

Prime Minister



cy *Mc Lythen*

The Chief Secretary and Mr King (the Home Secretary was also present) have agreed the attached draft statement, which leaves open the contentious question of whether this year's cash limit squeeze should

PRIME MINISTER

Yes no

LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83 *be carried forward to 1982/83. Content?*

Following correspondence with the Minister for Local Government and Environmental Services I held a discussion yesterday with the Ministers directly concerned with local authorities to consider what guidance on expenditure next year might be given at the Consultative Council on 4 August.

12
317

2. The meeting came to the conclusion that a statement would be useful. We thought that it should reaffirm our present policies, leaving explicitly open the question of how far we shall carry forward into the 1982-83 plans the squeeze which will have occurred in 1981-82. Such a statement will help guide those sympathetic to our aims over the budget-making season and should therefore improve the prospects of compliance with our plans.

3. I attach the proposed draft of the statement. It is based in essence on one put forward by the Minister for Local Government, who will make it on Tuesday in the absence of the Secretary of State.

4. The Secretaries of State for Wales and for Scotland, do not propose to make comparable statements to their local authorities, but they will draw on this text in answering questions about our plans for next year.

5. You will see that the draft statement repeats the planned reductions in total local authority expenditure in Cmnd 8175 but qualifies them to the extent of the increased education expenditure, which you announced on 27 July, and the agreed allowance for the cost of recruiting police forces up to complements. The overall expenditure plans will therefore require rather smaller expenditure reductions (about 0.7% in 1982-83 and about 0.5% in 1983-84, compared to plans, not including the additional volume squeeze which may be imposed under cash planning). Since these specific increases relate only to police and education authorities, it seems more useful to repeat and confirm the aggregate reductions required of the generality of authorities.

6. Now that we have agreed the terms of the statement for Consultative Council, I do not think we need resume discussion of the Cabinet papers on this point, C(81)38 and 40. I accordingly withdraw mine and assume that the Secretary of State for the Environment will withdraw his. We can discuss the substantive issue of validation of 1981-82 inflation in the context of the public expenditure Survey in the autumn.

7. I am copying this letter to the Secretaries of State for Scotland, Wales, Social Services, Education and the Home Department, the Minister for Local Government and the Parliamentary Under Secretaries for Employment and for Transport, with whom I discussed the statement yesterday. I am also sending copies to the members of the Cabinet who were not at my meeting and to Sir Robert Armstrong.

T. Matless

for LEON BRITTAN

[Approved by the Chief Secretary
and signed in his absence]

31 July 1981

CONFIDENTIAL

LOCAL AUTHORITY EXPENDITURE : ENGLAND
DRAFT STATEMENT BY THE MINISTER FOR LOCAL GOVERNMENT AND
ENVIRONMENTAL SERVICES TO CONSULTATIVE COUNCIL, 4 AUGUST

The original budgets of local authorities in England for current expenditure in 1981-82 show that they were budgetting to spend 5.3% above the level provided for in the Government's public expenditure plan. On 2 June the Secretary of State for the Environment asked authorities to revise their budgets by the end of July. He said that if the results were not satisfactory he would have to consider reducing the total of grant in the current year, and that further measures to bring home the consequences of high spending might have to be taken for future years. Some authorities have now submitted their revised budgets, but the returns are not yet complete and it is too soon to take a view on them. The Secretary of State will make a full statement on this in the autumn.

2. Local authorities are now beginning to plan their budgets for 1982-83. It may therefore be helpful to give a preliminary indication of the Government's view of the prospects for local authority expenditure in that year. The most recent Public Expenditure White Paper (Cmnd 8175) set out the Government's present expenditure plans for the years 1981-82 to 1983-84, which envisaged a fall in the volume of total local authority current expenditure of 1% in 1982-83, from the level which the Government had planned for 1981-82 and a further reduction of $\frac{1}{2}$ to 1% in 1983-84. Apart from the additional education provision announced by the Prime Minister on 27 July and allowance for increased police recruitment within authorised establishments, local authorities should plan on the assumption that the present review of public expenditure will not allow for any significant increase in the Government's planned volume of current expenditure by local authorities for 1982-83. This means that, subject to these additions, local authorities as a whole in England should draw up their budgets for 198²~~1~~-83 at a level which will eliminate the budgeted volume excess for 198~~1~~²-82 referred to in paragraph 1 above and which will deliver the further 1% volume cut.

3. As announced by the Chancellor in his budget speech, the Government intends that public expenditure planning should be on a cash basis from 1982-83. Cash planning means that we no longer automatically adjust future plans every year to make good any difference between the cash factors assumed in the previous RSG settlement and the actual movement of pay and prices. How far there should be an adjustment for this in the RSG settlement for 1982-83 is accordingly a question to be decided in the autumn.

4. The cash figures are presently being calculated on the underlying assumption that public sector costs on average will be 7% higher in 1982-83 than was assumed for pay and prices in the RSG settlement for 1981-82. This inflation factor will be reviewed in the autumn. I would emphasise that the 7% factor is for pay and prices combined; and on pay, I would reiterate now what the Chancellor said in Birmingham on 26 June: pay settlements must be considerably below the current level.

5. I have given you the best general indication I can at this stage of the scale of cuts which the Government considers necessary from local authorities as a whole. I recognise of course that the reductions required for 1982-83 will not be easy, and it may be necessary later to announce expenditure targets for individual authorities.

6. The Government's expenditure plans will be less difficult to achieve next year to the extent that authorities succeed in reducing their expenditure this year. But they will still require faster manpower reductions than achieved so far, and reductions in other areas of expenditure as well.