

Prime Minister

CONFIDENTIAL

cc A. Waller
A. Duquid

(2)

I understand that the Chief Secretary is likely to agree - reluctantly on grounds of realism - with the 3% reduction. This will



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28 October 1981

Prime Minister have to come back to

Cabinet in the public expenditure context. No need for you to react immediately. M/S 29/10

Cabinet agreed on 24 September that a final decision on the provision to be made for local government current expenditure in 1982-83 would be taken in the light of my further discussions with local authority leaders about the prospects for further reductions (CC(81)32nd, Minute 4). Meanwhile work on the RSG settlement was to proceed on three alternative assumptions of real reductions of 7% (as implied in our present plans), 4% and 3%. (In this context "current expenditure" excludes housing. Housing raises separate issues which I am taking up separately).

Several of my colleagues have attended these meetings and I can only report in all fairness that whilst the associations are prepared to criticise aspects of our policies there is no possibility of a constructive dialogue about alternatives. As time has passed and as I have increased the pressure they concede more and more openly that there is no purpose in a discussion of alternatives because they are in no position to deliver any deal even if they could agree one.

Independently therefore we have begun to work through the RSG settlement procedures using the assumption that the most we could argue as possible is 3%. I am now about to put the first exemplifications to colleagues in MISC 21. We face very difficult decisions.

Cabinet agreed on 24 September that we should aim for an RSG settlement before Christmas. Whether we succeed in having the settlement before Christmas will depend partly on the speed with which we can reach final decisions on public expenditure.

As soon as possible before the settlement itself, we need to give local authorities the clearest possible statement of our intentions for next year, in order to influence the budgets which they are now preparing. We made a general statement to the Consultative Council on 4 August. I would like to follow this up by making a further statement about the overall cash provision to be allowed for local authority current expenditure next year. I am not yet in a position to do this and will not be until I can see my way through the RSG settlement clearly. It may be appropriate for the Home Secretary to report to you further after the first meeting of MISC 21 but, failing that, I will write again setting out my proposals.

I am sending copies of this minute to other members of the Cabinet and to Sir Robert Armstrong.

W. J. H.

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