



HS

Local Government

10 DOWNING STREET

From the Private Secretary

12 June 1980

Dear David,

Local Authority Current Expenditure 1980-81

The Prime Minister has considered your Secretary of State's minute of 11 June and the draft circular which he enclosed with it. She has also seen the Secretary of State for Education's minute of the same date.

The Prime Minister agrees that the circular should go out to the local authorities as soon as possible. She does not think there is any point of principle involved in Mr. Carlisle's comment on paragraph 3 of the draft, and therefore she would like this paragraph to be included as it stands. She assumes that Ministers will have an opportunity to consider the options for subsequent action at a later date.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet, including the Minister of Transport, and to David Wright (Cabinet Office).

*[Handwritten initials]*

*[Handwritten signature: Tim Laker]*

D.A. Edmonds, Esq.,  
Department of the Environment.

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CONFIDENTIAL

Prime Minister



As there is no point of principle involved in Mr Carlisle's comments - para 3 - I think the circular should go out as is Prime Minister as soon as possible:

I assume further consideration will be given about the "sanctions" Mr Heslop & Mr Lyburn.

Mr Heslop (and the Treasury) are very keen for the attached draft circular to go out before the weekend - so that the local authorities can't complain that they aren't being given enough time to prepare revised budgets. In case spending Dept

LOCAL AUTHORITY CURRENT EXPENDITURE 1980-81

such as DES \* try to hold it up, can I lend your support Yes. for this? (Decisions on subsequent action can be taken later).

1. At the Consultative Council on Local Government on 3 June the local authority associations accepted the need to issue a circular to call for revised budgets in the light of the 'raw' budgeted excess of 5.6% above the Government's plans. (E(80)17th and CC(80)22nd refer). In the event, the Labour leadership of the Association of Metropolitan Authorities (AMA) felt unable to give explicit endorsement in the Circular to the call for revised budgets. I considered whether to issue a circular endorsed only by the Conservative-controlled associations but have concluded that it would be inadvisable. Our own supporters in local government would feel that they were being asked to bear all the burden of making cuts while Labour could regard it as a victory over the Government. I intend therefore to issue a circular without reference to the views of the associations. This will in practice enable me to toughen the wording of the circular (copy attached).

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CONFIDENTIAL

\* Mr Carlisle has now minuted (see Flag A). I don't agree with him but para 3 of the draft be omitted. Shall I say that you want it kept in? 12



2. I am also considering the practicability of giving individual authorities an indication of their actual expenditure in 1978/79 as a benchmark against which to compare their expenditure plans for 1980-81. This could give them a clearer understanding of what is required to achieve the 2% reduction in real terms between 1978/79 and 1980/81 which our plans require.

3. I also suggest, that after issue of the circular, we should maintain pressure by Ministerial speeches and I suggest that it is important that all Ministers responsible for local government services should take part; by further private talks with the Leaders of the Conservative-controlled associations; and by the official level discussions with the associations primarily about the improvement of the RER (paragraph 6 of E(80)42 refers).

#### SUBSEQUENT ACTION

4. I have also now reviewed what steps we might take if the revised budgets do not show a satisfactory reduction in the raw budgeted excess - a reduction from 5.6% to around 3% would suggest that local government was trying to get back on target. I suggest that we should proceed as follows.



5. First we cannot rule out a cut in the Rate Support Grant Increase Order 1980/81, despite the fact that it would be unselective and indirect in the effect (paragraph 7 of E(80)42 refers.) I will report to colleagues in due course on proposals concerning use of transitional arrangements under Rate Support Grant in 1980/81 (paragraph 11 of E(80)42 refers).

6. Secondly, I suggest that we should consider (a) the imposition in August/September of a 'blanket' moratorium on all further local government capital schemes (ie education, housing, local environmental services, transport and personal social services) and the urban programme, for the remainder of 1980/81; and/or (b) the reduction of the capital allocations to be made next autumn for 1981/82 'pro rata' for all authorities (i) whatever seems to be the probable current expenditure volume excess in 1980/81: and (ii) a further sum against receipts of the RER for 1981/82 next May in case those returns suggest a volume excess in that year.

7. I recognise that to trade-off an increase in current expenditure against a decrease in capital expenditure would re-inforce a long established and very undesirable trend; it would be harsh because it would be unselective; and there



would be a very considerable political cost. On the other hand, our existing and proposed controls over capital expenditure are the only means by which we can directly influence the totality of local government volume. I suggest therefore that officials be commissioned to study and report on these proposals by early next month.

8. Thirdly, we might consider going beyond measures to influence current expenditure globally and seek direct control, which can only operate at the level of the individual authority. We should then be heading for a major confrontation with local government. Nevertheless we must now seriously consider this option: the question is, will it work?

9. The imposition of an overall control on the current expenditure of all authorities - which is what would be needed to guarantee the achievement of volume targets - is clearly not on, and has been rejected by colleagues (E(80)17th). But we might consider whether an approach that involved direct control in a few of the worst-offending authorities, and which could be extended, would have a useful exemplary effect. This would involve an arrangement for current expenditure analogous to our proposals for controlling capital expenditure



where only those authorities whose expenditure exceeded some predetermined level would be subject to special controls. This would require new legislation.

10. There are obvious difficulties. The "volume excess" figures we have are unsatisfactory, and we might have to use the RSG needs assessment figures which are constructed on a different basis. Some councils affected would probably refuse outright to co-operate so that we should have to take over the direction of the whole range of local authority functions (not merely a specific activity as at Clay Cross), and in some cases we could not count on the assistance of the officers of the authority.

11. Action of this sort might be popular, but involves a major constitutional change and serious practical difficulties. I am asking my officials to examine the issues quickly and prepare a further paper outlining the scope for action, so that we can take a considered decision.

12. Unless I hear otherwise from colleagues by lunchtime on Thursday 12 June, I propose to issue the circular by the end of this week and that we should proceed with further work on the lines set out above.



13. I am copying this minute to other members of the Cabinet and to Norman Fowler and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'M. H.', written in a cursive style.

MH

11 June 1980

DRAFT CIRCULAR LETTER TO LOCAL AUTHORITIES IN ENGLAND AND WALES

LOCAL AUTHORITY CURRENT EXPENDITURE 1980/81

1. The purpose of this circular letter is to request all local authorities to revise their current expenditure plans for 1980/81 to bring them into line with the Government's expenditure plans and to send new returns to the Department of the Environment by 1 August 1980.
2. The information contained in the latest returns of local authority expenditure and rates in England and Wales (RER 81) indicates that in 1980/81 local authorities are planning for a volume of current expenditure 5.6% higher than the targets envisaged in the Rate Support Grant (RSG) settlement made in November 1979. The Government considers that on past experience this points to a significant and unacceptable excess volume of current expenditure over the Government's plans even when allowance is made for a tendency for budget estimates to exceed out-turn.
3. The targets for current expenditure set at the time of the RSG settlement established a figure 2% lower in real terms than actual expenditure incurred in 1978/79. To the extent that any local authority does not plan for a reduction of at least 2% in this baseline, then it will impose a need for proportionately greater reductions by other authorities in order to meet the Government's plans for the aggregate volume of current expenditure by local government in 1980/81.
4. The cornerstone of the present voluntary relationship between central and local government is that local government keeps its overall expenditure within the guidelines for public expenditure set by central government. The Government attaches great importance to this joint approach. This does, however, demand a degree of co-operation and responsibility on the part of all authorities. If local government were to fail to meet the Government's plans for the volume of local authority current expenditure, then it would be necessary for the Government to consider other means of



achieving its objectives. The Government believes however that local authorities will respond positively to this request for revised current expenditure plans.

5. Some authorities have already begun to review their budgets, but it is essential that the expenditure plans of all authorities for all services in 1980-81, bearing in mind the priority which the Government wish to be given to law and order services, should now be reviewed so that the overall total of local authority current expenditure is brought into line with the agreed volume provided for in the RSG settlement.

6. In revising their expenditure projections, local authorities will need to look particularly carefully at their manpower requirements. Expenditure on wages and salaries accounts for around 70% of gross current expenditure. The Government does not believe that local authorities will be able to achieve and sustain the reductions in current expenditure implied by its public expenditure plans without more substantial reductions in manpower than have been achieved or planned so far. Every authority should further consider the scope for staff saving. Particularly, every authority should exercise the tightest control by elected representatives of recruitment policies and procedures.

#### FURTHER ACTION

7. The Government will examine the information in the revised budget returns in the context of preparations for the RSG settlement and capital expenditure allocations to be announced in November.

#### BACKGROUND

8. Since taking office the Government has therefore taken the following steps in relation to local authority expenditure:

- (i) in Circular 21/79 authorities were asked to freeze recruitment wherever possible and reduce their volume of current expenditure in 1979/80 by 3% below that envisaged in the November 1978 RSG settlement - ie roughly 1% below outturn for 1978/79;

(ii) in his statement of 31 July 1979, the Secretary of State for the Environment announced that the volume of local authority current expenditure in England and Wales in 1980-81 should be 1% below the revised volume set for 1979-80 ie 2% below the actual volume of current expenditure in 1979/80. Details were embodied in the public expenditure White Paper of November 1979 (Cmnd 7746);

(iii) in the following public expenditure White Paper of March 1980 (Cmnd 7841) the Government reaffirmed the volume target for 1980-81 and indicated that the total volume of local authority current expenditure is expected to fall by about 2% in 1981/82, 1% in 1982/83 and 1% in 1983/84.

#### LIKELY OUTTURN

1979-80

9. The returns show current expenditure for 1979/80 about £300m (November 1978 prices) below authorities original budgets. But those budgets represented a significant (3½%) planned increase above the level of the original RSG settlement and imply current expenditure 1% above the original RSG settlement level and therefore 4% above the target set by the Government in Circular 21/79. This means that what might be seen as a cut of £300m could actually be a 1% increase. On the basis of past experience the actual outturn should be lower than these revised estimates imply but the Government consider that the actual outturn for 1979/80 will be around the level of the original settlement and therefore substantially above the revised targets. To the extent that local authorities have failed to achieve in 1979/80 the 1% reduction in real terms from 1978/79, then the whole of <sup>the</sup> 2% reduction should be achieved to meet the 1980/81 target.

1980-81

10. As already explained the budgets for 1980-81 show that local authorities are planning in aggregate for a volume of current expenditure 5.6% (£700m at November 1979 prices) above that provided for in the RSG settlement. It is these figures that must be significantly reduced. They are well above the margin by which local authority budget estimates have in recent years exceeded the volume envisaged in RSG settlements.

## ADDITIONAL RETURNS

11. Local authorities are therefore asked to re-examine urgently the volume of their net current expenditure projections for 1980/81, including the income from fees and charges which they expect to receive in that year, and to submit revised plans. Forms and detailed guidance on their completion will be provided separately in the next few days. They should be returned by 1 August 1980.

12. Local authorities should note that current expenditure is broadly defined as expenditure on wages, salaries, goods and services, net of income from fees and charges. Therefore reductions in revenue contributions to capital outlay, loan charges and rate fund contributions to housing revenue accounts cannot be counted towards the Government's target for reductions in current expenditure. Details of how current expenditure is defined for the purposes of the RSG will be included with the RER forms for the revised budgets to be sent to authorities.

13. Enquiries about this letter should be addressed to Mr L B Hicks (01-212 4717) and about the forms for the revised budgets to Mr C Warren (01-212 4475).

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SECRETARY OF STATE FOR THE ENVIRONMENT

LOCAL AUTHORITY EXPENDITURE 1980-81

As the Minister responsible for largest single local government service, which accounts for half of its total current expenditure, I should like to comment on your minute of today to the Prime Minister.

I agree with you that we should seek to eliminate any prospective overspending this year, a point that I will stress when I speak to the ACC on 2 July. But I wonder if paragraph 3 of the draft circular might not be better omitted. It does not seem to add anything to the message we want to get across; yet by implying that all authorities, whatever their needs and responsibilities and past record of spending, should make the same cut in their 1978-79 figures, we run the risk of antagonising our friends in the ACC, many of whom have done their best to respond to our call for economy.

I also have two points on your list of suggestions for possible future action.

- i. A blanket cut in the RSG cash limit would be inappropriate both for the reason given (which I entirely endorse) in E (80) 42 and because of your assurance to the Consultative Council on 21 November that, variations in interest rates apart, it was firm and that the Government intended that there should be no further adjustment to it.
- ii. A blanket moratorium on all new capital schemes from August to March would mean, in relation to schools required to provide extra places where the population is still growing, that we might make it impossible for local authorities to meet their statutory obligations.

These two issues, and the concern that you yourself express about the effect of your proposals on central/local relations, seem to me to justify very early discussion at Ministerial level.

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

*Mark Carlisle*

PP MARK CARLISLE  
(Dictated by the Secretary of  
State and signed in his absence)  
11 June 1980

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*[Faint, illegible text and markings on the page]*