

*Local Gov*

Ref. A0 5641

PRIME MINISTER

Local Authority Current Expenditure 1982-83  
(C(81)48)

## BACKGROUND

In C(81)48 the Secretary of State for the Environment makes proposals for dealing with local authority current expenditure in 1982-83. His paper follows a meeting he held with the Chief Secretary and with Ministers from all the Departments concerned with local authority expenditure; they are in general agreement with his recommendations.

2. The problem is that to conform with present public expenditure plans the English local authorities would have to cut their current expenditure in 1982-83 by at least 7 per cent from the likely outturn for 1981-82:  $3\frac{1}{2}$  per cent to eliminate likely volume overspend in 1981-82; 3 per cent because their pay and price increases in 1981-82 were higher than the cash limit factors for the year (the "validation" problem);  $\frac{1}{2}$  per cent to achieve further reductions assumed in the Public Expenditure White Paper.

3. All the Ministers concerned judge that it is totally unrealistic to expect reductions of 7 per cent. The maximum year on year reductions ever achieved by English local authorities overall is 3 per cent. 7 per cent is an average and some local authorities would have to make substantially bigger savings. 70 per cent of local authority current costs are for manpower; a 7 per cent cut implies a manpower reduction of about 150,000 in a year compared with the present annual rate of reduction of 40,000 (see Annex B).

4. Ministers further agree that it would be unwise to stick willy nilly to 7 per cent in the knowledge that it is an unrealistic target but in the hope that it would keep some pressure on the local authorities. Public expenditure ceilings, assuming the 7 per cent cut, would certainly be broken and the next Public Expenditure White Paper could be discredited. They think that the local authorities will be much more likely to respond to targets which they regard as tough but not wholly unrealistic and impracticable.





5. Ministers judge that the reality is that the maximum reductions which could be looked for are either 3 per cent or 4 per cent, implying increases over the present total cash planning figure of £17,050 million of £700 million and £500 million respectively. They recommend, however, that for the moment, and for internal purposes, the three alternatives of 7, 4 and 3 should all be kept in play. The Secretary of State for the Environment, without revealing these figures, will open discussions with local Government leaders about the means of securing the maximum feasible reductions next year; a firm decision would be taken in the light of those consultations.

6. In the meantime officials, under the Treasury, need to advise further on how any increase in cash provision might be apportioned between the different services - education and transport and so on. Separately from that, the Chief Secretary will need to reach agreement with the Secretaries of State for Scotland, Wales and Northern Ireland on precisely how similar adjustments, to those proposed for England, should be made for the three other countries. The additions could total about £200 million. In these discussions he will need to take account of the point made by the Secretary of State for Wales in his letter of 23 September - that virtue must not appear to be penalised. But the Cabinet will not be in a position to settle the details of the Welsh arrangement.

7. It is essential that the momentum should be kept up on this work. Unless the Rate Support Grant can be settled before Christmas, there will be serious difficulties for the passage of the Bill to give effect to the interim measures on the rates: the RSG settlement needs to be made before the various limits on supplementary rates can be calculated. Working back from the target of an RSG settlement in mid-December, firm decisions will be needed no later than the 20 October Cabinet confirming the totals of local authority current expenditure and also their distribution between programmes. I suggest that you should invite the Home Secretary to chair any collective Ministerial discussions which may be necessary in your absence, and to do so with a view to making as much progress as possible. An appropriate forum would be his MISC 21 Group which annually reports to Cabinet on the details of the RSG settlement.





8. The Ministers concerned attach a good deal of importance to the presentation of these decisions. They strongly advise that when the decision is made public it should be in terms of a cash adjustment for 1982-83 alone which takes account of the latest position on local authority expenditure overall. There would be no specific mention of validation; this is important if a key part of the cash planning system is not to be discredited in the first year, and in order to discourage any notion, which would be damaging in the coming pay negotiations, that the Government is soft on local authority pay and willing to condone excessive settlements. The decision would be presented in the context of the wider measures on rates which the Government is taking to deal with high spending local authorities. Treasury Ministers will be anxious to take care that it is not seen as a relaxation of the Government's public expenditure and monetary stance.

## HANDLING

9. After the Secretary of State for the Environment has introduced his paper you might ask the Chief Secretary to respond. The other Ministers concerned with local authority expenditure will probably wish to comment but, given the meeting which has already taken place, there should not be a need for long or detailed discussion.

## CONCLUSIONS

10. You will wish to sum up with reference to the conclusions listed in paragraph 22 of C(81)48 and, subject to the points made in discussion -

1. Authorise the Secretary of State for the Environment to pursue his discussions with local authority leaders on the basis he proposes.
2. Invite the Chief Secretary, Treasury -
  - a. to arrange for officials of the Departments concerned to examine how any increase in cash provision might be apportioned between programmes;





b. to discuss with the Secretaries of State for Scotland, Wales and Northern Ireland how any 'matching adjustments' should be calculated for their programmes.

3. Invite the Home Secretary to convene meetings of his MISC 21 Group to resolve any questions which require collective Ministerial discussion and with a view to reaching as much agreement as possible in advance of the next meeting of the Cabinet on 20 October.

A handwritten signature in dark ink, appearing to read 'RCA', is positioned above the printed name.

ROBERT ARMSTRONG

23 September 1981