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PART 8

157 SECRET

Confidential Filing

Public Expenditure and Cash Limits
Rate Support Grant. White Paper
on Expenditure Plans 1980 - 1981

ECONOMIC POLICY

Part 1: May 1979
Part 8: Jan 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 8 ends:-

CR of Ex to PM 29/2/80

PART 9 begins:-

CST to S/S Scot 3/3/80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(80) 9	29/01/80
Limited Circulation Annexe CC(80) 4th Conclusions,	
Minute 7	31/01/80
C(80) 14	25/02/80
CC(80) 4th Conclusions, Item 7	31/01/80
CC(80) 8th Conclusions, Item 4	28/02/80

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 AWayland Date 2 March 2010

PREM Records Team

Published Papers

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

Cmnd. 7746 HMSO	The Government's Expenditure Plans 1980-81 November 1979
House of Commons Hansard Housing (Public Expenditure)	Columns 666-684 21/02/80

Signed A Wayland Date 2 March 2010

PREM Records Team

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Econ Pol.

Prime Minister 2

TL 3/3

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

PRIME MINISTER

MB

PUBLIC OPINION: EXPENDITURE CUTS

I do not know whether you saw the results of the recent opinion poll conducted by Central Office among a sample drawn from the population generally about the balance of opinion in favour of reducing particular public expenditure programmes as opposed to maintaining them. I think that you may be interested to see the attached note by George Cardona.

2. One must not attach too much weight to an exercise of this sort, but the general order of priorities is similar to that which emerged from a similar poll in the autumn when the balance shown was between those who wanted programmes increased and those who wanted them cut. The desire to protect social services and to cut transfers, both unemployment benefit and support for industry, is interesting, as is the strong desire to cut overseas aid: these preferences were also reflected in the earlier poll. There is also an interesting contrast between the attitude to defence, where the poll shows a slight majority in favour of cutting, and law and order where there is a strong disposition against cutting. In the earlier poll there was a very large majority in favour of increasing defence, roads and aid to industry whereas now the majority is slightly the other way: the majority in favour of housing is also much lower in this poll than in the previous one.

G.H.

(G.H.)

29 February, 1980

RESTRICTED

PUBLIC OPINION ON EXPENDITURE CUTS

The results below come from an ORC survey of public opinion carried out on behalf of Central Office between 29 November and 3 December. The sample consisted of 1,044 people, representative of the electorate in Great Britain.

2. The table below shows, for each category of expenditure, the precentage of respondents who most wanted it cut, less the percentage who most wanted it safeguarded from cuts:

		% difference
1.	Contribution to EEC	+ 68
2.	Aid to overseas countries	+ 60
3.	Civil Service	+ 36
4.	Local Government	+ 16
5.	Industry/help for companies in trouble	+ 12
6.	Social security/unemployment benefits	+ 10
7.	Rail and public transport	+ 7
8.	Roads	+ 4
9.	Defence	+ 3
10.	Agriculture	- 7
11.	Housing/Council Housing	- 11
12.	Social Services/Home helps	- 17
13.	Law and order/police	- 34
14.	Education and overseas students	- 41
15.	Pensions	- 43
16.	NHS/Hospitals	- 70

3. The proportion of respondents who believed we were cutting each category of expenditure programme was as follows:

		%
1.	Education and overseas students	64
2.	NHS/Hospitals	53
3.	Local Government	27
4.	Social Services/Home helps	26
5.	Housing/Council Housing Roads Civil Service	14
6.	Contribution to EEC	13
7.	Industry/help for companies in trouble	10
8.	Social security and unemployment benefits	8
9.	Rail and public transport	7
10.	Aid to overseas countries	5
11.	Defence	4
12.	Pensions Agriculture	2
13.	Law and order/Police	1

Only Defence and Law and Order/Police were mentioned as items on which expenditure was being increased.

4. The most worrying feature of this table is the high proportion of people who believe we are cutting health, which is the area people are most anxious to protect from cuts, and also an area in which we can claim that we are not planning to spend significantly less than the previous Government had planned.

5. One interesting feature of the breakdown of the results by party supporters is that our supporters are more likely than Labour's to believe we are cutting expenditure, particularly on the social services and social security. Conversely, few of our supporters think we are increasing expenditure on social services and social security, but more Labour supporters think we are doing so.

6. We are not allowed to quote this poll in public.

A

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY 1980

This minute is to seek your agreement, and that of Cabinet colleagues, to commission the necessary preliminary work for the 1980 public expenditure Survey, making certain changes from what has hitherto been the established procedure.

2. We may hope that our discussion of public expenditure in the coming year will be more straightforward than over the past year. But we do need to carry out a fresh Survey, to review and where necessary update the programmes. I envisage bringing it to Cabinet for first discussion in July, leading to decisions in October. For this officials need to start work in the near future.

3. The proposed changes are mainly to implement recommendations in the interim report of the interdepartmental group of officials which, as you know, is reviewing the way in which the public expenditure Surveys are conducted. The group's work is continuing and will cover in its next stage the more radical ideas, such as preparing the plans in cash or cost terms as well as or instead of volume. Their interim report, of which a copy is attached, is about changes which could be introduced in the 1980 Survey.

4. I propose that we accept without ado the five main proposals for change in the 1980 Survey:

(i) Replacement of Part 1 of the survey report with a "main issues" paper prepared by the Treasury in consultation with departments and the CPRS;

(ii) Restructuring of the rest of the survey report to show more clearly the departmental spending programmes for which individual Ministers are responsible;

(iii) Shortening of the period covered by the Survey from 5 years to 4 (that is, the current year and three years immediately ahead);

(iv) A uniform price base for the Survey, in place of the widely discrepant price bases which have marred earlier Surveys; and

(v) Elimination of complexity and detail wherever possible.

5. Proposals (iii) and (iv), concerning the period covered by the Survey and the price base, are the most important. The arguments are set out in paragraphs 12-27 of the official group's report. Proposals (i) and (ii) should improve the presentation of the material to Ministers. Proposal (v) will, I am sure, command general assent.

6. The official group left open the question whether the detailed report should continue to be circulated to Ministers. I suggest that it should be so circulated, not for discussion in Cabinet but as background.

7. I propose also that we accept the recommendation that local authority expenditure should continue to be treated in the 1980 Survey under departmental/functional programmes, but with close attention to the local authority spending totals, capital and current.

8. The report suggests that the preparatory material prepared by officials should identify options for reductions amounting to 2½ per cent of programmes in 1981-82 and 5 per cent of programmes in subsequent years. In a normal year I have no doubt that we do need options of this order. We do not want to find ourselves confronted by a list of proposals for increasing expenditure but

no options for reducing it. This year, however, when the new Survey follows so closely on the old, I think it would be sufficient, and avoid some needless agonising, to identify initially options for reductions of 2 per cent in 1981-82 and 3 per cent in subsequent years. This need not prejudice the ultimate decision of Cabinet. If it were decided later that we need to look for bigger cuts, they can be pursued selectively with the Ministers concerned.

9. Finally, the report mentions (paragraph 3b of the Summary) that Ministers might want to consider commissioning special studies. I believe that departments would have difficulty with proposals for further studies now when they are under pressure to economise on manpower, and when various studies are already in hand. So I do not want to press the idea for this year.

10. In principle the expenditure planning system ought to provide both for Ministers to review priorities from time to time, and for consideration, perhaps at the end of each Survey, whether any policies need to be reviewed in more depth before the next Survey. The interdepartmental group should be invited to consider how the annual cycle might best accommodate this. It need not necessarily involve discussion at Cabinet.

11. But for this year, I would only note that there are one or two subjects on which some further work should be put in hand at official level ahead of our 1980 Survey discussions, for example, on the territorial split of expenditure.

12. I hope that members of the Cabinet will agree that preparatory work on the 1980 Survey should now be initiated as proposed in this minute. If any of my colleagues wish to comment, I suggest that they do so by Friday 7 March. In the absence of such comments, I hope I may assume that the proposals are agreed, and that preparatory work on the 1980 Survey should proceed accordingly.

13. I am copying this minute to all members of the Cabinet, and to the Minister of Transport; and to Sir Robert Armstrong and Sir Kenneth Berrill.

W.J.B.

JOHN BIFFEN
28 February 1980

PROPOSALS FOR THE 1980 SURVEY

Interim Report by the Interdepartmental Group on the Survey System

SUMMARY

Our group was set up in November 1979 with the following terms of reference:

> "To examine possible improvements in the system of annual public expenditure surveys".

This Interim Report is confined to recommendations which could be implemented in the 1980 survey. We intend to deal with the more fundamental issues of public expenditure planning and control in a further report later in the year.

2. Starting from the premise that there does need to be a survey in 1980, we make five recommendations for improvement and simplification:

a. Presentation of the survey to Ministers should be improved: we suggest that Part 1 of the survey report should be discontinued and replaced by a "main issues" paper prepared by the Treasury, in consultation with Departments and the CPRS.

b. The rest of the survey report should be restructured on a Departmental basis: it could be available to Ministers in Departments (or from the Treasury) rather than formally circulated to Cabinet.

c. The period covered by the survey should be shortened by one year from five years (the current year and four years ahead) to four years (the current year and three years ahead). This would mean that, exceptionally, there would be no need in the 1980 survey to roll the plans forward for a further year.

d. The expenditure figures in the 1980 survey should be expressed at price levels taken from Year -1 (1979-80 for the 1980 survey), thus removing the wide discrepancies of price levels which have been present in earlier surveys. We intend to return to the question of more radical alternatives to the present price basis, including planning in cash rather than at historical prices, in our next report.

e. Officials preparing the survey material should be invited to reduce complexity and detail, particularly for the later years.

3. We also make the following recommendations on three matters for decision affecting the 1980 survey:

a. Local authority expenditure should continue to be treated under Departmental/functional programmes; but close attention should also be paid to the local authority spending totals, capital and current. We intend to consider in our later report the wider question of what is the right programme structure for the survey.

b. The survey report for 1980 should include options for reductions amounting (we suggest) to 2½ per cent of programmes in 1981-82 and 5 per cent of programmes in subsequent years. (The CPRS are preparing a separate paper on special studies which Ministers may want to commission.)

c. The timetable for the 1980 survey should aim at a preliminary discussion by Cabinet in July, final decisions in October and publication of the White Paper in January.

7 February 1980

INTERDEPARTMENTAL GROUP ON THE SURVEY SYSTEM

PROPOSALS FOR THE 1980 SURVEY

Interim Report

Our group was set up in November 1979, following two meetings of Permanent Secretaries, with the following terms of reference:

> "To examine possible improvements in the system of annual public expenditure surveys".

Membership is at Annex A.

2. This Interim Report is confined to recommendations which could be implemented in the 1980 survey. We intend in our main report later in the year to discuss some of the more fundamental issues which arise on the survey, including its basic purposes, the programme structure, the relationship between planning and management of expenditure, the issue of volumes versus cash planning and expenditure in cost terms, the scope for simplification and reduced detail, and the annual cycle.

<u>Is a 1980 survey necessary</u>?

3. Ministers have devoted a great deal of time since they took office to reviewing public expenditure plans, and discussions on the 1979 survey still continue. The first question which we considered was therefore - is there any need for a 1980 survey?

4. We have concluded that there does need to be a survey in 1980, for three main reasons:

   a. In any rational system of public expenditure planning, it is necessary to keep the plans up to date. All past experience points to the probability of considerable changes between now and the end of 1980 in perceived requirements for individual programmes - both policy and estimating changes. Ministers will also need to assess the implications for future years of any cash limits squeeze on volumes in 1980-81; and they may wish to look again in the autumn at the overall trend of expenditure, in the light of the latest medium-term financial and economic prospects.

b. Ministers will need to take a further, systematic look at 1981-82 programmes in particular, in the light of the latest developments and a more recent economic forecast, since these will form the basis of Estimates and cash limits.

c. Select Committees and other informed observers will expect the Government to publish up to date plans in the now-traditional annual White Paper. It would be hard for the Government to justify presenting 1981-82 Estimates and cash limits to Parliament for approval without publishing the plans on which they are based.

5. On the other hand, the 1980 survey ought to be less burdensome and time-consuming than the 1979 survey, given all the ground that has been covered already in the 1979 survey.

<u>Improvements in 1980 survey</u>

6. There are five improvements and simplifications which the group believe could be made at once in time for the 1980 survey:

i. presentation to Ministers of matters for decision in the survey could be improved by replacing some of the traditional material with a "main issues" paper;

ii. the basic material in the survey report could be set out by Department, rather than by functional programme;

iii. the period ahead covered by the survey could be shortened;

iv. the prices in which the expenditure figures are expressed could be made consistent;

v. the amount of detail, particularly for the forward years, could be reduced.

We consider these items in turn.

Presentation of the survey to Ministers

7. The basic document in the annual public expenditure surveys has traditionally been the survey report, prepared for Ministers by the Public Expenditure Survey Committee. The purpose of Part 1 of the report has been seen as to summarise and explain, not to expound the policy issues. Part 2 contains a compendium, agreed between the Treasury and Departments, of the basic material on each programme. The report provides an essential starting point for the survey, but it is valuable chiefly for purposes of reference. It does not concentrate attention on the key policy issues which Ministers will want to discuss.

8. The group suggest that, with effect from the 1980 survey, Part 1 of the survey report should be replaced by a "main issues" paper summarising the main matters for decision by Ministers. To prevent the paper from becoming an overlong and comprehensive Committee document, the Treasury would be responsible for preparing it. The Treasury would, however, consult Departments and the CPRS about the paper and seek agreement as far as possible.

Survey report and circulation

9. Under existing practice, the material in Part 2 of the survey report is marshalled under the 15 main functional programmes of the public expenditure survey. However, Ministers are now considering proposals for separate programmes for

Scotland and Wales, and Ministerial discussion on the survey always proceeds in practice on a Departmental basis, with Ministers in charge of spending Departments arguing the case for expenditure disbursed or sponsored by their own Departments. The report would be easier to use (and to assemble) if the material in it were organised in the same way.

10. We therefore propose that the 1980 report should be organised on a Departmental basis, in accordance with the precedent set up in the 1979 "Orange Book" on the scope for reductions in public expenditure. There would be a chapter (or section of a chapter) each for all Departments, including the Scottish and Welsh Offices, and each Departmental presentation would include the subdivision of expenditure between central government and local authorities. In general, officials would try to make the report more compact, useful and accessible; but it would need to include some of the material previously included in Part 1.

11. Important as the survey report is, it is primarily a work of reference. It is for consideration whether the report should in future be available to Ministers in Departments (or from the Treasury), rather than formally circulated to Cabinet.

Period covered

12. We suggest that, beginning with the 1980 survey, the period covered by the annual surveys should be shortened by one year, from five years to four. This would mean that, exceptionally, there would be no need to roll the plans forward for a further year in the 1980 survey: 1983-84 would remain the final year.

13. This change would mark a significant break with tradition. Even since the surveys began in 1961, the period covered has been five years - the year in progress when Ministers consider the survey (year 1), the next year (year 2) and the three subsequent years (years 3-5).

14. The case for dropping year 5 is that figures for such a distant year probably do more to mislead than to inform. Given all the uncertainties over the economic and financial future, the qualifications attached to these figures must be as important as the figures themselves, if not more so, and this sometimes makes it difficult for Departments to treat the figures seriously. Publication of such figures in the annual White Paper gives an impression of spurious accuracy which it is difficult to correct satisfactorily in the accompanying prose.

15. The case against dropping year 5 is that the requirement to pencil in figures for the later years, highly provisional as they must be, does provide a discipline on both central and spending departments to plan well ahead and identify future problems well in advance - not only problems on individual programmes (such as demographic changes) but also problems affecting public expenditure as a whole. If, moreover, the Government decide to publish a financial plan extending to year 5, it would be necessary to provide public expenditure figures of some kind for that year. The saving in effort from dropping year 5 would in any event be very small.

16. The group felt that, while there was force in these points, the balance of argument was in favour of dropping year 5. Individual Departments do often need to plan as far ahead as year 5, and indeed well beyond: the defence programme, with its long lead times, is a case in point. But it is doubtful whether any important operational purpose is served by assigning figures for year 5 to all programmes and Departments and adding them up to a total. For the purposes of a medium-term financial plan, some relatively simple convention, such as repeating the year 4 figures or extrapolating the trend, might be thought acceptable.

17. The group recognised that the arguments for dropping year 5 might be used against year 4 as well. But if year 4 were dropped, the survey would look only one year beyond the year immediately ahead, and that would be too short a perspective. Some policy changes have such long lead times that year 4 is needed to show their full expenditure effects, and dropping year 4 would also mean that Ministers would start the following survey with no existing figures from which to start consideration of the second year ahead, which by then would be an important year in their discussions. We therefore concluded that it would be wrong to drop year 4 as well as year 5.

18. If Ministers do decide to drop year 5 in the 1980 survey, they will want to consider how the change should be presented to Parliament. In the meantime, the span of years covered by the survey could be mentioned in next month's public expenditure White Paper as one of several points under consideration in the current review of the survey system.

Uniform price base

19. Under present practice survey programmes, and even different elements within the same programme, are expressed at a number of different price levels. The main price levels used, and the types of expenditure to which they apply are:

i. Year -1 autumn prices (autumn 1979 prices for the 1980 survey): most voted expenditure on goods and services;

ii. Year -1 November prices (November 1979 prices for the 1980 survey): most local authority expenditure; and

iii. Year 1 average prices (average 1980-81 prices for the 1980 survey): most grants and loans, including social security benefits.

At a time of relatively high inflation, the discrepancy between Year -1 prices and Year 1 prices can be substantial - in the 1980 survey, it could well be more than 15 per cent - and public expenditure totals obtained by adding up figures at widely differing price levels are clearly a statistical anomaly. We have lived with this anomaly for many years, and it is surprising how little public criticism there has been. So long as the discrepant price bases remain, however, we shall always be vulnerable to criticism against which there is no convincing answer.

20. The group propose that, beginning this year, there should be a uniform price base for the survey - a price base which is

sufficiently consistent to permit sensible aggregation of figures for individual programmes into expenditure totals. The choice of price base lies in practice between projected Year 1 prices and Year -1 prices.

21. The case for using projected Year 1 prices (1980-81 prices for the 1980 survey) is that these prices are current when the survey is in progress, and therefore familiar. But use of Year 1 prices throughout the survey would have serious disadvantages. Year 1 would not have begun when work on the survey begins. The assumptions made about Year 1 prices in preparing cash limits would provide a useful starting point; but these assumptions would almost invariably turn out to be wrong. Hence it would be necessary either to keep revising the price base during the survey exercise or to continue using a set of incorrect prices. Both solutions would be objectionable. Continual revision would require a great deal of extra work and maximise the probability of errors and confusion. Adherence to the original, outdated forecast prices would likewise be bound to cause great confusion. The initial identity in Year 1 between forecast cash outturn and expenditure at survey prices would soon be lost, and the provisional outturn figures for Year 1 in the annual White Paper, though described as being at Year 1 prices, would not be the provisional cash outturn. Use of projected Year 1 prices for local authority expenditure would also necessitate a major programme of re-education for the large number of local authorities involved in the survey and the rate support grant negotiations; and it would still be necessary to translate the survey figures into forecast Year 2 prices for the purposes of rate support grant, Estimates and cash limits.

22. The case for standardising on prices from Year -1 (1979-80 for the 1980 survey) rests on the great advantage of having a firm price-base for the survey which will not be overtaken by events or have to be updated. It would not be necessary to have a perfectly uniform price-base within year -1: the figures could be based on the latest available prices (usually September, October or November), or the average of the financial year, and

the resulting differences would not be large enough to cause concern. On this basis, use of Year -1 prices would have the further advantage that relatively few Departments would need to change their existing practices.

23. From a technical point of view, standardisation in this way on prices from Year -1 would be relatively easy. No change would be required in existing conventions for most expenditure on goods and services, either by central government or by local authorities. It would be necessary to change the price basis of cash programmes such as social security from the average prices of Year 1 to the average prices of Year -1 (and the survey figures would then be identical with the cash figures in Year -1). Technically, however, this would present no problems: plans for these programmes are calculated at present as cash estimates deflated to Year 1 prices by a suitable price index, and it would be a simple matter to deflate by a further year.

24. From a presentational standpoint, expressing social security payments and other grants and loans at Year -1 prices would mean that the figures would be less closely related than at present to the prices obtaining when the survey and White Paper are being discussed. But the group did not see this as a major disadvantage. Even under existing price conventions, the November upratings mean that in no year is there a transparent relationship between the survey/White Paper figures for social security and cash payments of benefit.

25. A further possibility, in theory at least, would be to standardise on projected Year +2 prices (1981-82 prices for the 1980 survey). The attraction of this would be that the prices used would be those of the survey's focal year - Year 2 - and in theory the figures decided in the survey could be used as they stood as the basis for Estimates, cash limits and the rate support grant. The trouble would be, however, that the survey would necessarily be based on a projection of Year 2 prices made about 18 months before the middle of Year 2, and

this projection would almost invariably turn out to be wrong: it would in general be biased downwards if it was not a pure forecast but included an element of targetry. The same problems would arise as with projected Year 1 prices, only writ large; and at the end of the survey process it would still probably be necessary to translate the figures into a later forecast of Year 2 prices as a basis for settling Estimates and cash limits. In other words, survey figures at projected Year 2 prices could not, in practice, be treated as cash - at least as long as present rates of inflation continue - so that the main attraction of Year 2 prices would disappear.

26. We considered the possibility of experimenting this year with a compromise approach whereby (a) Year -1 prices would be used for initial work on the survey; (b) all the figures would be translated into projected Year +2 prices for the period while Ministers were considering the survey; and then (c) the figures would be translated back again into Year -1 prices for the White Paper (so as to give the White Paper plans a firm price base and avoid confusion between projected Year 2 prices in the survey and Year 2 cash). The majority of the group, however, were against such an experiment. It was felt that the maintenance of two sets of figures would be a source of great confusion and add enormously to the complexity of the survey. It would also increased markedly the workload on the Treasury and Departments, displacing other more urgent work. In addition, figures at Year 2 prices would be no more familiar to Ministers - indeed less familiar - than figures at Year -1 prices, and there would be no discernible relationship between the figures on which Ministers took their decisions and the figures published subsequently in the White Paper.

27. Our conclusion is that the 1980 survey should be standardised on a uniform base of prices taken from Year -1 (1979-80 for the 1980 survey). A majority of the group recommend against the experiment discussed in the preceding paragraph; but we hope to return to the question of more radical alterations to the present price basis, including planning in cash rather than at historical prices, in our next report.

Complexities and detail

28. It has been a familiar complaint over the years that the survey is too complicated and contains too much detail. We believe that the proposals made already - for a "main issues" paper, a restructured survey report which would be available to Ministers but possibly not formally circulated to them, a shorter time span for the survey and a uniform price base - should go a considerable way towards meeting these complaints. It should be possible by these means to reduce perceptibly both the amount and the complexity of the material which Ministers have in front of them when considering the survey.

29. There may, in addition, be scope for progress in other areas towards reducing complexity and detail. Ministers have already decided that the March public expenditure White Paper should adopt a less detailed presentation of plans for the later years of the survey period, and officials responsible for preparing the 1980 survey should consider whether the material presented to Ministers could likewise usefully be aggregated further - for example, in the "main issues" paper - bearing in mind that aggregation can sometimes help rather than hinder the process of reaching decisions.

30. In the survey report itself, the first priority must be to set out all the relevant material on expenditure and manpower accurately and coherently. But there may be scope for reducing some of the descriptive material and accompanying commentary, including statements of differing Departmental positions. We hope to return to the question of reducing complexity and detail in our later report.

Other issues for decision affecting the 1980 survey

31. We turn finally to three other issues for decision affecting the 1980 survey:

i. Treatment of local authority expenditure.

ii. Options for reductions.

iii. Timetable.

Treatment of local authority expenditure

32. We have considered whether the treatment of local authority expenditure in the survey should be changed. Under existing practice, the public expenditure White Papers show local authority expenditure under main functional programmes such as education, housing, other environmental services, roads and transport, law and order, and personal social services, though aggregate tables on local authority current and capital expenditure are provided as well. In their discussions on the survey, similarly, Ministers take decisions mainly on a Departmental basis - with the Secretary of State for Education and Science speaking for all expenditure on education and the Home Secretary for all expenditure on law and order - but Ministers are also invited to consider what the plans imply for the aggregates of local authority expenditure, current and capital. The existing approach is thus a dual one: local authority expenditure is considered primarily under functional or departmental headings and secondarily as a block of expenditure for which the central government is not the immediate spending authority.

33. The existing treatment reflects the fact that, while the central government strongly influences both the total amounts spent by local authorities and the purposes on which they are spent, the precise size and allocation of this expenditure is decided by individual local authorities themselves; and the central government has less influence over the authorities' decisions on distribution of expenditure than over the total.

34. An alternative approach would be to consider expenditure by local authorities primarily as a double block of expenditure (current plus capital) for which the central government is not directly responsible, and only secondarily as expenditure falling within the functional programmes of central government departments. This would recognise more explicitly the fact that local authorities are the spending authorities immediately responsible for this expenditure. It would also recognise the reality that individual local authorities determine the precise

amount and allocation of their expenditure, and it would correspond more closely both with the rate support grant financing arrangements under which central government provides local authorities with a block grant in support of their spending, and with the proposed new controls on total capital spending, which will allow local authorities virtually complete flexibility between programmes.

35. An approach on these lines would represent a major change in the structure of the survey and the conception of central government's role in relation to programmes run by local authorities. In the group's view, there are powerful objections to restructuring the survey in this way. Such a restructuring would seriously understate, by implication, central government's role in relation to the planning and control of expenditure by local authorities. It would attach too much weight to the distinction between what Departments sponsor and what they spend directly, and not enough to the total ambit of a Department's influence. The Department of Education and Science's programme, for example, would include little expenditure on schools despite the major responsibilities which the Secretary of State for Education and Science has for schools. A structure on the lines envisaged would also obscure the complementary relationship which exists between central and local services such as universities and local authority colleges, or health and personal social services for the elderly; and it is difficult to see how decisions on local authority totals could be taken rationally without regard for their composition.

36. For all these reasons, we suggest that Ministers should continue to take decisions on a functional/Departmental level; but the legitimate interests of local authorities in the survey process should be recognised and close attention should be paid to what the decisions imply for the national aggregate of local authority spending, capital and current. In this area, too, officials should be invited to eliminate unnecessary detail.

37. The treatment of local authority expenditure is really part of the wider question of what is the right structure for the survey as a whole. We hope to address this wider problem in our later report.

Options for reductions

38. The group considered whether the 1980 survey report should include options for reductions in programmes. Some members of the group felt that universal percentage options were arbitrary and often unrealistic and we all recognised that, after all the reductions which Ministers have made in recent months, there will be some programmes where it will be even more difficult than usual to identify realistic options for further reductions in the 1980 survey. We also recognised that the display of options is no substitute for a separate and more structured exploration of the scope for economies in specified areas (see paragraph 41 below).

39. Despite these reservations, however, a majority of the group felt that there are strong arguments in favour of continuing in the 1980 survey the established practice of identifying options for reductions. In the first place, these options give Ministers some idea of what Departments see as the most marginal areas of expenditure within their programmes. It is not only in the context of general cuts exercises that such information may be needed. It may also be needed if Ministers feel obliged to accommodate increases in certain areas of expenditure (whether on policy grounds or because of estimating changes) without increasing the total; or if they wish to re-order their priorities. Second, there is advantage in identifying options for reductions every year, and from all Departments, rather than in selected years and from selected Departments. To request options only in years when it is thought particularly likely at the beginning of the survey exercise that they will be needed is a sure way of encouraging premature speculation about the government's intentions; and to request some departments but not others to identify options would inevitably cause resentment.

40. We concluded, therefore, that the balance of advantage lies with continuing the established practice, and we recommend that all Departments should be asked to identify options for reductions in the 1980 survey report. We suggest that these should be large enough to provide Ministers with reasonably meaningful choices, without being so large as to be totally unrealistic. We suggest options of 2½ per cent of programmes for Year 2 (1981-82) and 5 per cent of programmes for the later years.

41. Ministers may also want to consider commissioning a small number of special studies, with rather more detailed analysis, in time for their decisions on the 1980 survey. The group has therefore suggested that the CPRS should prepare a paper listing areas which Ministers might want to have studied in this way. Given the timescale of the 1980 survey, the range of studies this year would necessarily be limited.

Timetable

42. With the extension of the 1979 survey and White Paper discussions into 1980, the 1980 survey must necessarily get off to a late start. That being so, we suggest the following outline timetable for the 1980 survey:

February/March	Consideration by Ministers of present report and launching of 1980 survey Launch consultations with local authority Expenditure Groups
Mid-June	Completion of survey report
End-June	Circulation of "main issues" paper and Cabinet papers by Treasury Ministers
July	Cabinet discussions first round, perhaps including decisions on 1981-82. Consultative Council on Local Government Finance discussion of local authority expenditure.
September	Bilateral discussions between Treasury and Departmental Ministers, as necessary
October	Final Cabinet decisions
January	Publication of White Paper

The annual financing and investment review of the nationalised industries, which is separate from the survey but closely related to it, has already been set in hand. We propose that this should be put to Ministers for decision in June/July in the normal way.

43. We propose in our later report to discuss the survey timetable for a more normal year. It will be necessary to consider the timetable in the context of the proposals for bringing together the main decisions on tax and expenditure.

Conclusion

44. Our conclusions are listed in the summary which appears at the beginning of this report.

ANNEX A

INTERDEPARTMENTAL GROUP ON THE SURVEY SYSTEM

CHAIRMAN

Mr J G Littler (Mr J Anson to end-December 1979)	H M Treasury

MEMBERS

Mr G S Downey	Central Policy Review Staff
Mr R W L Wilding	Civil Service Department
Mr J B Bourn	Ministry of Defence
Mr J R Jameson	Department of Education and Science
Mr T M Heiser	Department of the Environment
Mr R E Radford	Department of Health and Social Security
Mr D T G Rutherford	Government Accountancy Service
Mr R G S Johnston	Property Services Agency
Mr S W Treadgold	Departments of Trade and Industry
Mr A J Rosenfeld	Department of Transport
Mr A M Bailey Miss M P Brown Mr F E R Butler Mr A J C Edwards	H M Treasury

SECRETARIAT

Mr T J Burr Mr D L Willetts	H M Treasury

29 FEB 1960

Econ Pol.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

CONFIDENTIAL

My ref:

Your ref:

28 February 1980

Dear Geoffrey

I refer to Norman Fowler's letter of 27 February about cash limits for 1980/81.

Whilst I sympathise with his, and indeed the construction industry's difficulties on the road programme, I strongly believe that we should stick to the cash limits already agreed. But if you were by any chance persuaded to accept an increase in the cash limit for roads, or any other capital programme, I would wish to reopen with you the housing cash limit for 1980/81.

Copies go to the Prime Minister, other members of the Cabinet including the Minister of Transport and Sir Robert Armstrong.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

Ecn Pol

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

27 February, 1980

Dear Patrick

NATIONAL HEALTH SERVICE CASH LIMIT

As agreed in MISC 38, we have discussed the special position of the National Health Service in relation to the setting of the 1980-81 cash limit. I write to record the understanding we have reached.

Our agreement is based on two points. I accept that you must be in a position to say that what we are proposing is consistent with our pledges not to cut spending in the National Health Service. On the other hand you have accepted that this must be consistent with the terms of the standard 14 per cent limit which my paper C(80)14 recommends; and that it must preserve our position in regard to other Review Bodies and pay negotiations (notably with the Civil Service, on which Paul Channon has commented in his letter of 27th February).

We have agreed that these objectives can be met by the following proposals:

(a) No specific deduction will be made in respect of the savings which Clegg anticipated should come from greater efficiency in the employment of ancillaries and ambulance men, and which I know you are pursuing.

(b) I am writing separately about the negotiation on nurses' hours, but I have been reluctantly persuaded by the history of the affair to agree that provision should be made in the cash limit for the estimated cost of grossing up the Clegg award from the equivalent of 37½ hours per week to 40 hours per week as from April 1980.

/(c) In addition

The Rt. Hon. Patrick Jenkin MP

(c) In addition you proposed certain minor changes in the methodology of setting your cash limit which I accept.

These arrangements apply in respect of current advances to Health Authorities. No changes are being made for other health related programmes.

I hope you will be able to confirm your agreement. I should, of course, want my officials to be closely consulted by yours over announcements.

I am copying this letter to George Younger and Nicholas Edwards. I would propose that precisely similar arrangements should apply to the similar health programmes within their respective responsibilities.

I am also copying this letter to Paul Channon. I have noted his particular concern in relation to the Doctors' and Dentists' Review Board (DDRB). In the context of the arrangements I set out above there is no need to make any special provision for the DDRB awards (or Civil Service linked grades), and this should meet his concern.

I am also copying this letter to the Prime Minister and to Sir Robert Armstrong.

(GEOFFREY HOWE)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

MINISTER OF TRANSPORT

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

27 February 1980

Dear Geoffrey.

I ought to draw to your attention before tomorrow's Cabinet a particular difficulty arising from the proposals in C(80)14 for cash limits in 1980/81. These could have a very severe effect indeed on capital programmes already mostly committed.

The English road programme is an extreme example. We agreed last month that as well over 90% of the remaining provision for new construction in 1980/81 was already committed a further cut in that year would not be practicable. Commitments are now higher still and at this stage I could only find the further 3% to 3½% volume cut you suggest by withdrawing from undertakings publicy given on the basis of our earlier public expenditure decisions.

CONFIDENTIAL

I am still studying the detailed implications. But a first assessment suggests that a virtual moratorium would be needed on all new contracts until about the end of 1980. Depending on the precise figures, I might be able to let schemes on the M25 go ahead, but this would be at the cost of withdrawing invitations already out to tender on other schemes. I should need to make an immediate statement about a moratorium. That would add considerably to existing difficulties with the construction industry and with colleagues.

I entirely accept that we must stick to cash limits already announced and I would accept also that we must keep as far as possible to the limits provisionally settled for components 3 and 4 in your memorandum. However, I hope you will accept that we should look again at the cash limits in exceptional cases of this kind.

Copies of this letter go to the Prime Minister, the other members of Cabinet and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN FOWLER

CONFIDENTIAL

cc Civil Service (Manpower) Pt 3

Ref: A01537

CONFIDENTIAL

PRIME MINISTER

Cash Limits and Civil Service Pay
(C(80) 14, 15 and 16)

BACKGROUND

Cabinet has already agreed on the level of Civil Service manpower and on the volume of public expenditure for 1980-81, and on the majority of cash limits to be applied to individual programmes. In particular, it has agreed the Rate Support Grant, with an implicit inflation assumption of 13 per cent, excluding the 'Clegg' carry over, and to cash limits for the National Health Service and for the non-pay items of all central Government votes including the Defence Budget, with a built-in inflation rate of 14 per cent. But Cabinet decided to leave the cash limit for the central Civil Service vote on one side, until now. They hoped that by end-February it would be possible to form a view, both on the likely rate of inflation next financial year, and on the likely outcome of Pay Research process.

2. There are thus two decisions for Cabinet to take: whether to reaffirm the cash limits already agreed, in the light of what we now know about inflation rates next year; and what cash limit to set for the Civil Service vote.

3. You set up a small group of Ministers, under the Chancellor's chairmanship, (MISC 38) to process these issues a little. The Chancellor has circulated a note (C(80) 16) reporting its views and bringing out the main issues.

Flag A

4. The timetable is tight, but not impossibly so. The Civil Service Department need to begin serious negotiations with the Staff Side no later than mid-March, in order to honour the present day agreement. The Treasury need decisions by about the same time, in order to publish the Estimates on Budget day as planned. This points to final Cabinet decisions either on 6th or 13th March, if you cannot reach agreement this week. But obviously, a clear decision this week would be preferable.

HANDLING

5. I suggest you take the discussion in two parts first, the generality of cash limits; and then Civil Service pay and numbers.

Flag B

A. General Cash Limits - C(80) 14 and C(80) 16 paragraphs 1 to 4

6. The Chancellor is sticking his neck out, in even asking his colleagues whether they reaffirm the existing cash limits. There is always a danger that someone will try to alter them. He now says that the 14 per cent inflation rate built into the cash limits (13 per cent in the case of the RSG) is likely to fall short by 3 - 3½ percentage points, on the assumption that indirect taxes will be indexed again this year (he says he will comment orally on this point: you will not want him to go into great detail at this stage because changes in indirect taxation are especially sensitive).

7. I think most colleagues will, reluctantly, agree to this. Pay settlements have been reached in parts of the public sector (Local Authority manuals, NHS ancilliaries) consistent with these cash limits. To re-open them now might risk re-opening the pay deals. The volume squeeze is uncomfortable, but with two exceptions it can be managed.

8. The two exceptions are the Defence Budget and the NHS. On the Defence Budget, you will remember the deal which was struck with Mr Pym in January. It is recorded in the Chancellor's paper C(80) 9, at the time, in these words: "The application to Defence of the same cash limits regime as for other programmes is likely to cause a further volume reduction in the Defence programme next year, but... we accept that the cash limits should be increased as necessary to accommodate any extra costs ... arising from the implementation of decisions on the forthcoming AFPRB report. They will also be subject to review during the year in the light of developments in the international situation and NATO's response to them." There has been some subsequent correspondence between the two Ministers concerned, but neither has any interest in re-opening the deal at this stage, and I understand that neither intends to do so.

(Flag C)

9. On the NHS side, the Government is committed by its Manifesto pledge ("it is not our intention to reduce spending on the Health Service"), which you reaffirmed as recently as 22nd January (Hansard Col. 195, when you said: 'The Rt. Hon Gentleman can be sure that our pledge, as we gave it in the Election, will be maintained.'). The Chancellor is discussing this bilaterally with Mr. Jenkin on Tuesday night. It is probable that, with a little manipulation of the figures, the Health Service programme can be maintained in real terms, and still keep within the cash limit already published. I shall if necessary let you have a supplementary brief on this point following Tuesday night's meeting. The point you need to watch is that any such deal does not tempt other Ministers to seek special treatment.

Record of meeting Flag J

10. The only other Ministers who may protest are the Secretary of State for Education and the Minister of Transport. The bulk of education expenditure is RSG - constrained, and no one is proposing that the RSG settlement should be re-opened. Mr. Carlisle may make a plea for special treatment for the universities, but I doubt if Ministers will wish to make any further exceptions. Mr. Fowler may similarly ask for special treatment for the road programme, but is unlikely to get much sympathy.

See Mr Fowler's minute of 27.2.80 Flag I

11. You should therefore invite the Chancellor to introduce this part of the discussion, and try to get it accepted 'on the nod' that the first four categories of cash limited expenditure (paragraph 2 of C(80) 14) should be reaffirmed. The particular problems of the nationalised industries will have to be set on one side, pending discussion in E next week.

Flag D

B. Civil Service Pay and Cash Limit - C(80) 15 and C(80) 16 paragraphs 5 onwards

18 3/4 %

12. If Cabinet reaffirms the 14 per cent inflation assumption in the other cash limits, it then has to decide whether to treat the Civil Service vote in the same way. MISC 38 agreed unanimously that the Government could not afford differential treatment. 14 per cent thus sets the lower limit. PRU sets the upper limit. So the problem is how to bridge the gap.

14%

13. The arithmetic of the gap is complicated, but paragraph 8 of Mr. Channon's paper C(80) 16 explains that it comes down to just over 4 percentage points (actually 4.2). How can this be bridged? There are three variables:

(a) The pay increase itself

(b) Some staging of the increase, to reduce its average cost over the year

(c) A squeeze on numbers

14. As the MISC 38 paper shows, various permutations of these are possible. MISC 38 did not think that the pay element could be negotiated further downwards; CSD now think that it might be easier to do this than to introduce staging. Some of the big employer Departments think that staging is in fact less offensive to Staff Side than abatement of the eventual increase. The objections to further manpower cuts come not so much from the Staff Side as from employer Ministers.

15. The Pay problem concerns mainly the non-industrial Civil Service (there is a separate settlement for the industrials in July; CSD expect it to follow roughly the same pattern). Some Ministers may be disposed to argue that the PRU evidence does not establish an absolute limit. This is true, but the evidence can be interpreted very differently. The unions will be able to make a plausible claim of over 25 per cent (more for senior grades). The CSD thinks that the lowest point to which they can negotiate downwards on the basis of the evidence is between 18.75 per cent and 18 per cent. Any lower than this, and they fear that they can be taken to arbitration and would lose. Ministers who press for a tougher deal have to remember that pay research is a basis for negotiation. Unless Ministers are prepared to break the pay agreement, and risk the industrial action which might follow, there is a limit, somewhere, on how far they can press downwards.

16. Staging is another matter. There was much Staff Side opposition to staging last year, but this was aimed as much at the timing of the staging proposal as to its substance. Some of the big employer Departments think, based on informal contacts with the Staff Side, that they can get away with

staging. CSD itself thinks that staging is likely to provoke trouble. It is not particularly logical, and has not been applied (in this Round) to any other public sector group. But it will help to get the overall pay bill for the year down. Two purely illustrative examples demonstrate this. If 3 per cent were saved on manpower, the balance could be found either by deferring the settlement date by about 1 month from 1st April; or by paying 10 per cent from 1st April and the rest about 7 weeks later. But any staging, like the eventual rate of pay, has to be negotiated: and CSD should not be tied down to any precise formula, provided they can deliver the overall reduction.

17. The real fight in Cabinet will come over manpower, and will be a re-run of the two previous rounds. Mr. Channon proposes a further squeeze of 3 per cent across the board. We suspect that, as a realist, he would accept 2 per cent; but anything less runs the risk, of which he is well aware, of making the Government seem half-hearted in its search for economies. He is likely in any case to argue very strongly for 3 per cent. On the other hand resistance from employing Ministers to cuts as large as 3 per cent will be very fierce, especially from the big battalions. I doubt whether DHSS can do much more than 1 per cent - perhaps $1\frac{1}{2}$ per cent at maximum. The two Revenue Departments have told the Chancellor that they could cut between 1 and 2 per cent. He will probably stick at $1\frac{1}{2}$ per cent. The Ministry of Defence might in due course be able to offer more, from the various in-house studies already in train, but Mr. Pym will be very reluctant to promise now to deliver his cuts later in the year, though he may be prepared to agree to 1 to $1\frac{1}{2}$ per cent. The Home Secretary will say that he could not make a 3 per cent cut in the Prison Service; but that is presumably included in the "limited exemptions" referred to in paragraph 17 of Mr. Channon's paper.

18. Your best tactics are therefore, probably, to get Cabinet agreement on the size of the manpower cut (the only thing on which individual Ministers have to deliver) and leave Mr. Channon free to negotiate on the other two variables (pay and staging) so as to get down to 14 per cent.

19. You should start this part of the meeting by calling Mr. Channon, followed by the Chancellor. But it may not be possible to reach agreement in one meeting on the incidence of cuts. If Cabinet can establish a broad target (and I doubt if this can be more than $1\frac{1}{2}$ per cent) then you might ask Mr. Channon to mount the usual series of bilateral talks, and report back in two weeks time. But it is only worth doing this if the four big employers (Defence, Social Services, the Revenue Departments and DOE/PSA) are prepared to offer reductions on this scale (they represent more than $\frac{3}{4}$ of the staff concerned). They will point out that these cuts come on top of the cuts Cabinet has already agreed; that this decision comes very close to the beginning of the financial year, and it takes time to secure the economies. The actual manpower cuts needed would be more than $1\frac{1}{2}$ per cent to deliver an average $1\frac{1}{2}$ per cent reduction over the year.

20. That leaves two more loose ends: the review of comparability, and the involvement of Sir Derek Rayner.

C. Comparability

21. E Committee has trodden this ground twice already, and it agreed to have another go in the summer in the light of the remaining Clegg reports (teachers). Nobody loves comparability: the problem is to decide what to put in its place, and how to agree this with the unions without provoking a total breakdown. However, it is clear that the subject will have to be re-examined. You should therefore invite the Chancellor to set this exercise in hand, consulting the Secretary of State for Employment and the Minister of State, Civil Service Department. The Treasury will then establish an official group bringing in all the other employer and sponsor Departments. You might ask for a report back at the end of June.

D. Information Systems and Rayner

22. You will remember that on two previous occasions in Cabinet, Mr. Heseltine has raised the question whether Ministers have enough information available to control their Departments properly. He did so again at MISC 38. The Chancellor suggests that, in addition to the work the CSD are already doing with Departments in this area, Sir Derek Rayner could help.

In particular, the proposals which Sir Derek has just circulated for (FLAG E) departmental scrutiny of running costs (his letter of 22nd February to the Home Secretary) might be sufficient to do the trick. We know that Mr. Heseltine does not regard the Rayner proposals as going into enough detail for his purposes. But Rayner argues that most Ministers do not have the time available, or the interest, to do the very detailed examination which Mr. Heseltine insists on for DOE. It should however be possible to compromise on the formula proposed in the Chancellor's paper, which I understand Sir Derek Rayner is happy to accept. I understand he is sending you a minute about this. His point is that manpower policies and decisions come first, and that systems are secondary.

CONCLUSIONS

23. Subject to the course of discussion, I think the conclusions may come out something like this:-

(i) To reaffirm the cash limits already agreed for the Rate Support Grant, Nationalised Industries External Finance Limits, Current Expenditure of central Government other than Pay, and Capital Expenditure of central Government and Local Authorities, and non-Civil Service central Government Pay. (Paragraph 2 of C(80) 14).

(ii) To agree that the cash limit for the Civil Service Central Pay vote should likewise build in an increase of 14 per cent, while noting that the PRU evidence points to an increase in the pay bill of approximately 18.75 per cent.

(iii) To agree that part of this gap should be bridged by a further cut of [$1\frac{1}{2}$ per cent] in the pay bill by means of a reduction in Civil Service numbers (not a cut of $1\frac{1}{2}$ per cent in Civil Service numbers by the end of the year, which produces a different - and lesser - result).

(iv) To invite the Minister of State, CSD, to consult all the employer Ministers bilaterally, and to bring forward in two weeks' time firm proposals for achieving reductions on this scale.

(v) To invite the Minister of State, CSD, to begin negotiations with the Staff Side over the Central Pay Settlement for the non-industrial Civil Service, which will, taken together with the manpower cuts, be consistent with the cash limit, through a combination of tough negotiating on the pay settlement itself, and possibly an element of staging.

(vi) To invite the Chancellor of the Exchequer, in consultation with the Secretary of State for Employment and the Minister of State, Civil Service Department, to set in hand a review of pay comparability as it applies to the Civil Service and to report on it, and the alternatives, by the end of June.

(vii) To invite the Civil Service Department in consultation with Sir Derek Rayner and the employing Departments to develop management systems to help Ministers control Civil Service numbers and costs.

D J Wright

(Robert Armstrong)

approved by Sir R. Armstrong and signed in his absence

26th February 1980

1

Prime Minister

This is much better - publication on budget day or the day after.

The timing of the Defence ~~Budget~~ debate (see Flag A) can be decided between Mr Pym and the Leader of the House.

Content?

See overpage

Yes

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

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER

Your Private Secretary's letter of 20 February contained your suggestion that the White Paper might be published with the Budget.

2. In the light of your comment I have looked at this again. There are some problems about publishing the White Paper with the Budget - the inconsistencies between the figures, which will be difficult to explain to those not familiar with the long lead-time in preparing the White Paper and may stimulate suspicions that the Government have chosen the assumptions in the White Paper which put the expenditure figures in the most favourable light, and consequences for other announcements including the difficulty about the Defence Estimates mentioned in the letter of 20 February from Francis Pym's Private Secretary.

overtaken by letter at Flag A

3. But there are advantages, as you say, in avoiding a major statement on public expenditure just before the Budget and in presenting our immediate and medium-term expenditure plans in the general context of our economic and fiscal strategy. On reflection I am inclined to share your view that the balance of advantage is in favour of publishing the expenditure decisions with the Budget; and so, I see, are Patrick Jenkin and Norman St. John-Stevas. If any colleague sees decisive objection to delaying publication, I should be grateful if they would let me know urgently.

CHANCELLOR OF THE EXCHEQUER

4. There will be a problem about helping the press to absorb the White Paper as well as all the other material issued with the Budget, especially since bringing the main decisions into the Budget will make it too risky to distribute to the press the usual Confidential Final Revises of the White Paper before Budget Day. One way of dealing with this, which I am still considering, may be to announce the main expenditure decisions in the Budget but to defer publication of the White Paper itself until the following day. This would make it possible to issue Confidential Final Revises on Budget Day and to hold press briefings on the following day, and would mean that the press did not have to report the details of the White Paper until a day after the main Budget material.

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

(G.H.)
26 February 1980

This would make it very difficult for the Opposition who have to open the debate the next day. They would have no time to absorb the figures before the debate. I should do the lot the same day.

(1) 1 of 24 3 PPs 15

CHIEF SECRETARY TO THE TREASURY

Prime Minister - I suggest you might read at least Part 1 of this draft. Shall I say you are content subject to colleagues' views?
T 29/2

PRIME MINISTER

I thought we had agreed not to publish a figure for the wage. We really can't publish wage figures — not

PUBLIC EXPENDITURE WHITE PAPER

I attach a draft of the White Paper in printed proof form, which I am circulating for the Cabinet's approval. The date of publication in relation to the Budget is the subject of separate correspondence.

2. The White Paper gives details for the first time of the cuts we have made in the years after 1980-81, rising to $11\frac{1}{2}$% of the Labour Government's plans for 1982-83 (or nearly £9 billion in 1979 survey prices), and of the further cuts we have made in 1980-81 since the White Paper published in November.

3. This White Paper is an important landmark as a vehicle for publishing these major reductions in public expenditure. But it does not otherwise contain as much new or controversial material as usual: the description of the economic context and strategy, normally in this White Paper, will form part of the Budget and so is not included on this occasion. And the chapters about the changes in each programme have been approved by the Ministers concerned. So I do not think we need an oral discussion of the draft, but I should draw the following aspects to attention.

4. The reductions in programmes in 1980-81 since our November White Paper (Cmnd 7746) total nearly £800 million, as expected. The net reduction in the planning total after shortfall is nearly £450 million, principally because the general allowance for shortfall has been reduced from £1 billion to £$\frac{3}{4}$ billion. The nature and severity of the cuts means that shortfall cannot be

expected to be as high as previously assumed. However, the figures include no estimate of the effect of the cash limits on the volume of expenditure, and I should like to consider whether we should increase the general allowance for shortfall on that account in the light of our discussion of the cash limits in Cabinet this week.

i.e. whether to take credit in the total figure for the cash limit squeeze. TL 29/2

5. The major uncertainties about the outlook for the economy in 1980-81, as well as our experience with the contingency reserve this year, make it desirable to keep available as large a contingency reserve for next year as possible. So the reserve is retained at the level in the November White Paper, £750 million. Even so, we may yet have to consider in the light of developments whether this is sufficient, and we will have collectively to exercise the greatest restraint in considering any proposals to add to expenditure next year.

6. The cost of uprating child benefit this autumn has been transferred from the contingency reserve to the social security programme. The contingency reserve for the years after 1980-81 has therefore been reduced by a roughly equivalent amount.

7. Like our November White Paper, this White Paper includes no estimate of the saving we expect in the net contribution to the EEC. While negotiations are still proceeding, it would be premature to publish a figure.

8. The figures for later years are presented in more summarised and rounded form than in previous White Papers. Consequently, the analyses which depend on the detail of the plans for each programme do not extend beyond 1980-81.

Flag A

9. I draw attention also to paragraph 16 in chapter 2.12 which states the conventional working assumptions on unemployment and prices used in calculating some of the figures in the White Paper. (They are likely to differ from the economic material in the other Budget publications, but not in a way that makes them appear pessimistic.) If we did not state them we should certainly

be asked and have to give them, as we had to give the unemployment assumptions following publication of the November White Paper.

10. I am sending copies of this minute and attachment to other members of the Cabinet, including the Minister of Transport, and Sir Robert Armstrong. I should be grateful to have any comments as soon as possible, and not later than Monday 3 March.

W. J. B.

JOHN BIFFEN
26 February 1980

CONFIDENTIAL

A.

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

MO 21/2/25

26th February 1980

Copy to
Defence PT3
Budget. Statement on
Defence estimates.

Dear Tim,

PUBLIC EXPENDITURE WHITE PAPER;
STATEMENT ON THE DEFENCE ESTIMATES, 1980

I have consulted my Secretary of State (who is at present in Germany) about the Chancellor of the Exchequer's minute to the Prime Minister of today.

My Secretary of State has asked me to say that he considers that if the Public Expenditure White Paper is to be published on 26th March, it would make most sense to publish his Statement in the week beginning 31st March, probably on Wednesday 2nd April (shortly after his return from his visit to China); if the Prime Minister is content he would propose to announce this publication date this week by means of an early, arranged, PQ.

Agree
MS

If the Statement were published just before the Recess, my Secretary of State would see considerable merit in a defence debate being arranged in the week beginning 14th April (he presently plans to be abroad on another official visit for most of the week beginning 21st April).

I am sending copies of this letter to the Private Secretaries to the Members of OD, the Chancellor of the Duchy of Lancaster, the Paymaster General and the Chief Whip; copies also go to Charles Cumming-Bruce (House of Lords) and David Wright (Cabinet Office).

Yours ever,
Brian Norbury

(B M NORBURY)

T P Lankester Esq
10 Downing Street

CONFIDENTIAL

26 FEB 1980

DHSS

With the Compliments of
the Private Secretary to
the Secretary of State

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House
Elephant and Castle
London, SE1 6BY

AJ

Econ Pol

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

N Budget

P.
22/

John Wiggins Esq
Private Secretary
HM Treasury
Parliament Street
LONDON SW1

22 February 1980

Dear John,

My Secretary of State very much welcomes the Prime Minister's suggestion (Tim Lankester's letter of 20 February) that the Public Expenditure White Paper should be published on Budget Day rather than 18 March. He welcomes it on general grounds, because it would enable the House and the public to see the two sides of our policies, and the relationship between them. But there is one particular respect in which the Prime Minister's proposal would help Mr Jenkin. This is the timing of the Report and Third Reading stage of the Social Security Bill now in Committee.

There are long-standing plans for the Report stage to take place on 18/19 March. This would obviously have coincided very awkwardly with the publication of the Expenditure White Paper. It is by now clear that even with a guillotine it will not be practicable to bring the Report stage forward. We will have enough difficulty in being ready for it by 18/19 March, but we have to make that date for operational reasons. The postponement of the publication of the White Paper would, therefore, be a very real tactical advantage as far as the handling of this difficult Bill is concerned.

I am copying this to Tim Lankester and to the Private Secretaries to members of the Cabinet, the Chief Whip, the Acting Leader of the House of Lords, and to Sir Robert Armstrong.

Yours ever

Don Brereton

D. BRERETON

BF 22/2

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

TL

Chancellor of the Duchy of Lancaster

21 February 1980

TL 22/2

Dear Tim

PUBLIC EXPENDITURE ANNOUNCEMENTS

The Chancellor of the Duchy has seen your letter of 20 February to John Wiggins, and has commented that the nearer to the Budget the White Paper is published, the better. In this way, he says, a theme can be put across, and hopefully the Budget will provide a positive context in which it can be seen.

I am copying this letter to the Private Secretary to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Yours sincerely

Petra Laidlaw

PETRA LAIDLAW
Private Secretary

Tim Lankester Esq
Private Secretary
10 Downing St

221

HOUSING: STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT
21 FEBRUARY 1980

With permission, Mr Speaker, I will make a statement on housing public expenditure.

The background to the decision I am announcing today is well knwo to the House.
This Government faces the task of setting public expenditure at levels which the nation can afford.
If we fail, the problems with which we are all familiar will continue - a public sector consuming a disproportionate share of the nation's resources, high interest rates and declining investment in the private sector.

The harmful effects of the policies of recent years can be clearly seen in housing.
By 1979 the average new council house built cost taxpayers and ratepayers £30 a week in subsidy.
Council rents had fallen to an average of 6.4% of income - despite a commitment in the last Government's Green Paper to increase rents in line with earnings.
The net result of Labour's housing policy was that the subsidies on new building became so large that in every year after 1976 local authorities of both political complexions responded by reducing their programmes.

And the rent policies of the last government have been a major factor in the inability of local authorities adequately to meet housing costs, finance investment and maintain their stock.

Against this background, we have reassessed our housing policy. The government's expenditure plans for 1980/81 and later years will be published in a White Paper next month
but the local authorities, the Housing Corporation and the New Towns need to settle their programmes now.
For these reasons, this year, I am, exceptionally, making an oral statement.

Our reassessment of objectives must recognise the significant general improvement of housing conditions in the last 30 years. Home ownership has grown from 31% to 55% over that period, and we recognise the desire of most people to own their own home. In national terms, the supply of housing and demand are in better balance.
Needs and problems have become increasingly specific and local. The emphasis of public sector housing policy now must be to meet particular needs, such as those of the elderly and the handicapped. We have to concentrate on modernising, improving and making better use of the existing stock, rather than on the general provision of new houses.
And we must encourage home ownership and the private rented sector.

We need therefore to adopt new priorities - priorities which are reflected in the Housing Bill and which are critical given the economic background.

I come now to the programme for 1980/81.

The housing investment programmes for local authorities in 1980/81 will be allocated £2,199million at expected outturn prices.

The Housing Corporation will be allocated £420 million for the work of housing associations.

And the New Towns building for rent programme will be £151 million.

In new town development, the proportion of owner occupation is below the national average, yet the demand is high.

In future, growth must be based increasingly on the private sector and homes for sale.

Taken together, these three housing capital allocations for 1980/81 will in real terms, at 1979 Survey Prices, be about £540 million or 21% lower than the forecast outturn for 1979/80.

These figures are for England.

My Scottish and Welsh colleagues are making separate announcements.

In the new circumstances, it is even more important that local authorities should use available resources in the most effective way to meet local needs.

In order to encourage this, the housing allocation to each authority from April 1980 will be in a single block and they will have much greater ability to decide their own priorities. They will also have the new opportunities opened up by the Housing Bill.

There is a range of ways to promote low cost home ownership - selling council houses; securing land release for builders; encouraging starter homes; low-cost building for sale, especially for tenants and those on the waiting lists; schemes for improving and selling houses such as acquisition, improvement and sale (AIMS) and homesteading; promoting shared ownership; and by helping priority home buyers with mortgages.

In these ways people can be helped to become owners.

Full details are in the allocation letter to authorities, copies of which are in the Vote Office.

The priorities now must be value for money and concentration, under the more flexible arrangement, on the problem areas.

In the private sector, the introduction of shortholds and the other provisions in the Housing Bill will improve the availability of rented accommodation without additional public expenditure.

Exchequer subsidy to local authorities for housing last year amounted to £1,148 million in 1979 Survey Prices.

The rent levels of recent years have not only prejudiced the abilities of local authorities to maintain adequately their housing stock but have contributed to the enormous burden of public expenditure.

I have therefore concluded that it would be right to issue a supplementary rent increase guideline of 60p a week on average over the second half of 1980/81.

Mr Speaker, I have announced today a reappraisal which reflects our assessment of national economic and housing priorities. This is a necessary response to a situation in which the scale of housing subsidies increased under the previous government to levels far beyond those the nation could afford.
From now on we shall concentrate resources there they are needed; and I have today set out realistically what the nation can afford.

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

21 February 1980

Dear Alistair

HOUSING STATEMENT

I attach a revised version of my Secretary of State's statement this afternoon, which I hope you will find reflects the points made by Treasury.

I am copying this for information to Tim Lankester (No 10), John Stephens (Chancellor of the Duchy's Office), George Craig (Wales), Godfrey Robson (Scotland) and Murdo MacClean (Chief Whip's Office). I will, of course, be letting Murdo have six copies of the final version, with any minor last minute amendments, by 3 pm.

Yours sincerely
David Edmonds

D A EDMONDS
Private Secretary

Alistair Pirie
PS/The Rt Hon John Biffen MP

FB

✓MS

HOUSING: STATEMENT BY THE SECRETARY OF STATE FOR THE ENVIRONMENT
21 FEBRUARY 1980

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The harmful effects of the policies of recent years can be clearly seen in housing.

By 1979, for the average new council house, taxpayers and ratepayers were contributing towards a subsidy of £30 per week.

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The net results of Labour's housing policy was to make new building for local authorities so expensive that in every year after 1976 local authorities of both political complexions responded by reducing their programmes.

And the rent policies of the last government have been a major factor in the inability of local authorities adequately to meet housing costs, finance investment and maintain their stock.

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From now on we shall concentrate resources where they are needed; and I have today set out realistically what the nation can afford.

Subject file
Defence - budget - Pt 2

CONFIDENTIAL

1. Mr ~~[illegible]~~
2. p.a.

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~930 7022~~ 218 2111/3

MO 8/2/12

20th February 1980

Dear Tim,

PUBLIC EXPENDITURE ANNOUNCEMENTS

I have shown my Secretary of State your letter to John Wiggins of 20th February; and he has asked me to acquaint you with the problem he is now facing over when he should publish his Statement on the Defence Estimates.

Our plan was that the Statement should be published not before, but very shortly after, the Public Expenditure White Paper (I attach a relevant extract from Volume 1) but that was on the basis that publication would be possible in the week beginning 17th March. If the publication of the Public Expenditure White Paper was deferred until the following week it presently seems that since my Secretary of State will be abroad on an official visit that week he would need to publish in the following week (beginning 31st March), perhaps most desirably on 2nd April. The alternative, to which there are a number of objections, would be to publish the Statement before, instead of after, the publication of the Public Expenditure White Paper. My Secretary of State wanted you to be aware of these considerations.

I am sending copies of this letter to John Wiggins (and also to Alastair Pirie to whom I wrote, coincidently, on this subject earlier today) and to the Private Secretaries to the Chancellor of the Duchy of Lancaster, the Chief Whip, the Paymaster General and the Secretary of the Cabinet.

Yours ever
Brian Norbury

(B M NORBURY)

T P Lankester Esq
10 Downing Street

CONFIDENTIAL

8 The Defence Budget

801. The defence budget in 1980/81 will total £8,001 million at 1979 Survey prices. This represents an increase of some $3\frac{1}{2}\%$ in real terms compared with expected out-turn for 1979/80. In 1981/82 and the two following years the Government plans continuing real growth in defence spending consistent with the NATO target of 3% each year, producing defence budget levels of £8,243 million, £8,490 million and £8,745 million. Volume II of this statement contains a number of analyses comparing the provision in Defence Estimates in 1980/81 with previous years.

Figure 19 Division of the Defence Budget (1980/81) by the Principal Headings

CONFIDENTIAL

File

JS

Econ Pol

10 DOWNING STREET

From the Private Secretary

20 February 1980

Dear John,

PUBLIC EXPENDITURE ANNOUNCEMENTS: SOCIAL SECURITY

The Prime Minister has read the Chancellor's minute of 15 February about public expenditure announcements. She has noted that the announcement on the social security decisions can now be deferred until the publication of the Public Expenditure White Paper, but she wonders whether it would not be better if the White Paper were published on Budget day rather than on the currently planned date of 18 March. Although she is aware that the underlying economic assumptions in the White Paper will not be quite the same as the assumptions underlying the Budget judgement, she believes that there would be advantage in avoiding having to make a major statement on public expenditure - as presumably would be necessary - so shortly before the Budget. The Prime Minister would like to discuss this with the Chancellor before a final decision is taken.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, the Chief Whip, the Acting Leader of the House of Lords, and to Sir Robert Armstrong.

Yours ever

Tim Lankester.

John Wiggins, Esq.,
HM Treasury.

c Defence Budget Pt 2

DS

2

10 DOWNING STREET

PRIME MINISTER

You should be aware of this further move in the discussions over the timing of Social Security legislation. We await comments from Mr Jenkin, and will bring the issue back to you if it cannot be resolved by colleagues. No need to discuss at Cabinet tomorrow.

MS

20/2

SECRET

cc Parliament Pt 4
Legislative Programme

PRIME MINISTER

SOCIAL SECURITY AND OTHER LEGISLATION

This minute is a sequel to my minute of 7 February and takes account of the decisions summarised in the Chancellor of the Exchequer's minute to you of 15 February.

We shall proceed as quickly as we can with the present Social Security Bill, which has to receive Royal Assent by 23 May.

Parliamentary Counsel has sounded out the House authorities about the possibility of including in the Finance Bill the additional Social Security provisions and the provisions about public sector pensions. The House authorities confirm Parliamentary Counsel's view that this cannot be done; the Speaker would not allow the Finance Bill to be extended for these purposes.

We therefore need a separate Bill to deal with the Social Security changes which Cabinet have agreed. Any provisions about public service pensions and those about supplementary benefits for strikers could go in the same Bill. To get the Bill through both Houses and obtain Royal Assent by mid-July we must aim to publish it before Easter.

I should draw your attention and that of colleagues to three implications for the Parliamentary timetable:

(a) the report and third reading of the present Social Security Bill will have to take place in the week beginning 17 March. The Public Expenditure White Paper which will announce the further Social Security measures is being published on 18 March. This is an awkward coincidence but if we are to obtain Royal Assent by 23 May it is unavoidable;

this is another argument for PEWP and Budget on the same day
MS

(b) the Social Security (No 2) Bill will have to be published either in the same week or in the following week, which is the week of the Budget;

Agreed

(c) in the weeks immediately after Easter we have to find time on the floor of the House for the Finance Bill, the Social Security (No 2) Bill and the remaining stages of the Employment Bill. I think this can be done, especially if the Employment Bill can be handled in the way the Employment Secretary suggested at Cabinet last week, but other Bills may well be delayed.

The need to include a fresh Social Security Bill in our congested programme means that we must look even more critically at the

SECRET

prospects for those Bills that have not yet been introduced. The Chancellor of the Exchequer agreed at the meeting on 8 February to consider whether it was still necessary for the Secretary of State for Energy to introduce the Petroleum and Submarine Pipelines (Amendment) Bill this session. Perhaps the Energy Secretary can also look at the need to introduce the Energy Conservation, Etc. Bill. It would greatly help the management of the programme if both these were not now included for the present session.

I understand that the business managers in the Lords see difficulties about finding adequate time for the Contempt of Court Bill. Perhaps the Lord Chancellor would consider whether it would be a sufficient implementation of our Queen's Speech commitment if that Bill were given a second reading as a means of widening debate on its provisions but on the understanding that it might not be able to make further progress this session.

Finally, I should be grateful if the Foreign and Commonwealth Secretary could consider deferring the International Organisations (Amendment) Bill.

If these Bills could be deferred we would still hope to be able to complete the rest of the programme by the end of October.

I am copying this minute to other members of the Cabinet, the Minister of Transport, the Chief Whips in both Houses, and the acting Leader of the House of Lords. I am also sending a copy to First Parliamentary Counsel and Sir Robert Armstrong.

NStJS

N St J S

19 February 1980

19 FEB 1980

Prime Minister
I think it would be better, if possible, to publish the public expenditure white paper on Budget day rather than the week before. But because the white paper figures are now finalised and have to go to press earlier, their underlying economic assumptions are likely to be different from the Budget assumptions/forecasts. Hence, the Treasury's desire to separate the two. I suggest you discuss with the Chancellor before a final decision is taken.

TL 15/2

1

13

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

PRIME MINISTER

MT

PUBLIC EXPENDITURE ANNOUNCEMENTS : SOCIAL SECURITY

Your Private Secretary's letter to mine of 8th February referred to the Chancellor of the Duchy's minute of 7th February about the Social Security Bill and asked why it was essential that Royal Assent to that Bill should be obtained by 23rd May.

2. I have discussed this point and others with the Social Services Secretary, the Chancellor of the Duchy of Lancaster and the Chief Whip. We were satisfied that for the reasons set out in the attached DHSS note it is essential for the present provisions in the Social Security Bill to be brought to Royal Assent by 23rd May. The Chancellor of the Duchy of Lancaster's minute reflected earlier firm advice that a similar deadline would have to be set for the additional provisions. The Social Services Secretary has, however, now decided that it is not essential for these provisions to become law until mid-July. There are risks about this, set out in paragraph 4 of the attached note, but in the circumstances described in the Chancellor of the Duchy of Lancaster's minute, which effectively precluded use of the present Bill, we were clear that they were the lesser evil.

3. It will now be possible for the announcement to be made along with our other decisions when the Public Expenditure White Paper is published: the planned date for this is 18th March.

4. We agreed that legislative cover for the new proposals (including possible action, if agreed, on public service pensions and strikers) will have to be obtained in a separate later Social Security Bill, or just possibly the Finance Bill. The Chancellor of the Duchy of Lancaster will be reporting to you shortly on how this might best be done and on the implications for the legislative timetable as a whole.

5. I am sending copies of this minute to our Cabinet colleagues, the Chief Whip, the Acting Leader of the House of Lords, and to Sir Robert Armstrong.

(G.H.)

15 February, 1980

ANNEX

SOCIAL SECURITY DECISIONS - IMPLEMENTATION AND ANNOUNCEMENT

1. This note explains why Royal Assent is required for the current Social Security Bill by 23 May, and why so much time is needed to prepare for the benefit uprating this November. The Bill not only includes the breaking of the link with earnings for long-term benefits, which directly affects the November uprating, but more significant operationally it also gives effect to the new supplementary benefits scheme resulting from the recent review. The only practicable way of implementing the new scheme, which involves reassessing in detail every aspect of each of the 3 million supplementary benefit cases, is in conjunction with the November uprating over the normal six-month period during which the cases come up for review anyway. To try to do this at any other time, or over a shorter period, would create serious difficulties in local offices either involving great expense (on extra overtime) or risking breakdowns due to staff refusal to do the overtime. This year's uprating and the implementation of the new supplementary benefits scheme thus need the full six-month period, starting in mid-May.

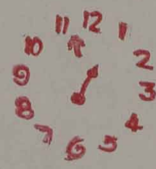
2. Once that process of issuing order books to the public has started, there could be no going back without public confusion and criticism of our administrative competence, so the provisions of the new supplementary benefits scheme must be established in every detail by then. The Social Services Secretary is convinced that the current Bill must be law by mid-May, if the 1980 uprating and the introduction of the new supplementary benefits scheme is to be completed on time.

3. The only way to include the relevant public expenditure changes in that Bill is to announce them before 18 March and debate them on Report stage. In view of the serious Parliamentary difficulties of that course, we have considered the alternative of putting the changes in a new Bill for that purpose.

4. Putting the changes in a new Bill, which would have to be introduced after the announcement on 18 March and would not receive Royal Assent until mid-July, would mean that the short-term rates of national insurance benefit,

and of invalidity benefit - a long-term benefit - were not absolutely certain until some two months after the uprating had started in mid-May, and that Ministers would have to face the criticism that Parliament's approval was being anticipated for that period. Because of the problems of any other course, however, the Social Services Secretary considers that the risks involved in this course should be accepted. They are of a much lesser order than those involved in risking delay to his current Bill. Only one of the six proposed changes in public expenditure on the pensions and benefit front affects the November uprating; far fewer cases are involved than is the case with the new supplementary benefits scheme and the uprating as a whole; nothing being enacted in the current Bill will require substantive amendment in the subsequent Bill by reason of these six changes; and, unlike the new supplementary benefits scheme, where detailed changes may well be made during the passage of the current Bill, the public expenditure changes are a major plank in the Government's strategy, on which our public faith will be pledged. The criticism of anticipating Parliament will have to be faced, but can be answered by pointing out that the usual uprating starts in May or June while the Order authorising the uprating changes is rarely passed before the latter part of July.

15 FEB 1960



SECRETARY OF STATE
THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

PERSONAL

15 February 1980

Dear Tim

PARLIAMENTARY STATEMENT ON HOUSING INVESTMENT PROGRAMMES

Now that the issue of an oral statement has been resolved, I should like to apologise to you again for inadvertently having misled you on Wednesday evening about one point in the Ministerial discussions. I acted throughout Wednesday on the understanding that the Chancellor of the Duchy of Lancaster was aware of the outcome of the brief, unplanned discussion that my Secretary of State had with the Prime Minister in the House on Tuesday night. I had clearly misunderstood an account given to me, not by the Secretary of State.

I am sorry that this happened and for the embarrassment caused both to you and Petra Laidlaw in Mr St John Stevas's office, to whom this letter is copied.

Yours ever
David

D A EDMONDS
Private Secretary

Tim Lankester Esq

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

CONFIDENTIAL

My ref:

Your ref:

15 February 1980

Dear Geoffrey

PUBLIC EXPENDITURE: PSA

Thank you for your letter of 8 February.

I really do understand and sympathise with the problems that have arisen for you as a consequence of our decision to cut the PESC provision for the PSA.

There has never been any specific provision in PES for the accommodation aspects of PAYE computerisation and Inland Revenue have known that they would need to draw attention to these additional claims on PSA funds in putting their proposals to Ministers.

I am told that the total cost is now assessed at around £18m, including both the twelve regional processing centres and the local office installations. That requirement will now have to be brought into the reckoning in deciding how the much reduced remaining funds shold be allocated. If it goes ahead, the scheme will clearly pre-empt a substantial part of those resources and displace other projects already in the programme. I am not, of course, disputing the importance of your claim; but our colleagues will have to accept that this new requirement will make a heavy demand on a programme that has been severely cut and be persuaded to take the consequential effects on the timing of their own building requirements.

I am copying this letter to those who saw yours.

Yours ever

Michael

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe QC MP

18 FEB 1980

✓ Circulate
MJS

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GWYDYR HOUSE
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Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

15 February 1980

Dear Tim,

You wrote to Dave Edmonds on 14 February about the statement which the Secretary of State for the Environment is to make on Monday about housing investment programme allocations for 1980/81.

As Mr Heseltine pointed out in his minute of 8 February to the Prime Minister we, like the Scots, will also have to make an announcement on Monday. The Chief Whip and the Leader of the House are considering the form this announcement should take - a complication being that the Welsh Office is first for oral questions on Monday.

... Copies of this letter go to the recipients of yours.

Yours sincerely,
Bob Williams

R J T WILLIAMS
Private Secretary

Tim Lankester Esq
10 Downing Street
LONDON
SW1

15 FEB 1980

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WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

14 February 1980

Dear Tim

... You will, I think, wish to see the attached letter and note on the proposed single PESC programme for Wales that my Secretary of State has sent to the Chief Secretary.

/ I am copying this for information to the Private Secretaries of those members of the Cabinet not included in the list of copy addressees of the original letter.

Yours ever

Gary Craig

~~G C G~~ CRAIG
Private Secretary

Tim Lankester Esq
10 Downing Street
LONDON
SW1

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WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

4/13

13 February 1980

WELSH OFFICE PES AND VOTE STRUCTURE

At present Welsh Office public expenditure is spread among eight main functional programmes in the Public Expenditure Survey, along with the expenditure in England and Scotland. The usual rules have hitherto applied, whereby funds may be switched between programmes only with the consent of the Treasury. When it comes to a current year the position has been a little easier up to now. Starting in 1978-79 the Welsh Office has operated a block central government cash limit covering Health and personal social services, roads, education, libraries, arts and other environmental services. However, this block has to be broken up into its constituent parts for 1980-81 to honour the commitment to the assimilation of cash limits and Votes.

In the Election Manifesto for Wales we committed ourselves to ensuring that the Secretary of State had more discretion over the allocation of the funds available to him. I am also keen to be seen by the new Welsh Select Committee as financial master in my own house, within the overall limits of monies Voted or expenditure planned for Wales.

/Some time ago

The Rt Hon John Biffen MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3HE

Some time ago I therefore instructed my officials to pursue with the Treasury the possibility of increasing the flexibility of the system by re-grouping Welsh expenditure into a new main programme for public expenditure planning purposes and matching Class in Estimates. The matter was subsequently discussed in PESC and agreement reached between officials on the lines indicated in the attached paper.

I am now writing to seek your agreement and that of my colleagues to whom copies of this letter go, to the adoption of the proposals. Because of the possibility of embarrassment at the publication of the Estimates for 1980-81 in disaggregated form I should like to be in a position to make an announcement about the time of publication, which I understand is likely to be 19 March. I suggest that the best way of making the announcement would be by an arranged Written PQ and Answer. If you agree, our officials can discuss the wording.

I would be grateful if colleagues could help us meet the above target date for an announcement by letting us have their views on the proposals as soon as possible and not later than 22 February.

A copy of this letter and the associated paper go to the Secretaries of State for Industry, Employment, Environment, Scotland, Social Services, Trade and Education and Science, the Minister of Agriculture, the Minister of Transport and the Minister of State, Civil Service Department.

A SINGLE PESC PROGRAMME FOR WALES AND REVISED VOTE AND CASH LIMIT STRUCTURE

Note by Officials

1 The Secretary of State for Wales has instructed his officials to pursue with the Treasury the re-grouping of Welsh expenditure into a new main programme for public expenditure planning purposes and matching Class in Estimates. Discussions between the two Departments have taken place accordingly, and this joint note sets out the possibilities and issues which have been identified.

BACKGROUND

2 It may be helpful to begin by explaining the purposes of the proposed changes. The Secretary of State for Wales is responsible for the exercise in Wales of numerous powers which in England are exercised by various other Ministers. Functions which have been transferred in whole or in part over the years include Health and Personal Social Services; Education, Arts and Libraries; Roads and Transport; Trade, Industry and Employment; Housing; Other Environmental Services; and Agriculture. Some 37 per cent of the public expenditure incurred in respect of these transferred functions is in fact local authority expenditure, and it has recently been decided that the operation of block grant (the successor to Rate Support Grant) in Wales should be the responsibility of the Secretary of State for Wales. Similarly the operation of the proposed new system of capital expenditure controls in Wales will be his responsibility. The main central government functions outside the Secretary of State's field are social security, defence and overseas services, Home Office services, and those aspects of industrial policy and regional policy within the responsibility of the Secretary of State for Industry.

3 It is no part of the present proposals that there should be a transfer of any further functions to the Secretary of State for Wales. They would not of themselves cause any change in the exercise of transferred powers. The Secretary of State is subject to the rules of collective Cabinet responsibility the same as any other Minister. In exercising his powers the Secretary of State will naturally continue to take account of the interaction of his decisions with the policies of his colleagues. The proposals which the Welsh Office are now putting forward are concerned with the financial mechanisms of planning and control. The Secretary of State is convinced that for political reasons in Wales the expenditure planned for Wales and the monies Voted for Wales must be more clearly and separately identifiable

than they are now. He also feels that the whole purpose of having a separate Secretary of State for Wales is vitiated if he has no discretion to make adjustments between programmes of planned expenditure within his Departmental ceiling, or flexibility of financial management within a current year. Taking into account the likely restrictions on Government expenditure in the present Survey period and the competing claims, any switches between programmes are likely to be marginal. But their political importance in the Welsh context will be very great, and the Secretary of State must be seen to have the discretion to make them. This is why the Conservative Election Manifesto for Wales contained the following passage:

> The Secretary of State for Wales should have greater flexibility in the use of the funds available to him, to take account of the special needs of Wales. We will therefore ensure that he has more discretion over the allocation of funds provided by Parliament for Wales. The actual performance of government in the use of funds will be subject to examination by the new Select Committee.

This Select Committee has now been established and will expect the Secretary of State to have control over his own expenditure.

4 Before going on to the detail of the proposals, it is appropriate to recapitulate the present position.

5 At present the Public Expenditure Survey lumps Welsh expenditure in with English expenditure in functional Programmes. It is not always clearly identified, and recognition of this opaqueness has led to the inclusion in Public Expenditure White Papers of special abstracts of Welsh figures. (There is no such abstract in the 1980-81 White Paper but there will be in the full Survey White Paper which is to appear early next year.) However, the Welsh expenditure remains tied to the relevant functional Programmes and no adjustments between them can be made to meet special Welsh needs without a full case being made to the Treasury and specific consent being obtained. In some cases (e.g. regional selective assistance) common GB criteria are applied and different criteria in Wales are not permitted. The PES projections cannot therefore be adjusted to meet special Welsh needs.

6 The Vote treatment of Welsh expenditure is similar, in that separate Votes have to be raised within each functional Class. The result is inflexibility with a relatively large number of Welsh Votes, some of them comparatively small. Because of this inflexibility agreement was reached that Welsh Office programmes should be combined to produce two omnibus cash

limits, one covering Health and Personal Social Services, roads, education, libraries, arts, other environmental services and agriculture (W02) and the other (W03) covering regional and industrial development. A separate cash limit applies to Manpower Services Commission expenditure (W04) and another (W01) to Pay and general administrative expenses. It is not proposed to change the arrangements whereby CSD exercise control over civil service staff and staff-related expenditure in PES, Votes and Cash Limits.

7 Due to the commitment to assimilate Votes and Cash Limits, these omnibus cash limits will have to be broken up for 1980-81. This is bound to cause difficulties, and the Welsh Office has only agreed on the understanding that rapid progress would be made in considering the present proposals.

THE PROPOSAL

8 The main Welsh Office proposal is that a new PES programme should be established for Welsh Office public expenditure and agreement reached that it should be managed as a "block". Supporting that would be a new Class in Estimates and Vote and cash limit structure. The proposals would allow the Secretary of State for Wales more flexibility and control in managing his financial resources. "Block" treatment would allow flexibility in making dispositions over future years of the Survey period; the revised Vote and cash limit structure should allow some additional room in managing resources during the current year. The reverse of the coin is that the Secretary of State would be expected to meet from within his block any unforeseen expenditure which occurs in connection with the programmes it covers, and not make any claim on the contingency reserve save in the most exceptional circumstances. Treasury and Welsh Office officials agree that another integral part of "block" treatment is that reductions or additions to the block should be determined by the application of a formula, which would be applied both in the annual survey and to any changes agreed between survey discussions. In the Treasury's view, the established population formula as already applied to Scotland and Northern Ireland should also be applied to Wales. This is discussed more fully in paragraphs 17 and 18. The paper now deals with these three aspects:-

a PES programme - content and extent of "block" treatment;

b Votes and cash limits - new Class of Estimates, number of Votes and cash limits and management of switches;

c management of changes - selection and application of formula.

A Single PESC Programme

9 In Public Expenditure White Papers the current programmes within the Secretary of State for Wales' responsibilities are extracted to a summary (table 4.3 in Cmnd. 7439). The essence of the Welsh Office proposal is that this should in future constitute a single PES Programme for Wales on the Northern Ireland model which would remove from the relevant functional programmes expenditures which are at present grouped with comparable English and Scottish programmes, without the constituent parts being repeated in other Departments' programmes. For presentational purposes in both the Public Expenditure Survey Report and Public Expenditure White Paper the Programme would be disaggregated into its component parts (sub programmes).

10 The Treasury agrees that some move in this direction would be acceptable; it would give permanent effect to the arrangements for switching to which the Chief Secretary agreed in respect of the later years of the current Survey period and which already apply in Scotland. But the Treasury sees difficulty in the proposition that all Welsh Office expenditure should be included in a single Welsh PES Programme with complete discretion for the Secretary of State to switch within it. It would not be practicable to apply the formula for managing reductions or additions (mentioned in paragraph 8) to the Agriculture and the Trade, Industry and Employment (TIE) sub-programmes: in the case of Agriculture, there is far greater expenditure in England than in Wales (so that, if the formula were to be applied it might wipe out the Welsh PES provision); and in the case of TIE there is ad hoc project provision (Section 7 industrial support) which cannot be adjusted by formula and also Welsh expenditure (on the Welsh Development Agency and the Development Board for Rural Wales) which has no precise English equivalent. Increases or decreases in these sub-programmes would therefore have to be negotiated ad hoc, which in turn means that they could not be given "block" treatment with the rest of Welsh Office expenditure.

11 The solution which has been reached following discussion in PESC is that these sub-programmes should be presented in the same table as the block sub-programme with a footnote making it clear that there should be no switches into or out of them without specific

Treasury consent. The lay-out of a table prepared on this basis is illustrated in Annex A.

Vote and Cash Limit Treatment of Central Government Expenditure by the Welsh Office

12 It would not be appropriate to envisage a single Vote/Cash Limit for all Welsh Office expenditure. Some of the expenditure is not subject to cash limits. Some Welsh expenditure is not Vote expenditure - e.g. local authority, Welsh Water Authority and Land Authority for Wales expenditure (capital and current).

13 Initially, the Welsh Office proposed a structure comprising two cash limited and two non cash limited Votes. However, following discussions with the Treasury, they recognise that the ambits were likely to prove unacceptably wide and thus are prepared to accept the compromise of four cash limited and four non cash limited Votes.

14 The Treasury would treat proposals for transfers during the year between Welsh Office Votes in the same way as similar proposals from other Departments.

Cash Limit Treatment of Capital and Current Expenditure by Welsh Local Authorities and Other Bodies

15 The Government is proceeding with its proposals to change the present system of Rate Support Grant (by replacing the Resources element and Needs element with a new block element) and to introduce a new system of capital expenditure control. In both cases the new systems will be operated in Wales by the Secretary of State for Wales, and are due to come into effect in 1981-82 (the target date for the proposed restructuring which is the subject of this note). Financial control over local authority expenditure in Wales under the new regime could be controlled through two separate cash limits, viz:-

1 a cash limit related to capital expenditure of local authorities on programmes within the Secretary of State's responsibility; and

2 a cash limit on the amount of Rate Support Grant paid to local authorities (this cash limit would be a central government

expenditure cash block).

In addition, depending on whether Transport Supplementary Grant (TSG) remains separate, there may also be a need for a Welsh TSG Central Government Cash Limit. These three cash limits, if necessary, would be separate from the four referred to in paragraph 13 above.

16 The cash limit treatment of expenditure by the Land Authority for Wales (which is to continue in existence despite the repeal of the Community Land Act and whose expenditure is at present controlled in a separate block, WO/CL1) is under discussion between the Treasury and the Welsh Office. It is not proposed to change the arrangement whereby the external financing requirement of the Welsh Water Authority is controlled within cash limit RWA1 which covers all ten Regional Water Authorities in England and Wales. Capital expenditure by the Housing Corporation and Cwmbran New Town would continue to be included in the local authority housing cash block.

OTHER MATTERS

Changes in Expenditure Plans

17 A change in expenditure plans arising from a specific policy decision by the Government (e.g. abolition of Selective Financial Assistance) presents no difficulty in carrying it through to a Wales programme. But, frequently changes affect all or most Departments and are expressed as aggregate reductions or increases (usually after discussions in bilaterals and by Cabinet). Where a "block" agreement exists at present, officials carry commensurate changes through to territorial expenditure by means of a formula based on relative populations. This involves an element of rough justice (unless need varies directly with population) and of a broad brush approach - where a territorial programme includes an item which, while relatively minor in terms of expenditure, is not directly comparable with expenditure in England (e.g. Welsh bilingual education). But nonetheless, the Treasury wish to continue using a single formula for the "block" as a whole in order to carry through changes at the margin. The alternative of repeating the individual discussions on all functional elements of each territorial Department's expenditure would involve a very great deal of Treasury and territorial Ministers' time.

18 The Welsh Office also agree that a single formula should be used, but at present are not entirely convinced that the existing "population"formula is sufficiently fair. Further consideration can be given to this after a decision in principle has been taken on the proposal to establish a Wales

programme, though both Departments agree that if the new arrangements are to take effect for the next PES round they will have to use the existing formula pending collective agreement on any change.

Summary

19 Following discussion in PESC officials have now agreed to endorse the following proposals:

- i all expenditure within the responsibility of the Secretary of State for Wales should continue to be presented in a single table in the Public Expenditure White Paper, with block treatment for tourism, roads and transport, housing, other environmental services, education and science, arts and libraries, health and personal social services and other public services (a mock-up of the table is at Annex A);
- ii changes in public expenditure plans for comparable expenditure at the margin will be carried through to the Welsh Office block by the use of a formula. The existing relative population formula will be used for this purpose until such time as an alternative formula may be agreed;
- iii Welsh Office central government expenditure Votes should be restructured to form four cash limited and four non cash limited Votes to correspond with PES treatment of Welsh expenditure: the new Votes would form a new Welsh Office Class;
- iv separate cash limits will be created as necessary consequent upon the changes in rate support grant and capital expenditure control.

Welsh Office

12 February 1980

2.17 WALES (1)

TABLE 2.17

£ million at 1979 Survey prices

	1974-75.... 1979-80	1980-81.... 1983-84
Agriculture, fisheries and forestry		
Industry, energy, trade and employment (excluding tourism)		
Other services (2)		
Industry, etc. (tourism only)		
Roads and transport		
Housing		
Other environmental services		
Education and science, arts and libraries		
Health and personal social services		
Other public services		
Total other services		
Total expenditure within the Secretary of State's responsibility		

Footnotes:

(1) This programme includes only that expenditure in Wales which is within the responsibility of the Secretary of State. There is expenditure in Wales in other programmes.

(2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of State. Expenditure on agriculture, fisheries and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a greater extent than others by national and EEC policies.

15 FEB 1980

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10 DOWNING STREET

From the Private Secretary

14 February 1980

6/F 19.2.80
for Hansard

The Prime Minister held a meeting this evening with your Secretary of State, the Chancellor of the Duchy and the Chief Whip to consider the question whether the housing investment programme allocations to local authorities for 1980-81 should be announced by way of a written answer or by an oral statement. They agreed that Mr. Heseltine should make an oral statement on Monday. This would be accompanied by a written answer by the Secretary of State for Scotland.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, the Chief Whip and to Sir Robert Armstrong.

T. P. LANKESTER

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

Ar sen

PRIME MINISTER

HOUSING ANNOUNCEMENT

At Flag A is the draft written answer which Mr. Heseltine wishes to make tomorrow.

I have checked the precedents, and it is a fact that the housing investment allocations have been announced by written answer in the past, or by press notice. Mr. Heseltine announced the revised figures for 1979/80 by press notice last August when Parliament was not sitting. In 1976/77 when large housing cuts were announced after the IMF loan, Mr. Healey included them in his mini budget statement; the detailed figures were then given in a letter to local authorities.

There is no doubt that the new figures for 1980/81 will cause a row. The total figure is £2,199 million at 1980/81 prices compared with the figure of £2,544 million at 1979/80 prices for the current financial year: this means a real reduction of 32%.

The Treasury are inclined to Mr. Heseltine's view that a written answer would be better.

T.

14 February 1980

A. DRAFT

To ask the Secretary of State for the Environment if he will make a statement about housing investment programmes allocations to local authorities for 1980/81

Local authorities are being informed today of their individual allocations and I am placing in the Library of the House the details of the allocations and the accompanying letter sent to each authority. The letter also advises authorities of a supplementary guideline rent increase of 60p a week on average in respect of the second half of the year 1980/81.

CONFIDENTIAL

Department of the Environment
2 Marsham Street London SW1

Telephone 01-212 3434

15 February 1980

HOUSING INVESTMENT PROGRAMME ALLOCATIONS FOR 1980/81

INTRODUCTION

1. This letter informs your Council of the Government's decisions on the housing capital allocations for local authorities in the year 1980/81. It describes the main policy considerations underlying those decisions, and notifies you of the sum allocated to your authority.

THE NATIONAL ALLOCATION

2. For 1980/81 the Government has decided to allocate for investment in housing £2198.8 million at 1980/81 outturn prices, including about £12.5 million for insulation grants under the Homes Insulation Scheme (see paragraph 24(II) below).

POLICIES AND PRIORITIES

3. Authorities will be free to make use of their allocations according to their own priorities under the one-Block arrangements which come into effect on 1 April 1980 (seeparagraph 26(1) below).

Your Council may however find it helpful, in considering their programme, to know of the policies and priorities which the Government regards as important in the light of the capital available and the Housing Investment Programme submissions of local authorities.

Housebuilding for rent

4. The Secretary of State considers that housebuilding for rent in the public sector should be concentrated on meeting those housing needs which, taking account of the Housing Bill now before Parliament, are unlikely to be able to be met other than by the provision of publicly rented accommodation. In judging their priorities local authorities will want to bear in mind the provisions in the Housing Bill to increase the availability of private rented dwellings (see paragraph 25 below) and those which will substantially improve the ability of authorities to promote low-cost home-ownership.

The promotion of low-cost home-ownership

5. The Secretary of State believes that, in close co-operation with the housebuilding industry and the building societies, the local authorities can make a significant contribution towards the promotion of low-cost home-ownership. The Government's Housing Bill will widen the powers of local authorities in this area.

6. Local authorities can further home-ownership in the following ways:-

a) Selling Council houses

7. The Housing Bill which gives council tenants the right to buy their homes has now received its Second Reading. The Secretary of State's proposals for the treatment of housing capital receipts, which include receipts from the sale of council houses, are set out in paragraph 5 of the Consultation Paper "Capital Expenditure Controls - Response to Local Government Comments". For convenience this paragraph is reproduced as Annex A to this letter. The

Secretary of State asks authorities which are not selling Council houses under the existing general consent to consider doing so in order to meet the wishes of tenants who want to buy.

b) Securing land release to private builders

8. Local authorities should ensure that land for private housebuilding in accordance with approved structure and local plans is genuinely available for development and should make detailed assessments with private housebuilders to ensure this. Authorities should review their own land holdings rigorously and place on the market as soon as possible any land that is not clearly required for their own needs. Receipts from housing land sales will be deemed "housing capital receipts" and it is proposed that they will be treated as set out in Annex A.

c) Encouraging starter homes

9. Very many one and two-person households would prefer to buy their homes rather than renting them. But few one-bedroom homes can be purchased and they account for an even smaller proportion (4%) of houses newly built for sale. The report on starter homes recently published by the Department shows that where house-builders have built smaller new homes at relatively high densities they have not only been able to bring prices down but to provide accommodation which, because it is compact and easy to furnish and run, meets the needs of single people, and small households, especially those setting up home for the first time. Local housing and planning authorities are asked to consider the need for small, lower-priced homes for sale in their areas and to encourage building for this purpose. A copy of this report is enclosed.

d) Building for sale

10. Authorities should consider releasing land for building for sale schemes.

11. The common practice of authorities is to sell houses built for sale in this way principally to existing Council tenants and those on the waiting list thus both extending home ownership and at the same time creating vacancies in the authorities' stock for those who need a house to rent. The Secretary of State sees 'partnership schemes' of this kind complementing rather than duplicating conventional private development.

12. In such schemes some authorities will prefer to retain ownership of the site and to invite a developer to build under licence. In this way authorities, having retained the freehold of the land, are then in a position to sell the completed houses under the terms of the general consent for council house sales. The discounts permitted by the consent can be offered to the purchasers provided that the selling price is not less than the historic cost of the land plus the cost of the house itself. For vacant houses, the discounts allowed (which are deducted from the market value with vacant possession) are up to 20% where a 5-year pre-emption condition is imposed and up to 30% with an 8 year pre-emption.

13. The Department are ready to advise on the detailed aspects of 'partnership schemes' in the light of previous successful ventures by authorities.

e) Improving for sale (AIMS)

14. The Government's Housing Bill removes any doubts which there may be about whether local authorities have power to buy older properties with the agreement of their owners for improvement and resale for home-ownership. Where the cost of buying and improving is more than the market value of the improved property the Bill also provides, in Clause 96, for a Government contribution towards that deficiency. Improvement for sale will enable local authorities to use the expertise which they have developed through their rehabilitation programmes in a way which will provide new opportunities for low-cost home-ownership and will make an authorities' HIP allocation go further.

15. When an AIMS dwelling is purchased receipts will accrue to the local authority either as a lump sum, where a building society mortgage is used, or in periodic repayments where the local authority gives a mortgage. These receipts will be available for use by the authority on the same basis as other housing capital receipts as set out in Annex A.

16. Housing Associations will also be able to undertake AIMS programmes. Clause 110 of the Housing Bill gives the necessary powers and Clause 112 provides for the payment of housing association grant to match the Exchequer contribution to local authorities in Clause 96. Authorities will want to encourage housing association AIMS schemes in their areas.

f) Shared ownership

17. The Secretary of State sees shared ownership as an important bridge between renting and full home ownership, whereby their tenants can part-rent and part-buy their homes initially, with the option to buy the whole of the equity at a later date. Authorities will be able to use shared ownership in three ways:-

a. Authorities in their building for sale schemes will be able to offer the alternatives of an outright sale or a shared ownership sale.

b. Authorities will be given the same flexibility when selling AIMS dwellings.

c. Authorities will be able to offer a shared ownership sale at the original valuation to sitting tenants if tenants are still unable to buy at the end of the two-year option period.

18. The Housing Bill will remove various technical obstacles to the use of shared ownership. The validity of arrangements containing an option to buy the freehold reversion to a property will

be placed beyond doubt, and existing options will be validated. It is proposed to remove an existing conflict between shared ownership and certain provisions of the Leasehold Reform Act 1957. Consideration is also being given to the removal of an anomaly whereby shared owners can pay more stamp duty than people buying a property of equivalent value outright. The Secretary of State hopes that local authorities will take full advantage of these legislative improvements to help those now renting who want to move towards full home ownership or shared ownership.

g) Helping priority housebuyers to obtain mortgages

19. The Secretary of State wishes local authorities to help channel mortgage finance towards those unable to obtain a mortgage from building societies or other financial institutions and is taking steps to help them do this.

First the separate HIP block for mortgage lending and private sector improvement is being subsumed into the One Block system.

Second, the Building Societies have agreed that the Support Lending Scheme for 1980/81 should make £400 m available for lending in Great Britain.

Third, the Housing Bill will give local authorities power to guarantee Building Society mortgages.

Promotion of improvement and energy conservation

20. Here too, the Secretary of State sees the opportunity for new initiatives and a new approach by local authorities. Public funds are limited and it is important that they are used in the most effective way. Essentially this means concentrating on those areas where, without public sector financing, little or no improvement is going to take place and housing is at risk of decaying into demolition.

i. <u>Private sector</u>

21. The Housing Bill gives the Secretary of State wide new powers which will enable the whole system of renovation grants to be directed more specifically at really substandard nousing. Proposals for the detailed use of these powers will be announced at a later date but in the meantime local authorities should concentrate effort and resources on encouraging and promoting the improvement of housing which is fundamentally unsatisfactory. Full use should be made of their discretion to waive grant requirements; unnecessary bureaucratic procedures should be eliminated. Where unsatisfactory housing is standing empty, the new AIMS proposals will give local authorities and housing associations the opportunity to act by improving for sale and thus recovering most, if not all, of their acquisition and improvement costs. As a further alternative, authorities should consider GLC 'homesteading' type schemes under which such property is acquired for resale, particularly to first time buyers, subject to an agreed programme of improvement works to be carried out by the purchaser with the aid of renovation grant.

ii. <u>Public sector</u>

22. The same general approach is relevant to local authorities' own housing. Generally speaking authorities do not have large numbers of houses which lack basic amenities or which otherwise simply fail to measure up to today's standards but there are, within almost any local authority stock, houses which are at risk of becoming 'difficult to let'. It is on these that action should centre.

iii. <u>New rights for tenants</u>

23. Provisions of the Housing Bill will extend to public and private tenants the basic right to improve their homes, with the same access to financial assistance as has, for many years, been available to house owners. This opens up a new avenue for the improvement of older housing in both public and private sectors. The increased

flexibility and greater east of access to grants for the installation of basic amenities which are contained in the Housing Bill will be of particular relevance and value to tenants and to owner-occupiers with low incomes.

iv. Energy conservation

24. I. Public sector

For 1980/81 there will be no separate allocation of resources for the local authority home insulation programme; within their overall allocation it will be for each local authority to determine how much to use for this particular purpose. A good deal of progress has been made in insulating the existing local authority stock and the Secretary of State hopes that in the interests of national energy conservation authorities will continue to give priority to this work. In particular he is concerned that the needs of the elderly, chronically sick, and other disadvantaged groups should be met.

II. Homes Insulation Scheme

Eligibility under the Scheme has been extended, and most public sector tenants, as well as tenants and owners in the private sector, are eligible for grant. Local authorities should try to ensure that the availability of grant aid is generally known, particularly to those in greatest need of insulation.

New initiatives to encourage the private rented sector

25. The Government are taking three important initiatives in the Housing Bill to encourage more lettings by private owners. These should help to reduce the pressure for rented accommodation in the public sector. First, shorthold will provide tenants with full security at fair rents for fixed terms of between one and five years while giving landlords the clear right to repossession at the end of the term. Second, owner-occupiers who let part of

their homes will be able to do so in the knowledge that they can regain possession quickly if they need to. Third, bodies approved by the Secretary of State will be able to let housing built after enactment under assured tenancies at market rents. All three schemes apply to new lettings and do not affect existing tenants.

Greater freedom for local authorities

26. To give local authorities more freedom to pursue these policies and to shape their programmes according to the needs of their areas, the Government is making three major administrative changes:-

(1) The HIP allocation for 1980/81 is a single Block comprising all the types of housing investment formerly grouped into three Blocks. Authorities will therefore be free to decide their own spending priorities, provided that any expenditure on land and municipalisation is consistent with the policy indicated elsewhere in this letter.

(2) Under the revised proposals for the control of local authority capital expenditure which are to be introduced in April 1981, authorities will be free to augment their capital allocations by a sum equivalent to 50% of their housing capital receipts, including any unspent receipts in hand on 1 April 1981.

(3) As announced on 22 January, the Secretary of State proposes to replace the present procedures for controlling individual housing projects with a system which, while incorporating necessary financial disciplines and enhanced accountability to the local electorate, will give local authorities much greater freedom to decide what kind of housing will best meet their local needs. The present procedures must continue until the new subsidy system is introduced, but in the meantime the Department will consider sympathetically applications for the relaxation of Parker Morris standards.

REVISED RENT GUIDELINE

27. The Secretary of State has already indicated to local authorities, in the context of the Rate Support Grant settlement, a guideline average rent increase of £1.50 a week to be applied by those authorities statutorily able to do so. He now considers that his previous guideline needs to be supplemented in respect of the second half of the year 1980/81 and advises that authorities, statutorily able, or when statutorily able to do so, should make a further increase of 60 pence a week over that six month period.

ALLOCATION METHOD

28. Broadly, the principles used to determine the allocations for 1979/80 have been followed: regional allocations have been determined first and then local allocations made on the advice of the regional offices, taking into account the discussions which have taken place with individual authorities.

29. The regional allocation method has been developed from that used for 1979/80, with the same components taken into account: concentration of housing needs in Inner City Partnership and Programme Areas, estimated contractual commitments, cash requests by local authorities and an index of housing needs. However, the balance between the components has been adjusted to give somewhat greater effect to the index of housing needs, so as to reflect the Government's view that allocations should be related as far as possible to an objective assessment of need. This has been done by retaining the concentration of needs element, reducing the pre-allocation of commitments to 50% of estimated contractual commitments and reducing the percentage of local authority cash requests in the distribution of "new money" to 25%, the remaining 75% of "new money" being distributed according to a general index of housing need. The "safety net" mechanism has been retained but modified so that no region receives in real terms more than 75% or less than 65% of its revised (August) allocation for 1979/80.

30. Individual allocations have been determined using three elements. Regional funds set aside for concentration of need were distributed to suitably qualifying authorities. A general needs index for each authority was used to distribute a proportion of the regional allocation. The remaining funds were distributed having regard to: national policies; to the Housing Investment Programmes and strategies of each authority; to the need to take account of commitments; and to the extent to which authorities have made full use of past allocations.

PROCEDURES FOR 1980/81

31. Expenditure types. Within the One-Block allocation for 1980/81 (see paragraph 26 above) authorities will be free to spend as they wish on the following types of expenditure:-

i. New housebuilding, including the acquisition of land under Part V of the Housing Act 1957, and the acquisition of newly-built dwellings and the clearance of land acquired under Part V of that Act; the present arrangements for borrowing approval by the Secretary of State for local purchases will continue;

ii. Slum clearance, including the acquisition of land under Part III of the Housing Act 1957;

iii. Renovation of local authorities' own dwellings, capitalised repairs, energy conservation works and environmental expenditure;

iv. Private sector renovation grants;

v. Gross lending to private persons for house purchase and renovation;

vi. Gross lending to housing associations (including any on account grant payments in lieu of loans during the life of projects); and

vii. Within the categories and subject to the conditions listed in Annex B the acquisition of existing dwellings. Specific borrowing approval is required for any other such acquisition.

32. Energy conservation. A separate amount is identified, within the total allocation, for the Homes Insulation Scheme. This amount is made available by statute specifically for private sector insulation grants and may not, therefore, be vired into the main allocation. Nor do tolerance arrangements apply to it.

33. Tolerance arrangements. Authorities will be able to carry forward into 1980/81 unused allocations for 1979/80 to the extent determined by the existing tolerance arrangements for the three separate Blocks, as set out in Annex D to the Department's letter of 29 November 1978 which announced the provisional allocations for 1979/80. Because of this arrangement and the importance of restricting expenditure within the HIP cash limit for 1980/81, it will be necessary however to amend the arrangement under which authorities may in 1980/81 spend in anticipation of the capital allocation which they will receive in 1981/82. The arrangement will be that they may anticipate the allocation of 1981/82 by a sum equivalent to 5% of their HIP allocation for 1980/81, but only with the prior express consent of the Department through consultation with the Regional Office, Whether such anticipation will be possible will be decided in the light of forecasts of the likely level of spending nationally and it is unlikely that approvals of anticipation can be given before the autumn. The right to carry forward sums from the 1980/81 HIP allocation into 1981/82 will be determined by the tolerance arrangements incorporated in the new system for controlling capital expenditure by local authorities which the Government plans to introduce in April 1981 (set out in the consultation paper on capital expenditure controls which was sent to local authorities on 1 February 1980).

34. Treatment of overspending from 1979/80. Any sum anticipated from 1980/81 to supplement the allocation for 1979/80, including

overspending in excess of tolerance provisions on any of the three Blocks, is automatically deemed to be first call upon your capital allocations for 1980/81. Likewise, any consequent borrowing in excess of the amount specified under the borrowing approval for 1979/80 will count against your borrowing approval for 1980/81.

35. Borrowing approval for 1980/81. The formal terms for the borrowing approval in respect of the allocation for 1980/81 are set out in the Annex to this letter.

ALLOCATION FOR 1980/81

36. Your Council's Housing Investment Programme allocation for 1980/81 is £ m including the self-contained allocation of £ for private sector insulation grants. (See paragraph 32 above).

EXPENDITURE COMMITMENTS FOR 1981/82 AND 1982/83

37. As indicated in the paragraphs above on the allocation method, the Secretary of State's policy is that, in allocating resources to local authorities for investment in housing, assessments of housing need should have increasing weight and therefore that commitments should have less weight. This policy is relevant to decisions on commitments to expenditure in later years: authorities will clearly need to enter into commitments in 1980/81 which will result in expenditure in subsequent years, but they should bear in mind that local housing needs will be given greater weight in the distribution of subsequent allocations. Further guidance on commitments resulting in expenditure in later years will be given during the coming financial year.

MANPOWER AND FINANCIAL IMPLICATIONS

38. This circular letter is not expected to have any manpower

implications for, or to impose any additional financial obligations on, local authorities.

1

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Prime Minister

You agreed with Mr Heseltine and the Chancellor of the Duchy that Mr Heseltine should announce by way of a written answer on Friday.
Agree the same for Scotland?

TL 13/2

Prime Minister

Yes md

HOUSING PUBLIC EXPENDITURE: 1980-81

1. Michael Heseltine minuted to you on 8 February to ask for authority for an early announcement about the local government housing and related reductions.

2. I need to do something very similar in Scotland. The argument that Scottish local authorities may have genuine difficulty in staying within the allocations I can now make is equally strong; perhaps even stronger, as the level of expenditure to which I am committed now compares even less well than Michael's does with recent levels of actual expenditure.

3. I do not need to take any action on rents since the increase we have asked local authorities to make in Scotland will meet the point (about comparison with earnings movements since June 1977) which Michael will be making. I have in any event no power to alter the local income assumptions embodied in the Housing Support Grant (Scotland) Order, a draft of which was approved by the House on 14 January.

4. I hope to make my announcement also on 15 February.

5. I am copying this minute to the Chancellor of the Exchequer, other members of the Cabinet and to Sir Robert Armstrong.

G.Y.

13 February 1980

Prime Minister
I understand that you have agreed to the
NBM
13/2

B/F 19-2-80

12

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

PRIME MINISTER

PUBLIC EXPENDITURE ANNOUNCEMENTS - SOCIAL SECURITY AND HOUSING

When Cabinet reached its decisions on public spending, it was agreed that where it was necessary for an individual Minister to announce a decision, he should clear the text and timing with us. You asked me to have some further discussion with the Ministers mainly concerned.

2. I have seen Michael Heseltine's minute to you of 8th February. I recognise that so far as the housing programme is concerned there are strong operational reasons for announcing the housing capital allocations and supplementary rent guideline for 1980-81 straight away. I agree that these should be brought out in a public announcement, emphasising the positive points in our housing policy, rather than simply being communicated to housing authorities and allowed to leak out (as it inevitably would). I see no objection to the date of 15th February proposed, but would be glad to see the text in time to comment.

3. I understand that the intention is to issue the capital allocations in cash terms, as usual. This will mean using the 'cash limit' factors for conversion to 1980-81 out-turn prices which Cabinet agreed on 13th December. As you know, Cabinet will be looking at the volume squeeze implied by the agreed cash limit factors

when we have the latest economic forecast. As of now, however, the factors agreed in December stand, and the housing allocations should, of course, be presented as firm rather than provisional.

4. You have asked about the time table of the current Social Security Bill and whether the powers necessary to implement the decisions on the Social Security programme could not be taken in the Finance Bill (your Private Secretary's letter of 8th February). You have also asked whether powers to implement decisions on public sector pensions and benefits to strikers might not also be taken in the Finance Bill. These are all being examined and minutes answering these points will be coming forward in the near future.

5. I am sending copies of this minute to Cabinet colleagues, the Chief Whip and to Sir Robert Armstrong.

(G.H.)

13 February 1980

13 FEB 1980

cjt

Econ Pol.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
London S W 1

12 February 1980

Dear Geoffrey,

SUPPLEMENTARY BENEFIT CHILDREN'S RATES

Thank you for your letter of 5 February about holding back supplementary benefit children's rates. I assume it was written before the Cabinet minutes were circulated since they make it absolutely clear that we agreed that there should be no restriction on the lines proposed in the increases in supplementary benefit children's rates . In accordance with this I take it there is no question but that they will go up in line with prices (by 14 per cent on current PESC assumptions).

For the record, however, I think I ought to set out briefly once again the reasons I gave in Cabinet, and which are set out in both memoranda on the public expenditure cuts which Cabinet considered on 24 and 31 January, indicating just why I am in no doubt that our decision was the right one.

First, the incentives argument is really a very weak one. Only one in three of the claimants with children is in the employment field; most of those who would bear the loss would not be unemployed men with families but lone parents.

Second, the figures you quote do, if I may say so, indicate how insignificant an effect holding back on these rates would have on the overall problem of the "in work - out work" equation. And I must point out that the same rates are applicable to the long-term beneficiaries (the chronic sick, widows, one-parent families) as to short-term beneficiaries; moreover as they have only been price protected since 1975, there has been no real improvement in their value at all since then.

This leads me on to my third point, which is that to hold back on these rates is totally inconsistent with what we did last winter for families and what we are now doing in the Social Security Bill before Parliament. If I may remind you, we specifically allowed a special 95p heating addition for families with children under five last winter because of the difficulties they were having in managing. In the White Paper (Cmnd 7773) under the heading "More benefit for children" we said that the Government was directing resources towards families with children and went on to say "about half a million children will be affected, and as the review report suggested, it is claimants with children who are experiencing the most difficulty in managing at supplementary benefit levels". It is politically impossible to face both ways - to argue one case in Committee on the Bill and the opposite in the Public Expenditure White Paper.

E.R.

The final specific point I would make is that recently published research by David Piachaud does, as I have repeatedly stated, indicate that present rates fall well short of the actual cost of maintaining a child. While some of his detailed figures can be criticised, I really do not think that we can take the line that the present rates are too high and should be reduced in real value.

There are two more general points which I feel I really must make in the light of your letter. I am in no doubt that to attack the supplementary benefit children's rates in the way you suggest would be seen as incredibly mean - destroying our claim to care about the interests of families. It would be a clear retreat from policies supported by our party for many years, and I have no doubt that, if we put it forward, it would provide political ammunition for the Opposition that could be used against us for years to come. We certainly could not use public expenditure savings as the justification for making such a cut. There is just £20 million in a full year.

Second, looked at in the context of incentives and the 'why work' syndrome, a cut of 25p off the Supplementary Benefit children's rates is really a minnow beside the whales you have cheerfully gone along with in our decisions on school meals and school transport. There we seem deliberately to have imposed new burdens on the low paid in work, while protecting those on benefit. In the light of this, now to argue that it is necessary actually to cut the cash benefits to the poorest of all in the pursuit of incentive would have no credibility at all. I am under no illusion that with unemployment forecast to rise to two million, it is going to be easy to argue the five per cent interim tax case - but at least that has some semblance of consistency with our manifesto pledges. To have to go on to contend that because of our refusal to raise Child Benefit by the full £1 which I sought we also have to cut the supplementary benefit entitlement of families for most of whom the incentive argument has no relevance whatever, would make that task infinitely harder. If I may be quite frank, I am simply not prepared to do it.

Last Autumn's round of cuts produced a saving of £480 million in my Department's programme for 1981/82, and the recent decisions have produced a further saving of £460 million. When you include the saving of £195 million a year from uprating benefits in 1979 by less than the actual rise in earnings, I will have contributed no less than £2 billion towards your cuts for 1982/83 - the last year for which we inherited spending plans.

I have been doing my best to help you with this whole exercise, and I am really rather shaken that you should still be coming back to me for more.

I am copying this letter to the Prime Minister, the other members of the Cabinet and Sir Robert Armstrong.

Yours ever
Patrick

2

cc Mr Ryland

Prime Minister

I think Mr Heseltine will have to make his announcement next Friday; but we should await the Chancellor's comments before saying 'yes'.

TL 8/2

Prime Minister

Chancellor, Chief Whip

HOUSING PUBLIC EXPENDITURE: 1980/81

It was recognised in the Cabinet discussion of public expenditure on January 31st that some Departments might need to announce decisions on specific expenditure programmes for 1980-81 in advance of the White Paper; and we were invited to consider further, in consultation with you and the Chancellor of the Exchequer, the timing of any such announcements.

On housing I now need to tell individual local authorities, the New Towns and the Housing Corporation as quickly as possible what capital allocations I will be able to make for 1980/81. The Scots and Welsh are I understand in the same position. Originally it was the intention to make the allocations by the end of November, as is customary, to enable these bodies to plan their budgets in good time. The local authority associations have strongly represented against the delay which has already occurred; and I am increasingly worried that certain local authorities may have in the meantime entered into commitments which exceed the allocation I can now make. The operational requirement is therefore clear: we should announce the allocations with the minimum of further delay, and there is much to be said for announcing the supplementary rent guideline for 1980/81 at the same time. I have in mind making the announcement on

SECRETARY OF STATE FOR THE ENVIRONMENT

15 February. In doing so I would of course emphasise the steps we are taking to encourage home-ownership and the private rented sector.

I am concerned, however, that, in the absence of a general statement about the full extent of the cut-backs to the proposals set out in last November's White Paper for 1980/81, when I announce the housing decisions, there may well be unwelcome speculation about what has been decided about other programmes, particularly whether the cuts are of comparable size. It is not impossible that the Opposition would table a Censure Motion on the housing cuts, which would place us at a disadvantage, since we would be better placed if we could argue our total strategy.

My conclusion, however, is that I cannot reasonably ask local authorities to wait until the March White Paper is published, not least because I would then be faced with the need to impose a temporary moratorium to prevent an excessive build-up of commitments.

I am sending copies of this to the Chancellor of the Exchequer, other Cabinet colleagues and Sir Robert Armstrong.

PM told Mr Heseltine and Ch. of Duchy that this should be by way of written answer.
[initials] 13/2

for [signature]
MH

8 February 1980
(minute approved by the Secretary of State and signed in his absence)

8 FEB 1980

CONFIDENTIAL

Econ Pol

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

8 February 1980

Dear Michael

PUBLIC EXPENDITURE : PSA

Thank you for your letter of 1st February.

I recognise that the final level of reductions imposed on the PSA Office and General Accommodation Programme is bound to have a serious effect on the funds available for new works, even when further drives to eliminate waste and inefficiency in the area of running costs have yielded up their contribution. This is inevitable, and will limit new works to those associated with our highest policy priorities and other unavoidable and urgent operational requirements. But the necessity for reductions in this field has to be seen against the measures we are taking in other more sensitive areas. No doubt PSA will now be starting discussions with their client departments and will bring any problems of priorities to the appropriate interdepartmental committee for decision. I am sure you will expect this process to be completed without delay.

I should leave you in no doubt that I could not agree to the timing of a major policy decision on PAYE computerisation being determined by the tightness of PSA's construction budget; and I understand that there would be serious difficulty in delaying some of the ports buildings for Customs. But these were only mentioned in your letter as possibilities, and clearly they must be looked at along with the rest of the PSA programme to see how the necessary economies can be found.

I am sending copies of this letter to those who saw yours.

Geoffrey

(GEOFFREY HOWE)

The Rt. Hon. Michael Heseltine, MP

SECRET

-10. Pri VB

10 DOWNING STREET

From the Private Secretary

8 February 1980

I wrote to you yesterday about the timing of the announcement of the public expenditure package. The Prime Minister has now seen the Chancellor of the Duchy's minute of 7 February about the Social Security Bill, and has asked why Royal Assent for the Bill is required by 23 May. The Secretary of State for Social Services, in his letter of 6 February, of course said that this was essential; but the Prime Minister would like to know precisely why quite so much time is needed to prepare for the uprating in November. It would be helpful if this point could be covered in the discussion which the Chancellor is proposing to have with colleagues on this whole subject, and in his report back to the Prime Minister.

I am sending copies of this letter to John Stevens (Chancellor of the Duchy's Office), Murdo Maclean (Chief Whip's Office), Don Brereton (DHSS) and David Wright (Cabinet Office).

T.P. LANKESTER

A.J. Wiggins, Esq.,
H.M. Treasury.

SECRET

CB

SECRET

9.

1. Mr ~~Sanders~~ NJS
2. Prime Minister

This will need to be considered alongside the timing of the public expenditure announcement: Geoffrey Howe said he would discuss with colleagues and report back to you.

TL 7/2

PRIME MINISTER

SOCIAL SECURITY BILL

I have been considering with the Chief Whip how and when it would be best to introduce the amendments to the Social Security Bill, which will be necessary to give effect to the relevant public expenditure changes agreed by Cabinet last week. I have also now seen the letter of 6 February from the Secretary of State for Social Services to the Chancellor of the Exchequer.

2. The timetable constraints are as follows:

(a) The Social Security Bill must receive Royal Assent by 23 May. I understand that unless this happens it will not be possible for DHSS to implement the changes which are essential for the necessary public expenditure savings by the time of the uprating in November. That itself is fixed by statute and we cannot afford to miss it.

Why? Surely we could delay the whole operation

(b) The Lords' procedures are such that to have any assurance of meeting that deadline, the Bill must leave the Commons for the Lords in the week of 17 March and receive a Second Reading in the Lords just before Easter.

(c) The Bill must therefore be got out of Committee in the Commons by 10 or 11 March, with the remaining stages the following week.

3. A guillotine will be needed. The Committee must be given a few sittings to work through the Bill after the guillotine. I think I should announce the guillotine in the Business Statement on 21 February with the necessary debate early the following week.

4. We have always regarded the Social Security Bill as particularly difficult because of the tight target dates to which we must keep if the Bill is to be secured in time. The addition of new clauses presents us with serious problems. The policy changes are bound to raise major controversy. We have to announce them and introduce the new clauses at whatever stage in the Commons timetable will cause the least damage to the prospects both of this Bill and of other Bills in the programme. (We cannot leave the provisions for the Finance Bill even if that were appropriate, because the Finance Bill will not secure Royal Assent in time. Nor can we introduce the new clauses into the Social Security Bill in the Lords. That would cause a major quasi-constitutional row and it would still mean the amendments would have to come back to the Commons.)

5. It will not be enough, given the attitude of our own supporters as well as the Opposition, if the new clauses are discussed only in Standing Committee. We have to provide some opportunity for debate on the floor of the House. We think the least unattractive way of doing so is to table, as soon as may be, a Motion taking note of the Government's intentions to add to the Bill. This could be debated on the floor while the Standing Committee had the Bill before them, and would in effect give the new provisions a Second Reading debate. In theory that Motion could be moved in the interval between the guillotine and the Bill returning to the House. But I think in Parliamentary terms it would be much better to have the Take Note Motion tabled and debated as soon as possible, and to let the guillotine come after such a debate.

6. I have considered the alternative to which the Social Services Secretary makes reference in his letter of 6 February of not putting down the new clauses until Report Stage. This seems at first attractive in that it would allow the announcement to be delayed until after 13 March, but we would then be giving the House far too little time to consider the matter. Even if we offered an extra day for Report Stage there would be such a major row and such allegations that we had deliberately held back the new clauses that we might well lose all co-operation in managing the rest of our business in the House.

7. My present view therefore, is that we should adopt the course I propose in paragraph 5. I recognise however that our decision on the handling of the Social Security Bill must take into account the timing of the announcement of other items in the public expenditure package. I therefore very much support the proposal by the Secretary of State for Social Services in his letter of 6 February for a meeting as soon as one can be arranged.

8. I am copying this minute to the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Social Services, the Paymaster General, the Chief Whip and the Acting Leader of the House of Lords. I am also sending a copy to Sir Robert Armstrong.

NStJS

7 February 1980

N St J S

SECRET

Econ Pol. ... a: Master Set 8

10 DOWNING STREET

From the Private Secretary

7 February 1980

When the Chancellor called on the Prime Minister this morning, they discussed briefly the question of the announcement of last week's public expenditure decisions. They had before them the Chancellor's minute of 4 February and the letter of 6 February from the Secretary of State for Social Services.

The Chancellor suggested that, in the light of the Secretary of State for Social Services' comments, it would be desirable to consider this question further; and he proposed to discuss the matter with Mr. Jenkin, the Chief Whip and the Chancellor of the Duchy, and then report back to the Prime Minister. One point which he would consider was the possibility of including the necessary provisions for de-indexing the short-term benefits and abolishing ERS in the Finance Bill rather than in the Social Security Bill.

I am sending copies of this letter to John Stevens (Chancellor of the Duchy's Office), Murdo Maclean (Chief Whip's Office), Don Brereton (DHSS) and David Wright (Cabinet Office).

J. P. LANKESTER

John Wiggins, Esq.,
H.M. Treasury.

SECRET

SECRET

Both - MAP. 7

Mr discussed with Chancellor today. He will consider further with Ministers concerned.

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

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

6 · February 1980

Dear Geoffrey,

PUBLIC EXPENDITURE DECISIONS - SOCIAL SECURITY

The decisions taken in Cabinet last Thursday present us with some tactical problems in relation to the timing of the announcement and the progress of the Social Security Bill, which will be the legislative vehicle for the main economies. The Southend by-election on 13 March is another complication.

As I understand it, the present intention is that the public expenditure White Paper should be published on 18 March, and that there should be no separate announcement about the social security changes. I would certainly prefer to see the package announced as a whole - including the child benefit increase or, at the least, an announcement that there will be a child benefit increase. I can well understand, too, that the Party managers do not want any announcement about benefit changes before the by-election. But I am afraid it is not possible to reconcile all these considerations with the requirements of the Parliamentary timetable.

The position on the Social Security Bill which I have discussed in detail with Michael Jopling is as follows. We need Royal Assent for the Bill by the end of May, for essential and unavoidable operational reasons. It must therefore clear the Commons by Easter - indeed, the Lord President said in Legislation Committee that it was essential to take second reading in the Lords by Easter. The Chief Whip's view is that the very earliest date for completing Committee stage (and this will require a guillotine) is 11 March for third reading and report during the week 17 to 21 March. The new Clauses will then have to be tabled on 13 March; the day of the by-election.

Thus unless we jeopardise the implementation of the changes made by the Bill to social security provisions - which immediately affects planned savings in public expenditure - the latest day for announcing the changes is the day planned for the by-election. This is obviously cutting things very fine indeed and it would seem to me to be open to such serious presentational difficulties that we ought to be looking at the case for an earlier announcement or the possibility of bringing forward the date of the by-election. An additional point arises in your letter of 1 February about suspending indexation of public service pensions which you suggest might be done by way of an amendment to the Social Security Bill. I have serious reservations about this proposal but, if agreed, it too would affect our consideration of the timing of an announcement on public expenditure.

Would you be willing to convene an urgent meeting of the various Ministers concerned so that we can arrive at a joint recommendation and put it to the Cabinet?

I am sending copies of this letter to the Prime Minister, the Lord President, the Home Secretary, the Chancellor of the Duchy, the Paymaster General, the Chief Whip, the Secretary of State for Employment and Sir Robert Armstrong.

Yours ever

Patrick

7 FEB 1980

PRIME MINISTER

Meeting with the Chancellor, Thursday

7 February 1980

The Chancellor will want to discuss the timing of the announcement of last week's public expenditure decisions. He has sent you a minute on this (Flag A). He favours deferring the announcement of the aggregate cuts until they can be presented in the context of the budget. But he concedes that there are arguments the other way - notably the fact that some parts of the package will have to be announced earlier. In particular, the de-indexing of short-term benefits will have to be announced by 13 March if the timetable for the Social Security Bill is to remain in tact. In view of this, the Chancellor of the Duchy is in favour of an earlier announcement of the total package. Robert Armstrong however agrees with Geoffrey Howe that the announcement should be deferred until later.

The Chancellor and Sir Keith continue to disagree on the "start-up" scheme. You have told colleagues that you want this considered once more in E. The Chancellor - for reasons set out in his minute (Flag B) wants to drop the scheme for this years Finance Bill, and does not want to take it back to E. Sir Keith wants one more try in E (Flag C).

At the end of the day, I fear you will have to back the Chancellor on this one; but I don't think you can really go back on your decision to take this to E once more. For all the difficulties of going ahead with the scheme, there are important political and economic benefits to be won from it. You might ask the Chancellor to think about these once again in the run up to E.

If there is time, you might discuss the latest monetary developments. The combination of substantial growth in the money supply in January, continuing very high short-term interest rates, and an excessively strong Pound are, of course, very worrying. What is the Chancellor's prognosis? The Chancellor's prime objective in the budget must surely be to get interest rates down.

TL

6 February 1980

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

Cf. Cab. minutes Cab. minutes on x ph
P.

5 February 1980

Dear Patrick

SUPPLEMENTARY BENEFIT CHILD RATES

X In Cabinet last Thursday we discussed my proposal that in the interest of incentives supplementary benefit child rates should be held back as appropriate in order to maximise the gap between in work and out of work income. In my view, this discussion was not conclusive, though I recognise that you and some other colleagues seemed opposed to me. In the light of our decision on child benefit, I have now looked carefully at the actual figures (assuming a £4.75 per week child benefit and a 13 per cent uprating of supplementary benefit) and I feel I must return to the matter.

Taking account (as one must) of the simplification of the children's scale rates the gap between in work and out of work income is going to be substantially narrowed in respect of children under 5 and children aged 11 years. For the first of these, the scale rate from November 1980 will be £7.10 per week while child benefit will be £4.75, a differential of £2.35 per week (compared with the present differential of £1.20 per week). For the second, the rate will become £10.55 per week being an excess of £5.80 per week over child benefit (which compares with the present differential of £3.70 per week).

For the other age bands the differential widens but not so dramatically. We both agree that we must take notice of this problem, if our stated policy on incentives and the need to encourage people to work is to stand up. These differences are big in themselves (and may get bigger if the supplementary benefit uprating is greater than 13 per cent) and, what is worse, are greater than exist at present, thus pointing us in the wrong direction. It is not easy to argue that any individual child should be allowed actually to lose cash, or that some should forgo any improvement at all. But what I would

/like to

The Rt. Hon. Patrick Jenkin, MP.

CONFIDENTIAL

CHILD BENEFIT AND SUPPLEMENTARY BENEFIT

DIFFERENTIALS

£ per week

Child Benefit		
	November 1979	£4
	November 1980	£4.75

Supplementary Benefit

	November 1979 Rate	November 1979 Lead over CB	November 1980 Rate*	November 1980 Lead over CB	Increased lead over Nov 1980	Alternative November 1980 Lower Rate	Alternative November 1980 Lead over CB	Increase (Decrease) lead
13-15 years	9.35	5.35	10.55	5.80	55	10	5.25	(.10)
11-12 years	7.70	3.70	10.55	5.80	2.10	10	5.25	1.55
5-10 years	6.25	2.25	7.10	2.35	10	6.75	2.00	(.25)
Under 5 years	5.20	1.20	7.10	2.35	1.15	6.75	2.00	80

(Rates for children 16 and over ignored)   *assumed 13 per cent uprating

like to suggest, in concrete terms, is that for the new 0-10 age group, instead of the rate going up to £7.10 it should go up to £6.75, and for the 11 to 15 age group instead of going up to £10.55 it should go up to £10. This would still mean that the benefit from being on supplementary benefit rather than working increased, but not by quite the same extent as would happen if no steps at all were taken in the matter. The attached table shows the figures. It would also produce some worthwhile additional savings.

It is interesting, incidentally, to note that the difficulty would still remain even if Cabinet had agreed to your suggestion that child benefit should go up by the full £1 per week. If we had done that the differential would still have widened by between 90 pence and £1.85. In order to prevent that happening child benefnit would have had to increase by between £1.90 and £2.85 per week - at total public expenditure cost of between £2,000 million and £3,000 million. These figures could, of course, be reduced by a variety of intermediate charges; but they all tend to underline the implication that even the existing supplementary benefit child rates are, if anything, much higher than we can sensibly afford.

In these circumstances, I hope you will be able to agree with me that my proposals, or something like them, should be adopted. Our officials could get together to work out the details.

I am copying this letter to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

Y —

Geoffrey

(GEOFFREY HOWE)

CONFIDENTIAL

Ref. A01337

MR. LANKESTER

The Chancellor of the Exchequer sent me a copy of his minute of 4th February about the timing of an announcement of the public expenditure reductions agreed last week.

2. I think that the balance of advantage is in favour of deferring the announcement of the aggregate cuts until they can be presented in the context of the Budget. The important figure is the PSBR for 1980/81; and to delay the announcement until the time of the Budget should ensure that public opinion focuses on the PSBR figure as it emerges from all the Budgetary changes, not just from the public expenditure exercise.

RTA

ROBERT ARMSTRONG

5th February, 1980

cc: CDL
C. Whip

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

PRIME MINISTER

For discussion briefly with Chancellor
PL. 7/2

PUBLIC EXPENDITURE

Subject to final resolution of one or two of the matters left outstanding at last Thursday's Cabinet, the total specific reductions achieved by the operation we launched in December look like being of the following order:-

£ million at 1979 Survey prices

1980-81	1981-82	1982-83	1983-84
780	1600	1900	2050

This minute discusses the means of announcing the outcome of the exercise.

2. As I said at last Thursday's Cabinet, I have some preference for holding back a comprehensive announcement until the public expenditure White Paper and the Budget. This would not prevent the Ministers concerned from making in the meantime any announcements which are operationally necessary. This category includes the Housing Investment Programme allocations for 1980-81, which I understand that Michael Heseltine wants to announce soon; and it also includes other changes incorporated in the Parliamentary Estimates for 1980-81 which begin to be published with the Defence Estimates in late February. There is also a case for announcing earlier rather than later those measures to be incorporated in the Social Security Bill, including the breaking of the index link

for certain short-term benefits, preferably before the guillotine on that Bill is introduced. Early announcement of the abolition of ERS would prevent further delay in the consultation on the taxation of unemployment benefits and on the employers' statutory sick pay scheme.

3. There are some arguments the other way, that is, in favour of a comprehensive announcement of the conclusions of the public expenditure operation by a Parliamentary statement summarising the further changes agreed for 1980-81 and the totals for the later years which have not been previously announced. There is much Parliamentary and other interest in the outcome, and it will be further stimulated by announcements of individual decisions on housing and social security. It will become known that we have taken the decisions and pressure may build up to announce them. If it reaches a point where we feel obliged to make a comprehensive statement, it would be better to have done so at the outset, say in the week beginning 11th February. Another consideration is the risk that, if not announced, some of the decisions will leak between now and the White Paper. (An early announcement would probably have to specify the amount by which the uprating of short-term benefits is to fall short of full price protection; but details of the actual upratings, including the uprating of child benefit, could be held over until the Budget.)

4. The main argument, on the other hand, for keeping the announcement for the White Paper, is that it can then be properly complete and comprehensive, with appropriate supporting material, and in close relation to the Budget. Another is that in advance of publishing a new forecast of prices with the Budget, we shall not be able to put a figure on the cash limits squeeze expected next year, and the further reduction in the volume of expenditure which this should produce. The savings in 1980-81 would be

further reduced by £50 million if the announcement on child benefit is delayed until the Budget. So early announcement runs the risk of disappointment with the scale of cuts in 1980-81. This could trouble markets in the period leading up to the Budget. There will anyway be uncertainty about the prospects for the PSBR next year. The total reductions in the later years, amounting to around £9 billion in 1982-83 on the plans published by the Labour Government, will be impressive; but the market's immediate preoccupations will be with 1980-81. A target figure of £2 billion of further cuts next year has achieved currency. It is recognised that this included reductions in the EEC contribution, but there may be disappointment that the figure achieved falls short of it.

5. For these reasons, I should prefer to avoid an early comprehensive announcement. Some decisions will, of course, need to be announced early for operational reasons. But the main, comprehensive, announcement is probably best kept to the end. But neither course is without disadvantage. I should like to discuss with you.

6. I am copying this minute to Sir Robert Armstrong.

G.H.

(G.H.)

4 February, 1980

LH

cc Cab Off

COPY No 1

2/6

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

SECRET

Prime Minister

good if it can be made to stick. I think the PSA is trying to [illegible] 1/2 [illegible] better maintenance [illegible]

1 February 1980

Dear Chancellor

PUBLIC EXPENDITURE: PSA

As my Private Secretary told yours yesterday evening, in the light of the Cabinet discussion yesterday morning I am prepared to find an additional cut of £25m per annum for each of the years from 1980/81.

I shall, of course, do all that I can to ensure that we work out the least painful method of making these adjustments. But there will be serious consequences for a number of Departments, in that well over half the PSA expenditure total relates to costs such as rents, service charges and fuel where the scope for immediate further savings is very limited. This means that we will have to concentrate almost entirely on major and minor new works repairs and on furniture. At this stage, it seems clear that we shall need to defer some projects which colleagues may regard as essential, and there is certainly the prospect of major complaints from the Staff Side. It almost certainly will not be possible to proceed with the international conference centre planned for Broad Sanctuary; and there must be grave doubts as to whether we shall now be able to go ahead as quickly as planned with new projects such as the computerisation of PAYE; the buildings for Customs and Exise at Dover and other ports; and the new MOD computer installation. I am told we will probably also have to look again at major improvement schemes for Government buildings such as Alexander Fleming House.

However, I am not in a position to take final decisions on this, and will not be able to do so for a little time but of course, for the purpose of any announcement you may make the £25m total should suffice.

I am copying this to the Prime Minister, the Secretary of State for Defence and the Minister of State, Civil Service Department.

Yours sincerely

[illegible]

for MICHAEL HESELTINE
(letter approved by the
Secretary of State and

Econ Pol

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

1 February 1980

Rt Hon David Howell MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank SW1

R 4/2

Thank you for sending me a copy of your letter of 24 January to John Biffen, about measures to deal with the prospective breach of the electricity supply industry's cash limit. I have also seen John's reply of 28 January.

I agree with John Biffen's reaction that the industry should be asked to absorb the excess if possible. I foresee difficulties with other industries if we take any other line. Nevertheless, I am concerned at the possible effect on the hard-pressed heavy electrical sector of the suggestion that both the generating boards and the area boards might defer payments to plant and equipment suppliers. You are well aware of the industry's long-standing difficulties, which manifest themselves in a low level of orders and consequent high overhead burdens. The already considerable pressures on the manufacturers' cash flow have been intensified by the effects of recent strikes and, for some manufacturers at least, deferment of payments now due could be financially serious. Sir Francis makes the point that any action would have to be discussed first with the suppliers concerned; for our part we trust that full weight would be given to the industry's case in these discussions. The current difficulties of the electricity supply industry are not of the manufacturing industry's making, and we cannot afford to risk weakening the manufacturers still further at a time when they should be preparing to meet the demands of the forthcoming nuclear programme.

The proposed action to reduce stocks of domestic electrical appliances could have doubly unfortunate consequences. The home manufacturers in this sector suffer from much the same general difficulties as the heavy electrical manufacturers, but in addition they have a history of contentious relationships with the Area Boards because of their belief that the Boards treat too readily with overseas manufacturers. Latterly these relationships have improved, but should the Boards run down stocks of their products or restrict appliance sales, and particularly if, for reasons of ease in administration, such a run down were to be applied more to UK than to foreign suppliers,

/there ...

there would be a serious risk that old wounds would be re-opened. The ill-effects on the manufacturers at a time when demand for appliances will certainly be running down and the manufacturers will be suffering increasing pressure, not least on export orders as a consequence of the steel strike, must be expected to be severe. In contrast to their overseas rivals, the home appliances manufacturers' weakened condition leaves them ill-able to cope with interventions of the kind proposed.

I am copying this letter to recipients of yours.

Yours sincerely,

Peter [illegible]

pp KEITH JOSEPH

(approved by the Secretary of State and signed in his absence)

Econ Pol

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 1 February 1980

The Prime Minister has read your Secretary of State's letter of 31 January informing her that he is unwilling to agree further reductions in the education programme over and above what he had already agreed with Treasury Ministers. She agrees that the option of a further reduction in non-teaching or teaching costs should not be pursued.

I am sending copies of this letter to Martin Hall (HM Treasury) and David Wright (Cabinet Office).

T. P. LANKESTER

Peter Shaw, Esq.,
Department of Education and Science.

CONFIDENTIAL

TPL

£1000 400 75 207 110 Econ Pol

PRIME MINISTER

£4

67
40
107

Prescription Charges

The proposed saving of £120 million in 1981/82 from raising prescription charges is made up as follows:

	£m
Increasing the charge to £1 in December 1980	29 £75
Introducing a 50p charge for the following who are currently exempt:	
(a) children under 16 (except for those on supplementary benefit and FIS)	21
(b) women over 60 and men over 65 (except for those on supplementary benefit)	39
(c) certain groups who are currently exempt for specified medical conditions	2½
(d) expectant and nursing mothers	2½
(e) hospital outpatients	4
Dental charges - removing existing exemption for young people who have left school	9
Optical charges - £2 for a sight test (except for people on supplementary benefit and FIS who will continue to be exempt)	11

18.75%

29
24
53

Thus, if we were to take out all the changes in exemptions, we would loose about £90 million out of the £120 million. Politically, I would have thought that the last three of the changes given above would be the easiest to defend. If we included these in the package but not the other four, the total saving would come to about £53 million.

DES. 81-82 5-10 TL. £67

31 January 1980

We have ~~for~~ to get

economies

CONFIDENTIAL

Prime Minister

I think you were inclined to go along with Mr Carlisle on this.

T 31/1

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Yes - no further action MT

31 January 1980

Dear Prime Minister.

You asked me in Cabinet this morning whether I could make any savings in non-teaching or teaching costs towards the further cuts in education rising to £34m in 1983-84 which Geoffrey Howe was seeking.

The Department of the Environment's Joint Manpower Watch (JMW) figures show that between March 1975, when they were first collected, and September 1979, the date of the last return, the number of non-teaching staff fell by just over 2 per cent. And John Biffen's paper C(80)7 shows that the decisions we took last autumn will mean a further fall of over 15 per cent by 1983-84.

The JMW figures for teachers and lecturers show an increase of just under 2 per cent since 1975; and John Biffen's paper records that our plans already provide for a fall in teacher numbers of more than 10 per cent by 1983-84. As a result the pupil teacher ratio in schools in 1983-84 will be 18.7, the same as it is now.

In the light of these figures I can do no other than stand by the judgement I expressed this morning that any further reductions would not be acceptable because they would mean a fall in educational standards.

I am sending copies of this letter to Geoffrey Howe, John Biffen and Sir Robert Armstrong.

Yours ever

Mark

MARK CARLISLE

CONFIDENTIAL

3

Ref: A01278

SECRET

PRIME MINISTER

Public Expenditure
(C(80) 9)

BACKGROUND

In this paper, the Chancellor and the Chief Secretary report the results of the bilateral negotiations following your meeting with the Treasury on Friday. I believe that the Chancellor has kept you in touch with the progress he has made with the Secretary of State for Social Services and the Secretary of State for Defence.

2. In total the present position is that the Chancellor is still about £200 million short of his target in 1980-81, and about £250 million in 1981-82, even if all the savings listed in Annex A are agreed. For 1980-81 he has the 'volume squeeze' implied in the cash limits up his sleeve: every 1 per cent squeeze on volume saves roughly £200 million. He does not want, however, to make too much of this, for fear of prejudicing his agreement with the Secretary of State for Defence (whose civilian staffs and equipment are vulnerable: the agreement on pay relates only to uniformed personnel). The bigger the volume squeeze on which he has to rely to achieve his target, the more the Secretary of State for Defence is hurt. Assuming that Cabinet takes the decisions for which it is asked this time, the only outstanding items for 1980-81 will be Civil Service pay cash limits (coming to Cabinet in late February) and the size of the contingency reserve which the Chancellor wants to leave until nearer the Budget.

HANDLING

3. The Cabinet should go through the paper topic by topic. You can use Annex A as a checklist: the sequence of the lines in Annex A is the same as the paragraphs in the main paper.

(i) Social Security (see also Annex C).

The Treasury target is a reduction of about £200 million from 1981-82 onwards. There is no way of getting so large a saving in 1980-81 from these options. Two 'packages' are identified in

Annex C, although combinations of parts of these could be devised. Two main decisions are needed:-

(a) whether to suspend the Christmas bonus: colleagues may feel that this is politically impossible, but there is £85 million at stake in 1981-82 (and £90 million in 1980-81, when we shall be particularly tight). The Christmas Bonus is not cost-effective, and the main problem (fuel bills) is being looked at elsewhere.

£4 - 50

(b) whether to go for 50p or 75p increase in child benefit. Despite its 'incentive' value, a £1 increase seems ruled out. We think Mr. Jenkin is prepared to accept 75p, but not to go as low as 50p (which the Chancellor of course would prefer). At 75p, it should not be necessary to add the sweetener of the £1 premium for fourth and subsequent children (which costs £20 million in 1981-82); in any case, the Home Secretary believes that, though this would help with incentives, it would be politically unpopular because it would give greatest benefit to large families, who are often black or Irish. Whatever the motives, it is an expensive extra. The question of a cut in the supplementary benefit child allowance arises. Whatever the increase in child benefit, the case for a cut will be weaker with a 50p increase. This is a 'subsistence level rate' and politically hard to cut.

In addition, there are three additional bids which Mr. Jenkin may try to persuade the Cabinet to agree: something for help with fuel bills (the Treasury will try to get away with £20 million, but there are likely to be more expensive proposals coming forward early in March); some minor improvements in FIS (where £5 million would be a sensible allocation, according to the Treasury); and something for one-parent families (where £2 or £3 million could make a really useful impact). The Treasury would prefer to leave these as claims on the contingency reserve, rather than have them agreed now.

(ii) Housing

The Secretary of State offers £270 million, and the Chancellor wants a further £122 million in 1980-81. The gap is narrower in later years. But, as on previous occasions, the Secretary of State has been reluctant to specify the savings he will find. I understand that the Chancellor is content with this rather open-ended promise but wants more money from Mr. Heseltine. He has, we think, the Home Secretary's backing in this. The potential savings are set out in paragraph 5 and would fall on new house building, improvements and on private sector housing. These bids have been substantially increased following your talk with the Treasury on Friday and, on the face of it, seem relatively painless.

(iii) DOE - other

The Chancellor has accepted the proposed savings in the 'DOE - other' programme. Part of this (£12 million - £24 million - £36 million) falls on 'local environmental services' (this means refuse collection, town halls, swimming pools, etc.). The Secretary of State can only deliver these savings (in 1981-82 and later years) by putting a squeeze on next year's RSG. In effect he is promising now to do that when the time comes. The rest falls on expenditure which he controls directly - either local authority capital expenditure, or his own Department's spending (including the Property Services Agency).

(iv) Education

The same RSG point applies to the additional savings offered by the Secretary of State for Education (£20 million in 1981-82 and subsequent years) and a further cut which the Chancellor wants amounting to £34 million at the end of the period. If Cabinet takes credit for these cuts now, it has to back Mr. Carlisle when he seeks to deliver them next year.

Mr Carlisle is unwilling to accept this - see letter in this folder.
TL

(v) Health

The main proposal is the increase of the prescription charge to £1. This has been agreed between the Chancellor and the Secretary of State for the Social Services, but there were considerable reservations about it in Cabinet last week. The figures actually allow for a slightly wider range of exemptions than those listed here (including war pensioners and family planning services). Cabinet will take the point that to widen the exemptions makes the in-work/out of work gap narrower.

(vi) Transport

No problem, apart from the general point that extra disposals must not be allowed to count as credit in the public expenditure exercise. The Chancellor is seriously short of his original target of £500 million disposals next year at present, and is looking around for further offerings. Ministers must not double count them.

(vii) Aid

The Foreign and Commonwealth Secretary fought hard, but made these token offerings. Probably not worth another row in Cabinet, since the Foreign and Commonwealth Secretary's support will be valuable elsewhere.

(viii) Employment

The Chancellor and the Secretary of State have agreed a package, including continuation of some - not all - of the Special Employment Measures. No special problems.

(ix) Defence

Paragraph 12 sets out the final position reached with the Secretary of State. It is entirely consistent with, though less detailed than, the exchange in correspondence which your office has been negotiating. The main features are:-

(a) agreed cuts of £62 million in 1980-81 and £10 million in 1981-82, with increases in the subsequent years;

(b) the same cash limits regime as for other programmes, implying a possible volume squeeze (which means that others cannot complain of preferential treatment);

(c) a special commitment to increase the cash limit on account of the AFPRB (which is unique, because it is the only pay increase to a cash-limited programme to which a Manifesto commitment applies). Even if AFPRB rates are 5 per cent above the 14 per cent norm, this is worth only 1 per cent on the Defence Budget;

(d) as a cosmetic face-saver, these figures are 'subject to review' during the year. Again, it can be argued that the international climate makes this a unique case;

(e) the figures can still plausibly be represented as consistent with the 3 per cent NATO commitment.

I suggest you steer the Cabinet towards accepting this deal with the minimum of discussion: it is liable to come unstuck if it is too closely inspected.

(x) Foreign and Commonwealth Office

Again, I would not advise you to press the Foreign and Commonwealth Secretary for more here; he was only persuaded to agree this with difficulty.

(xi) Cash Limits

This is for noting not for decision. The new forecast - which, when compared with the decision on cash limits already taken, will give a measure of the prospective volume squeeze - will be ready on 15th February. Treasury were thinking in terms of a reference to Cabinet on 21st February or 28th February. It is not clear why the Treasury are anxious to have this further discussion because it must carry some risk of reopening earlier decisions. You may care to ask the Chancellor what he has in mind. In addition CSD are preparing, as you know, a separate paper on cash limits for the Civil Service, and were planning to bring this to Cabinet also on 21st February; it cannot be left much later or the pay negotiations will have gone too far. The date can however be left open for a while.

On substance, the main point is the one I have already made: the more the Treasury takes credit for a volume squeeze through cash limits, the more this hits individual programmes, including those on which political commitments have been given. You yourself have recently reaffirmed the Government's intention not to cut the resources going to the health services; the Defence problem is familiar ground. There is also the point that the cash limit system was not intended for use as an instrument of ex ante volume squeeze, and its use for that purpose will put increasing strain upon it, and upon the readiness of colleagues to live with it.

(xii) Aggregate Expenditure

This is the opportunity for Cabinet to endorse the additional savings from the Home Secretary (mainly for morale-boosting purposes) and agreement to give the Secretary of State for Wales something more for closure areas.

(xiii) Contingency Reserve

The Chancellor is keeping this card up his sleeve. If Cabinet takes a clear decision on child benefits now, the pressures on the contingency reserve for 1980-81 will be somewhat reduced. On the other hand, there are a number of new bids. The obvious ones include additional requirements for the nationalised industries e.g. Steel and Electricity - these are not technically claims on the contingency reserve, but affect the overall PSBR forecast, and thus the amount the Chancellor can afford to allocate to the contingency reserve - and a few small ones like fuel assistance to the poor (if not agreed) as a programme increase). The present provision is £750 million, but the Chancellor may well decide later to increase this to a more realistic level. If he does so, this will offset some of the savings, unless the cash limit squeeze is sufficiently strong to provide the necessary money.

(xiv) Announcement

The Chancellor's paper does not deal with the question of an announcement. If Cabinet has taken a series of clear decisions, the Chancellor may well press for permission to make an early announcement, in view of mounting Press speculation. He would aim to set out the main details of the cuts, reserving the small print until the Public Expenditure White Paper comes out near or on Budget Day. The problem about an interim announcement, whether by way of statement or arranged PQ, is that it will give rise to a pressure for an additional day's debate, on which the Leader of the House will have views. But there is obviously some tactical advantage in an early statement. On the other hand there is also some advantage in deferring publication of the difficult changes e.g. in Child Benefit rate until Budget Day when they can be presented in a fuller context. This year, the usual practice of publishing a White Paper without specific provision for uprating is not available. You will want to ask how far an early announcement will have to reveal the more contentious items.

CONCLUSIONS

4. I suggest that you should aim to record conclusions on each of the individual programme changes listed above, to note the position on cash limits and the contingency reserve, to decide the question of an announcement, and to invite the Chancellor to bring forward the text of the Public Expenditure White Paper to the Cabinet as soon as it is available.

RtA

(Robert Armstrong)

30th January, 1980

2

Qa 04416

To: MR LANKESTER

From: SIR KENNETH BERRILL

Public Expenditure: C(80)9

On 13 December 1979 (CC(79)25th Conclusions, Minute 6) the Cabinet agreed on the necessity for further reductions in public expenditure of the order of £1bn in 1980-81 and £2bn in each of the subsequent years of the Survey.

2. The Chancellor's proposals in C(80)9, if fully endorsed, would meet this target for the last two years of the Survey, but would fall short by nearly £200m in 1980-81 and nearly £250m in 1981-82.

3. The Prime Minister may feel that this is an acceptable outcome bearing in mind:-

(i) that it takes no account of any reduction in the UK contribution to the Community Budget;

(ii) that for 1980-81, it takes no credit for the volume squeeze expected to result from cash limits already agreed;

(iii) that for the later years the Government will have very much larger savings to present (£6½bn for 1981-82 and over £9bn for 1982-83) since the last published figures were the plans of the previous Government ie no credit has yet been taken for the cuts made last Autumn.

4. If, however, the Prime Minister felt that the Cabinet should at least consider additional options which would help to make good the shortfall in the first two years, the CPRS suggests two further possibilities.

(1) Cancellation of the Heysham and Torness AGRs

Given the prospect of low economic growth, there is little risk that cancellation would affect the security of future electricity supplies. Substitute power station orders would probably not be required for at least two more years, by which time it might be possible to go for PWRs. The case for continuing with the AGR programme is now almost entirely that of providing work for the admittedly hard-pressed and strategically important power plant manufacturers.

The main contracts have not yet been placed. Contracts for the nuclear island, the turbogenerators and for major site-works will be placed this Spring. Each station will cost well over £1bn to complete.

Allowing for cancellation charges, the CPRS estimates that net savings could be, say, £100m in 1980-81 and £200m or more in each of the following two years.

(2) Education

The Chancellor has already asked the Secretary of State for Education to consider a further cumulative 1% reduction in the provision for non-teaching staff in the education services. The CPRS believes that such a reduction could also be applied for, say, two years to teaching staff without significantly altering the teacher/pupil ratio or undermining the Government's commitment to maintain the quality of the education service. It might involve some redundancies but this would not necessarily be a bad thing, given the mixed calibre of the intake during the peak period of the 'sixties. The additional savings might be £30-£40m in 1980-81 and £60-£80m a year thereafter.

5. If these options were adopted, in addition to all those proposed by the Chancellor, it would be possible to come very close to the £1bn target for 1980-81 (indeed the remaining gap could probably be closed by a small reduction in the contingency reserve); and the target for the later years would be fully met.

6. I am sending a copy of this minute to Sir Robert Armstrong.

KB

30 January 1980

460

37

CONFIDENTIAL

11

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Chancellor of the Exchequer
The Rt Hon Sir Geoffrey Howe QC MP
Treasury
Parliament Street
LONDON
SW1P 3AG

30 January 1980

Dear Geoffrey.

You asked me yesterday to consider a further reduction in non-teaching staff in the education service rising to 3 per cent by 1983-84, and this is reflected in paragraph 7 of C(80)9.

I have examined this again carefully, but I am clear that, as I indicated yesterday was likely to be my conclusion, this would not be possible without severe damage to education. The following points are relevant:-

i. Whereas total numbers employed by local authorities in other services have risen by 3 per cent in the last five years, non-teaching staff (despite a growth in pupil and student numbers) have fallen by 2 per cent.

ii. In the same period the cost of administration in the local authority education service has fallen by 10 per cent, and there are now fewer than 30,000 staff directly employed on educational administration to cope with a budget of £6 billion, nearly a million employees and 10 million pupils and students (and their parents).

iii. The decisions we have already taken imply a further reduction of 15 per cent in non-teaching staff by 1983-84, a bigger fall either than in the school population or than in other services, in most of which you are seeking no further cuts of this kind.

iv. Two fifths of non-teaching staff are employed in schools, either in support of teachers (as laboratory assistants, librarians and so) or on the routine but vital upkeep of premises. A further cut here would inevitably mean that teachers would have to undertake more essential non-teaching duties.

CONFIDENTIAL

v. Nearly all the rest are emplyed either in school meals, where our plans already entail a 20 per cent cut in staffing in 1980-81 itself, or in further education, where there will be further reductions as part of the 5 per cent cut in polytechnics and colleges on which we agreed yesterday.

I am sending copies of this letter to the other members of the Cabinet, Norman Fowler and Sir Robert Armstrong.

Yours ever

Mark

MARK CARLISLE

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Dr W J Burroughs
Private Secretary to the
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

R 30/1

30 January 1980

Dear Bill,

ELECTRICITY COUNCIL'S EXTERNAL FINANCING LIMITS

A few words were omitted by accident from the fifth paragraph of the Chief Secretary's letter of 28 January to your Secretary of State.

I attach a revised version for ease of reference.

I am copying this to Tim Lankester, Ian Ellison, Godfrey Robson and David Wright.

Yours sincerely,
Alastair Pirie

A C PIRIE

Private Secretary

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1

28 January 1980

Dear David,

ELECTRICITY COUNCIL'S EXTERNAL FINANCING LIMITS

Thank you for your letter of 24 January about the Electricity Council's response to our meeting with them on 21 January about the prospective breach of £300m in their external financing limit for this financial year.

Like you I find the remedial action discussed in Tombs' letter of 22 January inadequate and I am glad that you are pressing the industry for further measures including whether more can be found by deferring payments to the oil companies or deferring until next year some deliveries of oil due this year. Certainly the industry ought to try to prevent such discussions becoming public knowledge, but I agree with you that little, if any, harm would be done if the matter did leak. There have already been references in the newspapers to the industry's difficulties of keeping within its EFL. I also welcome your decision to seek further information from the industry on the scope for economies in next year's capital programme. If an excess like this occurs, the capital programme must be reviewed.

My reaction to the prospective breach in EFL is still to ask the industry to absorb the £300m excess within this year's EFL, either by genuine savings or deferment, and if they cannot manage this, to reduce next year's EFL by the amount of any increase necessary in this year's. I have noted your view that it would be imprudent to take any action which would result in approaching next winter, with its early NUM settlement date, with reduced fuel stocks. But I assume that you are not suggesting that we should therefore be prepared to increase this year's EFL by the amount of the increase in fuel stocks, some £210m. The industry themselves have put forward the possibility of deferring £75m of the cost of the increased stocks (£50m from the NCB and £25m from the oil companies) into next year and you have suggested that the industry should try to defer more payments in this way. Thus, on the basis of the proposals already made the cost this year of the higher stocks will be no more than £135m, and possibly a good deal less if your requests to the industry for further deferrals produces results.

I have also noted Tombs' comments about the industry's financial prospects for 1980-81. As you say, virtually all of the action suggested by the industry will have consequences for 1980-81, but I think that the industry should be under no illusion that there will be any increase in their EFL for that year to take account of expenditure deferred from this. Tombs hints in his letter that the industry will in any event need a higher and earlier second increase in tariffs than the 5 per cent proposed for October if it is to keep within its existing EFL. I should be grateful for your views on this.

So to sum up my views on the general question, the choice seems to be between asking the industry to absorb the £300m excess within this year's EFL and if they cannot do this, to reduce next year's EFL by the amount of the increase necessary in this year's EFL or to increase this year's EFL to cover part of the cost of increased stocks (ie by something less than £135m) and to maintain next year's EFL at its existing level. I should like to get this matter settled quickly so that we can make any announcement necessary well before the end of the financial year (though we shall need to consider the date carefully in relation to the steel strike). Could I therefore suggest that you press the industry further and let me have your proposals for dealing with the matter very shortly.

Turning to some other points raised by your letter:

i) You ask about the possibility of adjusting the EFLs of the NCB and electricity supply industry in equal and opposite directions. I should be opposed to this. Our position must be that each industry must observe its own EFL.

ii) I agree that there is little to add to what we said at the meeting with Tombs about the nature of the EFL. I agree with you that if there is a risk of a breach, Ministers must be informed immediately, and options for remedial action discussed. I am therefore glad that the Boards have now agreed to provide the Council with better and more frequent returns.

iii) The prospective excess of £300m does not take account of the steel strike, the direct effects of which are worsening the industry's cash flow by about £4m a week. Although I well recognise the difficulties, I think that the Council ought to be asked to see what can be done to offset the financial effects of this.

iv) Tombs dismisses the suggestion that we should consider re-introducing the fuel cost adjustments in quarterly tariffs. I recognise that there would be some opposition to this, but in a time of so much uncertainty about oil prices, it ought to be a means of going some way to protect the EFL in future years from unexpected increases in oil prices. I hope therefore that you will press the industry to give some further thought to this possibility and to let you have a more considered reaction.

Finally we should consider what further step we should take to demonstrate publicly the seriousness with which we regard this situation. I suggested in my letter of 15 January the possibility of having separate EFLs for the CEGB and the rest of the industry. I should welcome your views on this and any other ideas you may have for publicly underlining our dissatisfaction with the industry's financial management.

I am sending a copy of this letter to the Prime Minister, the Secretaries of State for Industry and Scotland and to Sir Robert Armstrong.

Yours

John Biffen

JOHN BIFFEN

PART 7 ends:-

M/S MAFF to M/S CSD 28.1.80

PART 8 begins:-

C(80) 9 29.1.80

~~Cst Office~~ to ~~Energy~~ ~~30.1.80~~