

# PREM19

# 21

ECONOMIC POLICY

(Public Spending)

(Part 4)

573  
730

PREM 19/21

PART 4 ends:-

Bevill to TL 20/9/78

PART 5 begins:-

Hunt to PM 10339 1.10.79

TO BE RETAINED AS TOP ENCLOSURE

### Cabinet / Cabinet Committee Documents

Reference	Date
C(79) 35	07/09/79
C(79) 36	07/09/79
C(79) 37	10/09/79
CC(79) 15 <sup>th</sup> Conclusions, Minutes 5,6,7	13/09/79
E(79) 34	14/09/79
E(79) 39	14/09/79
E(79) 35	17/09/79
E(79) 8 <sup>th</sup> Meeting, Minutes 1 & 2	20/09/79
E(79) 46	28/09/79

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 Wayland

Date 24 October 2009

**PREM Records Team**

CWA 157

CONFIDENTIAL

Qa 04277

*Pami Smith*

To: MR LANKESTER

From: SIR KENNETH BERRILL

Cash Limits and the Rate Support Grant

1. In E(79)46 the Chief Secretary discusses three options designed to impose an effective financial discipline on local authorities (both on pay and total expenditure) while preserving reasonable equity between one authority and another.
2. We in the CPRS have one or two comments which the Prime Minister may like to take into account:

Option I - Cash Limits on the Total Expenditure of Individual Local Authorities

- (i) This would be both dirigiste and a major constitutional change.
- (ii) The Government would, in practice, be largely powerless if the cash limits were disregarded on a significant scale.
- (iii) Cash limits are not, for individual authorities, necessary to encourage responsible wage settlements since local authority pay bargaining is handled centrally.

All in all we suggest that this Option is not a runner.

Option II - A Sliding Scale Cash Limit

There are two versions -

- (i) A sliding scale related to pay. This would link the national RSG to the way local authorities as a group acted on pay. The Chief Secretary suggests that this would link the Government too closely with individual pay settlements. We are not clear why this should be so. The taper in the rate of grant could be related inversely to the weighted average of all local authority pay settlements: this would still allow variations from one group to another and the Government need not be involved.

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(ii) A sliding scale related to rates. We assume that under this system the distribution of the RSG would be related to rating decisions of individual local authorities. There would undoubtedly be an element of rough justice. Some authorities may need to raise their rates substantially for 'respectable' reasons. But the Chief Secretary has not shown to what extent such inequities could be reduced by refining the formula and the present formula is already something of a lottery.

It is true that under both (i) and (ii) the local authorities would be uncertain about the amount of grant they would receive. But this is only one additional uncertainty to add to the many uncertainties they already work under and is not a knock-down argument.

We suggest that these Options should be examined rather more carefully with some arithmetical calculation of the likely consequences under different formulae.

Option III - A Single Cash Limit - as at present

If a sliding scale is impracticable Option III will have to do. It provides nationally a reasonable incentive for responsible pay bargaining. It is clear-cut and consistent with an arm's-length relationship. It is what the authorities are used to. But, by itself, it does not do much to influence expenditure decisions or to penalise the spendthrift authorities.

The position would be much improved if one could incorporate some features of unitary grant under which the level of grant for each authority would be related to an assessment of need. The feasibility of this should be thoroughly explored if Option III is adopted.

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

28 September 1979

KR.

From: THE PRIVATE SECRETARY



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

12  
26 SEP 1979

MG

CASH LIMITS 1978-79:  
PUBLICATION OF PROVISIONAL OUTTURN WHITE PAPER

I refer to your letter of 18th September to the Prime Minister's Private Secretary, which was copied here. We have one comment which in view of the urgency has already been passed by telephone to the Expenditure Division. This letter confirms the amendment to the explanation shown against HO2 which has been agreed with Miss King.

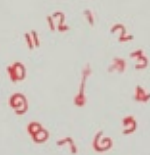
Substitute: "Transferred to HO1 to meet retrospective payment to prison officers: announced on 24th November 1978."

I am copying this to the Private Secretaries to other members of the Cabinet and to Sir John Hunt.

MISS C.J. STEWART

A.C. Pirie, Esq.

27 SEP 1979





Edwards' Private Minister

2



6

To glance - the  
Chief Secretary's  
reports to  
Mr Edwards'  
plea for  
special treatment  
for Wales.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Edwards MP  
Secretary of State  
Gwydyr House  
Whitehall  
LONDON  
SW1A 2ER

24 September 1979

TE  
21/9

Dear Nick,

You minuted the Prime Minister on 11 September about Welsh problems in accepting the reductions in public expenditure for the years after 1980-81 proposed in C(79)35.

As you said in your minute, it was not appropriate to take up time at Cabinet discussing your minute. You intended it mainly as background to the bilateral discussions which were to follow. It may be helpful if, by way of further background to the bilaterals, I set out our views.

You quite rightly emphasised the need to bear in mind the political consequences in Wales of public expenditure policy as of any other aspect of UK Government policy. You also accept the need to play a full part in making the necessary public expenditure cuts required to restore the economy. But you seem to be regarding the longer terms cuts - in the years after 1980-81 as in some sense different from or less important than the decisions we have already taken. As our paper shows, and as Cabinet reflected in its endorsement of the aggregate levels of expenditure (and the broad priorities between programmes) proposed in our paper, our policy for the years after 1980-81 had to be the same as for this year and next. Unless we can stabilise the size of the public sector and so enable the economy as a whole to grow, we will not be able to help Wales or any other part of the United Kingdom effectively.

You mentioned administrative changes which you thought were needed in order to fulfil the commitment to develop separate and distinctive Welsh ways of doing things which properly reflect the social, geographical and economic problems of the principality.

Your first proposal - to establish a single Welsh public expenditure programme and matching estimate and cash limit structures - is being examined by officials, who will report during the autumn.

Your second suggestion was for a separate unitary grant for Welsh local authority expenditure. Michael Heseltine's general proposal to change from rate support grant to unitary grant is now being studied. No doubt the question of establishing a separate unitary grant for Wales will be covered when a paper is put to Ministers.

Your third point about administrative matters was to stress the importance of the continued existence of certain Welsh bodies. This can be considered as part of the review of non-departmental public bodies now being conducted by Sir Leo Pliatzky.

You mentioned three specific problems which you wanted us to take especially into account in deciding about the levels of public expenditure in the later years. These were the consequences of steel and coal closures, the commitment in the manifesto for Wales about the road programme, and the need for financial support for the Welsh Language.

I recognise your difficulty about steel and coal closures, and for this reason we allowed an extra £2 million for remedial measures to be taken by the Welsh Development Agency in 1980-81. In our proposals to Cabinet we made the same provision for the next two years, and I do not think that we can go further. But if you take the view that the Welsh Development Agency should do more to clear derelict land and build new factories in closure areas I would have no objection to this provided that you can make offsetting economies in other Welsh programmes.

In relation to roads, I cannot accept that the Welsh road programme should not take a comparable reduction to that proposed for England. Central government expenditure on road construction and maintenance in Wales has shown a 56 per cent increase between 1974-75 and 1978-79 compared with a 38 per cent fall in England over the same period. Local authority expenditure on roads in Wales, though not increasing, has not fallen to anything like the same extent as in England. The forward plans of the previous administration would have perpetuated this disparity, with central government road expenditure in Wales growing by one-third to 1982-83 on 1978-79 compared with an increase of one-fifth in England. A percentage reduction similar to that applied to England would therefore be relatively easier for the Welsh road programme to bear. I know that the cuts I am proposing

will face Norman Fowler with some unwelcome decisions over the postponement of much needed and economically valuable major schemes. But these are necessary in the wider economic interest. I cannot in equity allow the Welsh programme relief which I am not prepared to concede to England. Furthermore, you have the opportunity, which Norman does not, of re-ordering priorities within your total expenditure so as to give some relief to your road programme should you choose to do so.

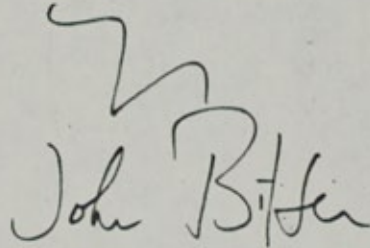
As you recognise, existing support for the Welsh language consists largely of subsidies for publications in Welsh that would otherwise be uneconomic. And the proposals for bilingual education would add considerably to unit costs. On value for money grounds, therefore, these would be the first places we would be looking to for the savings in public expenditure upon which we have decided. I can well understand that, even given the special considerations in your mind, you may have difficulty in protecting the £½ million you have earmarked already. That does however at least begin to undermine your argument for finding £2 million more, which is the political desirability of resisting natural decline and trying to keep the language alive. Furthermore, that argument is essentially one which concerns the Welsh priorities, not priorities as between your programme and other programmes. It seems to me therefore that, whatever allocation you secure overall must be made to contain whatever special measures you regard as essential for the survival of the Welsh language.

You also argued that the needs assessment study should be taken into account when assessing Welsh expenditure in the later years. This study was of course neither intended nor designed to determine expenditure allocations. It had the more limited aim of providing a background for considering allocations by assembling available objective information on expenditure needs, which is far from the whole story. Further, the study concerns the shares of the four countries within a given total of public expenditure. In my view it would not be appropriate to take account of it for one country and not for the others.

In any case, I think that your minute overstates the significance of the study's results in relation to Wales. The study concludes that for the programmes covered - those listed in your minute plus Law, Order and Protective Services - Welsh expenditure needs per capita were 109 in 1976-77 compared with England's 100. On the same basis, the figure for actual Welsh per capita expenditure in that year was 106. Further, the study suffers from admitted weaknesses in its statistical base: the report on the study recognises that it is a long way from providing an ideal or unquestionable means of expressing relative needs. It seems to me therefore that a good deal more evidence is needed before we can be sure beyond doubt that there is significant under-provision for Wales.

I should like to be more helpful than this, but I do not see the Welsh case as any stronger than the cases which have been made by other spending Ministers for relaxation of public expenditure constraints. The fact is that we can all think of reasons why it would be an excellent thing to increase public expenditure; but our overriding need is to reduce it. Wales will be the beneficiary, along with the rest of the UK, of our success in encouraging the private sector and so stimulating the economy.

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

A handwritten signature in cursive script, reading "John Biffen". The signature is written in dark ink and is positioned to the right of the typed name.

JOHN BIFFEN

25 SEP 1979





10 DOWNING STREET

From the Private Secretary

21 September 1979

Dear Alistair,

Thank you for your letter of 18 September about the publication of the White Paper setting out the outturns for cash limits in 1978/79.

I have shown this to the Prime Minister, and she is content for the White Paper to be published on the basis of the draft enclosed with your letter - subject to any comments from other Ministers.

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

Yours  
cwc.

Tin Lohman.

A. C. Pirie, Esq.,  
Chief Secretary's Office,  
HM Treasury.

HLS

Rob Exp file

Extra ct from a speech by Mr. Michael Latham M.P. (Melton) to Charnwood Conservative Borough Councillors at Quorn Conservative Club on Thursday, 20th September at 7.30 p.m.

Release Time: 1930 hours on  
20th September.

"When the Government took office four months ago, they took over from a Socialist administration under which, in 5 years:-

- prices more than doubled.
- unemployment also more than doubled.
- manufacturing output actually fell.

At the time of the Election, the annual inflation rate was just moving over 10%, and set to rise rapidly. The money supply was out of control. Public spending was soaring uncontrollably. All the economic signs were bad, and getting worse. If Labour had won on May 3rd, and Mr. Healey had introduced his 15th Budget, it would have contained sharp tax increases, big cuts in public spending, and higher interest rates. He knows that is true.

Sir Geoffrey Howe could just have done the same, and blamed it on the Socialists. Instead, he carried through the biggest income tax cuts there have ever been. He doubled the tax allowances compared with what Mr. Healey had promised, thus helping the low paid by taking over a million out of the tax net altogether. And he gave the largest pension increase ever. A Healey Budget would have put up the taxes without cutting income tax as well. And Britain would have continued her steady decline. Under Socialism, she was already the 7th poorest nation out of the 9 members of the Common Market. And what sort of a place is 7th out of 9 for our proud people?

When Councillors wrestle with the need to make economies this year and next, let them remember this simple truth. There are no cuts in real spending levels compared with previous years at all. The intention is to hold public spending steady this year and next year, rather than letting it soar up as in 1974, 1975, 1976 and 1978. Public spending can only be paid for in 5 ways - by more taxes, more rates, more charges, or by borrowing or printing the money. All of those make inflation worse. And all make the nation poorer.

In December 1976, the International Monetary Fund forced the Labour Government to make huge cuts in their planned levels of public spending. But the world did not come to an end. In fact, inflation, unemployment and interest rates all fell in 1977. Alas, once this happened, Labour started spending again. And so things got worse in 1978 and early 1979.

There is a lot of Socialist synthetic indignation about public spending at present. The national interest demands that it be curbed, just as it was under Labour in 1976. The difference is that this time the Conservatives intend to see things through."



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MINUTE FROM THE PRIME MINISTER TO THE HOME SECRETARY

Copies to: other Ministers named.

RATE SUPPORT GRANT, 1980-81.

As you know from our discussions, both about public expenditure and about pay and cash limits, the Rate Support Grant negotiations for 1980-81 are likely to be very important and very difficult. Whatever we decide about the unitary grant in later years (which you are considering in H at the moment) this year's negotiations have to take place within the present ground rules. I understand that work is already well-advanced in the Department of the Environment and in the Treasury. But there are a lot of difficult political decisions still to be taken. I think these need careful preparation before they come to Cabinet. I should therefore be grateful if you would take the chair of <sup>a</sup> ~~this~~ small group of the Ministers concerned, to produce agreed recommendations. I should like the other members of the group to be the Secretary of State for the Environment, the Secretary of State for Scotland and the Secretary of State for Wales, as the 'local authority' Ministers; the Secretary of State for Education, the Secretary of State for Social Services, the Secretary of State for

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Transport and the Secretary of State for Trade (each of whom is responsible for one or more of the services provided by local authorities); the Chief Secretary, Treasury; <sup>and</sup> ~~Financial Secretary, Treasury~~ and, ~~as a neutral member,~~ the Secretary of State for Industry. The Cabinet Office will provide the Secretariat. Your aim might be to produce a report for Cabinet on 25 October, starting work immediately after the Party Conference. No doubt the Department of the Environment could produce factual papers for a meeting very early in the week beginning 15 October.

2. I am sending copies of this minute to those Ministers named above<sup>x</sup>

and to Sir John Hunt.

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BK

Subject



FILE

Econ Pol.

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M 12/79T

HOME SECRETARY

B/F 24-10-79  
for Cabinet on 29/10

- cc DCE
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- DHSS
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Rate Support Grant, 1980-81

As you know from our discussions, both about public expenditure and about pay and cash limits, the Rate Support Grant negotiations for 1980-81 are likely to be very important and very difficult. Whatever we decide about the unitary grant in later years (which you are considering in H at the moment) this year's negotiations have to take place within the present ground rules. I understand that work is already well advanced in the Department of the Environment and in the Treasury. But there are a lot of difficult political decisions still to be taken. I think these need careful preparation before they come to Cabinet. I should therefore be grateful if you would take the chair of a small group of the Ministers concerned, to produce agreed recommendations. I should like the other members of the group to be the Secretary of State for the Environment, the Secretary of State for Scotland and the Secretary of State for Wales, as the 'local authority' Ministers; the Secretary of State for Education, the Secretary of State for Social Services, the Secretary of State for Transport and the Secretary of State for Trade (each of whom is responsible for one or more of the services provided by local authorities); the Chief Secretary, Treasury; and the Secretary of State for Industry. The Cabinet Office will provide the Secretariat. Your aim might be to produce a report for Cabinet on 25 October, starting work immediately after the Party Conference. No doubt the Department of the Environment could produce factual papers for a meeting very early in the week beginning 15 October.

/I am sending

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- 2 -

I am sending copies of this minute to those Ministers named above and to Sir John Hunt.

A. T.

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19 September 1979

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PRIME MINISTER

Nationalised Industries' Cash Limits and Performance Targets  
for 1980-81  
(E(79) 35)

BACKGROUND

This paper runs parallel to the one on Cash Limits for Central and Local Government (E(79) 34) which is also on the Agenda. But the nationalised industries are in a different situation, operating in a commercial environment, and with a financing requirement which is the product of a good many factors: Revenue; Expenditure; Investment; etc. Cash Limits are thus a much less precise instrument, and more difficult to bring to bear in pay negotiations. Conversely, managements have a lot more flexibility in adjusting the other components to accommodate pay increases. The Committee considered all these points in July, when it agreed (E(79) 4th Meeting) to extend the 'Option A' approach to the nationalised industries, by setting cash limits which would impose some discipline on pay negotiations. This approach is entirely consistent with the Government's other plans for future relations with the industry, which are being considered separately by Sir Keith Joseph's Group.

2. Like the other paper (E(79) 34) before this meeting, the present paper seeks decisions on method, and proposals for precise cash limits will come up for approval later in the autumn.

HANDLING

3. Two groups of Ministers are involved. You might start by asking the main protagonists - the Chancellor, the Secretary of State for Employment and the Secretary of State for Industry - to speak generally. You could then call on the Ministers concerned with individual industries (for the most part, represented by substitutes on this occasion). Those involved are: Mr. Moore (representing the Secretary of State for Energy); Mrs. Oppenheim (representing the Secretary of State for Trade); ~~Mr. Kenneth Clarke~~ (representing the Minister of Transport) and, on a small scale, the Secretaries of State for Scotland and for the Environment. [The Secretary of State for Defence, if he stays for this item, may wish to raise a point about the Royal Ordnance Factories - see below.]

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4. The following main points seem likely to arise:-

- (a) The 'Option A' Approach. Ministers were broadly satisfied last time that this should be extended to the nationalised industries. Nothing in this paper throws any serious doubt on the earlier decision. Consultation at official level does not suggest any major disagreement.
- (b) Setting the Limits. The Treasury propose starting with a 'rule of thumb' that the increase in pay should be somewhat less than the expected increase in the RPI. This would then be worked out case by case for the individual industries. The paper discards the alternative approach of deriving pay increases from the target increases in money supply. (I'm sure this is right: but it is odd to find the point arising almost casually in a paper about nationalised industries, and not in the main paper on cash limits.) Broadly speaking, the rule of thumb would put a lot of pressure on coal and rail, and probably on Posts; but would cause little problem for gas, electricity, airways, or telecoms, where substantial productivity gains can be foreseen and where, apart from airways, a good deal of price flexibility is available. In the case of steel, all this is swamped by the very much larger economies being sought in the run-down. You might guide the Committee broadly to approve this 'rule of thumb' approach, subject to seeing how it looks in its application to individual industries.
- (c) Particular Cases. You will want to discourage detailed discussion: these issues will arise later. But there are some particular points which may come up. On coal, it will be very important to make sure that Mr. Howell (when he gets back from Brussels) circulates his paper on Coal for the E meeting on 27th September. This paper will touch on the initial response to the NUM pay claim. This reply may well have to be made before cash limits can be set for the NCB. But the tactics are, I understand, to defer any positive response until much later in the year, despite the NUM claim for restoration of the 1st November settlement date. Mr. Howell must carry his

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colleagues with him on this key negotiation. Mr. Howell (and in his absence Mr. Moore) should also consider how the rules should apply to the Atomic Energy Authority: is it to be treated as a nationalised industry, or does it fall under the Central Government procedure already discussed under Item 1? (The latter seems appropriate.) Finally, the Secretary of State for Defence may suggest that the Royal Ordnance Factories should be treated by an analogy with the nationalised industries. The analogy is not exact. In any case, the Cabinet has already commissioned work on decentralisation of Civil Service pay negotiations, which is especially relevant to MOD's problems. You will not want to anticipate the results of that review.

- (d) Procedure. There should be no difficulty in agreeing that the Chancellor should come forward at the end of October with specific figures, following discussions among officials and with the industries. (In practice, the Agenda is likely to be very crowded at the end of October, and the decisions could slip into early November; but you might say that it is important to have proposals ready before the end of October.)
- (e) Information Flows. The Chancellor makes specific proposals for keeping in touch with pay negotiations and monitoring cash flow in the nationalised industries. Here he is in dispute with the Secretary of State for Industry (the exchange of letters is annexed to the paper). Underlying this disagreement of principle is a particular case. It concerns the UPW settlement, where apparently the Post Office agreed to re-open the postal workers' pay settlement, without telling the Department; breached the cash limit in consequence; and left it too late to take account of this in the recent round of postal charges increases. The Secretary of State for Industry is about to write to you and other Ministers, suggesting corrective actions. You may not want to get drawn into a discussion of the particular case; but it underlines the need for fairly close contact with the industries, despite some Ministers' wish to disengage completely from pay

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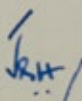
negotiations and rely wholly on cash limits. It is no use relying on cash limits if the industries choose to disregard them.

- (f) Presentation. You might ask the Chancellor to consider, before the next meeting, just how these cash limits would be presented. Would the Government explain the rationale of the 'rule of thumb'? or would it say that it could only afford so much (£X million) for nationalised industry finance, and that the industries must find the rest themselves? Or would it say that it had set a cash limit appropriate to the circumstances of each individual industry, and try to avoid a detailed discussion? The public stance is important, as the Chancellor himself recognises in his 'general' paper (C. 6(d) of E(79) 39).

CONCLUSIONS

5. I think the conclusions could follow those set out in the Chancellor's covering note (paragraph 10 of E(79) 35);

- (i) To agree, for the purpose of discussions with the industries, the 'rule of thumb' and 'broad approach' set out in the paper.
- (ii) To agree that discussions should now begin with the industries on the make-up of the 1980-81 cash limits on the lines set out in the paper.
- (iii) To invite the Chancellor to bring forward proposals for cash limits at the end of October; and that these proposals should extend to presentation as well as substance.
- (iv) To agree that the nationalised industry chairmen should inform Ministers of their intentions before beginning pay negotiations; that arrangements for monitoring cash flows should be strengthened as necessary to make cash limits stick; and to ask the Chancellor to arrange for this in consultation with other Ministers concerned.

  
(John Hunt)

19th September 1979



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PRIME MINISTER

1980-81 Cash Limits and Pay  
(E(79) 34)

BACKGROUND

At its previous discussion (E(79) 5th Meeting, Item 1) the Committee agreed to adopt 'Option A' (which means setting cash limits in advance of pay negotiations) rather than Option B (setting them in the light of the outcome of pay negotiations) in order to put pressure on the negotiators to take account of the economic realities. But it wanted this approach to be applied flexibly. It asked for some detailed examples. It was also worried that Option A inevitably led to the creation of a 'norm'. This paper from the Chancellor deals with both worries. He has also circulated a separate paper (E(79) 35) about the way Option A would apply to nationalised industries which will be considered under the next item on the Agenda, and a further paper (E(79) 39) about 'Handling Public Sector Pay in the Context of Cash Limits'. You did not like this latter more general paper, but agreed that it might be listed on the Agenda as 'also relevant'. There are nevertheless one or two recommendations in it which it would be useful to pick up.

2. The two main papers are about methodology. They do not propose hard numbers for next year's cash limits, or disclose the Chancellor's implicit 'pay norm'. He will defer making firm proposals on these until the end of October, when he has the short-term forecasts for next year. But decisions are now urgent on the methodology if the necessary work is to be completed on time. In addition, Ministers must settle their approach to the proposals for a 'sliding scale' formula for RSG - or decide on an alternative - if these are to be introduced in this year's negotiations. And they must also take a view on the proposal for a 'global' cash limit for the Civil Service. Altogether there is a formidable amount to be done and this is why we have had to take these papers at the present meeting, even though the attendance is a bit thin. (There would have been no problem, had the Chancellor brought his papers forward last week as he originally intended: but as you know, he had difficulty in settling them internally and asked for a week's grace.)

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HANDLING

3. After the Chancellor has introduced his paper, you might seek to break the discussion down into its component parts:-

(a) Publicity. This is, in a way, the easiest part. The Chancellor concludes (paragraph 5 of E(79) 34: and paragraphs 24-27 of the Note by Officials which he circulates) that there is no way of keeping secret the pay assumptions underlying cash limits. He is right, at least for local authority, National Health Service and Central Government Services (concealment will be much easier in some of the nationalised industries) and the Committee will no doubt accept his conclusion. To do so does not, of course, mean applying a uniform 'norm' across the public services. There will be room for offsets and increased efficiency, as the rest of the paper makes clear. But, at least while nationally-negotiated scales remain, the Government will have to make plain the maximum increase it is prepared to finance. The alternative would be to abandon the 'discipline of cash limits' approach, and to revert to 'Option B' with all that entails.

(b) General Approach. Given that Option A stands how is it to be applied? There are two specific proposals for greater flexibility: the RSG sliding scale, and the global cash limit for the Civil Service. I suggest that you leave these two till the end of the meeting. The important thing is to get agreement on the general approach. The Chancellor's line is to set cash limits which will put some pressure on negotiators, but to do so as close as possible to the negotiations themselves, and case by case. He suggests starting with the local authorities, moving on to the Health Services and leaving the Civil Service to the end. The other groups will be slotted into this programme, and the nationalised industries would be settled separately. There are three snags in this approach which will probably emerge in the discussion:-

(i) Timetable. In practice, the local authority and NHS unions will negotiate together (as they did last year). The argument will essentially revolve around updating Clegg. Although

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there is a month between the two lots of negotiations (Local Authorities in November, NHS in December) they will telescope. So, whatever pay increase Ministers build into the RSG settlement for the local authorities will in practice become a limit for the NHS as well.

- (ii) Quantum. Cabinet has decided on the volume of public expenditure next year. It now has to translate this into cash terms. Paragraphs 4 to 9 of the 'note by officials' set out very clearly the general method used. The figures are only illustrative. However, it is pretty clear already that straight adjustment of the volume figures agreed by Cabinet in line with wage movements will leave the Chancellor very little scope for tax cuts in the Budget if he is to stick to something like the present monetary targets. The Committee is not asked to form a view on numbers at this stage. But I think you should caution against any easy optimism. Although the Committee agreed to maintain Pay Research in the Civil Service, there are some hard decisions ahead. A trade-off between increased pay and jobs may be inevitable if everything else (fiscal and monetary policy) is to be held constant, i. e. the decision on cash limits may well carry an implicit decision to cut volume spending next year below the totals already agreed whether in the Local Authority, NHS or Civil Service fields. It is also possible that some colleagues may argue that the pay cash limit should be set as much in relation to monetary targets as to the forecast outcome of pay negotiations, with or without an offer. Paragraph 18 of the paper on nationalised industries dismisses this approach for them and the arguments against attempting it this year for the public services proper are even stronger. But if the point is made, and survives discussion you might say that it is a question to be considered when precise figures come up for decision in October.

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(iii) Effectiveness. It will not be easy to carry conviction with the trade-off argument in pay negotiations. The problem is particularly acute in the Civil Service (Lord Soames' minute to you of 14th September makes the point). The scope for negotiating about the PRU findings is narrow - perhaps one per cent either side of the median - within the framework of the current pay agreement with the staff. So any significant undershoot between the amount allowed for pay in the cash limit and the outcome of Pay Research can only be compensated for by further staff cuts. But it is already clear that there will be trouble enough in securing planned manpower savings next year - and not simply through staff resistance. The present national pay negotiations are of course conducted horizontally, with the main Civil Service unions, whereas staff cuts will be decided vertically, Department by Department. It will be difficult enough to demonstrate causes and effect to the pay negotiators, but colleagues in charge of the main employing Departments may also be very reluctant to face the consequences for their own operations.

(c) Flexibility. Despite the Committee's general support for 'flexibility' there are only two specific measures proposed here, and both have their problems:-

(i) A Tapering RSG. You originally wanted a cash limit on local authority expenditure and this remains an alternative which you may want to explore. The present proposal, rather ingeniously, seeks to get the same result by a different route. In fact, in the worked example given in Annex B, it is even more stringent than a cash limit on expenditure. (But this all depends on the precise taper chosen: the scheme could be made more or less penal by varying the percentage cut-off point.) The necessary legislative powers are already being taken in the

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Local Government Bill. The Department of the Environment are fairly confident that the scheme can be made to work. (You will want to get Mr. King to confirm this.) The difficulty is twofold. The scheme would further penalise local authorities who either already suffer from the distribution formula or would suffer from any change in it. (A shift from Cities to Shire Counties would force the former to put up their rates anyway: they would be further penalised through this scheme for doing just that.) The second problem is effectiveness. Those negotiating national wage agreements are a long way from the local authorities who, individually, would have to choose between rate increases and job cuts. Some political skill will be needed to get those authorities likely to suffer most to put pressure on the LACSAB negotiators. This is for Mr. Heseltine and Mr. King.

- (ii) A Global Limit for the Civil Service. This scheme, too, is ingenious, and designed to import a measure of flexibility to cope with the practical problems of enforcement - see Lord Soames' minute once more. But it may be too lenient for some Ministers' tastes. They will argue that a single cash limit for the whole Civil Service puts no pressure on individual union negotiators and that more fragmentary cash limits are therefore to be preferred. Against this, it can be argued that, because the actual rates of pay next year will be determined within fairly narrow limits by Pay Research, it should be unrealistic to expect cash limits as such - global or otherwise - to exert much influence on the negotiations. On this reading, the union negotiators are more likely to go for what they can get from PRU and leave it to Government to decide how to finance the outcome. They will know that Governments find cutting staff at least as, if not more, painful than does the staff. And they will not be particularly concerned by the prospect that the Government may

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have to break its own cash limits. Seen in this light a global cash limit may be more a device to ease Government's problems in adjusting to the outcome of pay negotiations than a factor in the negotiations themselves. It is also relevant that, through an accident of timing, the Government does not have to decide the Civil Service pay cash limit until next March - by which time it will have a pretty good idea of the likely outcome of Pay Research. Unlike the Local Authority manuals and the NHS cases therefore the Government will in practice be able to decide its policy to the Civil Service in general in the light of a good deal of relevant knowledge, including the prospects for the economy and the general shape of the budget arithmetic. At the same time, if the Government does want to move towards a global cash limits system for Civil Service pay, it will need to work out the proposals in more detail and be prepared to discuss it with the relevant Parliamentary Committees over the coming winter. As the Chancellor suggests, however, the next step is to explore the global limit idea in greater detail, prior to a decision in October. There is no reason for the Committee to object to this work being done in house and without commitment either way.

- (d) Presentation. There is one more point left over from the Chancellor's 'General' paper which you may wish to pick up. At paragraph 6(a), he says: "we must take every opportunity of ramming home our intentions clearly and forcibly". The Government has made a start, by the line it is now taking on 'Paying for Clegg'. That will help. But the main test will be presentation of the Rate Support Grant decision in November. You might ask Mr. Heseltine, through Mr. King, to make specific proposals on this when the RSG settlement comes up for decision next month.

CONCLUSIONS

4. You might record specific conclusions in line with the Chancellor's three recommendations (paragraph 13 of E(79) 34):-

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- (i) that the Committee approves the general approach suggested in the paper, noting that the basis of provisions for pay settlements cannot be kept private; and invites the Chancellor to bring forward proposals for the pay component of the Rate Support Grant, and of the NHS cash limit, at the end of October;

EITHER

- (ii) that the Secretary of State for the Environment, in consultation with the Chief Secretary and the other territorial Ministers, should develop the proposal that RSG cash limits should be linked inversely to increases in rates and/or pay settlements and bring proposals to the Committee for decision in time for their introduction into the RSG settlement in October;

and/or

- (iii) that the Secretary of State for the Environment in consultation with the Chief Secretary and the other territorial Ministers should develop proposals for the introduction of cash limits for local authority expenditure for consideration within the same timescale;

and

- (iv) that the Chancellor and the Lord President should develop the proposal for a Global cash limit covering Civil Service pay increases, reporting back to the Committee in October for a decision in principle and before any further consultation with Parliamentary Select Committees.



(John Hunt)

19th September 1979



Prime Minister

Content subject to other Ministers' comments?

(Seems quite unexceptionable)

Treasury Chambers, Parliament Street, SW1P 3AG

T P Lankester Esq  
Private Secretary to  
The Prime Minister  
10 Downing Street  
London SW1A 2AL

18 September 1979

PL  
20/9

Dear Tim,

PL

CASH LIMITS 1978- 79: PUBLICATION OF PROVISIONAL  
OUTTURN WHITE PAPER

... In your letter of August 29 you recorded the Prime Minister's agreement in principle to publishing a White Paper setting out the outturns for cash limits in 1978-79. I attach a draft of the White Paper.

The draft follows closely the format of earlier years with a short introductory text followed by tables showing the provisional outturn on individual cash limits in 1978-79 and the latest figures for 1977-78. The precise figures are still being finalised by officials.

But this administration not responsible

The provisional figures suggest that four cash limits were breached in 1978-79 compared with two in 1977-78 and two in 1976-77. The reasons for these breaches are currently being examined and the Chief Secretary will be considering what action needs to be taken.

PL

Overall cash limits were underspent in 1978-79, although by rather less than in earlier years. The unspent money in cash limits amounted to some £480 million on central government cash limits totalling over £30 billion and some £550 million on local authority totalling over £5 billion.

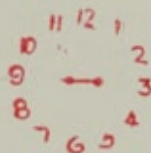
I am copying this to the Private Secretaries to other members of the Cabinet and to Sir John Hunt. Subject to any comments received by September 25, the White Paper will be published on October 5, accompanied by a Press Notice covering the main points of interest.

Yours sincerely,  
A C Pirie

A C PIRIE  
Private Secretary



20 SEP 1979



## CASH LIMITS

### 1978-79 PROVISIONAL OUTTURN (AND 1977-78 OUTTURN)

1. Cash limits for 1978-79 were published in the White Paper 'Cash Limits 1978-79' (Cmnd 7161). Changes made during the year are shown in Table 1 below.

2. Tables 2 and 3 give provisional figures for the outturn on the limits. They may be subject to some adjustment when final accounts are available. The estimated outturn of the cash limits on nationalised industries in 1978-79 was given in Table 13 of the Financial Statement and Budget Report 1979-80.

3. Cash limits for 1977-78 were published in the White Paper 'Cash Limits on Public Expenditure' (Cmnd 6767) and the provisional outturn figures, together with changes made to the limits during the year, in the White Paper 'Cash Limits 1977-78 Provisional Outturn' (Cmnd 7295). Table 4 gives the final outturn figures for central Government cash blocks in 1977-78. The figures for Local Authority cash blocks in 1977-78 shown in Table 5 are subject to revision.

### CHANGES TO CASH LIMITS IN 1978-79

Table 1

The following changes were made during 1978-79 to cash limits published in Cmnd 7161.

Department	Block(1) Number	£ Million	Purpose of Change
Ministry of Agriculture Fisheries and Food	MAFF1*	-0.5	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
		-1.2	Transfer to MAFF2 for assistance to fishing industry : announced on 7 December 1978
	MAFF2	+1.0	Assistance with the institution of the local authority poultry meat inspection service : announced on 30 June 1978
		+0.2	Assistance (from the aid provided by the EEC) to farmers who suffered livestock losses in the 1978-79 winter : announced on 1 August 1978

Department	Block(1) Number	£ Million	Purpose of Change
		+1.2	Transfer from MAFF1
Central Office of Information	COI1*	-0.1	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978.
	COI2	+1.4	Publicity for the Departments of Energy and the Environment : announced on 2 November 1978
Civil Service Department	CSD1	-0.3)	Transfer to HO1 due to uneven effect
	CSD2	-0.1)	effect of civil service pay settlement : announced on 24 November 1978
Department of Education & Science	DES2	+7.4	Extension of free school milk: announced on 19 June 1978
Department of Employment	DEM1*	-0.4	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
	DEM2	+1.2	Extra provision for teacher retraining announced on 19 June 1978
		-0.5	Transfer to HO1 due to uneven effect of civil service pay settlement: announced on 24 November 1978
	DEM3	-0.2	Transfer to HO1 due to uneven effect of civil service pay settlement: announced on 24 November 1978
Department of Energy	DEN2	-3.6	Transfer to DOE of certain respon- sibilities in the civil nuclear waste management field : announced on 19 June 1978
	DEN3	-0.8	Transfer to COI2 for publicity expenditure
		+17.7)	Adjustments to reflect the provision
		-4.1)	of coal burn assistance to the NCB : announced on 24 November 1978 and 29 March 1979 respectively
Department of the Environment	DOE1*	-0.5	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
	DOE2	+14.5	Provision for additional expenditure on factory building by the develop- ment commission and transfer from DEN2 and DOE/LA6 : announced on 19 June 1978

Department	Block(1) Number	£ Million	Purpose of Change
	DOE3*	-0.9	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
	DOE4	-1.3	Deferral of purchase of premises at CULHAM for the european school : announced on 30 January 1979
	DOE6	+92.0	Rate support grant adjustment : announced on 24 November 1978
	DOE/ LA2	+14.9	Measures to promote energy conservation: announced on 19 June 1978
	DOE/ LA4	+7.5	Extra provision for coastal protection and assistance for certain areas affected by early steel closures : announced on 19 June 1978
	DOE/ LA5	-3.0	Transfer to DOE/NT1 for increased industrial and commercial investment: announced on 30 January 1979
	DOE/ LA6	-7.7	Extra provision for environmental services and inner cities, offset by transfers to DOE2 and DOE/NT1 : announced on 19 June 1978
	DOE/NT1	+8.9	Transfer from DOE/LA6 for increased industrial and commercial investment: announced on 19 June 1978
		+3.0	Extra provision - transfer from DOE/LA5: announced on 30 January 1979
Foreign and Commonwealth Office	FCO2	-1.3)	To finance the central arbitration award on the BBC external services :
	FCO4	+1.3)	announced on 1 February 1979
Registry of Friendly	FSR1	+0.2	Transfer from HMT1 to offset the cost of the inspection of the Grays Building Society and reduced receipts from fees : announced on 23 November 1978
	DHSS 2	+46.9	Extra provision for the health services: announced on 19 June 1978
		+18.2	To meet the cost of the national insurance surcharge : announced on 12 July 1978
		+2.6	Vaccine damage payments scheme : announced on 3 August 1978

Department	Block(1) Number	£ Million	Purpose of Change
Home Office	HO1*	+2.7	Extra provision for law, order and protective services : announced on 19 June 1978
		+7.8	Retrospective payment to prison officers offset by a transfer from HO2 : announced on 24 November 1978
		+4.6	Transfers from other cash blocks to offset the uneven effect of the civil service pay settlements:announced on 24 November 1978
	HO2	+0.3	Extra provision for law, order and protective services : announced on 19 June 1978
		-7.8	Transfer to HO1 to meet the uneven effect of the civil service pay settlement : announced on 24 November 1978
Department of Industry	DI1*	-0.2	Transfer to HO1 to meet the uneven effect of the civil service pay settlement : announced on 24 November 1978
Board of Inland Revenue	IR1*	+2.9	To finance administrative costs of tax changes announced in the April 1978 budget : announced on 19 June 1978
Ordnance Survey	OS1*	-0.1	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
Stationery Office	HMSO1*	-0.2	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
Department of Trade	DOT1*	-0.2	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
Department of Transport	DTP1*	-0.2	Transfer to HO1 due to uneven effect of civil service pay settlement : announced on 24 November 1978
	DTP2	-10.0	Transfer out of cash limits to provide assistance for ports and the Port of London authority: announced on 1 December 1978
	DTP4	+ 0.3	Rate support grant adjustment: announced on 24 November

Department	Block(1) Number	£ Million	Purpose of Change
Treasury	HMT1*	-0.2	Transfer to FSR1:announced on 23 November 1978
		-0.2	Transfer to HO1 due to uneven effect of civil service pay settlement: announced on 24 November 1978
Scottish Office	SO2	+11.4	Rate support grant adjustment : announced on 28 November 1978
	SO/LA1	+3.0	Extra provision for health services environmental services and law, order and protective services:announced on 19 June 1978.
	SO/LA2	+1.1	Measures to promote energy conservation : announced on 19 June 1978
	SO/LA4	+3.5	Extra provision for capital expenditure on education:announced on 19 June 1978
Scottish Economic Planning Department	SEPD1	+0.2	Extra provision for environmental services and the Scottish Tourist Board:announced on 19 June 1978
Scottish Education Department	SED1	+1.0	Extra provision for environmental services, the Scottish Sports Council, and school milk: announced on 19 June 1978
Scottish Home and Health Department	SHHD1	+5.0	Extra provision for the health services : announced on 19 June 1978
		+2.6	To meet the extra cost of the national insurance surcharge: announced on 12 July 1978
		+0.3	Extra provision for the vaccine damage payment scheme:announced on 3 August 1978
	SHHD2	+0.2	Extra provision for law, order and protective services:announced on 19 June 1978
	Welsh Office	WO2	+ 3.6
+1.3			To meet the extra cost of the national insurance surcharge: announced on 12 July 1978
+0.1			Extra provision for the vaccine damage payments scheme:announced on 3 August 1978

Department	Block(1) Number	£ Million	Purpose of Change
	WO6	+15.0	Extra provision for environmental services, rural infrastructure projects and assistance for certain areas affected by early steel closures: announced on 19 June 1978
	WO/LA1	+0.9	Measures to promote energy conservation: announced 19 June 1978
Northern Ireland Office	NIO1*	+1.3	Extra provision for payments to prison officers and police: announced on 16 February 1979
	NIO2	+0.1	Extra provision for law order and protective services: announced on 19 June 1978
		+2.9	Extra provision for payments to prison officers and police: announced on 16 February 1979
Northern Ireland Departments	NID1	+5.3	Extra provision for the health service, environmental services, energy conservation, school meals school milk, and teacher retraining: announced on 19 June 1978

#### Notes

- (1) Central responsibility for expenditure control is exercised by the Treasury and the Civil Service Department depending on the nature of the expenditure concerned. The blocks controlled by the Civil Service Department are indicated by an asterisk.

CASH LIMITS 1978-79 : PROVISIONAL OUTTURN  
CENTRAL GOVERNMENT BLOCKS

Table 2

Department	Block Number	(1) Description of Block	£ million	
			Cash Limit	Provisional Outturn
Ministry of Agriculture, Fisheries and Food	MAFF1*	Pay and general administrative expenses	91.8	87.7
	MAFF2	Agricultural and food services and fisheries support	65.4	55.4
Intervention Board for Agricultural Produce	IBAP1*	Pay and general administrative expenses	6.5	6.4
Bank of England	BOE1	Financial management	61.5	55.2
Cabinet Office	CO1*	Pay and general administrative expenses	4.7	4.7
Central Office of Information	COI1*	Pay and general administrative expenses	8.0	7.6
	COI2	Home publicity	17.5	16.0
Charity Commission	CC1*	Pay and general administrative expenses	1.9	1.7
Civil Service Department	CSD1	Central management of the Civil Service	23.7	22.2
	CSD2	Computers and telecommunications	63.7	51.3
	CSD3	Civil Service catering	1.2	0.9
Crown Estate Office	CEO1*	Pay and general administrative expenses	0.8	0.8
Customs and Excise	CE1*	Pay, general administrative expenses and capital expenditure	167.0	162.7
Ministry of Defence	MOD1	Defence Budget, less forces pensions and certain PSA staff costs	6,880.0	6954.5
Department of Education and Science	DES1*	Pay and general administrative expenses	19.6	18.7
	DES2	Current and some capital expenditure on schools, further education, teacher training, youth services and educational research	74.4	60.4
	DES3	Current and some capital expenditure on universities	720.3	715.1
	DES4	Libraries, museums, galleries and the arts	111.3	105.4
	DES5	Science Budget - Research Councils	284.0	280.3



Department	(1) Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
Department of Employment	DEM1*	Pay and general administrative expenses	125.5	110.4
	DEM2	Manpower Services Commission	594.7	507.8
	DEM3	Health and Safety Commission	50.5	46.5
	DEM4	Other employment services	59.2	51.3
Department of Energy	DEN1*	Pay and general administrative expenses	9.5	9.3
	DEN2	Nuclear energy	139.8	137.6
	DEN3	Research and development and industrial sponsorship	75.0	61.5
Department of the Environment	DOE1*	Pay and general administrative expenses	93.0	85.9
	DOE2	Various central and miscellaneous services	133.5	128.3
	DOE3*	Property Services Agency : Pay and general administrative expenses	151.9	147.9
	DOE4	Office and general accommodation services	365.4	333.0
	DOE5	Overseas representation : accommodation services	29.3	28.3
	DOE6	Rate support grant and National Parks supplementary grants for local authorities in England and Wales (2)	7,083.8	7,058.8
Exchequer and Audit Department	EA1*	Pay and general administrative expenses	5.0	4.7
Export Credits Guarantee Department	ECGD1*	Pay and general administrative expenses	11.9	10.9
Office of Fair Trading	OFT1*	Pay and general administrative expenses	2.1	1.9
Foreign and Commonwealth Office	FCO1*	Pay and general administrative expenses	147.5	142.2
	FCO2	Overseas representation, overseas information and external relations	22.4	19.1
	FCO3	British Council	25.8	25.7
	FCO4	Overseas information : broadcasting	36.5	36.5
Forestry Commission	FC1*	Pay and general administrative expenses	43.1	40.7
	FC2	Forestry	30.4	24.0
Friendly Societies' Registry	FSR1*	Pay and general administrative expenses	0.7	0.7
Government Actuary's Department	GAD1*	Pay and general administrative expenses	0.4	0.4

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
Department of Health and Social Security	DHSS1*	Pay and general administrative expenses	585.0	580.7
	DHSS2	Health and personal social services	4,944.7	4,893.3
Home Office	HO1*	Pay and general administrative expenses	268.4	260.7
	HO2 <sup>(3)</sup>	Law, order and protective services	132.5	122.1
Department of Industry	DI1*	Pay and general administrative expenses	59.3	58.2
	DI2	Regional and industrial policy and research and development	129.7	116.0
Board of Inland Revenue	IR1*	Pay and general administrative expenses	400.2	386.9
Land Registry	LR1*	Pay and general administrative expenses	25.6	25.4
Lord Chancellor's Department	LCD1*	Pay and general administrative expenses	18.5	17.6
	LCD2	Administration of legal aid fund and judges' salaries	20.0	18.8
National Debt Office	NDO1*	Pay and general administrative expenses	0.3	0.3
Department for National Savings	DNS1*	Pay and general administrative expenses	36.4	34.9
Ordnance Survey	OS1*	Pay, general administrative expenses and capital expenditure	23.7	22.5
Ministry of Overseas Development	ODM1*	Pay and general administrative expenses	13.6	11.8
	ODM2	Aid Programme	716.3	721.0
Parliamentary Commissioner and Health Service Commissioner	PCHC1*	Pay and general administrative expenses	0.8	0.7
Paymaster General's Office	PMGO1*	Pay and general administrative expenses	5.0	4.6
Office of Population Censuses and Surveys	OPCS1*	Pay and general administrative expenses	11.6	10.7
Department of Prices and Consumer Protection	DPCP1*	Pay and general administrative expenses	3.5	3.2
	DPCP2	Consumer protection	18.0	16.4
Privy Council Office	PCO1*	Pay and general administrative expenses	0.3	0.3
Public Record Office	PRO1*	Pay and general administrative expenses	1.9	1.6

Department	Block Number	(1) Description of Block	£ million	
			Cash Limit	Provisional Outturn
Public Trustee Office	PTO1*	Pay and general administrative expenses	2.0	1.9
Public Works Loan Commission	PWLC1*	Pay and general administrative expenses	0.2	0.2
Stationery Office	HMSO1*	Pay and general administrative expenses, office machinery	70.4	69.2
	HMSO2	Stationery and printing	36.9	34.9
Department of Trade	DOT1*	Pay and general administrative expenses	47.7	45.3
	DOT2	Civil aviation and shipping, export promotion and trade cooperation, tourism, regulation of trading practices and consumer protection, and other support services	47.3	34.3
Department of Transport	DTP1*	Pay and general administrative expenses	91.3	87.6
	DTP2	Motorways and trunk roads, new bus grants, etc.	477.9	435.9
	DTP3	Grants to transport undertakings and transport research,	32.4	23.8
	DTP4	Transport supplementary grant (2)	297.9	297.1
Treasury	HMT1*	Pay and general administrative expenses	15.4	14.0
	HMT2	Secret Service	34.5	33.4
Treasury Solicitor	TS1*	Pay and general administrative expenses	5.0	4.8
SCOTLAND				
Scottish Office	SO1*	Pay and general administrative expenses	65.8	62.4
	SO2	Rate support grant for local authorities in Scotland (2)	1038.4	1,035.4
Department of Agriculture and Fisheries for Scotland	DAFS1*	Agricultural services and fisheries support	33.7	28.6
Scottish Courts Administration	SCA1*	Pay and general administrative expenses	4.2	4.1
Scottish Development Department	SDD1	Motorways, trunk roads and other environmental services	83.4	82.1
Scottish Economic Planning Department	SEPD1	Regional and industrial development	86.3	65.9

Department	Block (1) Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
Scottish Education Department	SED1	Schools, teacher training, educational research, further education, youth services, sport, social work, libraries, galleries, museums and other arts	65.2	58.6
Scottish Home and Health Department	SHHD1	Health	705.3	701.1
	SHHD2	Law, order and protective services	13.6	11.7
Department of the Registers of Scotland	DRS1*	Pay and general administrative expenses	2.1	2.1
Registrar General's Office, Scotland	RG(S)1*	Pay and general administrative expenses	1.9	1.7
Scottish Record Office	SRO1*	Pay and general administrative expenses	0.5	0.5
Queen's and Lord Treasurer's Remembrancer	QLTR1*	Pay and general administrative expenses	4.1	4.0
WALES				
Welsh Office	WO1*	Pay and general administrative expenses	18.4	15.2
	WO2 <sup>(3)</sup>	Health and personal social services, roads, education, libraries, arts and other environmental services	388.3	383.4
	WO6	Regional and industrial development	54.0	43.5
NORTHERN IRELAND				
Northern Ireland Office	NIO1*	Pay and general administrative expenses	42.3	41.1
	NIO2	Law, order and protective services, grant to the Police Authority for Northern Ireland, and accommodation	111.9	111.1
Northern Ireland Departments	NID1	Services analogous to GB services covered by cash limits	1,147.3	1,135.3
<b>TOTAL</b>			<b>30,281.1</b>	<b>29,801.3</b>

#### NOTES

1. Central responsibility for expenditure control is exercised by the Treasury and the Civil Service Department, depending on the nature of the expenditure concerned. The blocks controlled by the Civil Service Department are indicated by an asterisk.

2. The cash limits on rate support grant and on National Parks and transport supplementary grants apply to increase orders for 1978-79. The figures given here represent the limits on the total amount provided in both main and increase orders. DOE6 covers both rate support grant and National Parks supplementary grants; DTP4 covers transport supplementary grant. The limit on DOE6 is subject to adjustment for changes in the interest rates affecting loan charges and elements in the Housing Revenue Account which affect the rate fund contribution to it. The Scottish Rate Support Grant limit, SO2, is subject to adjustment for changes in the interest rates affecting loan charges.

3. This cash limit differs from the sum of the original cash limit, published in CMND 7161, and the change recorded in Table 1 due to rounding.

## CASH LIMITS 1978-79 : PROVISIONAL OUTTURN

CAPITAL BLOCKS FOR LOCAL AUTHORITIES  
AND CERTAIN OTHER BODIES (1)

Table 3

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
EXPENDITURE CONTROLLED				
ENGLAND				
Department of Employment	DEM/LA1	Capital expenditure on employment services	1.0	0.5
Department of the Environment	DOE/LA2	Capital expenditure by local authorities and new towns on new housebuilding, land and improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by the local authorities and other housing investment (other than that included in DOE/LA1)	2,659.6	2,332.3
	DOE/LA4	Capital expenditure on reclamation of derelict land and coast protection work	33.1	27.8
	DOE/LA5	Gross expenditure on the community land scheme	74.7	34.0
	DOE/LA6	Urban Programme : Capital expenditure by local authorities	90.0	59.9
	DOE/NT1	New towns' industrial and commercial investment	62.8	62.3
Home Office	HO/LA1	Capital expenditure on police, courts and probation	33.4	17.5
SCOTLAND				
Scottish Office	SO/LA1	Roads and transport, water and sewerage, general services, urban programme, police and social work	267.6	240.0

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
Scottish Office	SO /LA2	Capital expenditure by local authorities, new towns, and the Scottish Special Housing Association on new housebuilding, land and improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by local authorities, other housing investment and new towns industrial and commercial investment	345.8	320.3
	SO/LA4	Capital expenditure by local authorities on school building, further education and teacher training	55.6	54.7
	SO/LA5	Gross expenditure on the community land scheme	6.8	1.1
WALES				
Welsh Office	WO/LA1	Capital expenditure by local authorities on new housebuilding, land and improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by local authorities, and other housing investment (other than that included in DOE/LA1)	104.6	106.1
	WO/LA2	Finance for housing associations for projects approved by the Housing Corporation	30.7	22.3
	WO/LAW1	Gross expenditure on the community land scheme by the Land Authority for Wales	7.7	5.1
	WO/NT1	New towns' industrial and commercial investment. Capital expenditure by new towns on new housebuilding, land and improvements, acquisition of existing dwellings.	7.3	5.2

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
STARTS/APPROVAL CONTROLLED				
ENGLAND				
Department of Education and Science	DES/LA1	Value of building projects started in 1978-79 under the aegis of the Department of Education and Science, local authorities, other public bodies and the universities, for schools, further education and teacher training, and higher education (England) and for universities (Great Britain)	253.8	249.4
Department of the Environment	DOE/LA3	Value of housing associations' projects approved by the Housing Corporation	403.1	402.7
Department of Health and Social Security	DHSS/LA1	Value of capital projects for personal social services approved by the Department of Health and Social Security	41.6	38.3
SCOTLAND				
Scottish Office	SO/LA3	Value of housing associations' projects approved by the Housing Corporation	66.1	66.1
WALES				
Welsh Office	WO/LA3	Value of building projects started in 1978-79 under the aegis of the Welsh Office and local authorities in Wales for schools, further education and teacher training, and higher education	13.2	13.2
	WO/LA4	Value of capital projects for personal social services approved by the Welsh Office	4.7	4.7



Department	Block Number	Description	£ million	
			Cash Limit	Provisional Outturn
BORROWING CONTROLLED				
ENGLAND				
Department of the Environment	DOE/LA1	Borrowing allocations made for capital expenditure within the locally determined sector in England and Wales	169.0	169.0
	DOE/WA1	Net Borrowing by Regional Water Authorities	269.0	215.8
Department of Transport	DTP/LA1	Key sector land sanctions for capital expenditure on roads and other transport in England and Wales	115.0	115.0
WALES				
Welsh Office	WO/WA1	Net Borrowing by the Welsh National Water Development Authority	20.0	24.8

(1)The other bodies referred to include water authorities, new towns, the Land Authority for Wales, the Housing Corporation, the Scottish Special Housing Association and certain educational bodies; these are indicated in the descriptions of blocks.

## CASH LIMITS 1977-78 : OUTTURN

## CENTRAL GOVERNMENT BLOCKS

Table 4

Department	Block Number	Description of Block	£ million	
			Cash Limit	Outturn
Ministry of Agriculture, Fisheries and Food	MAFF1*	Pay and general administrative expenses	91.3	84.5
	MAFF2	Agricultural and food services and fisheries support	63.1	54.3
Intervention Board for Agricultural Produce	IBAP1*	Pay and general administrative expenses	6.5	5.0
Bank of England	BOE1	Financial management	60.0	54.0
Cabinet Office	CO1*	Pay and general administrative expenses	4.5	4.4
Central Office of Information	COI1*	Pay and general administrative expenses	7.9	7.4
	COI2	Home publicity	12.0	10.6
Charity Commission	CC1*	Pay and general administrative expenses	1.8	1.6
Civil Service Department	CSD1	Central management of the Civil Service	23.1	20.2
	CSD2	Computers and telecommunications	58.2	57.7
	CSD3	Civil Service Catering	1.2	1.0
Crown Estate Office	CEO1*	Pay and general administrative expenses	0.8	0.7
HM Customs and Excise	CE1*	Pay and general administrative expenses and capital expenditure	156.5	147.4
Ministry of Defence	MOD1	Defence Budget, less forces pensions and certain PSA staff costs	6,450.0	6,354.6
Department of Education and Science	DES1*	Pay and general administrative expenses	19.3	17.6
	DES2	Current and some capital expenditure on schools, further education, teacher training, youth services and educational research	73.1	62.4
	DES3	Current and some capital expenditure on universities	687.1	634.0
	DES4	Libraries, museums, galleries and the arts	99.4	94.5
	DES5	Science Budget - Research Councils	252.8	247.0

Department	Block (1)		£ million	
	Number	Description of Block	Cash Limit	Outturn
Department of Employment	DEM1*	Pay and general administrative expenses	152.8	145.1
	DEM2	Manpower Services Commission	509.2	432.4
	DEM3	Other employment services	44.6	36.9
Department of Energy	DEN1*	Pay and general administrative expenses	9.3	8.7
	DEN2	Nuclear energy	145.6	130.4
	DEN3	Research and development and industrial sponsorship	53.6	49.3
Department of the Environment	DOE1*	Pay and general administrative expenses	87.1	82.4
	DOE2	Various central and miscellaneous services	156.5	147.3
	DOE3*	Property Services Agency : Pay and general administrative expenses	148.0	139.6
	DOE4	Office and general accommodation services and rents (UK)	359.4	320.9
	DOE5	Overseas representation : accommodation services	30.0	20.7
	DOE6 (2)	Rate support grant and National Parks supplementary grants for local authorities in England and Wales	6,433.7	6,473.6
Exchequer and Audit Department	EA1*	Pay and general administrative expenses	4.6	4.2
Export Credits Guarantee Department	ECGD1*	Pay and general administrative expenses	10.5	9.8
Office of Fair Trading	OFT1*	Pay and general administrative expenses	2.3	2.1
Foreign and Commonwealth Office	FCO1*	Pay and general administrative expenses	146.5	132.4
	FCO2	Overseas representation, overseas information and external relations	28.9	22.2
	FCO3	British Council	22.4	20.9
	FCO4	Overseas information : broadcasting	34.1	32.6
Forestry Commission	FC1*	Pay and general administrative expenses	37.9	37.0
	FC2	Forestry	25.3	23.0
Friendly Societies' Registry	FSR1*	Pay and general administrative expenses	0.6	0.6
Government Actuary's Department	GAD1*	Pay and general administrative expenses	0.4	0.4

Department	Block Number	Description of Block	£ million	
			Cash Limit	Outturn
Department of Health and Social Security	DHSS1*	Pay and general administrative expenses	530.0	514.3
	DHSS2	Health and personal social services	4,429.9	4,400.3
Home Office	HO1*	Pay and general administrative expenses	224.6	217.7
	HO2	Law, order and protective services	137.8	110.7
Department of Industry	DI1*	Pay and general administrative expenses	58.3	53.9
	DI2	Regional and industrial policy and research and development	122.7	104.9
Board of Inland Revenue	IR1*	Pay and general administrative expenses	361.7	353.1
Land Registry	LR1*	Pay and general administrative expenses	23.0	21.7
Lord Chancellor's Department	LCD1*	Pay and general administrative expenses	17.0	15.9
	LCD2	Administration of legal aid fund and judges' salaries	18.0	16.6
National Debt Office	NDO1*	Pay and general administrative expenses	0.3	0.3
Department for National Savings	DNS1*	Pay and general administrative expenses	41.2	37.9
Ordnance Survey	OS1*	Pay, general administrative expenses and capital expenditure	23.4	21.4
Ministry of Overseas Development	ODM1*	Pay and general administrative expenses	13.4	10.8
	ODM2	Aid programme	623.1	600.2
Parliamentary Commissioner and Health Service Commissioners	PCHC1*	Pay and general administrative expenses	0.7	0.6
Office of Population Censuses and Surveys	OPCS1*	Pay and general administrative expenses	11.1	9.7
Department of Prices and Consumer Protection	DPCP1*	Pay and general administrative expenses	3.4	3.0
	DPCP2	Food subsidies	243.5	242.0
	DPCP3	Consumer protection	15.8	13.6
Privy Council Office	PCO1*	Pay and general administrative expenses	0.3	0.3
Public Record Office	PRO1*	Pay and general administrative expenses	1.8	1.6

Department	Block number	(1) Description of Block	£ million	
			Cash Limit	Outturn
Public Trustee Office	PTO1*	Pay and general administrative expenses	2.1	1.9
Public Works Loan Commission	PWLC1*	Pay and general administrative expenses	0.2	0.2
Her Majesty's Stationery Office	HMSO1*	Pay and general administrative expenses, office machinery	70.0	59.3
	HMSO2	Stationery and printing	46.2	29.5
Department of Trade	DOT1*	Pay and general administrative expenses	45.4	42.1
	DOT2	Tourism, export promotion, regulation of domestic trade and industry, shipping services, civil aviation	67.9	50.1
Department of Transport	DTP1*	Pay and general administrative expenses	93.1	86.4
	DTP2	Motorways and trunk roads, new bus grants etc.	467.7	415.1
	DTP3	Certain railways grants and transport research	96.7	83.6
	DTP4	Transport supplementary grant	281.4	281.4
Her Majesty's Treasury	HMT1*	Pay and general administrative expenses	19.7	16.7
	HMT2	Secret Service	32.5	31.4
Treasury Solicitor	TS1*	Pay and general administrative expenses	4.5	4.3
SCOTLAND				
Scottish Office	SO1*	Pay and general administrative expenses	60.9	55.6
	SO2(1)	Rate support grant for local authorities in Scotland	932.5	932.9
Department of Agriculture and Fisheries for Scotland	DAFS1	Agricultural services and fisheries support	31.9	25.6
Scottish Courts Administration	SCA1*	Pay and general administrative expenses	4.1	3.7
Scottish Development Department	SDD1	Motorways, trunk roads and other transport expenditure	81.8	78.3
	SDD2	Other environmental services	2.1	1.8
Scottish Economic Planning Department	SEPD1	Regional and industrial development	64.8	53.0

Department	Block Number	(1) Description of Block	£ million	
			Cash Limit	Outturn
Scottish Education Department	SED1	Schools, teacher training, educational research, further education, youth services, sport, social work, libraries galleries, museums and other arts	57.1	52.5
Scottish Home and Health Department	SHHD1	Health	631.3	615.0
	SHHD2	Law, order and protective services	12.1	10.2
Department of the Registers of Scotland	DRS1*	Pay and general administrative expenses	1.8	1.8
Registrar General's Office, Scotland	RGO(S)1*	Pay and general administrative expenses	1.8	1.6
Scottish Record Office	SRO1*	Pay and general administrative expenses	0.5	0.5
Queen's and Lord Treasurer's Remembrancer	QLTR1*	Pay and general administrative expenses	3.7	3.4
WALES				
Welsh Office	WO1*	Pay and general administrative expenses	11.0	9.6
	WO2	Motorways, trunk roads, and other roads expenditure	71.8	54.2
	WO3	Other environmental services	3.8	3.8
	WO4	Libraries, museums, galleries and other arts	3.9	3.8
	WO5	Health and personal social services	270.4	269.5
	WO6	Regional and industrial development	28.7	25.2
NORTHERN IRELAND				
Northern Ireland Office	NIO1*	Pay and general administrative expenses	37.1	34.6
	NIO2	Law, order and protective services, grant to the Police, Authority for Northern Ireland and accommodation	97.6	95.8
Northern Ireland Departments	NID1*	Services analogous to GB services covered by cash limits	941.1	933.5
TOTAL			27,992.1	27,250.1

Notes

- (1) Central responsibility for expenditure control is exercised by the Treasury and the Civil Service Department, depending on the nature of the expenditure concerned. The blocks controlled by the Civil Service Department are indicated by an asterisk.
- (2) The cash limits for the rate support grant and National Parks supplementary grants apply to increase orders for 1977-78. The limits shown represent the sum of rate support grants, and, in England and Wales, supplementary grants in the Rate Support Grant Orders for 1977-78, plus the limit on these grants in increase orders. The Rate Support Grant circulars made clear that the limit would be amended as necessary to take account of variations in the assumptions used for interest rates applying to loan charges and, in England and Wales, for certain elements in the housing revenue account which affect the rate fund contribution.

## CASH LIMITS 1977-78 : OUTTURN

CAPITAL BLOCKS FOR LOCAL AUTHORITIES  
AND CERTAIN OTHER BODIES(1)

Table 5

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
EXPENDITURE CONTROLLED				
ENGLAND				
Department of Employment	DEM/LA1	Capital expenditure on employment services	3.9	0.9
Department of the Environment	DOE/LA2'	Capital expenditure by local authorities and new towns on new housebuilding and improvements, acquisition of existing dwellings, lending to private persons for house purchase and improvement (gross), improvement grants to the private sector, slum clearance and other housing investment	2,217.8	2,140.4
	DOE/LA4	Capital expenditure on reclamation of derelict land and coast protection work	20.6	17.5
	DOE/LA5	Gross expenditure on the community land scheme	35.9	15.6
	DOE/LA6	Inner cities construction expenditure	10.9	3.5
Home Office	HO/LA1	Capital expenditure on police, courts, probation and community services	40.3	33.2
SCOTLAND				
Scottish Office	SO/LA1	Capital expenditure on roads and other transport	83.7	68.4
	SO/LA2	Capital expenditure on other environmental services, museums galleries, libraries and other arts, youth services, recreation, police, fire, courts and community services	135.9	123.5
Scottish Development Department	SDD/LA1	Capital expenditure by local authorities, new towns, and the Scottish Special Housing Association on new housebuilding and improvements, lending to private persons for house purchase and improvement (gross), improvement grants to the private sector, slum clearance and other housing investment	318.9	295.1



Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
	SDD/LA3	Gross expenditure on the community land scheme	3.1	1.3
Scottish Education Department	SED/LA1	Capital expenditure by local authorities on school building, further education and teacher training	67.9	67.8
	SED/LA2	Capital expenditure on social work	7.9	7.9
WALES				
Welsh Office	WO/LA1	Capital expenditure by local authorities and new towns on new housebuilding and improvements, acquisition of existing dwellings, lending to private persons for house purchase and improvement (gross), improvement grants to the private sector, slum clearance and other housing investment	115.3	101.7
	WO/LA5	Inner cities construction expenditure	1.2	0.9
	WO/LAW1	Gross expenditure to community land schemes by the Land Authority for Wales	4.0	4.0
STARTS/APPROVAL CONTROLLED				
ENGLAND				
Department of Education and Science	DES/LA1	Value of building projects started in 1977-78 under the aegis of the Department of Education and Science, local authorities, other public bodies and the universities, for schools (England), teacher training, further and higher education (England and Wales) and for universities (Great Britain)	158.3	154.0
Department of the Environment	DOE/LA3	Value of housing associations' projects approved by local authorities and the Housing Corporation	433.0	422.0
Department of Health and Social Security	DHSS/LA1	Key sector borrowing and secure accommodation grant approvals by project for personal social services	32.5	31.1
SCOTLAND				
Scottish Development Department	SDD/LA2	Value of housing associations' projects approved by local authorities and the Housing Corporation	65.6	64.1

Department	Block Number	Description of Block	£ million	
			Cash Limit	Provisional Outturn
WALES				
Welsh Office	WO/LA2	Value of housing associations' projects approved by the Housing Corporation	16.7	16.7
	WO/LA3	Value of school building projects started under the aegis of the Welsh Office and local authorities in Wales	5.9	5.9
	WO/LA4	Key sector borrowing and secure accommodation grant approvals by project for personal social services	2.0	2.0
BORROWING CONTROLLED				
ENGLAND				
Department of the Environment	DOE/LA1	Borrowing allocations made for capital expenditure within the locally determined sector in England and Wales	233.3	231.0
	DOE/WA1	Borrowing by Regional Water Authorities	444.9	171.1
Department of Transport	DTP/LA1	Key sector loan sanction for capital expenditure on roads and other transport in England and Wales	95.4	87.7
WALES				
Welsh Office	WO/WA1	Borrowing by the Welsh National Water Development Authority	38.7	12.3

(1) The other bodies referred to include water authorities, new towns, the Land Authority for Wales, the Housing Corporation and certain educational bodies; these are indicated in the descriptions of blocks.

Prime Minister

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If you agree, draft  
minute for your  
signature is at

PRIME MINISTER

*Amend*

Flag C

Rate Support Grant 1980-81

*initiated  
18/9*

This note is about arrangements for Cabinet approval of the Rate Support Grant for next year. The question of Unitary versus Selective Grant is a longer-term one, which is shortly to be considered by the Home Affairs Committee.

Flag A

2. The Secretary of State for the Environment has already written to the Chief Secretary (6th September) setting out his main proposals. This letter was not copied to you originally, and I attach a copy.

3. The Rate Support Grant for this year has to be settled within the present statutory framework, and this provides for a 'statutory meeting' between Ministers and the Local Authorities which is timed for 20th November. (The parallel meeting in Scotland would be two or three days earlier.) These dates can be adjusted, but only with considerable difficulty and some public interest. A period of about three weeks has to be left between Ministerial decisions and the statutory meeting, to allow the detailed calculations to be made and proposals for individual authorities worked out. The complication, this year, is that the negotiations will also have to cover the question of pay and cash limits on which I have, of course, seen your comment contained in Mr. Lankester's letter of 17th September.

Flag B

4. Apart from cash limits, the main issues this year seem to be the volume of relevant expenditure (on which Ministers have already taken Cabinet decisions); the RSG percentage; and the distribution formula. Ministers have already made it clear that they want to see a shift away from the Metropolitan authorities and towards the Shire counties. The whole question is very complicated and politically sensitive. I'm sure the Secretary of State for the Environment is right in suggesting that they should be processed first by a smaller group of Ministers, informally or formally. In my view we could best do this through a MISC group, which would make formal recommendations to Cabinet.

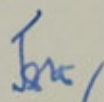
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5. I suggest that the Home Secretary might be a good neutral chairman for the group. (He has a small amount of local authority expenditure of his own, but his main interest is in the Police service, which is separately financed.) The three local authority Ministers (Environment, Scotland and Wales) must clearly be members. So must those Ministers who sponsor the major local authority services: Education; Social Services; Transport; and - on a small scale - Trade. There should obviously be a Treasury Minister - the Chief Secretary or (since he handles the day-to-day local authority finance questions) the Financial Secretary: I think it would be appropriate for the Chief Secretary to take this particular group. You might also like to consider whether to add another economic Minister, perhaps the Secretary of State for Industry.

The draft  
minutes  
assume  
he is in.  
JL

6. The Group should start work immediately after the Party Conference (the preparatory work will not permit an earlier start) and might report its recommendations to Cabinet either on 25th October or (or probably) 1st November. This would fit in well with the Chancellor's present intention to bring a paper about Pay and Cash Limits to Cabinet on 25th October, when we also expect to have the second meeting on the Public Expenditure bilaterals.

7. If you agree, you might like to ask the Home Secretary to take the chair of such a group, copying your note to the other Ministers named above. I attach a draft.

  
(John Hunt)

18th September 1979

Extract from a speech by Mr. Michael Latham M.P. (Melton) to a meeting of Area 3 of the Melton Conservative Association at 10 High Street, Melton Mowbray, on Tuesday 18th September at 8.00 p.m.

Release Time : 2000 Hours on  
18th September.

"In their depressing and unrealistic conference at Blackpool a fortnight ago, the Trade Union leaders promised strong opposition to the Government's Bill to reform certain aspects of industrial relations. Listening to their spokesmen, one might have been forgiven for wondering if we had all dreamed about last winter. Did we dream the pickets outside hospitals and Cheshire Homes? Did we imagine the militant action during the lorry drivers' strike which paralysed many firms not involved in that dispute at all? Were there no problems over ambulances, or did we imagine the use of the Army to provide emergency services in some places? The ungritted roads. The four national rail strikes. The tanker drivers' dispute. The vile horror of the unburied corpses. Were these things all the pretence of the newspapers?

Of course they weren't. And when the British people see the Trade Union campaign against Jim Prior's Bill this autumn, let them remember what happened last winter. And let them remember also what the Bill seeks to do:-

- It will limit lawful picketing to those who are party to the original dispute, and to those who picket only at their own place of work.
- Only those legally allowed to picket will be immune from legal action for breach of contract.
- The "conscience clauses" for a man or woman to get out of a closed shop agreement will be widened to include existing non-union employees and those with deeply held personal conviction.
- "Closed shops will be introduced only where there is genuine overwhelming support amongst employees.
- Public finance will be made available for trade unions to help them with the costs of postal ballots for union elections or industrial action. There will be no compulsion on any union to do this, but the money will be there if they want it.

Notice two things about the Prior package. It is exactly in accordance with the Conservative Manifesto proposals. And its proposals are very limited in scope. I believe they have very strong support amongst the British people

as a whole, and among individual trade unionists in particular, millions of whom voted for these reforms on May 3rd."

-----

1980/81 Cash Limits and Pay

I have written to the Treasury asking them to consider the possibility of a cash limit on local government expenditure, and have warned them (as well as DOE) that you will probably raise this at E Committee. I should, however, point out that the Chancellor's own proposal in paragraph 13(ii) - which is elaborated in Annex B - will have the effect of putting a ceiling on local authority expenditure. Essentially, the proposal is that the more the local authorities raise their rates, the less RSG they will receive under the RSG Increase Order. Their total revenue (and therefore expenditure) will thus be determined at a fixed level.

Putting a cash limit on local authority expenditure will obviously achieve this more directly. But this would raise greater constitutional difficulties, and would almost certainly require main legislation. By contrast, the proposal to link the RSG Increase Order inversely to the rates and to pay can be provided for in the Miscellaneous Provisions Bill which Mr. Heseltine is introducing.

*We discussed  
his proposal last time  
but there was some  
objection to it. I can't  
quite remember what  
it was.*

*B.*

17 September 1979

Cabinet Memorandum May 77

Denis Healey

1

Ref: A0248

MR. WHITMORE

Told M. Vile

12/18/79

E Committee

Shall we confirm the Thursday meeting? I think it is important to get the principles clear now, rather than wait until after the Party Conference. 17/9

Go ahead

put

You told me that the Prime Minister was concerned about the non-availability of a number of Ministers for the meeting of E Committee scheduled for this Thursday. The meeting is due to take papers on cash limits in the nationalised industries and in the public sector, the principal issue being how tactically and procedurally to deal with pay.

2. We have explored the possibility of holding the meeting on Friday. But this would mean losing the Secretary of State for Employment (in Dublin for an EEC meeting) - whose presence is important, and the Secretary of State for Industry. Of those absent on Thursday, we would only gain the Secretary of State for Energy.

3. Unfortunately, we have now also discovered that Mr. Heseltine cannot attend Thursday's meeting - he is addressing local authority Associations in Scarborough, a key occasion for him at present. (That we did not know this was a failure of communication between ourselves and his Department.) He therefore wishes to be represented by Mr. Tom King.

4. If we proceed with the meeting on Thursday, it will be attended by the Home Secretary, the <sup>Foreign Secretary</sup> Foreign Secretary, the Chancellor of the Exchequer, the Secretary of State for Industry, the Secretary of State for Employment, the Chief Secretary and the Secretaries of State for Education, Health and Social Security, and Scotland (the last 3 of which have, between them, important local authority and nationalised industry interests). Also attending would be Mr. Channon (for the Lord President), Mrs. Oppenheim (for the Secretary of State for Trade), Mr. Moore (for the Secretary of State for Energy) and Mr. King (for Mr. Heseltine).

5. This is not ideal. It remains the case, however, that, with the Chancellor out of the country for international conferences from next Tuesday to 4th October, the alternative is to defer discussion of the subject-matter until after the Party Conference. The Chancellor of the Exchequer, and the Ministers principally concerned, including Mr. Heseltine, would much



prefer the meeting to proceed on the basis of the papers which the Chancellor has circulated. The decisions being sought from this meeting are essentially procedural - whether or not to set cash limits as and when pay negotiations come up i. e. starting with the RSG and leaving the Civil Service to the end; whether or not to do further work on a sliding scale for the RSG cash limit; whether to do further work on a global cash limit on Civil Service pay; and whether to open up discussions on cash limits with the nationalised industries. Decisions on these will enable planning to be set in hand in particular for the RSG negotiations in late October/early November. The actual cash limits would be put to E after the Party Conference.

6. I would be grateful if you would let me know whether or not the Prime Minister is content to keep Thursday's meeting.

*MJV.*

(M. J. Vile)

*September*  
17th November 1979

CONFIDENTIAL



+ TRANS

Econ Pol. v. 18

10 DOWNING STREET

*From the Private Secretary*

17 September 1979

Flexibility Between Financial Years

The Prime Minister has considered the Chief Secretary's minute of 11 September on the above subject, and agrees that the proposal for a scheme of carry-forward should be deferred for the time being, and that it should be looked at again after Sir Derek Rayner's study on accounting conventions in Government business is completed.

I am sending a copy of this letter to the Private Secretaries to members of the Cabinet, to Martin Vile, and to Sir Derek Rayner.

T. P. LANKESTER

A. C. Pirie, Esq.,  
Chief Secretary's Office.

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SA



10 DOWNING STREET

*From the Private Secretary*

17 September 1979

The Prime Minister has read the paper on "Handling public sector pay in the context of cash limits" which was due for discussion at E Committee this Thursday. As I informed you, she did not feel that this paper was in a suitable form for Ministerial discussion. In the circumstances, she has asked that it should be put on the agenda as a paper for background reading only.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

TL

M.A. Hall, Esq.,  
HM Treasury.

SCM

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10 DOWNING STREET

From the Private Secretary

17 September 1979

The Prime Minister has read the Chancellor's paper for E Committee on Thursday -- "1980/81 cash limits and pay" -- and has noted the proposals for the Rate Support Grant. While she understands that the proposal to link inversely the RSG cash limit to increases in rates and/or pay settlements would have the effect of limiting expenditure by the local authorities, she wonders whether Ministers should not also consider the more direct approach of imposing a cash limit on local government expenditure. She will no doubt wish to raise this at E Committee.

I am sending a copy of this letter to David Edmonds (Department of the Environment) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Tony Battishill Esq.  
HM Treasury.

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Allyson



10 DOWNING STREET

THE PRIME MINISTER

17 September 1979

*Dear Sir Fred,*

Thank you for your letter of 21 August expressing concern about the possible effects on key areas of the education and science services of any revisions which the Government may make to the spending plans which we inherited.

The Government's first priority is, and must be, a revitalisation of the economy, and this means transferring resources from the public services to industry. There is no way in which the economy could have sustained the spending plans of the last administration. The country spends over £8,000 million a year on education and science and it is not possible to exempt them from programme reductions. But we intend to abide by our Manifesto commitment (reiterated in The Queen's Speech) to maintain educational standards, both in schools and in higher education. To this end, we are selecting for particular economies areas like school meals without damaging essential parts of the education system.

The extent to which the Government can determine how the UGC and ABRC distribute their resources for Universities and science is, as you well know, limited. But we are doing our best to make sure that science and engineering are as far as possible protected from overall programme reductions. Mark Carlisle, Rhodes Boyson and Neil Macfarlane are continuing their discussions with the various

/bodies involved

*Original in Cabinet PO  
file  
cc: DES  
EDK  
Ch Sec HST.*

bodies involved and stressing the need to sustain essential areas of activity. We all share your view that it would be wrong to make indiscriminate savings, and I think you will find that the figures for next year, when they are announced, reflect your views.

You also referred to the British Library Grant-in-Aid and Capital programme. I assure you that we shall take full account of all the points which you have already put to Norman St. John Stevas on the need for the new building, when we finally decide on the future allocation of funds for arts and libraries.

Kind regards,  
Yours sincerely,  
Raymond Dainton

Sir Frederick Dainton, F.R.S.

ACTION

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E(79)39  
14 September 1979

COPY NO 2

*This is not in  
Cabinet for  
it - back to the  
dismissed  
Treasury & Lib  
then to  
redraft in*

Prime Minister

CABINET

For E

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

*accordance with  
Mand and in  
next  
Thursday*

HANDLING PUBLIC SECTOR PAY IN THE CONTEXT OF CASH LIMITS

Note by the Chancellor of the Exchequer

*See paper for  
many 'copy' papers  
for the Treasury  
14/9  
pub*



PRIME MINISTER

## 1980-81 CASH LIMITS AND PAY

Unfortunately I have to be in Canada on 20 September when E Committee takes the Chancellor's paper (E(79)34), although I hope that Paul Channon may attend on my behalf. I have had a word with Geoffrey Howe about his paper and I am writing now to emphasise the crucial importance for the Civil Service of the Committee's decision.

2. I can go along with the Chancellor's proposal. The cardinal feature that makes it acceptable, by preserving some reality for pay research, is that it allows us to delay the settling and publication of the cash limit until March, when we should have a fair idea of what the pay research evidence points to. What I would strongly deprecate is any earlier settling of the cash limits which would make pay research into a sham.

3. The proposal still enables the Government to settle the cash limit before the negotiations with the Staff Side. We shall be free to decide in the light of the pay research evidence and the situation at the time, that the cost of a pay research settlement would be too high and could not be met or must be compensated for by other savings. What the proposal avoids is the risk of settling the cash limits blind, getting them badly wrong and then having no option but to take yet another cut at the numbers we already plan to pare down to the minimum.

4. Failure to reconcile cash limits and pay research would, in my judgment, have the most serious consequences for the morale of the Service and our relations with our employees and their unions. The present mood of militancy, which we all deplore and must seek to change, has not a little to do with the habit of previous Administrations of messing about with the Civil Service pay system to meet the needs of the incomes policy of the day. We are clearly in for further trouble over staff reductions, and we must stick to our guns on that. We have no prospect of separating the staff from the union militants if pay research is abandoned or seen to have become meaningless as a result of the way we organise the timing of the cash limits.

5. Copies of this minute go to all Cabinet colleagues and Sir John Hunt.

S

Jmi

Prime Minister - To note <sup>2</sup>

For E Committee: the  
Lord Soames supports  
the Chancellor on  
deferring a decision on  
the civil service cash  
limit until March.

TL

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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~236 2236~~ 218 2111/3

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MO 8/2/12

14th September 1979

R 14/9

Jean Alistair,

FLEXIBILITY BETWEEN YEARS

My Secretary of State has seen the Chief Secretary's minute to the Prime Minister of 11th September on this subject. As you may know this department has for nearly three years past been urging on the Treasury the need for a workable scheme for flexibility between years, without which sound management decisions are rendered a great deal more difficult. Treasury officials have accepted the need in principle for such a scheme but the detailed arrangements for implementing it have so far proved a stumbling block.

Mr Pym agrees that the best way forward would lie in the continuation of Sir Derek Rayner's studies. He hopes that his officials will be kept in touch with these as they progress.

Copies of this letter go to the Private Secretaries to the Prime Minister, other members of the Cabinet, Sir John Hunt and Sir Derek Rayner.

Yours sincerely,  
David Omand

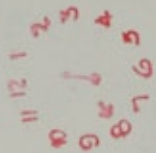
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A C Pirie Esq

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14 SEP 1979



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PRIME MINISTERNationalised Industries Investment and Financing Review:  
1981-82 to 1983-84  
(C(79) 37)

## BACKGROUND

This paper is really a companion-piece to the Chancellor's main 'Public Expenditure' paper. The reductions in nationalised industry borrowing forecasts in this paper have helped the Chancellor's overall strategy. At the very least it is important to make sure that they do not come unstuck at this or subsequent Cabinet meetings. But given the sheer size of nationalised industry operations you may want to urge the responsible Ministers to try and do even better especially on the expenditure side. Is Mr. Howell for example convinced that the electricity investment programme is soundly based given the overhang of a 40 per cent plant margin?

2. A main uncertainty in the forecasts concerns gas and electricity prices: the Chancellor's proposals assume that Ministers will sanction quite large increases in both, to move towards economic pricing for all fuels. Once again, Mr. Howell is bringing proposals to E fairly soon (and you might urge him to make sure that the paper comes forward no later than mid-October, because of its relevance to the cash limits decision).

3. Another relates to coal where Mr. Howell is due to bring a paper to E Committee either on 20th or 27th September. Given the difficult state of the NCB's finances and the importance of the NUM's forthcoming pay claim it would be worth asking Mr. Howell to ensure that his recommendations come forward in good time. Papers from his Department tend to slip and a public push by you could help to ensure that colleagues are not asked for decisions in undue haste.

4. The figures for steel, shipbuilding and Post Office are reasonably firm. There may be minor disputes over Railways and Airways and Airports. In all these cases, the Chancellor's tactics will be to try and secure agreement at this meeting to the general proposition, and have any detailed points

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remitted for the bilateral discussions with the Chief Secretary. The results can then be ratified at Cabinet on 18th or 25th October.

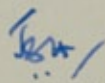
HANDLING

5. You could then ask the Chancellor to introduce his paper briefly. The main nationalised industry Ministers (Energy, Industry, Transport and Trade) should then be given a chance to speak: Scotland may also want to join in. But you might avoid any detailed discussion of particular points, merely asking the Ministers concerned to take the matters up in their bilateral discussions with the Chief Secretary.

CONCLUSIONS

6. You need two conclusions from this paper:-

- (i) To endorse the Chancellor's general approach.
- (ii) To invite the Ministers concerned to pursue detailed points bilaterally with the Chief Secretary. You may also need to record a separate conclusion.
- (iii) To invite the Secretary of State for Energy to bring forward in good time this month papers on coal and on gas and electricity pricing, to be taken into account in the resumed Cabinet discussion on October and in the discussion of cash limits.

  
(John Hunt)

12th September 1979

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PRIME MINISTER

Publishing Medium-Term Public Expenditure Plans  
(C(79) 36)

BACKGROUND

At the last Cabinet discussion on Public Expenditure (C(79) 12th Conclusions, Minute 5) on 26th July, the Secretary of State for Trade questioned whether it was necessary to publish Public Expenditure Projections going beyond 1980-81. You asked the Chancellor to bring forward a paper. The ground has shifted since then, with the decision to publish two separate White Papers, one on 1980-81 and one on later years. This makes it easier to emphasise the tentative nature of figures for the later years. The correspondence about guidance to local authorities on later years (the Chief Secretary's letter of 10th August and various replies) is also relevant.

2. It would be useful to get this paper out of the way before moving on to discussion of Longer-term Public Expenditure.

HANDLING

3. You might start by recalling this background, and then invite the Chancellor to introduce his paper. You could then throw the discussion open, starting with the Secretary of State for Trade (who raised the question first) and including the Secretary of State for the Environment and any others who wish to speak.

4. There are really three issues:-

(a) Whether to plan for five years ahead (paragraphs 2 - 4)

The Chancellor makes a strong case for doing so, for Government's own internal purposes. But he rightly stresses the need for the figures to be provisional, and biased on the down-side to avoid the need for later and difficult adjustments. Other public authorities also need a measure of guidance (the same point arises under (b) below). However, the techniques have changed since the Plowden report of 1962. Plowden recommended that expenditure plans

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should be considered against the background of a survey of available resources (now the 'medium-term assessment' or MTA). The present Government has set itself the objective of reducing public expenditure as far and as fast as possible, almost irrespective of the availability of resources. A gloomy MTA would merely strengthen the case for doing so. But the size and timing of cuts is not dependent on the MTA. Some Ministers may suggest that the whole apparatus of 5-year expenditure planning needs another review on the lines of Plowden (ideas of this kind have been current in the Ministry of Defence for some months). I do not suggest that you agree to this lightly: such a review would be very time-consuming and might not lead to any major changes. If necessary you could undertake to consider this suggestion.

(b) Whether to publish 5-year plans (paragraphs 5-12)

The Chancellor accepts that these White Papers can arouse expectations which cannot be fulfilled and are in any case usually liable to revision: but comes down in favour of present practice on the grounds that (i) publication at the present time would be an indication of the Government's seriousness over cutting expenditure; (ii) the local authorities and nationalised industries need some longer-term guidance; and (iii) failure to publish would lead to great criticism. In any case, it is operationally necessary to publish volume figures for 1980-81 as soon as possible, to provide a basis for the cash limits for that year. The Government will have to say then whether it intends to publish figures for later years. So a decision cannot be long-postponed.

(c) In what degree of detail should figures for local authority expenditure be published (paragraphs 13-15) ?

Underlying this issue is a more fundamental question, not really touched on in the Ministerial correspondence so far: does the Government intend to control local authority expenditure in future by a 'block-grant' with local authorities left to decide their own



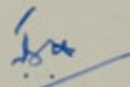
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priorities, or will it still go on giving guidance (which it cannot in practice enforce) about the allocation of resources. There are three factors here: the degree of responsibility to be accorded to local authorities as elected bodies; the collective wish of Cabinet to indicate priorities (e. g. more for law and order, and protection for health); and the wish of individual programme Ministers (like Education) to give guidance, and some reassurance, to their clients. Unless the Government is prepared to stand right back, and leave the whole allocation process to local authorities, there is a strong case for continuing to publish programme detail.

CONCLUSIONS

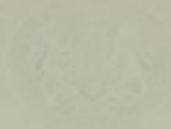
5. You might aim to record separate conclusions on each of the three main topics above. The most likely conclusions are:-

- (i) to agree that the Government should continue to make its own expenditure plans on a five-year rolling basis, while regarding the figures for later years as provisional;
- (ii) to publish annual White Papers setting out these projections, emphasising the tentative nature of the later years;
- (iii) to continue to provide broadly the same level of programme detail as at present including, especially, detail about local authority expenditure;
- (iv) to note that the Chancellor of the Exchequer will bring forward drafts of two separate expenditure White Papers, covering 1980-81 and later years respectively, for Cabinet consideration in due course.



(John Hunt)

12th September 1979



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12 SEP 1979



Prime Minister



PRIME MINISTER

FLEXIBILITY BETWEEN FINANCIAL YEARS

*Speed - we can look at it again after the Rayner study*

*Agree proposal at X? MOD, who have been the main exponent of "flexibility", agree that this is right.*

*PT3 R 14/9*

At Cabinet's discussion of public expenditure on July 23 I was asked to "arrange for officials to consider the question of end-year flexibility and report back to Cabinet in due course" - C(79)11th.

2. This followed a proposal in my paper, C(79)26, that, subject to certain conditions, arrangements might be introduced to carry forward limited amounts of unspent allocations within cash limits from one financial year to the next. The conditions, which are important, were:

- (i) provision for expenditure likely to be carried forward must not add to public expenditure planning totals;
- (ii) the scheme should be limited to expenditure for which there is a strong managerial case for carry-over, principally capital expenditure;
- (iii) the scheme should not imply relaxation in the strict observance of cash limits.

On this basis, Treasury officials put forward a scheme to departments for carry-over of up to 5% of eligible expenditure from this year to next. The potential addition to programmes in 1980-81 was to be financed by a contribution from the programmes of Departments participating in the scheme.

With one small exception, Departments have said that they do not want to participate in the scheme, generally because they are not able to provide the contribution required from their programmes. Without such a contribution, it is unlikely that the first of my three conditions would have been met. The effect would have been to add to programmes in 1980-81 and to increase the problems which we already face on next year's PSBR.

X | Sir Derek Rayner has indicated that he will be examining the application of the accounting conventions in government business, including the annuality rule. In these circumstances I propose that we await the results of Sir Derek's work and that in the meantime defer the proposal that a scheme of carry-forward should be introduced.

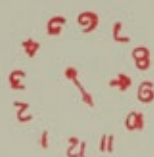
Provided that adequate provision for it can be made within an acceptable total for public expenditure in 1981-82, which is a decision for next summer, I do not exclude being able to introduce a scheme on these lines next year.

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

WJB

JOHN BIFFEN

11 September 1979



12 SEP 1979

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PRIME MINISTER

I shall miss Cabinet on Thursday but I would like to comment on the public expenditure papers.

Although at Cabinet on 26 July I questioned the wisdom of publishing 5 year figures, in the light of the Chancellor of the Exchequer's paper on publishing medium-term public expenditure plans (C(79)36), I accept that this year it would, on balance, be sensible to do so.

There is something to be said for establishing a new long-term trend line at this juncture in the Government's life. Having created a new framework - and hopefully a new climate - the wisdom of publishing 5 years figures should, in my view, be looked at again in one year's time. Contrary to the pleas of the General Sub-Committee of the Expenditure Committee I hope we will not publish detailed tax and revenue projections for the 5 year period. In so far as they would not be completely useless they would be damaging to the Chancellor's future freedom of manoeuvre in Budgetary policy.

So far as the Chancellor's and Chief Secretary's paper on the years after 1980/81 (C(79)35) is concerned, I endorse the arguments in the paper and accept the political and economic necessity of achieving the results set out in line 10 of Appendix C - namely the holding of public expenditure at a static level in real terms.

As I shall not be present at the Cabinet discussion, I should like to reserve my position on the details of the proposals for the Department of Trade until my return from overseas.



I am sending a copy of this minute to the Chancellor, the Chief Secretary, other Cabinet colleagues, and to Sir John Hunt.

SW

Department of Trade  
1 Victoria Street  
London, SW1

J.N.

11 September 1979



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PRIME MINISTER

Proposals for the years after 1980-81  
(C(79) 35)

BACKGROUND

The provisional programme for decisions on public expenditure after 1980-81 is to have a 'Second Reading' debate this week; for the Chancellor and the Chief Secretary to conduct a series of bilaterals over the next few weeks, in parallel with the separate talks the Lord President will be having about Civil Service Manpower; and for the results to be reported back to Cabinet at the first meeting after the Party Conference - 18th October. Almost certainly you will need a second meeting, probably on 25th October, to complete the process. The Chancellor would then bring forward a draft White Paper, including some economic background, in about the second week of November. Publication would follow before Christmas.

18th  
25th

2. This paper is the starting point. It covers only part of the story: there is a separate paper on Nationalised Industries, C(79) 37, and also a paper from the Lord President on Manpower Savings, C(79) 38, for which some credit is taken in this paper. The Chancellor's target nominally remains the one he set before the holidays: to reduce public expenditure, by 1982-83, to the level of 1977-78. In fact the figures in Annex C show him to be aiming a little short of that target - by £380 million in 1982-83 and £660 million in 1983-84 - after taking account of the suggested savings in his present paper, those proposed for the Nationalised Industries and a contribution from staff savings. These shortfalls are not particularly meaningful (they could e.g. be more than wiped out by a reduction in our EEC contribution) but emphasise the need not to accept any significant relaxation from the overall levels of saving proposed.

3. In theory this week's discussion could be short and largely procedural with the main battle reserved until after the bilaterals: and you may well judge it best to try to rail-road the Chancellor's paper through on that basis.

Prime Minister

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See also Mr Edwards' paper (attached), which asks for special treatment for loans - not very convincingly.

PL  
12/9

SECRET

4. Nevertheless I think the Chancellor's paper is vulnerable on two separate scores. Even if, therefore, you are going to give him your full support I think you ought to be warned about them and of the answers you could make to colleagues who are reluctant to agree.

← 5. The first vulnerable point is that the paper contains no real assessment of the future prospects of the economy. The Chancellor will claim that forecasts based on the present Treasury model are of little relevance because the new economic policy will create a new dynamic which the model, based on past relationships, cannot properly reflect (although I gather a second run was done which postulated quicker and more favourable reaction to the Government's budgetary measures). He may, if pushed, say that, were the medium-term assessment (MTA) to be brought into the reckoning, it would support the need for severe restraint in public expenditure of the kind he has outlined. But his basic approach will be that the reduction in the burden of public expenditure is a pre-condition for success in the new economic policy and that the cuts he is asking for in public expenditure over the next five years are justified in their own right and irrespective of any forecasts. I think this argument is sustainable. What is harder to answer - without reference to an MTA - is how much difference it would make if the cuts were phased differently. If discussion develops on this point you may want to support the Chancellor by reminding colleagues that the last Government's plans repeatedly went awry because they committed expenditure on the basis of forecasts which were invalidated by events, and that the only prudent course is to take a tough line on public expenditure now. The time to think of spending more money will arise when we have earned it. This need not preclude the Cabinet from having a general discussion on economic prospects at some convenient date in the future but it would be a mistake to think that such discussion would be likely to ease the task which Cabinet must now face.

M.P. - Claims -

Programme  
Agri-industry  
Miss  
SECRET

- D.E. - don't disagree.  
- Scot.  
- Ed. -  
- Dept of Energy  
- Scottish  
- S. Ireland  
- Ch. P. (M. J.)

78-9

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214

6. The second vulnerable point relates to priorities. The Chancellor has divided the programmes into three categories: 'priority'; 'difficult to reduce'; and 'bearing the burden of adjustment'. Because so much weight must fall on this last group, some members of the Cabinet may want to reconsider the over-riding priority it has hitherto given to Defence and to Law and Order. They may argue that, while it was right to reverse the relative decline of Defence at the beginning of the Government's life, the continuation of this priority through the life of a Parliament is unnecessary and unfair. Similarly with Law and Order. This argument becomes the stronger when you look at the implications for some of the non-priority programmes (e.g. education and Northern Ireland). The only possible answer to this seems to be that no-one should argue that the Government should abandon its priorities now. Equally, however, no decision now can be binding on discussions in future PESC years when adjustments either way to any programme will be open in the light of developments. But this will only serve to emphasise the tentative nature of the White Paper and to increase the difficulties with e.g. the local authorities.

3

Cuts  
Constitution

HANDLING

7. You might invite the Chancellor to introduce his paper, and see whether the Chief Secretary wishes to add anything on the detail.

8. You might then see if you can get quick agreement to the overall objectives. Presumably colleagues will confirm that they still want to get expenditure down to 1977-78 levels, especially given the Chancellor's judgment that his proposals are the minimum compatible with the objectives of bringing down inflation and reducing the tax burden. But it would be as well to be sure. Thereafter your aim in the discussions might be to end up with a clear instruction to the Chancellor and to the Chief Secretary to get as much as they possibly can towards the target in bilateral discussions so as to minimise the area of uncertainty to be resolved at Cabinet in October.

Stabilise  
Cuts in  
unproductive  
programmes  
in favour  
of R.  
Increase cost  
of cut -  
cost paper.

SECRET

9. You will then want to run briefly through the individual programmes described in paragraphs 17-31 in order to see how far you can go in chalking up the agreement of the Ministers concerned to the particular proposals made by the Chancellor. You will want to avoid detailed discussion on any individual programme. This will be for the bilaterals. But to the extent that individual Ministers accept the Chancellor's arithmetic as it concerns them the easier will the bilateral process be.

10. You may then want to look briefly at the Contingency Reserve (paragraph 32) in order to get collective agreement on this.

11. As to Civil Service manpower, you will simply need to note that the Chancellor is looking for further financial savings from staff cuts beyond those outlined in his paper. The extent of these savings can however only be assessed when the parallel staff cuts exercise has been completed - a process which will begin under the next item of the agenda.

12. Additionally some Ministers may raise questions about the provision for debt interest, not covered in this paper. Borrowing at present interest rates imposes a heavy future charge, and although this is only a transfer payment not a call on resources, it reduces taxable capacity. Cabinet can do little in the short term to adjust this figure. It may be enough to note that the burden of debt interest is geared to the success of the Government's policies. If these succeed and interest rates fall the Chancellor's (and the Cabinet's) problems will be reduced.

13. Finally, paragraphs 34-36 raise the question of the approach to be made to the Local Authority Associations about the proposals affecting them. Are the Chancellor's proposals acceptable to the other Ministers involved - DOE, Scotland, Wales and Education?

CONCLUSIONS

14. Three conclusions are needed:-

- (i) A broad re-affirmation of the target of reducing public expenditure to about the level of 1977-78 by the end of the quinquennium.

SECRET

- (ii) An invitation to the Chief Secretary to discuss with all the main spending Ministers concerned the proposals in the Chancellor's paper (subject to any guidance given by Cabinet on individual points) and to report back on 18th October.
- (iii) Acceptance of the Chancellor's proposals for handling discussions with the Local Authorities about the programmes which affect them.

*John Hunt*  
...  
(John Hunt)

11th September 1979



*Prime Minister*

*For Cabinet as  
background*

*PL*

*12/9*

PRIME MINISTER

The decisions which we are to take on 13 September are going to set the framework within which we will have to work for the rest of the life of this Parliament. I do not wish to take up time at Cabinet rehearsing specifically Welsh points but there are major issues which I should set out as background to the decisions we have to take. Those decisions must be designed to help us achieve the objectives we pledged ourselves at the Election and establish a clear strategy for Government in Wales in the aftermath of the Devolution debate.

The period up to the next Election is going to be one of the most politically crucial in Wales this century. It will establish whether we can create a political structure in Wales that will kill nationalism once and for all and whether we can reinforce the successes that we have so far achieved in overthrowing the important Labour Party power base there.

Nationalism suffered a severe setback in the Referendum and in the Election that followed; but the demand for an individual approach to Welsh problems within the unitary state is shared by most Welsh people and insensitive handling of Welsh issues could very easily provoke a new, stronger upsurge of separatist feeling, particularly among young people. We have to show that the evolutionary process that has led to the establishment and development of the Welsh Office can be developed to cater adequately for the special needs of Wales and that there is room for variety within our present system of Government.

A decade ago we held three seats in Wales. At the election in May we increased our total to eleven and the three we gained are capable not merely of being retained but of being turned into relatively safe Tory constituencies. There are



at least three more we are capable of winning over the next decade. All this means that the way we tackle our task is not just important for the Principality but has a wider political significance.

The background against which we are required to meet this challenge is as unpromising as could be. Major job losses in the steel industry and potentially in the coal industry, combine with the general economic problems of the United Kingdom in a way which already puts the greatest possible strain on the goodwill of our new supporters in Wales. We have to deal with the special economic and social problems which a peripheral area over-dependent on basic industries must face at a time of transition and prove to the people of Wales that we are as committed to the Principality's unique and particular interests as are our political opponents.

Overlying all this is the issue of the Welsh language which despite the fact that it sometimes provokes fear and irritation on the one side and outbursts of fanatical extremism on the other, enjoys widespread support in all political parties and at all levels of the community. I have to demonstrate in the clearest possible terms our commitment to the future of the Welsh language and culture, for as we said in our Manifesto "The survival of a culture, of a nation's individuality and of a language are natural matters for Conservative concern".

In short my task as Secretary of State for Wales must extend beyond ensuring that Welsh interests are taken account of in the formulation of United Kingdom policies. I have a responsibility to all the people of Wales and particularly to our supporters, to carry out the commitments we gave in our Manifesto last May to the development of a distinctive Welsh approach to the working out and implementation of policy.



In broad terms what this means is that I hope increasingly over the coming years to be able to develop within an agreed United Kingdom framework, separate and distinctive Welsh ways of doing things which properly reflect the social, geographical and economic problems of the Principality. It was for this task that the office of the Secretary of State was first created and has been supported by successive Governments. It is to this kind of development that we committed ourselves in our Manifesto this May. The decisions we reach and the policies we produce will be the evidence the people of Wales need that we are meeting that commitment.

A number of administrative changes will be needed if that commitment is to be made effective. We promised in the Manifesto for Wales that the Secretary of State for Wales should have greater flexibility in the use of the funds available to him and I have instructed my officials to pursue with the Treasury the regrouping of Welsh expenditure into a new class in the estimates and matching main programme for public expenditure planning purposes. In this way people in Wales will be able to have a clearer idea of the total monies allocated to the Principality and I can be given more discretion as to how they are allocated within overall ceilings. We have of course already gone some way towards this in Scotland. I will of course be consulting colleagues concerned when firm proposals are produced. The earliest the change can be made is 1981/82. The Secretary of State for the Environment has proposed that in the same year we should alter the present system of rate support grant to a new system of unitary grant. I support this proposal but in my view it will be absolutely essential at that stage to move a separate unitary grant for Wales. We did of course in May consider the possibility of a separate rate support grant for Wales but at that stage concluded that the time





was not ripe. It will be a different matter if the grant system is changed in 1981/82. Unless I can be seen in Wales to be in direct control of local government finance (over which at present I have none, although 40% of it nominally comes within my responsibility) our credibility will continue to be questioned.

I see a continuing need for bodies such as the Welsh Development Agency, the Development Board for Rural Wales and the Welsh Tourist Board to be allowed to pursue distinctive policies. The justification for having such organisations is that they can respond to local circumstances and any attempt to impose uniformity in our treatment of the different parts of the United Kingdom will be entirely counter-productive. There is a particular need to recognise the needs of rural Wales, where seven of our eleven seats in Wales are - including the three new ones. I have proposed the retention of the Land Authority for Wales with reduced powers because I believe in Wales it can perform a useful role more economically and effectively than the local authorities. I am currently re-examining the work of the Countryside Commission in Wales. I have, however, abolished the Welsh Council and a number of other Welsh QUANGOS and believe that there is room for the abolition of others; even where my colleagues may feel it necessary to retain their English counterparts.

It is essential that the financial decisions we take in the coming weeks make allowance for the special requirements that I have described. In the Welsh Office there are no illusions but that we must play a full part in making the necessary public expenditure cuts required to restore the economy; but the longer term cuts that we are now considering ought to take proper account of our policy objectives and should not just be based on arbitrary percentages of other Departments' budgets or past expenditure programmes.



We are fortunate that in reaching our decisions we can take account of the conclusions of the inter-Departmental needs assessment study carried out under the aegis of the Treasury in connection with Devolution. Its results will become available to the public shortly. The study clearly indicates that Wales has been the victim of under-provision in the past. The study covered five areas which were to be devolved to Wales; Health and Personal Social Services, Education and Libraries, Housing, Roads and Transport, and other Environmental services. The conclusion was that overall and expressing the per capita need in England as 100, the relative need in Wales was 109. This means that just to stand still relative to England, Welsh expenditure needs to be 9% greater on a per capita basis. To make up ground already lost it needs to be greater still.

There are three particular problem areas which we face and of which special account will have to be taken in consideration of future public expenditure. One is shared with the rest of the United Kingdom, the others are peculiar to Wales.

I have already drawn attention to the need to make adequate provisions for the remedial measures in connection with steel and coal closures and I do not believe that we have yet produced sufficient resources for these. They are essentially United Kingdom problems, though as with Shotton their consequences may be felt with particular severity in Wales. We shall need to discuss very soon what provision can be made for remedial action following such closures and I think we have to recognise now that the money for such action will have to be in addition to the expenditure we agree upon in the current exercise.

*The first  
claim on the  
new Contingency  
Reserve!*

Secondly there is our commitment to press on with the Road Capital Programme in Wales. This programme was started later than in England and is not nearly so far advanced. We cannot



accept a reduction in expenditure on road construction in Wales comparable to that in England. In our Welsh Manifesto we saw these road works as "central to the improvement of the economy" and we said "we shall press on urgently with the M4 in the South [of Wales] ..." a desperately needed road still uncompleted despite the opening years ago in England of the major motorways. We also promised to accelerate the A55 and A5 programmes across the North Wales coast as well as making improvements elsewhere.

Whether in North or South Wales the acute economic problems posed by steel or coal closures and other difficulties make it imperative to develop urgently East-West roads in order to link the areas concerned with the main centres of population and industry in England.

There is a further problem which is peculiar to Wales; the preservation of its language and culture. There are very real difficulties in providing adequately for a country with a second language when the general level of personal wealth is low and public funds are strictly limited. The cost of bilingualism is high and in the past no proper separate provision has ever been made for it. But if we were to let the language die we would rightly never be forgiven. Our predecessors steadily increased the amount of money spent in support of various activities such as publishing and work with pre-school children and young people but this is still quite insufficient. We have provided in the expenditure plans for a further £500,000 in each year of the survey period as a central Government grant for the support of bilingual education. This is well short of the full extent of the extra costs of the education authorities concerned and I may have some difficulty in protecting even this amount if I am obliged to make the full expenditure cuts proposed. I should like to take this opportunity of making more sensible financial provision in the plans for the expenses required in connection with the use of Welsh.



Not only would this be entirely right on its own account but it would give me the political credit that would enable me to deal with the very difficult problems that arise in connection with the use of Welsh in public life, Welsh education and the maintenance of parental choice. I shall be asking for an additional £2 million in each of the later years of the survey period to spend at my discretion in support of the Welsh language and culture.

To give me any real possibility of coping with the problems I have described, I shall have to ask for a smaller total cut in the expenditure plans for 1981/82 and beyond, than that proposed by the Chief Secretary. Looking at the inherited plans in the light of the Needs Assessment Study the Welsh Office is under-provided by about £50 million in each of the later years of the survey period. The imbalance needs to be corrected and in the course of the bilaterals which will no doubt follow Thursday's Cabinet discussion I shall have to ask for this factor to be taken into account when assessing expenditure in the later years together with the resources required for industrial closures, road construction and the Welsh language.

*But there are doubts about the methodology. If anything, it makes a case for switching from Scotland to Wales.*

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

11<sup>th</sup> September 1979

*RNE* . RNE



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6<sup>th</sup> September 1979

We shall later this autumn be taking the decisions to be announced on 20 November on the rate support grant settlement for 1980-81. This settlement will have to be based on current legislation, and raises rather different issues - though there are naturally some cross-connections - from my proposals for new arrangements in which there is separate correspondence with H Committee colleagues.

Officials have already been in touch about a provisional timetable for this autumn's settlement. I understand that they are planning on the basis of a paper to Cabinet to be taken at the meeting on 16 October. This seems right. But the issues are complex, and not made any easier by the decisions our predecessors took during their period of office. It may therefore be helpful if I set down now the main issues on the settlement as I see them; and which other colleagues most closely concerned may then wish to discuss in advance of the meeting of the Cabinet. This could be either informally or in a MISC group.

#### Increase Orders

Let me deal first with the two Increase Orders. For the benefit of colleagues who may not be familiar with the RSG process I should explain that these are the means by which the Government gives authorities additional grant to compensate them for pay and price changes which take place after the RSG settlement. (The RSG legislation requires that all settlements be at the pay and price levels then prevailing which means that we cannot make settlements at autumn prices). Normally there are two Increase Orders in respect of any grant year, one in the November of that year (12 months after the initial settlement) and another 12 months later which is essentially a tidying up exercise. For 1978-79 I propose to pay out whatever sum is left within the cash limit (about £35m after allowing for the adjustment to be made in respect of the variable items - ie changes in local authority costs arising from changes in interest rates and the effects of changes of interest rates on the rate fund contributions to the Housing Revenue Account). Actual changes in pay and prices are of course considerably higher than this but authorities will not be expecting any additional grant other than what is in the cash limit and will already have allowed in their financial planning for that. Not to pay out within the cash limit on the other hand would attract widespread criticism and accusations of bad faith.

The 1979-80 Order is more difficult. The Chancellor said in his Budget Speech that the cash limit would be increased in full in respect of pay settlements (but not prices) but that it would be necessary to abate the resulting total by at least £300m; the exact size of the abatement would be settled in November. At this stage it looks as if the cash limit will total some £670m - less the £300m abatement this becomes £370m. The exact figures will have to be discussed between officials. It will, of course, be necessary to adjust for the variable items as well. This figure does not allow for the outcome of any of the comparability studies other than the local authority manuals nor does it take account of the craftsmen and teachers' payment on account, which will be offset against their comparability awards, (costed at about £45m in grant terms for 1979-80). I do not think it would be right to make any further abatement. The initial outcome of the teachers and the APTC settlements was not unsatisfactory and we shall not know the outcome of their comparability studies when we make the Increase Order in November. Moreover any decision to make a further deduction from the cash limit would be seen specifically in relation to Clegg. It would seem unfair to penalise local government who are faced with paying a bill which is not of their making, but that of the previous Administration, who fixed the basis of the settlement. And we would appear to be taking action in respect of a particular group of workers - the manuals - who were at the end of the day, disappointed in their expectations from Clegg. This is particularly important when we take into account that the manuals will be the first key local authority pay settlement which we shall have to face in the autumn. A decision to cut the cash limit further would not bring any further reduction in authorities' expenditure, simply increase their drawings for balances, thus reducing our freedom of action for next year. And it would further weaken authorities' confidence in Government indications of the amount of additional grant they can expect to get.

#### 1980-81 Settlement

The settlement for 1980-81 will be critical. It will set the key note for our relations with local authorities for the rest of this Parliament. It will also be seen as a touch stone of our attitude towards domestic rates. We shall be striving in it to influence authorities to achieve the volume of expenditure we are seeking and we shall be seeking to encourage them to bargain responsibly so as to moderate the rate of wage inflation. On top of that we shall be endeavouring to keep the burden on the ratepayer to a reasonable level, remembering that the national picture we shall be considering will conceal wide variations around the average.

The volume of expenditure that we shall include in the settlement will of course be the one that we have already decided in considering our expenditure plans. We have already told authorities that is: 5% below the previous administration's plans on current account so that they will have time to make the necessary adjustments in their

budgets. The volume of expenditure is, of course, net of income from fees and charges, where we are contemplating very substantial increases, on school meals and transport for example, as well as the introduction of new charges, as with building regulations and planning applications.

The Government having indicated the volume of expenditure, our next aim must be to keep the domestic rate increase down. This would fit with our economic strategy and the attack on inflation and would be seen as not incompatible with our longer term intention to abolish domestic rating. I suggest that we should set as our objective an increase in domestic rates no greater than the rate of inflation that we expect and we must be realistic about what the rate is going to be - we do not want a repetition of the problems of last winter when totally unrealistic assumptions about pay and price increases in the RSG cash limit led to average domestic rate increases about double the forecast increases.

In practice, if there is to be any hope of containing domestic rate increases in line with inflation we must hold the grant percentage unchanged. This approach would also ensure that authorities did not attribute the effect of a fall in the grant percentage (which takes proportionately more grant away from the shire counties) to our decisions on distribution. This would enable us to emphasise the theme of stability in the financing of expenditure. (Our early announcement of the volume has made the climate of retrenchment quite clear, and the volume reduction will of course bring down the grant with it).

Mathematically, if authorities were to rate in line with the volume of expenditure we have planned and our expectation on inflation, the average domestic rate increase would be of the order of 9%, and I propose to use the margin that an unchanged grant percentage gives us to distribute grant in a way which reflects our stated objectives in respect of the shire counties. Authorities may of course rate higher. They will mistrust Government estimates of inflation. They may overprovide for expenditure in volume terms, recognising that shortfall will bring them back on target. They may seek to ensure that they are safeguarded against any reductions in grant we may subsequently make, whether through a general cash limit squeeze as this year, the effect of a sliding scale on the cash limit (see para 9) or action against the individual overspender. And there may be a move to build up depleted or non-existent balances which will push up the overall rate call because of their uneven distribution. But if they do these things it will be quite clear on my proposals that authorities themselves have decided to do them and what the consequences are. The Government's position will be plain.

The cash limit has in the past been announced in November. But the decision could be deferred. Officials have been considering a sliding scale related either to rates or to pay settlements. We shall be considering an illustrative example in September in E Committee. If colleagues are attracted by this approach - and there are difficulties attached to it - one possibility would be to

announce the matrix in November, leaving the actual decisions till later. We shall need to give further thought to this.

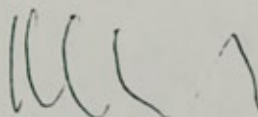
I may say that I do not like the way the present legislation is structured. The concept of a pre-determined volume adjusted only for inflation seems wrong, we need a much more flexible power. I am asking my officials to explore with yours the options with a view to making the necessary changes in the local government bill. There is no prospect of any major changes to the arrangements for 1980-81 in the time available and I propose that we shall operate within the existing grant framework, using the "conventional levers" to help the shire counties as much as possible. This has a presentational advantage, in that we cannot be accused of redistributing the grant on an unfair or arbitrary basis, nor of causing undue instability in the distribution.

Rather than use any of the formulae developed by the grants working group this year, however, I propose to encourage stability in the distribution and assist the drift of grant away from the shire counties by re-using the 1979/80 formula with updated data. Data changes alone - in connection with differential labour costs - would however involve a considerable loss for London under this procedure. Although London has enjoyed gains in recent years, a large loss of grant in 1980/81, which would be likely to lead to much larger increases in rate bills within the capital than outside, seems inconsistent with an overall aim of reasonable stability. I therefore propose to limit the loss to something of the order of £20m - about the product of a penny rate in London - by reducing the clawback of London's needs element to £30m. A table showing the effects of this distribution package is annexed.

Finally TSG. Norman Fowler has been considering its future. I would hope that we could now agree to dispense with it as a separate grant and incorporate it within RSG. I accept that there may be transitional difficulties. But as I said in my reply to his letter of 12 August I do not think we should be deterred.

I am copying this letter to Mark Carlisle, Patrick Jenkin, William Whitelaw, Norman St John Stevas, John Nott, Nicholas Edwards, Norman Fowler and George Younger; and to Sir John Hunt.

Yours ever



MICHAEL HESELTINE



NEW DATA AND WITH £30M. LESS CLAWBACK THAN THE REPRICED 1979/80 AMOUNT.

GRANT CHANGE FROM 1979/80 REPRICED

AUTHORITY	CASH AMOUNT		EQUIVALENT PERCENTAGE REDUCTION IN DOMESTIC RATE BILL
	£M	P	
Avon	1.447	.9	-1
Bedfordshire	3.200	3.9	-4
Berkshire	1.939	1.6	-2
Buckinghamshire	.920	.9	-1
Cambridgeshire	1.341	1.3	-2
Cheshire	4.058	2.5	-3
Cleveland	3.970	4.1	-5
Cornwall	1.001	1.5	-2
Cumbria	2.002	2.4	-3
Derbyshire	3.672	2.4	-3
Devon	3.877	2.3	-3
Dorset	1.376	1.3	-2
Dorham	2.208	2.1	-2
East Sussex	1.626	1.6	-2
Essex	3.272	1.3	-2
Gloucestershire	1.151	1.4	-2
Hampshire	7.683	3.0	-4
Hereford and Worcester	.592	.6	-1
Hertfordshire	-2.745	-1.6	2
Humber-side	4.061	2.7	-4
Isle of Wight	.278	1.4	-2
Kent	-4.439	-2	0
Lancashire	7.881	3.4	-4
Leicestershire	2.922	2.0	-3
Lincolnshire	2.221	2.4	-3
Norfolk	1.959	1.7	-2
Northamptonshire	1.502	1.7	-2
Northumberland	1.418	2.8	-3
North Yorkshire	1.425	1.3	-2
Nottinghamshire	3.818	2.2	-3
Oxfordshire	1.166	1.2	-2
Salop	.649	1.0	-1
Somerset	1.465	2.0	-3
Staffordshire	3.816	2.2	-3
Suffolk	1.552	1.5	-2
Surrey	5.495	3.1	-4
Warwickshire	1.352	1.6	-2
West Sussex	1.468	1.3	-2
Wiltshire	1.392	1.5	-2

GRANT CHANGE FROM 1979/80 REPRICED

AUTHORITY	CASH AMOUNT		EQUIVALENT PERCENTAGE REDUCTION IN DOMESTIC RATE BILL
	£M	P	
Bolton	1.302	3.3	-5
Bury	1.168	3.7	-5
Manchester	.886	1.0	-1
Oldham	.954	2.5	-3
Rochdale	1.522	4.1	-5
Salford	1.312	2.9	-4
Stockport	1.023	2.0	-3
Tameside	1.287	3.3	-4
Trafford	.771	2.0	-2
Wigan	1.543	2.9	-3
Knowsley	.987	3.2	-4
Liverpool	2.930	3.3	-4
St Helens	1.432	4.3	-4
Sefton	1.093	2.2	-3
Mirral	1.773	3.1	-3
Barnsley	1.218	3.1	-3
Doncaster	1.765	3.5	-3
Rotherham	1.729	3.9	-4
Sheffield	1.769	1.8	-2
Gateshead	1.198	3.2	-4
Newcastle upon Tyne	.843	1.6	-1
North Tyneside	.876	2.5	-3
South Tyneside	1.141	4.0	-4
Sunderland	.882	1.8	-2
Birmingham	2.954	1.6	-2
Coventry	1.092	1.8	-3
Dudley	1.394	2.7	-3
Sandwell	1.532	3.0	-4
Solihull	.842	2.3	-3
Walsall	1.491	3.2	-4
Wolverhampton	2.156	4.7	-7
Bradford	3.061	3.8	-4
Calderdale	.935	2.9	-3
Kirklees	1.948	3.0	-4
Leeds	4.403	3.4	-5
Wakefield	1.665	3.1	-4

Clwyd	3.224	1.6	-2
D. I. for	1.151	1.0	-3
Gwent	1.425	1.4	-2
Gwynedd	1.263	3.3	-4
Mid Glamorgan	2.820	3.0	-3
Powys	-.745	-4.1	7
South Glamorgan	2.497	3.7	-6
West Glamorgan	1.182	1.9	-2

ENGLAND & WALES	134.415	1.4	-2
English Non-Met	88.641	1.8	-2
Welsh Non-Met	10.624	2.2	-3
TOTAL Non-Met	99.265	1.8	-2
Metropolitan	55.108	2.8	-3
London	-19.957	-1.0	2
Non-London	154.377	2.1	-2

PART 3 ends:-

TL to HMT 29.8.79

PART 4 begins:-

S/SGNV to C.S.T. 6.9.79.

~~C(79)35~~ ~~29.79.~~



END

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