of State for the Environment's proposal.

8. If it is accepted that some guidance must be given before the Recess there are three options for discussion -

(i) The Chief Secretary's proposal. Would this course be counter-productive and impede the Government's attempts to hold down local authority expenditure? It would lead to a less generous RSG settlement: would that increase the pressure on local authorities to hold down expenditure, or would they simply raise rates still higher?

(ii) The Secretary of State for the Environment's proposal. You will want to explore further Treasury Ministers' objections to this course. What is their answer to the Secretary of State for the Environment's suggestion (paragraph 5 of C(81) 40) that full validation could be accepted in the transitional year to cash planning and that imposing steep volume reductions as part of the move to cash planning would discredit the new system?



(iii) A compromise statement. The most defensible compromise, possible for this year only, might be to validate pay but not price increases, on the argument that local authorities have little control over prices but that the authorities themselves have said that they can find savings to accommodate pay increases in excess of the cash limit factors and can be held to that statement. (Pay accounts for about 2 per cent of the cash limits squeeze on local authorities this year, prices about 1 per cent). Treasury Ministers are likely to argue that less than full validation is unrealistic.

CONCLUSIONS

9. In the light of the discussion you will want to record conclusions on which of the three possibilities should be pursued.

10. If the Cabinet reaches agreement the Secretary of State for the Environment will wish to make a statement at the Consultative Council on Local Government Finance on 4 August. It will be for him to agree its terms with the other Ministers concerned. It would probably be appropriate for the Secretaries of State for Wales and Scotland to make similar statements: they could be asked to co-ordinate arrangements with the Secretary of State for the Environment.

11. If the view is taken that something must be said to local authorities before the summer break but agreement cannot be reached tomorrow you could invite the Secretary of State for the Environment in consultation with the Chief Secretary and the other Ministers concerned to agree on a formulation and, in the event of disagreement, to report back to Cabinet on 30 July.

A handwritten signature in dark ink, appearing to read 'R.A.' or 'R.A.A.', written in a cursive style.

ROBERT ARMSTRONG

22 July 1981