

Prime Minister
Mr Heseltine raises a tricky issue,
given local govt reaction to this
week's announcement. Would you
like to discuss with the Chancellor
5 June 1981
before replying?
MAJ SL



Prime Minister

LOCAL AUTHORITY EXPENDITURE: PESC OPTIONS

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I should be grateful for your advice on how to take forward an issue which has arisen since Cabinet discussed the 1981 PESC guidelines on 7 May. You may recall that the Chancellor's paper (C(81)20 para 19.iv) proposed that "this provisional working assumption should be given to local authority expenditure groups." This provisional working assumption was, of course, the inflation factor.

In the discussion on the paper this point was not raised. The record of the summing up, however, records Cabinet agreement to all the Chancellor's proposals.

I am now being asked - by the Chief Secretary and other colleagues - to release to the LA Associations not only the inflation assumption - which I am quite content with - but also to seek local authority views on the consequences of the 3% and 5% options in 1982/83 and the 5% and 7% options for later years.

In my view, this would be quite wrong. First, the Cabinet did not discuss the view that local authorities should be given the range of options. Second, in present circumstances, to invite local authority reactions to proposals for a further reduction in their current spending, going as far as an additional 7%, would provoke an explosion, with our own supporters in the vanguard. For example, given that local government is now 8% over the top in cash terms, a further 5% would imply a 13% reduction between years. We could not expect a sensible response. We would stir up the most immense opposition, for no useful purpose. Third, the release of the options to local government would enable the pressure groups to marshal their forces sooner rather than later: special pleading to Ministers would then be repeated in the Cabinet discussion which we shall be having, making realistic cuts that much more difficult.

I believe that we should commit a major political error in asking local government to consider these options now (though I recognise that the fact that the Government is looking at these options reductions across the board is already public knowledge). I believe after my announcement this week that it will make our task in actually reducing expenditure more difficult. The reaction is difficult enough as it is and to throw into this climate the feeling that even if our shire county colleagues do much of what we have now asked we are then going to push them into cuts of the scale envisaged could simply have the effect of persuading them to give up trying to find even our present targets. I have discussed this - on a political rather than Departmental basis - with Willie Whitelaw and Francis Pym, and am therefore copying this to them. If it is your view that Cabinet has agreed to release the options and that this would be the right course on which now to embark, I will, of course, authorise the release to the local authority Associations of a paper detailing the options. If you feel that further collective discussion would be of value, I would gladly circulate a short note or letter.

I tend to share MH's view and
providing the Chancellor agrees recommend
the options be NOT released.

MH