



Seen by the  
Prime Minister  
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The note:  
The Chancellor may  
want to discuss

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

his note v. v.

PRIME MINISTER

(Final draft of Mr. Brittain's  
paper for Cabinet  
is attached.)

12/15

CABINET ON 23 JULY: LOCAL AUTHORITY CURRENT EXPENDITURE 1982-83

With my minute of 15 July, in addition to the draft of my own main paper I sent you a draft of the Chief Secretary's paper about Local Authorities Current Expenditure in 1982-83. We looked at it together in the police pay context earlier today.

2. This will come before Cabinet on 23 July. I understand that there is likely to be some opposition from some of the Ministers concerned with local authorities expenditure. In the light of indications of their views, the Chief Secretary and I have modified our proposal to a certain degree, as in the revised draft paper annexed to this minute. But we still expect opposition.

3. The difficulty centres round the formula for revaluing the volume programmes in the last White Paper. As explained in the paper, in accordance with the agreed and intended principles of cash planning, both here and for revaluing programmes generally, the Treasury will apply the agreed inflation factor for next year over this (at present 7 per cent) to the intended cash provision for the current year, that is, the old White Paper figures at 1979 prices revalued by the agreed cash factors for this year over last (6 per cent for pay, 11 per cent for non pay). Previously the volume figures would have been revalued to the prices of the current year by the full amount of any actual price change. The new system thus carries forward any cash squeeze in the current year unless there is a specific decision to mitigate or remove this effect by admitting an additional bid for more cash. This is exactly what we intended: it removes a weakness of the old system which you have yourself criticised.



4. In the case of local authority expenditure there is - not least because of the cost of their pay bill - a cash squeeze this year, which the new system would carry forward unless we take an explicit decision to mitigate it.

5. The Education and Environment Secretaries are pressing for full revaluation, with no carry forward of cash squeeze, to be conceded now. The Chief Secretary and I are sure that this would be wrong. It cuts across one of the intended benefits of cash planning and would quickly spread to other departments. We are, however, prepared to concede that in this, as in other cases, a bid for additional funds can be made and argued out along with other bids in the general survey discussions in September and October. We therefore suggest that the assumptions given to local authorities now should be described as provisional.

6. I fear that this will not satisfy the other Ministers. The Environment Secretary may circulate a counter paper. I am sure we should go no further. It will have to be argued out at Cabinet. We may have a chance to discuss it ahead of that on the way back from Ottawa. But I thought I should let you know now of the change in our proposal.

7. I am copying this to Sir Robert Armstrong.

*Peter Jenkins*

for (G.H.)  
17 July 1981

(Approved by the Chancellor of the Exchequer and signed in his absence).

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REVISED DRAFT (17.7.81)

LOCAL AUTHORITIES' CURRENT EXPENDITURE 1982-83

Note by Chief Secretary, Treasury

The Chancellor's paper C(81) discusses our general approach to the public expenditure Survey. This note is about an immediate decision concerning local authorities' spending plans.

2. It will be helpful to give local authorities early guidance as to our intentions for their current spending next year 1982-83, which will be reflected in the Rate Support Grant negotiations later. Guidance given before the summer holidays will have more influence on actual spending next year than would a statement delayed until the autumn. For England and Wales coming meetings of the Consultative Councils are suitable opportunities.
3. Despite the conditional reductions in Rate Support Grant, local authorities are likely to overspend the March White Paper plans for relevant current expenditure for the current year 1981-82 by at least £1 billion. Political opposition to further cuts is increasing. The further powers to influence local authority expenditure which we have discussed in E Committee will not take effect before 1983-84.
4. We therefore have to recognise that total local authority expenditure next year is likely to be higher than whatever we may decide to put into the calculations of Rate Support Grant and into the next White Paper. The issue is how we can best influence local authorities to bring their expenditure down towards the levels which we want.
5. If we say nothing now, local authorities will continue their preparation of plans and budgets in many cases on the assumption that the Government's intentions are the volume plans in the last White Paper, which show a reduction of 1% between 1981-82 and 1982-83.

In fact, of course, the change to cash planning, and associated methods of revaluation, are designed to carry forward a cash squeeze from one year to the next, unless it is specifically decided to admit a bid to make it good. We now expect a cash squeeze of 2-3% for local authorities in the current year because actual increases between 1980-81 and 1981-82 in their pay and prices are proving to be more than the cash limit factors for this year.

6. We should accept bids for making good such a cash squeeze only in exceptional cases, and not for the generality of local authority expenditure. The greater part of this year's squeeze for the authorities will result from pay settlements which they have made, accepting the consequences for this year. In these circumstances it is right to carry this squeeze forward to next year.

7. My proposal is that we should inform local authorities now that this year's decisions on the cash programmes will not be taken before the autumn. The inflation factors for 1982-83 will be reviewed then, and the cash programmes as a whole considered further by the Government. Meanwhile in any planning currently taking place local authorities should work on the provisional assumption that the cash total for current expenditure used for calculating the RSG will probably be not more than the <sup>total</sup> cash equivalent of the programmes in the March White Paper, revalued on the formula agreed by Cabinet for starting this year's survey. The White Paper figures at autumn 1980 prices are converted to 1981-82 prices using the factors (11 per cent and 6 per cent) agreed for this year's RSG and cash limits, and then revalued forward for 1982-83 using for the present the single 7 per cent factor which we have provisionally adopted and used in our Survey discussions with local authorities. The 7 per cent is subject to revision in the autumn to the extent of any general revision of inflation factors for 1982-83 which may then be decided by Cabinet. The present calculation would allow 6% more cash for 1982-83 than the figure used in the RSG settlements for 1981-82.

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9. This guidance should give local authorities practical advice without prejudicing our September and October decisions, including those on bids, if any, to make good carry-forward of the squeeze.

10. There is a case for special allowance for the extra cost of the prospective 1981 police pay settlement (say £90 million) and of allowing police forces to recruit up to complement (£25 million). To announce this now would recognise our priority for the police service without abandoning the discipline of cash planning.

11. The general stance indicated by my proposal is designedly tough. Because of the overspend in the current year, if local authorities actually kept their cash spend next year to the level proposed, they would spend no more cash next year than this year. This would imply that on present estimates they should reduce their current spending next year in volume terms by some 7 per cent, that is 3-4 per cent to eliminate the 3-4 per cent volume excess in 1981-82, the Government's already intended volume reduction of 1 per cent between 1981-82 and 1982-83 as shown in the White Paper, and 2-3 per cent for the carry forward of the cash squeeze.

12. While in general we ought to be aiming below the March White Paper figures, in the case of local authorities current spending I doubt whether specifying now a further cut in the White Paper figures beyond the carry forward of this year's squeeze would help to get actual spending down.

13. The question of bids to modify the effect of carrying forward the squeeze, and whether we can afford them in the context of our decisions as a whole, will be for further discussion in the autumn.

Conclusion

14. I therefore invite Cabinet to ask the Secretaries of State for the Environment, for Scotland and for Wales to give guidance to local authorities on the basis set out in paragraphs 7 and 10.