PREM19

20

ECONOMIC POLICY

(Public Spending)

(Part 3)

PREM 19/20

Part 3

SECRET

1973

155

MT

Confidential Filing

Public Expenditure & Cash limits.

ECONOMIC POLICY

Part 1: May 1979

Part 3: July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
3.7.79							
26.7.79							
30.7.79							
31.7.79							
1.8.79							
6.8.79							
10.8.79							
13.8.79							
29.8.79							

PREM 19/20

PART 3 ends:-

TL to HMT 29.8.79

PART 4 begins:-

S/S Env to CST 6.9.79.

~~C(79) 35 7.9.79~~

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(79) 5th Meeting, Minute 1	17/07/79
C(79) 30	17/07/79
C(79) 31	17/07/79
MISC 11(79) 4th Meeting, Minutes	17/07/79
CC(79) 10th Conclusions, Minute 4, Limited	19/07/79
Circulation Annexe	
MISC 11(79) 5th Meeting, Minutes	20/07/79
CC(79) 11th Conclusions, Limited Circulation Annex	23/07/79
MISC 11(79) 6th Meeting, Minutes	24/07/79
CC(79) 12th Conclusions, Minute 5	26/07/79

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed O'Wayland Date 24 October 2009

PREM Records Team

HCS

Econ Pol.

10 DOWNING STREET

From the Private Secretary

29 August 1979

Dear Roger.

The Prime Minister has read your letter of 28 August on the publication of the outturns for cash limits in 1978/79. She agrees in principle that there should be a White Paper setting out these outturns, and has noted that you will be circulating a draft in due course.

I am sending copies of this letter to the Private Secretaries to the members of the Cabinet and to Martin Vile (Cabinet Office).

Yours ever.

Tim Lankester.

R.J.T. Watts, Esq.,
H.M. Treasury.

HCS.

CONFIDENTIAL

Prime Minister 1

Agree that there should be a White Paper on Cash limit out-turn for 1978/79 to published in October? I can see no objection.

Yes agree

TL 28/8

Treasury Chambers, Parliament Street, SWIP 3AG

Tim Lankester Esq
No 10 Downing Street
LONDON
SW1

28 August 1979

Dear Tim

CASH LIMITS 1978-79: PUBLICATION OF OUTTURNS

You may recall that the previous Government published White Papers setting out the provisional outturns on the cash limits for 1976-77 and 1977-78.

In previous years the White Papers were published about the end of July or beginning of August after the close of the financial year. On this occasion there has been a delay in obtaining reliable figures for 1978-79 as a result of the effects of the civil service industrial action earlier this year. It would now be possible to publish a White Paper during the first week of October. We have always attached considerable importance to cash limits and the Chief Secretary considers it desirable to continue publishing these outturn White Papers. The figures for 1978-79 relate to a period when the previous Government was in Office and should excite little interest. About two weeks before publication we shall send the Prime Minister and other members of the Cabinet the draft White Paper, which will comprise only a short introductory text with accompanying tables.

I am copying this minute to the Private Secretaries of Members of Cabinet and to Martin Vile.

Yours sincerely

Roger Watts

R J T WATTS

CONFIDENTIAL

2

Econ Pol.

PRIME MINISTER

The Chancellor and the Home Secretary are "in discussion" about new capital for Magistrates Courts in the public expenditure context. The Home Secretary's letter at Flag A argues that the Manifesto priority for law and order covers the courts, as an integral part of the criminal justice system. In the Chancellor's absence, Mr. Biffen points out (Flag B) that the Magistrates Courts are doing quite well anyway but argues that the law and order priority does not cover the Courts to the same degree as police and prisons.

I bring this to your attention in case either the Chancellor or the Home Secretary tries to enlist your support during one of your private chats with them.

MAD

PHI.

23 August 1979

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon William Whitelaw CH MC MP
Secretary of State
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

22 August 1979

Dear Willie,

PUBLIC EXPENDITURE - MAGISTRATES COURTS

I am replying to your letter of 4 August to Geoffrey Howe commenting on the doubts which he had expressed in his minute of 27 July to the Prime Minister on the provision of new capital for magistrates' courts.

Present plans already provide for annual capital expenditure on these courts rising from some £6 or £7 million in 1980-81 to £15 million in 1982-83 and 1983-84. In addition, expenditure of about £30 million a year on the construction of Crown Courts will be undertaken as part of the Lord Chancellor's programme. The more serious criminal cases are tried at Crown Courts, so that this programme should make some contribution to the improvement in the position over cases in the lower courts. Moreover, as new Crown Courts become available under this programme, more of the old Assize Courts will be handed back to local authorities for use as magistrates' courts.

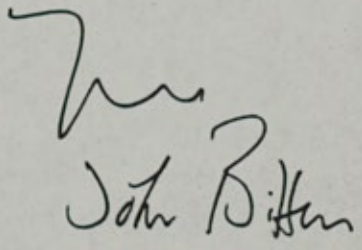
These are the considerations which led the Chancellor to express doubts about the need for more capital expenditure on a programme of new magistrates' courts. And even within the priority which has been accepted for current expenditure on magistrates' courts, it seems to me reasonable to look for some improvement in efficiency in handling cases in the existing court buildings.

We reached agreement on an addition of £5 million in your capital programme in 1980-81, to cover increase in police and probation building as well as magistrates' courts. I am prepared to recommend additions in later years in roughly the same proportions (about a third of your original bids) as follows:

1981-82	1982-83	1983-84
7	8	12

But I would not accept that the courts should have the same priority as the services directly concerned with crime detection and prevention (police and prisons) - though no doubt if more crime is detected this will add to the pressure on the courts. Hence I hope you will consider carefully whether such a large share of these additions should go to the courts as is (I understand) proposed for 1980-81.

I am sending copies of this letter to the recipients of yours.



JOHN BIFFEN

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

10 August, 1979

Dear David

PUBLIC EXPENDITURE 1980/81: GUIDANCE TO NATIONALISED INDUSTRIES

Thank you for your letter of 31st July in which you commented on paras 5 & 6 of my minute of 25th July to the Prime Minister. (These paragraphs dealt with nationalised industries although the minute was mostly concerned with local authorities.)

On the general point I don't think there is much between us. I fully recognise the case for telling the industries as soon as possible about our decisions so that they can plan investment sensibly. Indeed it was for that reason that I proposed they should be told about our decision on investment and financing for 1980/81 "before the end of the summer" i.e. this month. But I asked that this should be done in a way that preserves the option of using cash limits in a way that exerts pressure for responsible pay bargaining - a subject we are due to discuss in E Committee on 11th September. This proviso should not be difficult to meet and as I understand the second page of your letter you accept it.

In saying that we could not say much about the later years at this stage my point was that we had not yet taken final decisions about them. But as you know we shall be resuming our discussions in the middle of September and we should generally reach decisions soon after that - if not by the end of the month by mid-October. If so, we should at that point be able to give the industries guidance on the later years. But that guidance should in my view be about financing figures as well as the tapering percentages of investment plans. If in the event the investment figures cannot be accommodated within the planned financing figures, that will cause a public expenditure problem which we will have to consider at the time. But apart from that a financing problem may well indicate some change in the industry's circumstances, e.g. worsening performance and competitiveness or under-pricing, which may call for policy changes sometime including revision of investment plans (as in steel in 1978). So although there is, of course, a clear distinction between investment approvals

The Rt. Hon. David Howell, M.P.

and financing figures, I would not want to separate them too much in our exchanges with the industries.

On one point of fact. In your letter you say that "we have agreed in our coal strategy discussions to approve NCB's programme to 1982/83". My understanding of the point is that although it was agreed that the NCB should have a substantial investment programme no figures for investment or financing have yet been agreed for the years after 1980/81.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Industry, Trade, Environment and Scotland, the Minister of Transport and to Sir John Hunt.

Yours

Geoffrey

(GEOFFREY HOWE)


10 AUG 1979

CONFIDENTIAL TMW

10 August 1979

Public Expenditure Plans and Autumn Announcement

The Prime Minister has seen the Chancellor's minute of 9 August. She is content that he should proceed in the way proposed in paragraph 7 of that minute.

I am copying this letter to Martin Vile (Cabinet Office).

N.J. SANDERS

A.M.W. Battishill, Esq.,
H.M. Treasury.

CONFIDENTIAL

Prime Minister.

This seems a sensible way to proceed.

AWS. 9 viii

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

Agreed M.T.

PRIME MINISTER

PUBLIC EXPENDITURE PLANS AND AUTUMN ANNOUNCEMENT

Since our agreement in Cabinet that the revised public expenditure plans for 1980-81 should be announced after the recess, and in the context of a White Paper, I have been giving further thought to the form and timing the announcement might take and I thought it would be helpful to give you a broad indication of my present views before I depart on holiday at the end of this week. No decisions are required now, but there are a number of interlocking factors that complicate the timing and presentation and I think you will want to be aware of them.

2. In addition to the public expenditure plans themselves, we are statutorily required to publish the next Industry Act Forecast (covering the period up to the end of 1980 and including the PSBR for 1980-81) by about the end of November, and I shall need to announce the roll-forward of the current money supply target to next April at around the same time. Moreover, I am also considering the possibility of linking the announcement of the public expenditure figures to a quantified financial plan for the medium term.

(1) (2) (3)

3. Ideally all these decisions should be included in a comprehensive announcement so that our monetary and fiscal policies for both the short and the medium term can be presented on a consistent basis and seen to form part of a coherent overall economic strategy. The spending decisions for both 1980-81 and

later years would be justified in their proper economic context and closely related to prospects for the PSBR and our medium-term monetary objectives, whether or not we decide to express the latter in quantified terms.

4. I fear, however, that publication of a comprehensive document of this kind (which would be tantamount to an expanded Part I of the traditional Public Expenditure White Paper, with the detailed Parts 2-6 to follow separately at the end of the year) is unlikely to prove possible until a good deal later than I think we can reasonably defer announcement of the 1980-81 expenditure figures. The new short-term forecast on which the published Industry Act Forecast will be based will not be available until the end of the first week of October; and this itself will involve cutting some corners. And the new medium-term assessment, which will play an important part in determining the economic background to our medium-term expenditure and monetary proposals, cannot be completed until the outstanding public expenditure issues for the later years have themselves been settled by Cabinet - though I hope it will be possible to make a good deal of progress on this in advance of final Cabinet decisions.

5. Taking all these factors into account, and even allowing for the possibility of some reduction in the detail we provide on the public expenditure plans for the later years (I shall, as requested by Cabinet, be bringing forward a separate paper on this), I doubt very much whether we could publish a comprehensive White Paper embodying all the above decisions much, if anything, before the end of November. And this itself assumes that, following the meeting on 13th September, Cabinet will be able to complete the public expenditure decisions for the later years by about the middle of October at the latest, and not need to continue discussion into the last week of the month.

6. This seems to me to be much too late for announcing the 1980-81 figures. We shall be pressed hard to reveal our decisions for next year as soon as Parliament reassembles, and there are strong operational arguments for making the announcement as soon as we can after the recess.

7. What I have in mind, therefore, is a two stage presentation as follows:-

(i) End October/early November - a short White Paper incorporating the public expenditure figures for 1980-81 and the Industry Act Forecast. The White Paper would thus set the decisions in their immediate economic context and look forward to later publication of the medium-term plans.

(ii) December - a second White Paper containing the public expenditure plans for the later years, set in a medium-term economic context. This would also include as much as we decide is appropriate on medium-term financial and monetary objectives. If practicable this White Paper would also incorporate the detailed Parts 2-6 public expenditure information on individual programmes, but this will need further consideration in the light of our decisions on how much detail for the later years it is sensible to try to publish. Decisions on this can be left until somewhat later, but it would clearly be desirable, if possible, to embrace all the remaining public expenditure information in a single document.

I should like to leave open for the time being whether to announce the roll-forward of the monetary target in the first or the second White Paper.

8. I think that this is the most feasible option if we are to avoid delaying the 1980-81 figures and yet present our plans for that and the later years in their full economic context in a consistent way. A two-stage presentation of this kind is not, of course, as straightforward and clear cut as a single, unified publication. But in response to any criticisms that may arise we should be able to point out that we were providing more information about the economic prospect than any previous Government had done.

9. We shall, of course, need to review the possibilities as time progresses and be prepared to re-adjust if there are any unforeseen hold-ups. These could occur, for example, if there were serious delays in resolving in Cabinet the public expenditure issues for later years, or if the new forecasts or new economic events made it necessary to reconsider any of the decisions that we had already taken. But I hope that we can plan for the time being on the above basis and I am instructing my officials to make preparations accordingly. I shall, of course, bring these proposals formally to Cabinet when we resume business in September.

10. I am sending a copy of this minute to Sir John Hunt.

G.H.

(G.H.)

9 August 1979

SECRET

DS

24

9 August 1979

Public Expenditure Figures

The Prime Minister has seen and noted the Chancellor of the Exchequer's minute to her of 6 August setting out the total reductions in the public expenditure programmes for 1980-81.

I am copying this letter to Martin Vile (Cabinet Office).

NJS

Tony Battishill, Esq.,
HM Treasury.

SECRET

SECRET

(23)

2

PRIME MINISTER

To see

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

PRIME MINISTER

PUBLIC EXPENDITURE FIGURES

You may like to have on your return a completed "scorecard" of the cuts in programmes for 1980-81 as agreed by Cabinet. There are still one or two loose ends to be tied up, but I do not expect the picture shown by the attached table to change very much. The cuts amount to nearly £3.5 billion (nearly 5 per cent of the former programmes) plus a reduction of £0.3 billion in planned borrowing by the nationalised industries.

the (familiar) list attached MS

2. On top of that, Cabinet agreed to reduce the contingency reserve for 1980-81 to £750 million; and to aim at asset disposals of £½ billion, and savings of £150 million from the CSD exercise on staff savings.

So the total reductions are:-

	£ million at 1979 Survey prices
Reductions in programmes	3435
Reductions in nationalised industries' borrowing	300
Reduction in contingency reserve	777
Sales of assets	500
Target for civil service savings	150
TOTAL (rounded)	5160

/3. This

SECRET

3. This falls short of my original target of £6½ billion by £1340 million. On present estimates for 1979-80 (which are still very uncertain at this stage) it should mean that expenditure in 1980-81 will be about the same as, or a little lower than, 1979-80.

4. This does not of course mean that the ratio of expenditure to GDP will necessarily be similar in the two years. The relative price movement is currently expected to add ½ per cent to the real cost of public expenditure in 1980-81, as a consequence of the "catching-up" settlements in the public services. The ratio also depends on the movement of the GDP: if GDP falls in 1980-81, this will increase the proportion of GDP represented by public expenditure. It was for these reasons that I proposed reducing expenditure by £6½ billion.

early warning that public expenditure may still rise as a proportion of GDP from 79/80 to 80/81 - by 1½-2%??

5. Some of the programmes are affected by economic factors such as unemployment or interest rates. We will have to look at the estimates for these programmes again in the light of the autumn economic forecasts and there may be some further adjustment in them then.

6. I am copying this minute to Sir John Hunt.

GH.

(G.H.)
6 August, 1979

E. R.

PUBLIC EXPENDITURE

£ million at 1979 Survey Prices

	1979/80 post-budget plans	1980/81 "Cuts" on inherited plan	1980/81 Plans after "cuts" agreed
Defence	7,927	-115	8,062
Aid	956	-115	896
FCO (other)	311	- 13	295
EEC Budget	787	+236	1,023
MAFF	1,036	- 43	964
Forestry	65	- 5	57
Industry	1,004	-187	960
Trade	191	- 12	179
ECGD	-153	+170	170
Employment	1,096	-513	1,139
Energy	315	- 7	315
Transport	2,675	-250	2,422
Housing	4,592	-1000	4,266
PSA	343	- 54	332
DOE (other)	2,529	-225	2,501
Home Office	2,085	+ 24	2,151
Lord Chancellor	141	- 4	150
Education & Science	8,258	-437	7,966
Arts & Libraries	364	- 28	350
DHSS (Health and personal social services)	8,095	-203	8,136
DHSS (Social Security)	19,384	~~-222~~ -192	19,587
HMSO	99	- 10	90
COI	32	- 3	25
Scottish Office	3,845	~~-222~~* -256	3,770*
Welsh Office	1,152	~~-110~~* -107	1,201*
Northern Ireland	2,008	- ~~88~~* -90	1,942*
		TOTAL -3,436	

*The "cuts" for Scottish Office, Welsh Office and Northern Ireland still have to be finally settled - they will come back to Cabinet on Thursday.

SECRET

22

Reduce Exp

NBPM ✓ MS
at this stage

QUEEN ANNE'S GATE LONDON SW1H 9AT

4 August 1979

Dear Geoffrey

PUBLIC EXPENDITURE - GUIDANCE TO LOCAL AUTHORITIES

I was content with the wording of our statement of guidance, to which Local Authority Associations have now agreed to give the widest circulation.

I should just like to comment, however, on your minute of 27 July to the Prime Minister in which you express doubts about the provision of new capital for magistrates' courts.

The background to the need for some restoration of the capital programme for magistrates' courts was given in my Private Secretary's letter of 6 July to yours about the new courts building in Cardiff.

The courts are an integral part of the criminal justice system, and I am quite sure that we could not consistently declare a priority for "law and order" and select them for entrenchment. The delays in the criminal courts are already much longer than they should be and inadequate capital investment in the courts over the years, leaving us with too few courthouses and too many courts struggling to function in antiquated and inadequate buildings, is a contributory factor to delay and inefficiency. I had all this in mind in seeking, and obtaining, in MISC.11 and Cabinet, approval to a modest extension of our capital programme for law and order services for which I am responsible, including the magistrates' courts. I do hope there is no misunderstanding about this.

I am sending a copy of this letter to the Prime Minister, our other Cabinet colleagues and Sir John Hunt.

Yours ever

Willie

The Rt Hon Sir Geoffrey Howe QC MP

SECRET

Econ Pol.

4/45

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ 211 6402

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

3 August 1979

Dear John

NPC CONTRACTS FOR CDFR DESIGN AND PROJECT ENGINEERING

In your letter of 16 July you agreed to the extension of these contracts to cover the two-year period to the end of 1980/81, subject to my assuring you that the Department would still be able to achieve the extra 3 per cent cut in public expenditure which you proposed for that year in C(79)26.

Following the agreement by Cabinet to the proposals in C(79)31, I understand that the Treasury are not now pressing for this higher level of cuts from my Department, and I therefore propose to give the Atomic Energy Authority my agreement to the extension of the contracts for the longer period, as set out in my letter of 15 July.

I am copying this letter to the Prime Minister and to Sir John Hunt.

Yours ever

David

D A R Howell

2

PRIME MINISTER

The press treatment was indeed as successful as could have been hoped for - but the squeals will come when the detailed implications are worked out.

MS

PRIME MINISTER

LOCAL AUTHORITIES: PUBLIC EXPENDITURE REDUCTIONS

As we agreed at Cabinet on Thursday, together with John Biffen, Mark Carlisle, Patrick Jenkin, Norman Fowler, Nicholas Edwards, Tom King and John Stanley, I saw yesterday the leaders of the local authority Associations to explain to them the reductions in current expenditure we were looking for in 1980/81. I delivered the statement which had been agreed previously by colleagues.

The Associations were grateful for the advance warning of the 5% reduction and undertook to convey this to their members. Naturally, they expressed concern about the effects on services, while welcoming their new freedom to increase charges in certain areas. My judgement is that their reaction was not as hostile initially as might have been expected. Their statements to the press seem to have been fairly moderate.

It became clear during the meeting that they had already made arrangements to talk to the press. At least one press conference had been arranged. They specifically asked that the statement I had given them should be treated as a public document. In these circumstances, it was clearly not possible to maintain the "in confidence" treatment that we had discussed at Cabinet. I therefore agreed that they could release the terms of the statement. I also decided then to see the Press, and gave radio and television interviews which put our side of the case. This seems to have resulted in a balanced treatment of the announcement in the media.

I am copying this to Cabinet colleagues, Norman Fowler and Sir John Hunt.

MH

MH
1 August 1979

1. ~~MAP~~ to see
2. PA MS

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

31 July 1979

Dear John

Thank you for your letter of 25 June about my comment in Cabinet concerning the monitoring and control of local authority expenditure. A considerable framework exists for monitoring local authority current and capital expenditure of which I see from your letter you are now aware.

However, I have now agreed with my Permanent Secretary and Sir Derek Rayner to carry out a project with the objective of making the monitoring of our activities more effective. We are also to seek a cooperative local authority in order to see if we can achieve a similar exercise there.

Perhaps you will leave this in my hands now until I feel I have something constructive to report.

I am copying this letter to the recipients of yours.

Yours ever

Michael

MICHAEL HESELTINE

cc Local Authority Cabinets File.

The Rt Hon John Biffen MP

2 PPs ECon PM

NRPM at this stage

✓MS

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CONFIDENTIAL

Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

31 July 1979

Dear Geoffrey

PUBLIC EXPENDITURE 1980-81: GUIDANCE TO LOCAL AUTHORITIES AND OTHERS

Thank you for copying to me your minute of July 25 to the Prime Minister. Your suggestions in paras 5 & 6, for the nationalised industries, give me some difficulty.

In reaching conclusions about our approach to the industries, it may be helpful to bring out more clearly the distinction between:

(i) investment approvals - which have traditionally been given before the summer recess (on a tapering basis);

and (ii) the means by which these are to be financed - on which estimates have normally been published in the White Paper around the turn of the year, and one-year cash limits imposed each spring.

Given the basic requirements of planning and running their businesses, I do not believe we can keep the industries waiting long for investment approvals for either 1980-81, which, strictly speaking, we could give them now, or for the later years. In fact, they already have, from last year, 85% approval for 1980/81 and 70% for 1981/82 and we have agreed in our coal strategy discussions to approve NCB's programme to 1982/83. I really do not see that to proceed with investment approvals very soon after the holiday period would cause us any difficulty since it would not represent any foreclosing of options and, in particular, need not affect our desire to use cash limits as an

effective constraint on pay bargaining.

Your anxiety, presumably, is that investment commitments would eliminate one of the mechanisms within the cash limits whereby industries might absorb excessive pay settlements. But I do not see it so. If we give investment approval now it does not relieve the industries of the need to conduct pay negotiations responsibly and, if they do not, the fact that they are constrained by cash limits will simply mean that they are unable to afford the investment programme which we have approved. For my part I certainly would not wish to give the impression, by withholding early investment approval, that we had any doubts at all about the essential nature of energy investment for the future.

I shall of course, be reminding industries, in giving the investment approvals, of our determination to impose and hold firm cash limits, but I hope that we need not hold back the normal NI planning processes for the next three years for too long since they do not seem to conflict with our other objectives. I hope, therefore, that, in advance of our further consideration of public expenditure for the remaining PES years we can reach agreement - preferably by correspondence - on this limited issue in time to issue investment approval for the years 1980/81 - 1982/83 no later than the end of September.

I am copying this letter to the recipients of your minute.

Yours ever

David

D A R Howell

EF

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon John Biffen MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
London SW1

31 July 1979

Dear John,

PUBLIC EXPENDITURE PRESENTATION - TREATMENT OF CHILD BENEFIT

Thank you for your letter of 12 July. I am glad that we have been able to reach agreement on this matter.

I am pleased to note your intention to ensure that the Contingency Reserve for 1980 has sufficient margin to accommodate an uprating of child benefit, at least in line with prices in November of that year, should we agree collectively next spring that this is the right course.

I am copying this letter to the Prime Minister, Humphrey Atkins and Sir John Hunt.

Yours ever

Patrick

D 107991 400,000 7/76 904953

Econ Pol 21 XY 42

File No. .....

Department .....

Drafted by (Block Capitals) .....

Tel. Extn. .....

OUTWARD

TELEGRAM

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[TEXT]

FOLLOWING FOR WHITMORE, PRIME MINISTER'S PARTY, FROM SANDERS, 10 DOWNING STREET.

The Chancellor of the Exchequer has minuted the Prime Minister with a revised text of the statement on local authority expenditure, Mr. Heseltine wishes to use this at his meeting with the local authorities during the afternoon of Tuesday 31 July.

Glad to have approval for the revised draft to be used at that meeting.

Following is the text of the Chancellor's minute.

/In the light of

In the light of the Cabinet discussion on 26th July, I have now revised the draft statement to local authorities, consulting other colleagues concerned. The main changes are as follows:

(i) The list of "law and order" services (paragraph 4) has been extended to include the intermediate treatment of young offenders. I had wondered whether it was right to include court services, and would want to leave open the possibility of cutting back on the provision of new capital facilities for courts; but this sentence relates to current spending, and I am content to let it stand.

(ii) The passage on education, in paragraph 5, has been strengthened, to balance the promotion of higher standards of achievement in education (the Manifesto wording) against the proposed legislative changes in peripheral services.

(iii) The end of paragraph 6 asks authorities to review all their programmes, pointing out that quality does not automatically depend on level of spending.

/(vi)

SECRET

(iv) Paragraph 7, on capital spending, now warns the authorities that we shall be announcing further reductions (including housing) in the autumn.

(v) For later years (paragraph 8), again we decided to keep the statement general. This rules out any consultation with the local authorities on percentage "option" cuts; but there would have been little time for this before September, and we have decided to reconsider the whole question of publishing precise programme figures for the later years. So a general warning of continuing restraint seems the right line for this statement.

(vi) The final paragraph asks the associations to send the statement on to their members "in confidence". This is necessary if, as we agreed in Cabinet, the local authorities are to be guided by it in their planning - though of course, as we also recognised there will be leaks. I must emphasise the importance of getting the authorities to plan now to achieve the reduced level of spending next year. Therefore, if the associations were unwilling to forward the guidance to their members, I would have to ask that we should reconsider the alternative of a circular which would be the standard procedure.

2. The draft has been discussed at Ministerial and official level with the departments concerned, so that if you are content I hope it can be agreed for the Secretary of State for the Environment to use when he sees the local authorities on Tuesday, 31st July. A similar message is also being given to the Scottish local authorities.

/Following is the

Following is the text of the statement:

PUBLIC EXPENDITURE 1980-81

1. Ministers have been considering the public expenditure plans for 1980-81. Given the poor prospect for economic growth next year, world-wide and in the UK, there is a clear need to rein back the inherited plans for public spending. To implement these plans in full would have meant a rate of growth of public expenditure in volume terms, above the revised figures for the current year, of about 6 per cent. This is out of the question, and taken in conjunction with the substantial increases in public service pay, would have been wholly inconsisten with the Government's economic strategy. It would have meant adding to inflationary pressures and pushing up interest rates, and would have made some increase in the net tax burden inevitable.

2. The Government will announce its decisions on the whole range of programmes fo 1980-81 and later years in the autumn. However, the local authorities need to know now what the scale of cuts affecting them for 1980-81 will be, as they are planning their budgets now for that year. In considering the scale of reductions for next year, we have taken full account of the consultations with the local authorities on options for cuts of up to 7½ per cent, and the discussion in the Consultative Council on 9th July. What I have to say to you now concerns England and Wales. The Secretary of State for Scotland has already been in touch with the Scottish local authorities, and his consultations with them are continuing.

3. Within the overall need for spending reductions, the Government thinks it right to give local authorities the maximum freedom to decide on the allocation of funds in accordance with their own local spending priorities. For its part, the Government intends to seek certain legislative changes to give them more latitude in achieving the total. But the Government considers that local authorities should plan on the basis of a reduction of 5 per cent on the plans for current expenditure in Circular 15/79 for 1980-81 which amounted in total to £12,163 million. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80.

4. We shall want to discuss with you the most realistic allocation among individual services, but the total of relevant expenditure for Rate Support Grant

/would of course

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would of course need to be consistent with this overall level of current expenditure. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services and for intermediate treatment for young offenders should not undergo any reduction.

5. The Government was elected to promote higher standards of achievement in education. However, faced with the overriding need to contain public expenditure the Government recognises that spending on education services cannot be exempt. We intend to ask Parliament to relax the statutory obligation on local authorities to provide school milk and meals, and to remove the restrictions on charging for school transport, with a view to savings totalling well over £200 million in 1980-81.

6. We shall also ask Parliament to approve primary legislation to allow local authorities to charge for planning permissions, and to reduce the role of the counties in planning procedures; and secondary legislation to charge for the enforcement of building regulations, and amend the General Development Order. In all the difficult decisions that local authorities are going to have to make the Government must point out that the quality of provision is not automatically dependent on the level of expenditure. Local authorities should review all their programmes in the light of local experience and need.

7. For local authority capital expenditure as a whole (including housing), the Government intends to announce further reductions when public expenditure plans are published in the autumn.

8. In planning for later years, local authorities should take account of the clear need to continue the policy of restraining public expenditure in the interests of curbing interest rates, holding down inflation and reducing the net tax burden.

9. The Government does not propose to issue this statement as a circular, but asks the associations to forward it to their members in confidence.

NJS.
30/7/79.

10 DOWNING STREET

From the Private Secretary

MR. VILE
CABINET OFFICE

Public Expenditure

The Prime Minister has seen Sir John Hunt's minute of 27 July (A066).

She is content that the Chief Secretary's paper should be taken at Cabinet on 13 September, and not on 30 August and would be grateful if the programme could be adjusted accordingly.

N. J. SANDERS

30 July 1979

SECRET

20

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

Sent to Lusaka

PRIME MINISTER

PUBLIC EXPENDITURE:- GUIDANCE TO LOCAL AUTHORITIES

X/

In the light of the Cabinet discussion on 26th July, I have now revised the draft statement to local authorities, consulting other colleagues concerned. The main changes are as follows:

(i) The list of "law and order" services (paragraph 4) has been extended to include the intermediate treatment of young offenders. I had wondered whether it was right to include court services, and would want to leave open the possibility of cutting back on the provision of new capital facilities for courts; but this sentence relates to current spending, and I am content to let it stand.

(ii) The passage on education, in paragraph 5, has been strengthened, to balance the promotion of higher standards of achievement in education (the Manifesto wording) against the proposed legislative changes in peripheral services.

(iii) The end of paragraph 6 asks authorities to review all their programmes, pointing out that quality does not automatically depend on level of spending.

/(vi)

SECRET

(iv) Paragraph 7, on capital spending, now warns the authorities that we shall be announcing further reductions (including housing) in the autumn.

(v) For later years (paragraph 8), again we decided to keep the statement general. This rules out any consultation with the local authorities on percentage "option" cuts; but there would have been little time for this before September, and we have decided to reconsider the whole question of publishing precise programme figures for the later years. So a general warning of continuing restraint seems the right line for this statement.

(vi) The final paragraph asks the associations to send the statement on to their members "in confidence". This is necessary if, as we agreed in Cabinet, the local authorities are to be guided by it in their planning - though of course, as we also recognised there will be leaks. I must emphasise the importance of getting the authorities to plan now to achieve the reduced level of spending next year. Therefore, if the associations were unwilling to forward the guidance to their members, I would have to ask that we should reconsider the alternative of a circular which would be the standard procedure.

2. The draft has been discussed at Ministerial and official level with the departments concerned, so that if you are content I hope it can be agreed for the Secretary of State for the Environment to use when he sees the local authorities on Tuesday, 31st July. A similar message is also being given to the Scottish local authorities.

3. I am sending copies of this minute to our Cabinet colleagues, and to Sir John Hunt.

(G.H.)

Pt attach to Minute from Ch/Exchequer to PM dated 27 July 1979 on Public Expenditure - Guidance to Local Authorities.

SECRET

Y/

PUBLIC EXPENDITURE 1980-81

1. Ministers have been considering the public expenditure plans for 1980-81. Given the poor prospect for economic growth next year, world-wide and in the UK, there is a clear need to rein back the inherited plans for public spending. To implement these plans in full would have meant a rate of growth of public expenditure in volume terms, above the revised figures for the current year, of about 6 per cent. This is out of the question, and taken in conjunction with the substantial increases in public service pay, would have been wholly inconsistent with the Government's economic strategy. It would have meant adding to inflationary pressures and pushing up interest rates, and would have made some increase in the net tax burden inevitable.

2. The Government will announce its decisions on the whole range of programmes for 1980-81 and later years in the autumn. However, the local authorities need to know now what the scale of cuts affecting them for 1980-81 will be, as they are planning their budgets now for that year. In considering the scale of reductions for next year, we have taken full account of the consultations with the local authorities on options for cuts of up to $7\frac{1}{2}$ per cent, and the discussion in the Consultative Council on 9th July. What I have to say to you now concerns England and Wales. The Secretary of State for Scotland has already been in touch with the Scottish local authorities, and his consultations with them are continuing.

3. Within the overall need for spending reductions, the Government thinks it right to give local authorities the maximum freedom to decide on the allocation of funds in accordance with their own local spending priorities. For its part, the Government intends to seek certain legislative changes to give them more latitude in achieving the total. But the Government considers that local authorities should plan on the basis of a reduction of 5 per cent on the plans for current expenditure in Circular 15/79 for 1980-81 which amounted in total to £12,163 million. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80.

4. We shall want to discuss with you the most realistic allocation among individual services, but the total of relevant expenditure for Rate Support Grant

would of course need to be consistent with this overall level of current expenditure. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services and for intermediate treatment for young offenders should not undergo any reduction.

5. The Government was elected to promote higher standards of achievement in education. However, faced with the overriding need to contain public expenditure the Government recognises that spending on education services cannot be exempt. We intend to ask Parliament to relax the statutory obligation on local authorities to provide school milk and meals, and to remove the restrictions on charging for school transport, with a view to savings totalling well over £200 million in 1980-81.

6. We shall also ask Parliament to approve primary legislation to allow local authorities to charge for planning permissions, and to reduce the role of the counties in planning procedures; and secondary legislation to charge for the enforcement of building regulations, and amend the General Development Order. In all the difficult decisions that local authorities are going to have to make the Government must point out that the quality of provision is not automatically dependent on the level of expenditure. Local authorities should review all their programmes in the light of local experience and need.

7. For local authority capital expenditure as a whole (including housing), the Government intends to announce further reductions when public expenditure plans are published in the autumn.

8. In planning for later years, local authorities should take account of the clear need to continue the policy of restraining public expenditure in the interests of curbing interest rates, holding down inflation and reducing the net tax burden.

9. The Government does not propose to issue this statement as a circular, but asks the associations to forward it to their members in confidence.

Prime Minister 1

Agree that the Chief Secretary's paper on the case for abandoning 5-year spending plans be taken on 13 Sept, not 30 August? In view of Ministerial absences on 30 Aug, this seems only sensible.

Ref: A066

PRIME MINISTER

Yes

Public Expenditure

There is one point which it would be helpful if you could consider before your departure for Lusaka. 27/7

2. At Cabinet yesterday the Secretary of State for Trade suggested that there was no reason for continuing to publish a Five-year Public Expenditure White Paper. You were attracted to this idea and asked the Chief Secretary to prepare a note about it which, you said, might be considered at the Cabinet meeting on 30th August.

3. I think this is something well worth considering. Successive Governments have found that Five-year White Papers create hostages to fortune: and particularly when the growth in resources cannot be accurately forecast there is great danger in tying oneself down to firm figures so many years ahead. We all know how wide are the margins of error. On the other hand, this would not only mean abandoning the Plowden concept, which has been strongly endorsed by successive Select Committees on expenditure, of controlling public expenditure over a Five-year cycle. It would also involve problems with programmes that have long lead times, like defence and electricity. Unless without a fair degree of control over the later years it would be much harder to influence these programmes. One possibility would, of course, be to retain the Five-year examination for internal purposes but not to publish a Five-year White Paper, though one can see difficulties about this also.

4. You said yesterday that members of the Cabinet who were on official visits or still on holiday need not return for the Cabinet on 30th August. The discussion about whether to abandon the Five-year White Paper will however be a very important one: and on present plans some of the big spenders will still be away. Absentees will include the Home Secretary, the Secretary of State for Defence, the Lord President, the Secretary of State for Education and the Chief Secretary himself (although the Chancellor should be there).

I suggest therefore that it would be more sensible to postpone discussion of the Chief Secretary's paper until the Cabinet resumes its discussion of the later years on 13th September (by which time those concerned will all be back). It is just arguable that this runs the risk of some nugatory work in the Treasury on the later years if the Cabinet decided to scrap the Five-year system. But it seems to me that some kind of planning decisions for internal purposes would still be needed, even on a provisional basis: and I doubt whether anything would be lost by taking both matters together on 13th September.

5. If you agree I will inform the Treasury and adjust the programme accordingly.

(John Hunt)

27th July, 1979

CONFIDENTIAL

NBPM
MJS

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

27 July 1979

Dear David,

PUBLIC EXPENDITURE AND MORTGAGE TAX RELIEF

In your letter of 20 July, you recorded your Secretary of State's suggestion that the withdrawal of higher rate mortgage tax relief should count against the reductions agreed on the Housing Programme. Cabinet did, I understand, discuss this on Monday but did not favour it. This letter is simply to record that in consequence, the Chancellor does not propose to proceed any further with your Secretary of State's suggestion in the context of the present public expenditure exercise. You will no doubt also have seen the Prime Minister's written reply to Mr. Bob Cryer of today's date.

I am copying this letter to the recipients of yours.

Yours ever,

(M. A. HALL)
Private Secretary

D. Edmonds, Esq.,

(DOE)

CONFIDENTIAL

SECRET

19

V/MS

PA

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for Social
Services
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
London SE1

27 July 1979

Dear Secretary of State

SOCIAL SECURITY PROGRAMME 1980/81

I am replying to your letter to the Chancellor of 25 July about the record of Monday's Cabinet.

I agree that there has been some arithmetical confusion here, and that the figure which results from the detailed decision we took on Monday should read £192 million, not £222 million. Accordingly I am for my part content that notwithstanding the record the savings on social security 1980/81 should be scored at £192 million.

I am copying this letter to the Prime Minister, our Cabinet colleagues and to Sir John Hunt.

Yours sincerely

Asline

pp JOHN BIFFEN
(Approved by the Chief Secretary and signed in his absence)

SECRET

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Hansard	25/07/79
Columns 601-604	Public Expenditure

Signed C Wayland Date 24 October 2009

PREM Records Team

Original filed Statistics June 79 (Standard of living index)

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I suggest you might raise the following issues at your meeting tomorrow:

(i) Public attitudes on pay determination

We need decisions on how the two campaigns suggested by Sir Keith Joseph should be implemented. My separate note at Flag A makes some suggestions.

(ii) The new tax and price index

The Chancellor's minute at Flag B proposes that, provided the figures come out alright, the new index should be announced on 17 August - the day the July RPI figure comes out. As the minute points out, there certainly seem to be some snags in this new index; but on balance, I think it will be worth introducing. Over the coming pay round it ought to be helpful, and we have virtually said that such an index will be introduced. A final decision is not needed now: this can wait until the final figures have been worked out immediately on your return from Lusaka.

(iii) Public expenditure

I attach a break-down of the reduced plans for Department of Employment expenditure (Flag C). This shows that expenditure on the Manpower Services Commission will still increase significantly in 1980/81. If we need some further savings to finance an electricity discount scheme in the winter, this programme would be worth looking at. At Flag D are public expenditure by programme index numbers going back to 1974-75 which you might like to glance at.

The Chancellor may wish to raise with you his handling of publicity after his meeting with the TUC Economic Committee tomorrow. He is thinking of going on TV and radio to explain the Government's position on public expenditure. This seems an excellent idea: we can be sure that Len Murray will use the media to criticise the Government.

TL

25 July 1979

CF. M. 12 May

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
COGPEC Mr Ridley
Mr Farman Mr Cardona
GECS

GROWTH OF PUBLIC EXPENDITURE PROGRAMMES

You asked for figures showing the growth of programmes from 1970-71. I attach two tables. Table 1 gives the figures at 1979 Survey prices. Since we only have figures at 1979 Survey prices going back to 1974-75, I attach a second table showing movements since 1970-71 in index form.

2. The second table highlights the rapid growth of employment, housing (current), social security, Northern Ireland and, recently, overseas aid.

3. We have made adjustments to remove the most important sources of distortion - eg sales of BP shares, the change from child tax allowances to child benefit. These are explained in the notes.

4. The figures for 1979-80 are highly provisional. They include the cuts announced in the Budget and Departments' estimates of the effect of the cash limits squeeze; but the extent of the squeeze can only be an estimate as yet.

5. The figures for 1980-81 include the cuts agreed by the Cabinet. Neither they, nor the 1979-80 figures, include allowance for sales of assets.

6. A further point is that there is usually some underspending. This is included in the years up to 1978-79 because they are outturn figures. Apart from the cash limits squeeze in 1979-80, allowance is not made for it in the programme figures for 1979-80

and 1980-81, which are therefore a bit higher in relation to the earlier years than they will turn out in practice.

7. You should be aware that the cut of £222 million agreed by Cabinet for the Social Security programme will have to come down to £192 million, reducing our grand total of cuts in 1980-81 by £30 million. The figure of £222 million double-counted the £30 million for reduction in fraud. The adjustment has been made in these figures.

F.E.R.B.

F E R BUTLER
25 July 1979

PUBLIC EXPENDITURE BY PROGRAMME : 1974-75 to 1980-81

£m at 1979 SURVEY FIGURES

	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
1. Defence	7462	7830	7721	7550	7479	7827	8062
2. Overseas aid	628	699	671	718	786	790	782
EEC contributions	-13	16	281	632	760	789	1096
Other overseas services(1)	397	412	393	379	400	444	410
3. Agriculture, fisheries, food and forestry	2377	2172	1352	1035	863	964	849
4. Trade, industry and energy(2)	1795	2230	1920	1676	1679	1667	1582
Employment	416	644	853	1036	1110	1096	1139
5. Government lending to NIs	2575	2220	1918	771	1132	750	450
6. Roads and transport	3814	3918	3509	3017	3003	3191	2910
7. Housing							
Capital	4829	3887	3651	3013	2713	2763	2200
Current	2312	2398	2600	2499	2657	2736	2897
8. Other environmental services	3539	3687	3346	3264	3325	3285	3287
9. Law, order and protective services	2172	2311	2352	2284	2390	2452	2536
10. Education and science, arts and libraries	9584	9756	9722	9362	9567	9611	9258
11. Health and personal social services	8326	8634	8713	8775	9048	9155	9183
12. Social security(3)	14146	15333	15774	16350	17668	18443	18677
13. Other public services	947	1068	996	963	964	997	1018
14. Common services	971	1064	1063	1029	1055	1085	1098
15. Northern Ireland(3)	2004	2095	2106	2080	2243	2225	2139
Total programmes	68281	70374	68941	66437			

/See notes

PUBLIC EXPENDITURE BY PROGRAMME : INDEX NUMBERS (1974-75 = 100)

	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81
1. Defence	104.6	106.1	103.8	102.2	100.0	104.9	103.5	101.2	100.2	104.9	108.0
2. Overseas Aid	95.2	107.7	112.8	103.2	100.0	111.3	106.8	114.3	125.2	125.8	124.5
EEC contributions	..	..	..	..	..	..	..	..	..	..	..
Other overseas services (1)	101.6	102.6	103.9	102.3	100.0	103.8	99.0	95.5	100.8	111.8	103.3
3. Agriculture, fisheries, food and forestry	43.1	48.9	43.2	51.2	100.0	91.4	56.9	43.5	36.3	40.6	35.7
4. Trade, industry and energy (2)	63.8	76.2	68.5	97.1	100.0	124.2	107.0	93.4	93.5	92.9	88.1
Employment	91.5	99.5	113.3	92.2	100.0	154.8	205.0	249.0	266.8	263.5	273.8
5. Government lending to NIs					100.0	86.2	74.5	29.9	44.0	29.1	17.5
6. Roads and transport	82.1	79.2	84.7	90.0	100.0	102.7	92.0	79.1	78.7	83.7	76.3
7. Housing											
Capital	73.0	63.2	59.3	73.9	100.0	80.3	75.6	62.4	56.2	57.2	45.6
Current	43.7	41.1	54.1	78.0	100.0	103.7	112.5	108.1	114.9	118.3	125.3
8. Other environmental services	88.8	90.4	96.5	103.3	100.0	104.2	94.5	92.2	94.0	92.8	92.9
9. Law, order and protective services	81.7	87.8	88.8	94.1	100.0	106.4	108.3	105.2	110.0	112.9	116.8
10. Education & Science, arts and libraries	83.1	89.0	95.0	99.6	100.0	101.8	101.4	97.7	99.8	100.3	96.6
11. Health and personal social services	83.8	87.1	93.0	97.6	100.0	103.7	104.6	105.4	108.7	110.0	110.3
12. Social security (3)	84.8	90.0	95.1	94.2	100.0	108.4	111.5	115.6	124.9	130.4	132.0
13. Other public services	82.7	89.2	120.5	93.4	100.0	112.8	105.2	101.7	101.8	105.3	107.5
14. Common services	89.9	96.0	98.9	100.1	100.0	109.6	109.5	106.0	108.7	111.7	113.1
15. Northern Ireland (3)	63.9	66.9	74.6	84.6	100.0	104.5	105.1	103.8	111.9	111.0	106.7

/See notes

NOTES

(1) Excludes Crown Agents and Sterling Area Guarantees.

(2) Excludes investment grants; compensation for price restraint for nationalised industries; refinance of export and shipbuilding credits; sales of BP shares.

(3) Includes net cost of child benefit.

S E C R E T

~~16~~ 17

EMPLOYMENT AND TRAINING PROGRAMME

£m 1979 Survey prices

	1. Programme Total	1977-78	1978-79	1979-80	1980-81
A.	Inherited Plans [Percentage Increase]	1036	1110 [+ 7.1]	1300 [+17.1]	1652 [+27.0]
B.	Following budget cuts and Cabinet on 19 July	-	-	1096	1139
C.	Cut B on A			- 204	- 513
D.	[Percentage cut B on A]			[-15.7]	[- 31.1]

	2. Inherited Plans				
A.	Manpower Services Commission (excludes Special Temporary Employment Programme)	469	518	656	701
B.	Department of Employment Special Measures	277	308	344	639
C.	Other	290	284	300	312
	[TOTAL	1036	1110	1300	1652]

	3. Reduced Plans		
A.	Manpower Services Commission	564	600)*
B.	Department of Employment Special Measures	239	234)
C.	Other	293	305)

* illustrative (balance of cuts between MSC and other programmes not yet decided).

	4. Incidence of cuts on Inherited Plans		
A.	Manpower Services Commission	- 92	- 101
B.	Department of Employment Special Measures	- 105	- 405
C.	Other	- 7	- 7
	TOTAL	- 204	- 513

IA3 DIVISION
H M TREASURY
25 July 1979

PUBLIC EXPENDITURE BY PROGRAMME : INDEX NUMBERS (1974-75 = 100)

	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81
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2. Overseas Aid	95.2	107.7	112.8	103.2	100.0	111.3	106.8	114.3	125.2	125.8	124.5
EEC contributions	..	..	..	..	..	..	..	..	..	..	..
Other overseas services (1)	101.6	102.6	103.9	102.3	100.0	103.8	99.0	95.5	100.8	111.8	103.3
3. Agriculture, fisheries, food and forestry	43.1	48.9	43.2	51.2	100.0	91.4	56.9	43.5	36.3	40.6	35.7
4. Trade, industry and energy (2)	63.8	76.2	68.5	97.1	100.0	124.2	107.0	93.4	93.5	92.9	88.1
Employment	91.5	99.5	113.3	92.2	100.0	154.8	205.0	249.0	266.8	263.5	273.8
5. Government lending to NIs					100.0	86.2	74.5	29.9	44.0	29.1	17.5
6. Roads and transport	82.1	79.2	84.7	90.0	100.0	102.7	92.0	79.1	78.7	83.7	76.3
7. Housing											
Capital	73.0	63.2	59.3	73.9	100.0	80.3	75.6	62.4	56.2	57.2	45.6
Current	43.7	41.1	54.1	78.0	100.0	103.7	112.5	108.1	114.9	118.3	125.3
8. Other environmental services	88.8	90.4	96.5	103.3	100.0	104.2	94.5	92.2	94.0	92.8	92.9
9. Law, order and protective services	81.7	87.8	88.8	94.1	100.0	106.4	108.3	105.2	110.0	112.9	116.8
10. Education & Science, arts and libraries	83.1	89.0	95.0	99.6	100.0	101.8	101.4	97.7	99.8	100.3	96.6
11. Health and personal social services	83.8	87.1	93.0	97.6	100.0	103.7	104.6	105.4	108.7	110.0	110.3
12. Social security (3)	84.8	90.0	95.1	94.2	100.0	108.4	111.5	115.6	124.9	130.4	132.0
13. Other public services	82.7	89.2	120.5	93.4	100.0	112.8	105.2	101.7	101.8	105.3	107.5
14. Common services	89.9	96.0	98.9	100.1	100.0	109.6	109.5	106.0	108.7	111.7	113.1
15. Northern Ireland (3)	63.9	66.9	74.6	84.6	100.0	104.5	105.1	103.8	111.9	111.0	106.7

/See notes

SECRET

16

Ref. A052

PRIME MINISTER

Public Expenditure 1980-81

(Resumed discussion)

BACKGROUND

This, the last in the present series of meetings, need only tie up a few loose ends left over from Monday, and give instructions for the next stage of the operation. The two key documents are:

(i) The Chief Secretary's minute of 25th July (headed "Northern Ireland, Scotland, Wales and Coal") recording the final discussions in MISC 11.

(ii) The Chancellor's minute of the same date (headed "Guidance to Local Authorities"), containng the text of a possible announcement to the local authorities and nationalised industries to be made early in the Recess.

HANDLING

2. You might break the discussion down under these two headings. You could ask the Chancellor first to report briefly on the MISC 11 discussions, and on the separate bilateral talk with the Secretary of State for Energy. The figures for Scotland and for Wales have now been agreed, and the Secretary of State for Wales has now abandoned his claim for specially preferential treatment for Welsh expenditure programmes. The Secretary of State for Northern Ireland did not attend the MISC 11 meeting on Tuesday (the timing of which had specially been arranged to meet his convenience) and sent an official who had no plenipotentiary powers. Thus, the "formula" cut for Northern Ireland has been established, but the Secretary of State's claim for special treatment remains on the table. The gap looks like being between the MISC 11 revised recommendation of £97 million cuts, and the Secretary of State's offer of £90 million cuts. The Chief Secretary is now prepared to accept £90 million; all Cabinet needs to do is to confirm this deal.

3. There has been a separate bilateral exchange about coal, reported in the Chief Secretary's minute. The Chief Secretary has suggested a cut of £25 million on total finance of £623 million requested by the NCB (grant and loan

combined). This should not involve any additional price increase beyond the 3 per cent real price increase already assumed for next year. We understand that Mr. Howell is being advised to accept this figure. You could ask him to confirm this.

4. Mr. Jenkin may try to raise a point about Monday's decisions on social security. (He is being advised to take it up in correspondence instead.) He said his savings added up to £222 million, and this was recorded in the minutes. In fact, closer examination in the Treasury and the Department gives savings of £192 million as the consequence of the specific decisions taken at the meeting (i.e. the substitution of "anti-fraud measures" for waiting days). If he raises this, you might invite him to settle it bilaterally with the Chief Secretary.

5. You might then move to the next steps. The Chancellor's second minute of today's date sets out a possible formula for use with the local authorities. This has been agreed at official level between the Departments concerned. There are three points to be covered:

(i) Should the statement be "global" or should it itemise the cuts service by service? There are two alternative versions of the text. You will want to hear the views of the Secretary of State for the Environment (who favours "globalisation"), and of the Secretary of State for Education and Science (who opposes it). You may also want to consider whether it should be made clear that this "globalisation" is for one year only, or whether it is a pointer to the way in which local authority expenditure should be controlled in future. If the latter, you may wish to commission a further paper from the Chief Secretary, the Secretary of State for the Environment and the Secretaries of State for Scotland and for Wales, for consideration after the Recess, about future control mechamisms.

(ii) Later years. The Chancellor's minute brings out also the need for clear guidance to the local authorities about the range of cuts to be sought in later years. You said at Cabinet on Monday that the figures for those years would be much more "blurred". But the authorities need to have some sort of guidance. Decisions are needed both on the base-line (should it be the new level for 1980-81) on the percentages to be applied to that base-line.

(iii) Timing. Despite today's PNQ the pressure for a Parliamentary statement before the Recess has been contained (although the Government is now committed to a White Paper in the autumn). The question now becomes one of an approach to the local authorities. It should be possible to arrange a meeting of the consultative machinery next week: to leave it much longer risks running into the holiday season.

6. You may also want to give instructions about the next stages of the operation extending the decisions forward to 1983-84. The Treasury believe that two meetings of the Cabinet will be needed. The first would consider proposals from the Chief Secretary about the options for reductions set out in the official report (C(79) 25). There would then probably be a series of further bilaterals (or possibly meetings of MISC 11 if a quorum can be found). Thereafter there would need to be a further meeting to agree the final figures for publication in an early public expenditure White Paper. Given the Chancellor's and your own movements, possible dates for these Cabinet meetings would be 13th September for the first one (before the Chancellor leaves for the IMF/IBRD/Commonwealth Finance Ministers' meetings) and 18th October (the week after the Party Conference) for the second. It might also be prudent to allow for one more meeting on 25th October on a contingent basis. A timetable on these lines would make it possible to publish the White Paper by mid-November. There is however a potential problem over the closely related paper on Civil Service manpower reductions. The Lord President had intended to circulate this in "mid-September" though it is we gather most unlikely that this will represent a fully worked out presentation. Nevertheless it must be possible for him to present preliminary conclusions and to identify the main problems before then. If you accept the timetable above, you might ask the Lord President to ensure that at least a preliminary paper is ready in time for Cabinet on 13th September so that the main threads of the two exercises can be brought together then and in the subsequent bilaterals. Failing this we risk an unco-ordinated muddle.

CONCLUSIONS

7. The conclusions of the meeting might be:

(i) To note the agreement reached with Scotland, Wales, Northern Ireland and Energy.

(ii) To agree that all the figures arrived at in the last four meetings for 1980-81 should be included in the public expenditure White Paper.

(iii) To agree that guidance should be given to the local authorities along the lines of the draft attached to the Chancellor's minute of today as amended in discussion.

(iv) To agree that consultation should proceed with the local authorities (excluding housing expenditure) on the basis of cuts of $12\frac{1}{2}$ per cent in 1981-82, and $17\frac{1}{2}$ per cent in 1982-83.

(v) /Possibly/ to invite the Chief Secretary, Treasury, in consultation with the Secretary of State for the Environment and the Secretaries of State for Scotland and for Wales to consider possible future control mechanisms for local government expenditure.

(vi) To agree to resume discussion on public expenditure in later years in September on the basis of papers from the Chief Secretary, Treasury, and the Lord President of the Council.

JOHN HUNT

25th July, 1979

15

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

PRIME MINISTER

PUBLIC EXPENDITURE 1980-81 :
GUIDANCE TO LOCAL AUTHORITIES AND OTHERS

At the Cabinet meeting on 23rd July I was invited to make proposals about giving early guidance to local authorities and nationalised industries on the reductions from planned programmes which they will be expected to make next year, following our decisions on public expenditure.

A. Local Authorities

2. I attach a draft of a possible statement which the Secretary of State for the Environment might be invited to make. The draft has been discussed between officials of the Departments mainly concerned. The main questions which we need to decide in Cabinet tomorrow are:

(i) Is it agreed that a statement should be made on these lines? It has been emphasised strongly to us that, if the local authorities are to cut back their plans on the scale required, they need to be told before the holidays. Accordingly, even though we have decided not to make a full statement to Parliament about all the reductions in plans, I believe that this guidance should be given to the local authorities.

(ii) Does Cabinet have views on the best timing of such a statement? The figures in it will need to be checked with Departments following Cabinet's final decisions

(with minor adjustments, e.g. to Table A to a basis familiar to local authorities). Subject to this, the announcement should clearly be made as soon as possible.

(iii) Should the guidance for 1980-81 be given, for current expenditure, in terms of a single total, or itemised by service? This was discussed in the MISC 11 report (paragraphs 6-9) which recommended the global approach, and in the minute of 18th July from the Secretary of State for Education taking a different view. Clearly we must now resolve this issue, choosing between the alternative versions of paragraphs 3 and 4 in the attached draft.

(iv) Should the local authorities be consulted about the later years? The draft refers to the consultation on options for reductions in 1980-81 of up to 7½ per cent (as agreed following the letter of 7th June from the Secretary of State for the Environment); and it states the Government's intention to publish its full plans for 1980-81 and later years in the autumn.

If the local authorities are to be consulted about the implications for them of further reductions in the later years, now is the time to do so.

Cabinet agreed on 24th May that, to provide options for getting back by 1982-83 to the adjusted public expenditure total for 1977-78, reductions should be considered of 7½ per cent on the Cmnd.7439 programmes for 1980-81, 12½ per cent for 1981-82, 17½ per cent for 1982-83, and not less than that again in 1983-84 (except for the defence, law and order and health

programmes, and on the other hand except where larger cuts had been identified in Opposition). If we are now to consult on the later years, it should be on the basis of options not less than those needed to get back to the expenditure level of 1977-78. Therefore paragraph 7 of the draft is in terms of reductions, from the revised level for 1980-81, which would in fact achieve the 12½/17½ per cent path. The figure required for 1980-81 is in fact intermediate between the 5 per cent and 7½ per cent options suggested. Any consultation on housing (excluded from this paragraph) can be arranged separately, in terms to be agreed between DOE and the Treasury. I hope Cabinet will agree that consultations should go forward on this basis, aimed at reports by end-September when we propose to resume consideration of the later years.

B. Other Agencies

3. We have been planning not to announce the rest of our public expenditure decisions before the autumn. But there may be a few minor cases, besides the local authorities, where it is necessary to take some action going beyond central government, and therefore liable to become public, if the decisions are to be fully effective next year. There may be one example in agriculture (Meat and Livestock Commission).

4. I hope it can be agreed that, if colleagues are satisfied that such action is essential to secure the cuts in any specific case, they should clear what they propose with the Treasury.

C. Nationalised Industries

5. I was also asked to cover the question of guidance to the nationalised industries. This is much less difficult than for local authorities but it is still not straightforward.

6. The last Government made a virtue of aiming to give the industries "by the end of the summer", rather than the end of the year, "approval for 100 per cent of their agreed investment programme for one year ahead" and a declining percentage of the programme for the next two years. We cannot generally say much this year about 1981-82 and 1982-83. But we should be able to say something about 1980-81, provided this can be done in terms that preserve the option of using cash limits in a way that exerts pressure for responsible pay bargaining. I have already told the Chairmen that we have it in mind to set cash limits in advance of pay negotiations. But if they are to be a useful discipline, sponsor Ministers will need to present the volume figures for investment and financing which have been agreed as provisional maxima which are subject to later decisions and discussions on cash limits. I ask sponsor Ministers to consult Treasury Ministers about the way in which our decisions so far should be conveyed to the different industries.

D. Decisions on the later years of the Survey

7. We will need to return to decisions about the later years of the Survey period. We should do so as soon as possible after the holidays if we are to publish a White Paper soon after Parliament reassembles.

8. If you and other colleagues agree, I suggest that the Chief Secretary might circulate proposals which could be discussed in MISC 11 or bilaterally with colleagues prior to further discussion in Cabinet, unless it is practicable to arrange a Cabinet discussion fairly early in September. We could aim in this way to reach as much agreement as possible with a view to settling outstanding issues at Cabinet in the early autumn.

SECRET

9. I am sending copies of this minute to our Cabinet colleagues, including Norman Fowler, and to Sir John Hunt.

[Approved by the Chancellor of the Exchequer and signed in his absence]

Mark Hall

(G.H.)

25 July 1979

SECRET

PUBLIC EXPENDITURE 1980-81

1. Ministers have been considering the public expenditure plans for 1980-81. Given the poor prospect for economic growth next year, world-wide and in the UK, there is a clear need to rein back the inherited plans for public spending. To implement these plans in full would have meant a rate of growth of public expenditure in volume terms, above the revised figures for the current year, of about 6 per cent. This is out of the question, and taken in conjunction with the substantial increases in public service pay, would have been wholly inconsistent with the Government's economic strategy. It would have meant adding to inflationary pressures and pushing up interest rates, and would have made some increase in the net tax burden inevitable.

2. The Government will announce its decisions on the whole range of programmes for 1980-81 and later years in the autumn. However, the local authorities need to know now what the scale of cuts affecting them for 1980-81 will be, as they are planning their budgets now for that year. In considering the scale of reductions for next year, we have taken full account of the consultations with the local authorities on options for cuts of up to 7½ per cent, and the discussion in the Consultative Council on 9th July. The Secretary of State for Scotland will be seeing the Scottish local authorities; what I have to say to you now concerns England and Wales.

3. Within the overall need for spending reductions, the Government thinks it right to give local authorities the maximum freedom to decide on the allocation of funds in accordance with their own local spending priorities. But the Government has decided that local authorities should plan on the basis of a reduction of 5 per cent on the plans for current expenditure in Circular 15/79 for 1980-81 which amounted in total to £12,163m. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80.

4. We shall want to discuss with you the most realistic allocation among individual services, but the total of relevant expenditure for Rate Support Grant will of course need to be consistent with this overall level of current expenditure. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services should not undergo any reduction.

5. For its part, the Government intends to seek certain legislative changes to give the local authorities more latitude in achieving the total. In the field of education, where the Government's wish is that standards in primary and secondary schools should be maintained, we shall ask Parliament to relax the statutory obligation on local authorities to provide school milk and meals, and to remove the restrictions on charging for school transport, with a view to savings totalling well over £200 million in 1980-81. We shall also ask Parliament to approve primary legislation to allow local authorities to charge for planning permissions, and to reduce the role of the counties in planning procedures; and secondary legislation to charge for the enforcement of building regulations, and amend the General Development Order.

6. For <u>capital</u> expenditure, which is centrally controlled for each programme separately, the Government has decided that the national totals for the programmes for 1980-81 as set out in Cmnd.7439 (revalued to 1979 Survey prices) should be reduced by the amounts set out in the attached table. [B]. Allocations to individual authorities will be made later.

7. For <u>later years,</u> beyond 1980-81, there have not yet been any consultations on the options. The reductions in expenditure in this year and next will need to be carried forward in the three following years, which will be covered in the Government's full public expenditure plans to be published in the autumn. I therefore propose that, in the light of the allocation for 1980-81

among individual services, expenditure groups should report to the Consultative Council by the end-September how these reductions in later years can best be achieved. To that end they should examine options for reducing the level of total local authority spending now envisaged for 1980-81 (excluding housing, which is being dealt with separately; and law and order), amounting to 5 per cent and 7½ per cent in 1981-82, and in each case a further 5 per cent below these levels in 1982-83 - with the level in 1982-83 continued into 1983-84 which will be the final year in the new public expenditure plans.

8. I intend to issue this statement as a circular to local authorities shortly.

SECRET

ALTERNATIVE PARAGRAPHS 3 & 4 IF SERVICE TOTALS ARE TO BE GIVEN

3. The Government has decided that local authorities should plan on the basis of a reduction of 5 per cent on the plans in Circular 15/79 for 1980-81. This would be a reduction of 1 per cent on the levels I have asked local authorities to achieve in 1979-80. The total of relevant expenditure for Rate Support Grant will of course need to be consistent with the overall level of current expenditure.

4. The Government's views on the appropriate reductions for individual services to achieve this total are set out in the attached table [A]. It is the Government's view that priority should be given to law and order, and in particular the plans for court, police and probation services should not undergo any reduction.

SECRET

TABLE A

LA CURRENT EXPENDITURE : ENGLAND AND WALES £m.

(PES Definition)

Trade	4
Transport	61
Environment:	
Housing	13
Other	74
Home Office Services	+ 8*
Education (including school transport)	145
School Meals and Milk	200
Arts and Libraries	16
Personal Social Services	114
	619

* Plus 13 for police, courts and probation, less 5 contained in Cmnd. 7439 for ethnic minorities grants.

SECRET

TABLE B

LA CAPITAL EXPENDITURE: ENGLAND AND WALES	£m.
Transport	75
Environment:	
Housing	799
Other	93
Home Office	+ 8
Education	26
Arts and Libraries	1
Personal Social Services	11
	997

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London SW1

25 July 1979

Dear Geoffrey,

SOCIAL SECURITY PROGRAMME 1980/81

I have now seen the Minutes of Monday's Cabinet and I am writing to you straightaway to say that I am afraid there is some confusion about the agreed total of savings in the social security programme for 1980-81.

In the MISC 11 Report which we considered, the agreed target for social security savings was £227 million. It was pointed out in that Report that a number of the items in the Chief Secretary's original list were too controversial to hope to get through the House (abolishing death and maternity grants, raising womens pension age, abolishing the industrial injury preference, and cutting back on the earnings related sickness and unemployment benefits). To compensate for these deletions I offered two items:-

a. to defer the uprating by one week, saving £35 million

b. to extend the waiting days for sickness and unemployment benefit from three to six saving £65 million

if the legislation could be got through by the spring but less-£50 million, if the legislation was not through till the summer.

At Cabinet colleagues agreed with my proposal for putting back the uprating but it was decided that the extension from three to six in the number of waiting days was not capable of achievement being too controversial politically and instead, I should make a further £30 million savings by increased activity on the fraud and abuse front, with the provision of an additional 600 staff for this purpose.

So at the end of the day we had taken out £65 million bringing the total down from £227 million to £162 million and added back £30 million bringing the total up to £192 million.

SECRET

That was the conclusion of the discussion and there was general agreement that there were no other possible savings in 1980-81 on social security. However it is on the record that when we came to the arithmetic, this batch of cuts was put at £222 million.

How this mistake came about is less important I think than that I should point out straightaway that there is such an error and that the saving on social security can only be scored at £192 million.

I am copying this letter to the Prime Minister, Cabinet colleagues and to Sir John Hunt.

Yours ever

Patrick

SECRET

13

PRIME MINISTER

PUBLIC EXPENDITURE - NORTHERN IRELAND, SCOTLAND AND WALES; AND COAL

In the absence of the Chancellor of the Exchequer today, I am reporting the position on the reductions for Northern Ireland, Scotland and Wales following discussion in MISC 11 and elsewhere.

2. The following reductions have been agreed for 1980/81:-

Northern Ireland	-	£90 million
Scotland	-	£256 million
Wales	-	£107 million

3. For Scotland and Wales, these figures represent the appropriate reductions to take account of Cabinet's decisions on other programmes on Monday.

4. For Northern Ireland, the appropriate pro-rata reduction would be £96 million. The Secretary of State for Northern Ireland feels that he cannot agree to this, but is prepared to agree to £90 million (as was mentioned in Cabinet). In the circumstances, the Chancellor and I am prepared to accept this figure. But I must put on record that it is not to be regarded as establishing any principle of allowing more expenditure in Northern Ireland than the normal formula indicates.

SECRET

5 As regards coal, I have reached agreement with the Secretary of State for Energy that there should be a reduction of £25 million in the external financing requirements of the National Coal Board.

6. I am copying this minute to other members of the Cabinet, including the Minister of Transport, and to Sir John Hunt.

WJB

JOHN BIFFEN
25 July 1979

SECRET

12

PRIME MINISTER

c.c. Mr. Sanders

PUBLIC EXPENDITURE

Though you will not want to say what Cabinet has decided on public expenditure, you might like to be reminded of the arithmetic.

The totals look like this:

	£ billion at 1979 survey prices
1978/79 outturn	69½
1979/80 Labour plan	73
1979/80 post-budget plans	69½
1980/81 Labour plan	74½

Labour's plan for 1979/80 has been cut by £3½ billion through the reductions in public expenditure announced in the Budget and through sticking to cash limits despite the faster inflation rate that had earlier been assumed. If we stuck to Labour's plan for 1980/81, expenditure would increase by £5 billion.

Public expenditure "cuts" provisionally agreed in Cabinet amount to £3.4 billion (details in table attached). We are counting on a further £1.7 billion from lower borrowing by nationalised industries, cuts in civil service manpower, reduction in contingency reserve, and sale of assets. This makes a total of £5.1 billion provisionally agreed. On this basis, expenditure in 1980/81 would be at about the same level as in 1979/80.

I think you need to get over the following points:

(i) Labour's plan for 1980/81 is £5 billion higher in real terms than expenditure this year. This massive increase is totally unrealistic: it would mean either a big increase in tax or a quite unsustainable increase in the PSBR.

/ (ii)

(ii) The need to cut back Labour plans is all the greater because of the increase in public service pay now in the pipe-line. As a result of these increases, the cost of public services is going to be that much greater; and this means we will have to economise on the level of services.

(iii) We have always said that public expenditure must be brought back into line with what the economy can afford. The alternative to this can only be higher taxes and the continued decline of British industry.

Although Cabinet's aim is to stabilise expenditure in 1980/81 at this year's level, and looks like being achieved, there are considerable differences between programmes. There are some programmes which will be cut compared with expenditure in 1979/80 - notably housing, transport and education.

24 July 1979

PUBLIC EXPENDITURE

£ million at 1979 Survey Prices

	1979/80 post-budget plans	1980/81 "Cuts" on inherited plan	1980/81 Plans after "cuts" agreed
Defence	7,927	-115	8,062
Aid	956	-115	896
FCO (other)	311	- 13	295
EEC Budget	787	+236	1,023
MAFF	1,036	- 43	964
Forestry	65	- 5	57
Industry	1,004	-187	960
Trade	191	- 12	179
ECGD	-153	+170	170
Employment	1,096	-513	1,139
Energy	315	- 7	315
Transport	2,675	-250	2,422
Housing	4,592	-1000	4,266
PSA	343	- 54	332
DOE (other)	2,529	-225	2,501
Home Office	2,085	+ 24	2,151
Lord Chancellor	141	- 4	150
Education & Science	8,258	-437	7,966
Arts & Libraries	364	- 28	350
DHSS (Health and personal social services)	8,095	-203	8,136
DHSS (Social Security)	19,384	-222	19,587
HMSO	99	- 10	90
COI	32	- 3	25
Scottish Office	3,845	-222*	3,770*
Welsh Office	1,152	-110*	1,201*
Northern Ireland	2,008	- 88*	1,942*
		TOTAL -3,436	

*The "cuts" for Scottish Office, Welsh Office and Northern Ireland still have to be finally settled - they will come back to Cabonet on Thursday.

PRIME MINISTER

Now that the cuts exercise is all over the newspapers - surely we ought to announce it before the Recess. If we wait until the Autumn we will have to face two rows; and the Autumn row will come as Parliament reassembles and the wage round is in progress.

We ought, in any event, to inform local government now - and that represents half the total amount - and the worst half. I cannot see the overriding argument for not going on in Parliament for two days next week if necessary. We may lose vital business this week - and it is silly to suggest that your presence in Lusaka will "look like running away". I feel that the row over two extra days is well worth facing - for all the problems we will otherwise face in the Autum at the beginning of the Parliamentary year.

JOHN NOTT

23 July 1979

SECRET

ANNEX B

MINISTERS' PROPOSALS AND MISC 11 RECOMMENDATIONS

£ million, 1979 Survey prices

	Chief Secretary's proposal (C(79)26)	Ministers' proposals	MISC 11 recommendation	Difference between recommendation and C(79)26
	1	2	3	(1 - 3)
Defence	-300	+13	-115	-185
FCO (ODA)	-132	-107	-115	-17
FCO (other)	-28	-13	-13	-15
EEC Budget	+236	+236	+236	-
MAFF/IBAP/DAFS/WOAD	-43	-37	-43	-
Forestry Commission	-5	-5	-5	-
Industry	-187	-187	-187	-
Trade	-20	-12	-17	-3
ECGD	+170	+170	+170	-
Employment	-513	-513	-513	-
Energy	-24	-7	-7	-17
Transport	-305	-250	-250	-55
DOE (housing)	-1264	-621	-1264	-
DOE (PSA)	-54	-54	-54	-
DOE (other)	-285	-212	-285	-
Home Office	+10	+25	+24	-14
Lord Chancellor's Dept	-4	-4	-4	-
Education and Science	-860	-517	-547	-313
Arts and Libraries	-33	-23	-28	-5
DHSS (health)	-85	-85	-85	-
DHSS (personal social services)	-118	-118	-118	-
DHSS (social security)	-253	-242to 257	-227	-26
HMSO	-10	-10	-10	-
CSD (civil superannuation)	-	-	-	-
COI	-3	-3	-3	-
Scottish Office (excl. DAFS)	-410	-222*	-310*	-100*
Welsh Office (excl. WOAD)	-130	-110*	-130*	-*
Northern Ireland	-160	-90	-111*	-49*
TOTAL	-4810	-2996to3011	-4010	-799

*Figures for Scotland, Wales, and Northern Ireland are provisional. The figures are being revised to match the reductions for corresponding English services.

NB Decisions are also required on savings on the nationalised industries (see paragraph 19), which are not included in the above figures.

SECRET

SECRET

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

PRIME MINISTER

PUBLIC EXPENDITURE 1980-81 :
DOE AND NORTHERN IRELAND PROGRAMMES

This is to record the outcome of the discussions that MISC 11 held this morning with the Secretaries of State for the Environment and Northern Ireland. We reached agreement with the Secretary of State for the Environment on total reductions in DOE programmes in 1980-81 as follows:-

	£m
Housing	- 1000
PSA	- 54
DOE (Other)	- 225
Total DOE	- 1279

2. The agreement between us was conditional on:-

(a) an understanding that these are net reductions and that any additional bids by the Secretary of State must be accommodated within them. The Group were content that the Secretary of State should have discretion over the mix of measures required to achieve the agreed saving within the DOE programme as a whole.

(b) A proposal by the Secretary of State that £60 million of housing association investment should be privately financed under Housing Corporation guarantee, following the practice of the previous administration. The previous administration's practice is undesirable in

principle (and has been criticised on that ground by the PAC (Fifth Report, Session 1978-79)) and could in practice cause difficulties with our monetary control. Treasury Ministers will want to discuss with the Secretary of State how the main difficulties can be avoided.

3. The Secretary of State for Northern Ireland argued that, partly because of the unavoidable effect which the £111 million of reductions proposed in the MISC 11 report would have on unemployment and partly because of the difficulty he will have in absorbing certain unforeseen increases in 1980-81 (for example extra support for the shipbuilders Harland and Wolff), he should not be asked for the full amount. But other spending Ministers, including no doubt the Secretaries of State for Scotland and Wales, might make similar cases, and the Secretary of State for Northern Ireland has greater flexibility than other spending Ministers to switch resources within his block of expenditure. The Northern Ireland total is related arithmetically to the totals for GB programmes and the £111 million may change as a result of further decisions. After discussion, the Secretary of State has agreed to reconsider his position when the further decisions have been taken and his share recalculated.

4. I am copying this minute to other members of the Cabinet and to Sir John Hunt.

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

M A Hall

(G.H.)

20 July, 1979

Ref: A020

SECRET

PRIME MINISTER

Public Expenditure - Resumed Cabinet Discussion

BACKGROUND

Since Cabinet yesterday MISC 11 has considered the DOE and Northern Ireland programmes. The results are reported in the Chancellor's minute to you of today. There is also a further minute from the Secretary of State for Education.

see Flag B

2. The savings achieved so far, including the agreement now reached with DOE, amount to £2,118 million. If all the remaining cuts proposed by MISC 11 are accepted the total on Departmental programmes would be a cut of £3,687 million. This compares with the original target of £4,810 million and £4,011 million which the Chancellor was seeking at Cabinet yesterday.

3. You made it clear on Thursday that the Cabinet would have to reach final decisions on Monday about 1980-81, and you also made it clear that you would not want any general announcement, still less a debate, before the Recess. This leaves open questions about disclosure to local authorities and nationalised industries, to which I return below.

HANDLING

4. You might start by noting the agreement which has been reached with DOE, which followed some fairly intensive horse trading. (Any attempt by Mr. Heseltine to reopen that agreement should be resisted.) You might then turn to Education, and work through the remaining programmes, continuing the process started on Thursday. Once again I attach as an Annex notes on the individual programmes; in some cases these have been slightly revised since Thursday's meeting to take account of new developments.

But see his his proposal (Flag E) to abolish higher rate relief on mortgages ?

5. Having reached the end of the programmes at Annex you might pick up the remaining outstanding points from the Chief Secretary's paper (C(79) 26). They are:-

(a) The size of the Contingency Reserve. The Chief Secretary suggests a reduction of £750 million, leaving another £750 million in the Reserve. As you know, this is a very small balance to keep in hand, so long before the beginning of the financial year. It will require great restraint on the part of spending Ministers. It will be important to maintain the rule that Treasury Ministers have the right of appeal to Cabinet over any claim on the Contingency Reserve which a Cabinet Committee is disposed to allow against their wishes (paragraph 8 of Questions of Procedure for Ministers). You might like to say this. It helps to have it on the record.

(b) Disposals. Cabinet might approve the target of disposals of £500 million in 1980-81, noting that it may be possible to do better than this. E(DL) will be looking at the programme for that year on Thursday, under the Chancellor's chairmanship. They need a clear instruction.

(c) Civil Service. The Chief Secretary's original arithmetic included £150 million for the Civil Service reductions, which Cabinet will be considering in September. It is possible that these will, in the event, be a little bigger. But the savings agreed on individual programmes already assume, in several cases, quite substantial staff cuts, in addition to the £150 million; and it would be unwise to reckon on very much more. I suggest you get Cabinet to note the £150 million provisionally, pending the resumed discussion in September. That will at least set a floor to the difficult decisions which will then have to be taken.

(d) End-year Flexibility. There should be no problem in agreeing, as the Chief Secretary proposed, to a study of this proposal, provided that there is absolutely no commitment made at this stage. (This is potentially dangerous idea, from the point of view of controlling the PSBR in any one year.)

6. In addition there is one general point left over from the MISC 11 report about globalisation. In paragraphs 6 - 9 of the MISC 11 report the argument is that the Government cannot directly control local authority current expenditure. That being so, the best route might be 'globalise' the cuts, give guidance on exemption for law and order programmes, and leave the local authorities to sort out the rest. The Secretary of State for the Environment broadly favours this approach: the Secretary of State for Education is likely to oppose (see his letter of 16th July). The point is an important one, which goes to the root of the Government's/Local Authority relationship. If the Cabinet chooses this course, for next year only, its implications for longer-term control will need to be worked out in some detail. It also leads straight into the difficult question of control over rates. There is no absolute need for a decision on that difficult question at this stage. You might want to call for a further paper immediately after the recess, from the Chief Secretary and the Secretary of State for the Environment, on this point.

Flag D

7. That leaves the question of an announcement. If there is to be no general statement, and no debate, then something must be said to the local authorities (and also to the nationalised industries). I understand that the Chancellor is considering something on the lines of Option 1(a) in his minute to you of 18th July; a formula on these lines, though not perfect, seems the best way of proceeding. It might mean a Parliamentary row after the Recess. It would certainly become public knowledge (some of the Cabinet discussions are already leaking). But it is operationally essential to say something to the local authorities now. This would also allow provisional discussion to take place about the level of reductions in later years. These form the basis for Cabinet's resumed discussion of public expenditure in the autumn. Something similar needs to be said to the nationalised industries, although a danger of a leak from that resource is rather less.

Flag C

CONCLUSIONS

8. You will wish to record fairly precise conclusions at the end of these protracted discussions. They might be as follows:-

(i) To note the figures agreed for each individual programme listed in Annex D of C(79) 31 /with any further changes agreed during this meeting/;

(ii) to note that the Chancellor will discuss separately with the Secretary of State for Northern Ireland the exact figure for the Northern Ireland programmes as a consequence of this;

(iii) to agree the cuts in nationalised industry financing listed in C(79) 28, Table 3, as modified by C(79) 31 /with any amendments agreed during the meeting/; for the avoidance of doubt it might also be as well to refer specifically to the higher gas price;

(iv) to agree that no announcement should be made before the Recess, but that an indication should be given to the local authorities of the cuts involved, on the lines of Option 1(a) set out in the Chancellor's minute to you of 18th July;

(v) to agree that the Departmental Ministers concerned may make similar statements to the nationalised industries;

(vi) /possibly/to agree that the cuts in local authority expenditure should be treated as a global total, without itemisation, and that the local authorities be free to choose where the cuts should fall;

(vii) /possibly/ to invite the Chief Secretary and the Secretary of State for the Environment to bring forward proposals in the autumn for controlling the level of local authority rates;

(viii) to invite the Chief Secretary to arrange for officials to study the problems of end-year carry over, and to report back to Cabinet;

(ix) to agree the Contingency Reserve for 1980-81 should be reduced by £750 million;

(x) to agree that the disposals programme for 1980-81 should be designed to produce savings of at least £500 million;

(xi) to note that, given the shortfall on the Chancellor of the Exchequer's original target, the Chancellor may have to consider alternative ways of maintaining the acceptable PSBR total, not excluding further increases in indirect taxation [this is in order that Cabinet cannot say later that they did not know].

(John Hunt)

20th July, 1979

ANNEX

SECRET

EDUCATION AND SCIENCE

Flag A

The Secretary of State has written to you, following Thursday's Cabinet, spelling out the political difficulties he sees in the package agreed by MISC 11. That package amounted to £517 million. The derogation now proposed by Mr. Carlisle amount to £130 million, leaving a net r eduction of only £387 million. He suggest leaving out the £30 million unspecified cut; reducing the cut on under-fives from £70 million to £20 million (thus eliminating the £4 per week charge, which you thought unworkable); dropping the £40 million saving on school transport, which the Chief Whip thought would not get through the House; and reducing the £30 million on further education to £20 million, by dropping a £20 million proposal for increased parental contribution, but offering an additional £10 million on other parts of this block in exchange. You said at Cabinet last week that MISC 11 had perhaps gone too far: you may now feel that Mr. Carlisle has swung the balance too far in the opposite direction. A possible compromise would be to ask him to find at least the unspecified cuts of £30 million, giving him discretion to apply this anyway he likes in the Education Budget; this would bring the total net savings to £417 million.

ARTS

The Chancellor of the Duchy will fight for his programmes: the major issue is whether to postpone the start of the British Library. He claims he never agreed to do this, despite what is said in paragraph 36 of the MISC 11 report.

SOCIAL SECURITY

These proposals are virtually agreed, if Cabinet will accept them. The only difference is over the last £15 million which depends on progress with the legislative programme.

SCOTTISH OFFICE

No separate issue: this will follow whatever is decided for the other programmes. The Secretary of State is however unhappy about the scale of the total operation, and told MISC 11 that he would argue the point at Cabinet. Having heard the discussion on Thursday he may now be less 'inclined' to do so.

WELSH OFFICE

There is a difference of view here: MISC 11 recommends that the Welsh Office should find all but the last £2 million of the proposed cuts. The Secretary of State resists strongly, and wishes also to register a claim on attenuated Contingency Reserve for expenditure to offset the effects of coal mine closures, etc.

COAL

No clear decision was reached on this at E on 17th July. The Secretary of State originally wanted an extra £55 million; he is now prepared to offer a cut of £25 million instead, but with conditions. MISC 11 wants a £30 million cut without conditions. This would probably fall on investment but might require a small price increase, but the OPEC rise should leave headroom for it.

SCOTTISH ELECTRICITY

£5 million at stake. You might press for it.

BRITISH AEROSPACE

This should be agreed without difficulty.

POST OFFICE

Sir Keith Joseph warned Cabinet last week that the Post Office borrowing requirement had just been recalculated and showed a sizeable increase. The problem has been elimiated. As a result, the cut for the Post Office is now back to -£50 million. This involves increases in the domestic telephone bill of rather more than the 10 per cent originally planned from 1st January next. But there has been no significant increase in telephone prices since 1975.

OTHER NATIONALISED INDUSTRIES

All the other proposals in the original paper (C(79) 28, Table 3) had been agreed in earlier discussion. This included the higher option on gas prices, which yields £260 million in the 1980-81, involving a 5 per cent increase in real terms in gas prices from 1st April 1980, on top of anything needed to keep pace with inflation. (The additional effect on the RPI,

compared with keeping pace with inflation, is only 0.08 per cent). Cabinet should perhaps endorse this proposal specifically. (The Chancellor has written to you separately about the public presentation of these increases.) But the nationalised industry figures as a whole have been recalculated, taking account of the changes on the Post Office noted above, and the overall result is now a reduction of /£300 million/ instead of the £350 million originally proposed.

MINOR PROGRAMMES

We know of no other contentious points, save on the Northern Ireland programme, which the Chancellor has undertaken to discuss separately after the meeting with Mr. Atkins.

20th July, 1979

Copy No 8

2 MARSHAM STREET
LONDON SW1P 3EB

7a

SECRET

Prime Minister

My ref:

Your ref:

20 July 1979

Dear Tony

PUBLIC EXPENDITURE

Following the meeting of MISC 11 this morning my Secretary of State has been considering how best to find the agreed totals. The public expenditure reductions on the scale agreed will hit this Department's programme very hard. He believes that we have now reached the point where the presentation of reductions on this scale, and the impact they will have on different sectors of the community, require contributions from other areas.

Therefore he believes that in making up the reductions needed on the housing programmes, Ministers should be prepared to accept the withdrawal of higher rate relief on mortgage interest payments. Our understanding is that in the current financial year higher rate relief will cost the Exchequer between £60m and £70m.

My Secretary of State feels that withdrawal of such relief in 1980/81 could therefore provide a significant contribution towards the savings needed and would, at the same time, be of major presentational help in putting forward policies which are even-handed in approach to both council tenants and mortgagors.

As I understand the Chancellor will be reporting to the Prime Minister this afternoon on the outcome of MISC 11, my Secretary of State has asked me to copy this to the Private Secretaries to the Prime Minister, to all members of the Cabinet, to the Minister for Transport and to Sir John Hunt.

Yours sincerely

D A EDMONDS
Private Secretary

Tony Battishill Esq
PS/The Rt Hon Sir Geoffrey Howe MP

SECRET

PRIME MINISTER

PUBLIC EXPENDITURE 1980-81: EDUCATION AND SCIENCE

We are to resume discussion of my programme in Cabinet on Monday; and it may be helpful if I send you this note about some points which, as the minutes of yesterday's meeting (CC(79)10th Conclusions, Minute 4) bring out, caused particular concern.

I understood you to take the view that the unspecified additional cut of £30m proposed in para 35 of the MISC II report attached to C(79)31, coming on top of the £517m, went too far and should be omitted. Within the £517m there are three particularly difficult elements involving new or increased charges which might stimulate demands for excessive pay claims and have serious political consequences:-

Under 5's. Unless we are to make drastic cuts in nursery education, the proposed saving of £70m could be achieved only by amending the 1944 Act to allow local authorities to charge (perhaps £4 a week even for part-time attendance). Perhaps therefore we should stick to my original figure of £20m, which would enable us to keep provision in 1980-81 at about this year's level.

School transport. The proposed saving of £40m would require legislation to enable local authorities to charge children living more than the "statutory walking distances" (3 miles for secondary pupils, 2 miles for others) from school. The impact, especially in rural areas and on children attending denominational schools, would be severe: to save half the present subsidy the charges would have to average £2.50 to £3 a week. At the very least, the Cabinet may prefer to postpone action on this until 1981-82.

Student grants. Of the proposed saving of £30m, £20m would involve big increases in the parental contribution from those middle managers which the tax cuts in the Budget were particularly designed to help. It would also run counter to our long-term aim of abolishing the parental contribution when resources allow: and, since this might prove the most unacceptable of all the cuts in my programme, I think on reflection it should be

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dropped. It might instead be possible to find savings of £10m elsewhere in higher education (making a total of £45m in that sector).

I should perhaps also say a word about science. A cut of as much as £10m in the budget of the Research Councils would take it below this year's figure, even as reduced by the Budget cut. As you know, Britain still excels in science, and it is important that we should maintain support for our very able young scientists.

I am sending copies of this minute to the other members of the Cabinet, the Minister of Transport and Sir John Hunt.

Peng Gige

for MARK CARLISLE
10 July 1979
(Approved by the Secretary of State and signed in his absence)

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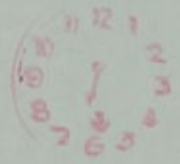

SECRET

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

PRIME MINISTER

PRESENTATION OF PUBLIC EXPENDITURE CUTS

After our discussion in Cabinet yesterday, I have been thinking further about the presentation of our decisions on public expenditure.

2. My minute of 18th July pointed to the operational arguments for announcement before the recess. But there are formidable difficulties about this course. If we set it aside, we shall, as we realize, need to find a way of giving sufficient early guidance to local authorities to enable the changes we want in their programmes to be implemented in an orderly way. But the point I want to raise in this minute is that, if our main announcement is delayed until the autumn, this gives a useful - crucial, indeed - opportunity to do more to prepare public opinion.

3. The fact is that the public in general are unprepared for the scale and nature of the public expenditure "cuts" which we are discussing. Many do not understand why such cuts are needed. On previous occasions large expenditure cuts have been understood as the response to a sterling crisis. This time there is no apparent crisis of this kind to explain the scale of the action proposed. On the contrary, sterling is strong, and the cuts will be thought by some to be an unnecessary attempt to impose extreme notions about economic management.

4. We should seek to prepare public opinion in advance. With the other Treasury Ministers I propose to underline, in speeches and

/ to .....

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the media, the seriousness of the situation which we face, and its implications for expectations not only about living standards in general but about the standard of public services. It will clearly be most useful if all our Cabinet colleagues are willing to join in this campaign.

5. This could lead up to the publication in the autumn of a White Paper giving a full assessment of the economic prospects for the medium term, to set the context for a comprehensive announcement of our public expenditure plans, covering not only 1980-81 but also the later years of the survey, for which the Chief Secretary and I will be bringing forward proposals after the holidays. A comprehensive announcement of this kind could not of course be made until we have taken our decisions on the later years, but it ought to be possible to do it by the end of October, which would be satisfactory provided that we find a solution to the immediate problem of the local authorities.

6. The procedure we can discuss further at Cabinet on Monday. The point I want to emphasize now is the importance of the political task of presentation, and the possibility of using the coming weeks to build on what was said at the time of the Budget to prepare the ground for the strategy we are now implementing on public expenditure.

7. I am copying this minute to the Paymaster General, the Chief Whip and Sir John Hunt.

G.H.

(G.H.)

20 July, 1979

2 MARSHAM STREET
LONDON SW1P 3EB

CONFIDENTIAL

My ref:

Your ref:

19 July 1979

12

12/7

Dear Tony

PUBLIC EXPENDITURE 1980/81: DOE PROGRAMMES

Cabinet Office have asked for a breakdown of the further £200m savings which the Secretary of State offered at Cabinet this morning. This is as follows:

	£m
Housing	
Local authority land acquisition	20
" " new housebuilding	15
" " improvements (reduced bid)	25
" " improvement grants	40
" " mortgage lending (reduced bid)	25
Housing Corporation: recourse to private financing	50
Rate fund contribution to local authority mortgage interest rates	5
Other Environmental Services	
Regional Water Authorities investment	20
	200

The precise mix of savings on DOE programmes remains open to adjustment in the light of more detailed consideration, particularly of the forthcoming Housing Investment Programmes (HIPs) from local authorities. Further recourse to private financing of housing association investment would continue the practice of the previous administration to secure public expenditure savings: the PAC noted some objections to earlier private financing arrangements, and as far as possible we would seek to meet these. The saving on the rate fund contribution to local authority mortgage interest rates will arise from delaying implementation of proposed legislation until 1 April 1981.

CONFIDENTIAL

I am copying this letter to the Private Secretaries to the Prime Minister, the Lord President, the Chief Secretary, and the Secretary of State for Trade, and to Sir John Hunt.

Yours sincerely

David Edmonds

D A EDMONDS
Private Secretary

Tony Battishill Esq
PS/The Rt Hon Sir Geoffrey Howe MP

SECRET

4

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1

18 July 1979

Dear Geoffrey.

PUBLIC EXPENDITURE 1980-81: LOCAL AUTHORITIES

I shall reserve until to-morrow my comments on the various proposals for cuts in C(79)31; but you should know at once that I must resist the recommendation in para 9 that the reductions in local authority current expenditure, when agreed by the Cabinet, should be announced as a single total without giving any indication of the Government's view on the cuts in individual programmes, other than law and order.

My main reason for saying this is that it would not be enough merely to be able to point to the steps that we were taking through amending legislation to relieve local authorities of their obligations in relation to school meals, milk and transport and under 5's, four areas where we want to secure savings of more than £300m or well over half the total for education. I must also make it clear to the public that, in order to ensure that the damage to standards in schools and further education does not go beyond what was envisaged in C(79)29, we expect local authorities to maintain current expenditure per head in these institutions in 1980-81 at about the levels originally planned for 1979-80. (This, the least that I can do to fulfil our Manifesto commitment on standards, would be the consequence of my proposals for cuts of no more than about £100m in those educationally crucial areas which were endorsed by MISC 11 on 13 July.) Unless I can make this plain - and the local authority spokesmen at the meeting of the Consultative Council on 9 July asked us to give them a clear lead - it would be wrongly assumed that we had decided on a uniform reduction in each service and that we had no views on priorities.

SECRET

There are some other arguments (notably those in para 8 of C(79)31) for giving details of the impact of the cuts on individual services:-

i. The process of consultation with the local authorities about the later years, which is envisaged for the autumn, would be more complicated and much less useful if we had not given them a baseline for each service in 1980-81.

ii. We shall wish to give the totals for individual services over the whole run of years in the Public Expenditure White Paper, which will indiate what we had decided as the components of the total for 1980-81. We shall then be asked why we did not give those totals much earlier.

iii. It would be particularly inappropriate to give only a total figure when some services are the responsibility of one tier of local government and some of another.

In my view the right course would be to announce the cut in each programme for 1980-81 and the resulting figure after the cut, I am sure that I must also give details, on the lines explained above, of the figures for education in order to demonstrate the priorities that we expect local authorities to follow. This would be consistent with another Manifesto Commitment to improve the way in which the House of Commons scrutinises public spending, a commitment which we have begun to honour by setting up Select Committees for education and other services.

I am sending copies of this letter to the Prime Minister, the other members of the Cabinet, the Minister of Transport and Sir John Hunt.

Yours ever

Mark

MARK CARLISLE

Prime Minister
on board

THE PSBR IN 1980-81: VIEWS OF OUTSIDE FORECASTERS

The London Business School, in a forecast to be published on 23 July (NB. CONFIDENTIAL until then), predict £11 billion.

Phillips and Drew predict a 1980-81 PSBR of £7½ billion.

The Economist Intelligence Unit (St. James' Group) predict £9½ billion.

2. All these forecasts incorporate estimates of the effects of the June 12 Budget. For 1980-81, they all assume some indexation of the tax system. Their assumptions on public expenditure are not at all clearly spelt out: it looks as though they assume smaller cuts in volume, as compared with the plans in the last White Paper, than the Treasury forecast, but may allow less for comparability pay awards in the public services.

3. Other forecasters have not yet revised their assessments in the light of the budget. The National Institute were forecasting a low PSBR (£9 billion in 1980-81) on a pre-budget basis and their post-budget assessment, to be published next month, can also be expected to show a low figure.

4. Because of the difficulty of making comparisons on the same set of policy assumptions, little importance should be attached to the precise figures. The margins of error on all these forecasts, including the Treasury's, run into several billion.

5. By comparison with the outside forecasts so far available, the Treasury estimate of the 1980-81 PSBR does not seem out of line.

Prime Minister

Mr Prior quoted Brian Reading's forecast. This has not been published, but it apparently shows 1980/81 PSBR of £7.6 bn, compared with Treasury forecast of £9.2 bn. But L.B.S. (see above) are forecasting £11 bn. T.L. 18/7

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

PRIME MINISTER

PUBLIC EXPENDITURE 1980-81 - ANNOUNCEMENT

We are in a difficulty about the timing of an announcement of Cabinet's decisions on public expenditure in 1980-81, which we hope to settle tomorrow.

2. There are strong reasons for announcing these decisions straightaway:

(i) A large share of the cuts will fall on local authorities, who need to know now what reduction we are planning, and our proposed legislative changes, if the plans for 1980-81 which they will be working out in the coming weeks and months are to reflect these. They have been making strong representations about this, and if they are not told until the autumn, they will be able to say that it is too late for them to implement these cuts in full.

(ii) There is a risk that decisions taken now will begin to leak out, and that the public reception will be more critical than if we present them coherently now as a necessary package.

(iii) There is also of course some risk that circumstances will change and lead colleagues to seek to re-open decisions if they have not been announced.

3. Therefore my preferred course - Option 1 (and for operational and practical purposes this is much the best) would

be to make a Parliamentary statement before the recess. This would explain briefly why the cuts are needed, and why we are bringing forward the announcement for next year in advance of a full White Paper setting public expenditure in its medium-term context, in the autumn. But the statement will be certain to provoke demands for a debate, which in my judgment we should find it very difficult to resist, given the scale of cuts proposed. The only way that I can see of providing for a debate would be to have a Cabinet on, say, Tuesday of next week, to approve the terms of a statement to be made that afternoon, and to hold a debate on Thursday, postponing other business and hence the recess into the following week. This of course assumes that we can reach the decisions of substance tomorrow. And it has formidable Parliamentary disadvantages, on which we have already spent some time in Cabinet last Thursday.

4. If for these reasons Option 1 is not feasible, one arrives at a possible variant - Option 1A - again intended to meet the operational need. This would be for the Secretary of State for the Environment to call in the local authorities, say in early August, and tell them that:

(i) the Government intended to announce its full public expenditure plans in the autumn; but

(ii) to meet their needs he was asking them now to plan on the basis of cuts of x% or £y million in 1980-81;

(iii) the Government for its part proposed to make certain legislative changes to make these reductions possible;

(iv) the local authorities were invited to give their views on the feasibility and implications of larger reductions in the later years (perhaps on the basis of up to 12½%

and 17½% proposed earlier, comparable with the 7½% already considered for 1980-81).

However the local authority cuts would leak, and we would not have announced either the central government's own contributions, or the reasons why cuts on this scale were needed. Parliament might feel that they had not been given a proper opportunity to debate the Government's proposals.

5. Therefore in my view, failing Option 1, we are driven back to Option 2 - to publish, say, in early or mid-September a White Paper setting out the 1980-81 cuts in full, with the economic case for them. This has the disadvantages I have suggested in paragraph 2 - too late for local authorities, risks of leaks and re-opening. It would also lead to demands for the recall of Parliament, and would focus criticism at the TUC and Labour Party Conferences. The economic arguments would have to concentrate on next year's problems, and their origins; in the absence of decisions on public expenditure beyond next year they could not point forward in any quantified way to improved medium-term prospects. But our general case could and would be put in a coherent fashion.

6. In any case, we must aim to reach our public expenditure decisions for the later years in October, so that we can publish a full White Paper by about the end of that month. This would set out our medium-term economic strategy, as well as giving the short-term forecasts required by the Industry Act. The broad thrust of our public expenditure plans would then fall into place, and the details could be given in Part II of the White Paper (as has been done in some previous years) as soon as this could be prepared - that is, about two months later.

7. All these considerations seem to me to count strongly in favour of a statement on 1980-81 before the recess, if we can possibly meet this timetable - to be followed by a full White Paper setting out our forward plans about the end of October. But even this course is not without its difficulties.

8. This is not an easy issue, and in view of its relevance to tomorrow's Cabinet discussion, I am sending copies of this minute to all members of Cabinet, the Chief Whip, and Sir John Hunt.

G.H.

(G.H.)
6 July, 1979

Ref: A01

SECRET

PRIME MINISTER

PUBLIC EXPENDITURE
(C(79) 30 and 31)

BACKGROUND

At Cabinet last week, you asked:

(a) that the Chancellor should produce a paper on the economic background, showing what would happen if his objective of £6.5 billion reductions in 1980-81 were not met;

(b) that a sub-Committee (MISC 11) should review some of the main spending programmes.

2. The first remit is discharged by C(79) 30.

3. The second remit is covered by the report of MISC 11, circulated by the Chancellor as C(79) 31. In the event, the Group was able to talk to nearly all the spending Ministers, and not just a limited range which you mentioned at Cabinet. The report shows that, while substantial progress has been made, the Chancellor is still £800 million short of his target. This is after taking account of very big concessions by the Secretary of State for Education. But Education, along with Housing and the Defence Budget, remain the principal areas of difficulty.

4. As background you may care to be reminded of the make-up of the £6½ billion cuts as set out in the earlier papers. It was:-

(1)	Public Expenditure programmes other than the nationalised industries	4.75
(2)	Nationalised Industries (net)	0.35
(3)	Further cuts in Civil Service manpower	0.15
(4)	Reduction in Contingency Reserve	0.75
(5)	Sale of Assets	0.50
		6.5

5. The Cabinet's present discussion is concerned with items (1) and (2) and the Chief Secretary will also seek decisions on (4) and (5). Item (3) - Civil Service manpower - is for consideration after the recess (though the cuts in line 1 already imply substantial - if as yet unquantifiable - cuts in Civil Service manpower).

HANDLING

6. This is bound to be a long and difficult Cabinet and the sooner specific decisions can start to be made the better. I suggest therefore that you start straight off on C(79) 31 treating the Chancellor's "background" paper (C(79) 30) as background and only praying it in aid if any colleagues seek to reopen the tax and monetary strategies.

7. Accordingly I suggest that you begin by asking the Chancellor of the Exchequer to take the Cabinet item by item through C(79) 31. This is right both because he has chaired the "star chamber" group and because on this occasion it will probably be best for you to hold your own fire until you can see the shape of the final package which you will then need to throw your weight behind.

8. The Chancellor and the Chief Secretary will be seeking eight specific decisions:-

(a) Agreement on the figures for changes to individual programmes listed in Annex B.

(b) Agreement to the changes in nationalised industry borrowing listed in the earlier paper, C(79) 28 as modified by the MISC 11 report. (The cuts are set out in Table 3 on page 6 of C(79) 28 and the modifications on pages 14 and 15 of C(79) 31.)

(c) Decisions on the form of an announcement next week: if it cannot be finally agreed before next Thursday's Cabinet, should the text be circulated in correspondence in advance, for final settlement then? (You will remember that the Chancellor has toyed with the idea of presenting a White Paper to explain the economic setting in which the Government's decisions have to be placed - it is highly doubtful, however, if such a White Paper

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could be prepared and cleared in time for publication next week. Mr. ~~Walker~~ Heseltine has of course argued that it will help him in his operation with the local authorities to have his requests to them put in a wider frame - and he needs this soon.)

(d) Whether any announcement should treat local authority current expenditure as a single block (the proposal in paragraph 7 of the MISC 11 report).

(e) Agreement to go to consultation with the local authorities on years beyond 1980-81 during the summer.

(f) Agreement that the 'end-year carry-over' arrangements should be examined at official level (a point left over from the Chief Secretary's paper at the last meeting).

(g) Agreement on the target size of the Contingency Reserve for 1980-81 (necessary, to prevent Cabinet piling up too many imprecise forward commitments - e.g. on regional expenditure).

(h) Agreement on the target for disposals in 1980-81 - necessary to give guidance to E(DL), which is considering the 1980-81 programme later on Thursday.

9. I suggest that you start by settling the local authority issue in paragraphs 6 - 9 of the MISC 11 report: this effects the handling of the subsequent discussion. The argument is that the Government cannot directly control local authority current expenditure. That being so, the best route might be 'globalise' the cuts, give guidance on exemption for law and order programmes, and leave the local authorities to sort out the rest. The Secretary of State for the Environment broadly favours this approach: the Secretary of State for Education is likely to oppose (see his letter of 10th July). The point is an important one, which goes to the root of the Government/Local Authority relationship. If the Cabinet chooses this course, for next year only, its implications for longer-term control will need to be worked out in some

detail. It also leads straight into the difficult question of control over rates. There is no absolute need for a decision on that difficult question at this stage. You might want to call for a further paper immediately after the recess, from the Chief Secretary and the Secretary of State for the Environment, on this point. If the decision is in favour of 'globalisation' it is not strictly necessary to go through the individual programmes with a local authority element: but Cabinet cannot very well accept a global figure without knowing approximately what it might mean for individual programmes and I think the better course is to go through the details.

10. In that case, you might use the MISC 11 report as a text, starting at paragraph 11. The figures are summarised in Annex B, but this does not deal with the nationalised industry totals, which are shown separately (unrevised) in C(79) 28, Table 3. You need to have both lists before you as you proceed. I attach as an Annex notes on some points of difficulty which may arise.

11. The remaining points should take little time, but they need to be covered.

12. Local Authority consultations about subsequent years. The Chief Secretary will argue that early consultations are needed with the local authorities about the deeper cuts which will be needed in 1981-82 and subsequent years, and that these talks should begin immediately in order to prepare the ground for decisions which the Cabinet has to take in the autumn. The proposal is that illustrative cuts of 12½ per cent in 1981-82 and of 17½ per cent in 1982-83 should be explored. ~~However~~ Although the fact of such consultation must become public knowledge, it seems desirable that they should take place if Cabinet is to have a well-informed discussion in the autumn about the later years. It can be emphasised in the consultations that the figures are at this stage purely illustrative. But equally, the authorities must not be led to believe that the 1980-81 cuts are the end of the story.

13. Contingency Reserve. The Chief Secretary's earlier paper, C(79) 26, proposed in paragraph 13 that the Contingency Reserve for next year should be cut from £1,500 million to £750 million. This is a very large cut so long before the start of the year. It leaves a very small margin for error which

may have to accommodate a further up-rating in child benefit in November 1980, as well as any 'over-runs' on pay beyond whatever cash limits are agreed for next year. Nevertheless, this cut seems inevitable if anything like the original target is to be maintained. You will want to make Cabinet sign up on the cut quite specifically, in order to maintain discipline on expenditure during the year as it proceeds.

14. Disposals. The target proposed is £500 million in 1980-81. It may well prove possible to do better than this. But it seems, particularly following the unsatisfactory discussion of BNOC earlier in the week, that it would be unwise to bet on this. E(DL) will be looking at the programme at its meeting next week.

15. Defence. It may be that before this point an agreement will have been reached on the Defence component. On the other hand there are signs of growing discontent among other Ministers about the privileged position of this programme. If this resentment surfaces frequently in the discussion you might suggest that the Cabinet take a second look at Defence at the end of the discussion.

16. Timing of Announcement. You will have seen the Chancellor's minute of 18th July which explores the options here. If there is to be a debate the Chief Whip thinks it might well mean extending the Sitting of the House into August. You will clearly not want to have a debate of this importance occuring while you are in Lusaka. But this imposes its own contraints on the timetable. If the debate must be next week you will have to fit in another meeting of the Cabinet early next week to agree the content of the announcement and this in turn means that Cabinet must reach virtually final conclusions on the cuts at the present meeting. Even if this proves practicable (which is a big assumption) you may still feel, that proceeding at this pace carries a high risk of muddle and of inadequately prepared public presentation. It is relevant that the principal operational reason for making this major announcement before the recess appears to be to give Mr. Heseltine a point of reference for his discussions during the recess with the local authority

Associations. You might ask your colleagues whether they regard the present very difficult timing proposals as a sensible way of achieving this or whether there is some acceptable lower key alternative. Finally you will know that, if the business of the House for next week is to be rearranged, Parliament will expect to be told in the normal business statement tomorrow afternoon.

CONCLUSIONS

17. The conclusions might therefore be as follows:-

(i) To agree that the economic prospects described in C(79) 30 require reductions on the published expenditure plans for 1980-81 of at least /£5.7 billion/.

(ii) To agree that, if necessary in order to maintain an acceptable PSBR total, the Chancellor should be authorised to explore other ways of offsetting the failure to secure adequate public expenditure cuts by increases in indirect taxation. /In order that the Cabinet cannot say later that they did not know./

(iii) To note the individual figures agreed for Departmental programmes, listed in Annex B to C(79) 31 /with any changes agreed during the meeting/.

(iv) To agree the cuts in nationalised industry financing listed in C(79) 28, Table 3 modified by C(79) 31 /together with any amendments agreed during the meeting/.

(v) To decide the timetable and arrangements for the announcement and any subsequent White Paper.

(vi) To invite the Chief Secretary to circulate the text of any announcement for clearance at a Cabinet next week.

(vii) /Possibly/ to agree that the cuts in local authority expenditure should be treated as a global total, without itemisation, and that local authorities be free to choose where the cuts should fall.

(viii) /Possibly/ to invite the Chief Secretary and the Secretary of State for the Environment to bring forward proposals in the autumn for controlling the level of local authority rates.

(ix) To invite the Secretary of State for the Environment [and the Secretaries of State for Scotland and Wales] to open consultations with the local authorities about the reductions of 12½ per cent in public expenditure in 1981-82 and of 17½ per cent in 1982-83.

(x) To invite the Chief Secretary to arrange for officials to study the problem of end-year carry-over, and to report back to the Cabinet.

(xi) To agree the Contingency Reserve for 1980-81 should be reduced by £750 million.

(xii) To agree that the disposals programme for 1980-81 should be designed to produce savings of at least £500 million.

MSV.
pp
(John Hunt)

18th July, 1979

SECRET

ANNEX

Notes on Individual Programmes

Defence

The argument hitherto has been about the NATO commitment. You may find it useful to have the exact text by you: it is attached as an appendix. But it has become clear that the Secretary of State for Defence's real worry is domestic: he does not wish to show a figure for 1980-81 lower than that planned by the Labour Government. His bid, but not the MISC 11 recommendation, would achieve this. He will also seek special treatment over cash limits for next year: given the tightness of the Contingency Reserve, he may be reluctant to agree to this. The level of cash limits will have to be determined in the autumn, in the light of a further look at the Chancellor's 'Option A' as commissioned at E yesterday.

Aid and FCO expenditure

2. The FCO proposals are accepted (they mean some cut in the level of representation overseas and in BBC and British Council standards) but MISC 11 wants a further £8 million off aid.

Agriculture

3. MISC 11 wanted cuts in capital grants, but there is a review in progress as part of the Rayner exercise. Mr. Walker offered some land disposals in lieu, but the Scottish and Welsh Ministers could not necessarily follow suit. MISC 11 suggest taking credit for a review of capital grants, and treating the land disposals as an uncovenanted extra.

4. There is a separate problem about the Defence food stockpile, on which Mr. Walker wrote to you on 6th July. He believes that, because this stockpile is held for Defence and Civil Defence purposes, the cost of rebuilding it should not be a charge to his programme and should fall on the Contingency Reserve. There are several other similar cases: the strategic oil pipeline system is one such. You might well insist that he sticks by the present rules, for 1980-81, although you could concede that a review of the rules should be made for subsequent years before Ministers take decisions about them. This would mean him absorbing an extra £14 million.

Forestry

5. No problems. It is important to avoid double counting potential savings in the public expenditure cuts and in the disposals exercise.

Industry

6. The Secretary of State, as expected, has been very co-operative. It was of course easier for him as most of the decisions had already been taken in the context of this year's Budget and the additional cuts needed in 1980-81 were correspondingly smaller. It may still be necessary to seek further savings in the industry and employment areas to make good any shortfall elsewhere. Nevertheless he deserves congratulations. However, it is worth noting that one of the additional cuts involves calling in Industry Act loans: he will have to watch the effect on corporate liquidity next year. But there is no other way of securing the desired reductions.

Trade

7. Agreed.

Energy

8. No reductions sought: it is proposed that the additional bids for R and D should remain a very potential charge on the Contingency Reserve. You might use this opportunity to remind the Secretary of State for Energy that he must bring forward his proposals on the nuclear programme soon after the Recess. As you know, they have taken a very long time to produce.

Transport

9. Agreed.

Home Office

10. The Home Secretary is the only Minister who has managed to go into the discussions faced with a request for cuts, and to emerge with agreement on increases. He too deserves congratulations, of an ironic kind. But there is not much room for varying this recommendation.

Environment

11. The absolute sums at issue look very large, but the rate of growth in this programme is fairly low. You will recall the earlier argument with the Secretary of State about the validity of the 'Opposition cuts' which he claims he has never

accepted. The political problem for Cabinet is whether it can face rent increases on the scale which these cuts would demand. The issue is posed in paragraph 32(b). Action would be needed to prevent local authorities avoiding these rent increases by raising their rates. MISC 11 propose that the rent increases, and all the other changes suggested by the Chief Secretary, should be agreed (noting that legislation would be required) and that the additional bids should be dropped.

Education and Science

12. The Secretary of State for Education has gone a long way to meet the Chief Secretary's demands. There are obvious political traps here. Ministers at MISC 11 felt that Cabinet would be reluctant to endorse all their recommendations. That on maintenance grants is particularly contentious, and will effect the key group of the Government's own supporters (as well as a good many Ministers and MPs). It is worth noting that, if students are regarded as dependent children, although over 18, then the maintenance grant was a substitute for child tax allowances, and to withdraw it now would be seen as cheating. The other cuts, school meals and milk, school transport, and stand-still in educational standards, will be deeply unpopular, but Mr. Carlisle is prepared to defend them. Lady Young made the additional political point that some of the cuts bear heavily on women in work.

Arts

13. The Chancellor of the Duchy will fight for his programmes: the major issue is whether to postpone the start of the British Library. He claims he never agreed to do this, despite what is said in paragraph 36.

Social Security

14. These proposals are virtually agreed, if Cabinet will accept them. The only difference is over the last £15 million which depends on progress with the legislative programme.

Scottish Office

15. No separate issue: this will follow whatever is decided for the other programmes. The Secretary of State is however unhappy about the scale of the total operation, and will say so.

Welsh Office

16. There is a difference of view here: MISC 11 recommends that the Welsh Office should find all but the last £2 million of the proposed cuts. The Secretary of State resists strongly, and wishes also to register a claim on attenuated Contingency Reserve for coal mine closures, etc.

Coal

17. No clear decision was reached on this at E on Tuesday. The Secretary of State originally wanted an extra £55 million; he is now prepared to offer a cut of £25 million instead, but with conditions. MISC 11 wants a £30 million cut without conditions. This would probably fall on investment but might require a small price increase, but the OPEC rise should leave headroom for it.

Scottish Electricity

18. £5 million at stake. You might press for it.

British Aerospace

19. This should be agreed without difficulty. £120m

Post Office

20. The problem here is that Post Office target is expressed in terms of a return on capital employed. The accountants, using inflation accounting, have redefined the capital base. If the fixed target is maintained, the surplus therefore comes down and the borrowing is increased. The remedy is to increase the target as a percentage of the reduced capital base. There are other elements in the shortfall too, which may require small additions to the next round of price increases. Cabinet will have to accept these if the cuts proposed here are agreed.

Other nationalised industries

21. All the other proposals have been agreed. Cabinet should note that these include the higher option for gas prices.

Minor programmes

22. We know of no contentious points.

EXTRACT FROM THE BRUSSELS/NATO COMMUNIQUE OF MAY 1979

"In the last Ministerial Guidance, covering the force goals period (1979-84) it was decided to aim at making available resources which would allow for annual increases of Defence spending in the region of 3% in real terms, recognising that, for some individual countries, economic circumstances would affect what could be achieved or current force contributions might justify a higher level of increase. This undertaking was endorsed by Heads of State and Government at the Washington Summit in May 1978. Initial action taken by Government for the achievement of this aim has on the whole been encouraging. In the light of these various factors, nations over the period of the next series of force goals (1981-86) should intensify their efforts to implement fully for the whole planning period the resource guidance of 1977."

PRIME MINISTER

PAY INCREASES AND PUBLIC EXPENDITURE

I have seen Keith Joseph's minute to you of July 11. The Chancellor and I have considerable sympathy with the points made by Keith. I would welcome a discussion along the lines he suggests.

2. I am copying this minute to members of E Committee and to Sir John Hunt.

WJB

JOHN BIFFEN
17 July 1979

SECRET

Prime Minister A/2

I think Lord Soames is right. Bigger cuts than 2¾%. this year are not on. JL

PRIME MINISTER

PAY INCREASES AND PUBLIC EXPENDITURE

Flagit 17/7

In Keith Joseph's minute to you of 11 July, he suggested, among other things, that we should consider reopening the decision that this year's pay component of Civil Service cash limits should be reduced by 3%, and see whether a significantly larger reduction could be obtained in particular areas to offset the cost of particular settlements, for example, the industrial civil service.

2. As you will remember, we would have liked to have made a bigger reduction but, following discussions in Cabinet, we concluded that 3% represented the maximum overall saving which could be achieved in the present financial year. This figure was announced by Paul Channon in a written Answer on 22 May. In the event, because of certain exemptions, we ended up with 2¾% overall and the cash limits have now been adjusted by the required amounts.

3. In view of the difficulty we had in achieving 2¾%, I doubt whether any of our colleagues will now feel able to offer further savings to make possible a significantly larger reduction. As I explained in my minute earlier today, we need to consider very soon what to do about the pay of industrial civil servants. I shall bring forward proposals as soon as possible and that will be the time for those, such as Defence, who employ large numbers of industrials to consider how much of the settlement could be absorbed within existing cash limits.

4. I am copying this minute to members of E Committee and Sir John Hunt.

S.

SOAMES
17 July 1979

PART 3 begins:-

Ld Pres to PM 17/7/79

PART 2 ends:-

Hmt to PM #09982 16/7/79

END

Filmed at the National Archives (TNA) in London

February 2010