Public Expenditure &
Cash Limits

PART 17

ECONOMIC POLICY

PART 1: MAY 1979

PART 17: NOV 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~26.11.81~~							
~~30.11.81~~							
~~2.12.81~~							
~~3.12.81~~							
8-12-81							
~~CCDS~~							

PREM 19/422

PART 17 ends:-

Hansard extract of 8/12/81.

PART 18 begins:-

S/S Ind to PM 14.12.81

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(81) 115	18/11/81
E(81) 116	20/11/81
E(81) 34th Conclusions, Item 2	24/11/81
C(81) 57	24/11/81
CC(81) 38th Conclusions, Item 5	26/11/81
LCA - CC(81) 38th Conclusions, Minute 5	26/11/81

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 D Wayland Date 15 March 2011

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. 8175 March 1981
The Government's Expenditure Plans 1981-82 to 1983-84
HMSO

Cmnd. 8437 December 1981
Cash Limits 1980-81 Provisional Outturn (and 1979-80 Outturn)
HMSO

House of Commons Hansard 02/12/81
Public Expenditure Columns 237-2~~8~~6

House of Commons Hansard 03/12/81
Security Benefits Columns 483-486

House of Commons Hansard 08/12/81
Public Expenditure Proposals 1982-83 Columns 725-730

Signed OWayland Date 15 March 2011

PREM Records Team

YDS

cc Mr Gow
Mr Ingham
Mr Scholar

Pledges

MAP 8/XII.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

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

PM has seen
MAP 8/XII

December 7' 1981

Dear Geoffrey.

PUBLIC EXPENDITURE DEBATE

Chris Patten approached me during Thursday's debate on social security to raise with me a particular aspect of your announcement last week. His point was that the decision not to make good the shortfall expected this year for supplementary benefit in his view fell short of commitments given to the House last March both by you and Patrick Jenkin. He drew my attention to two particular statements. The first was made by you in the 1980 budget when you said:

> "Again, any civilised society should provide a safety net below which a poor person's standard of living should not fall. We can all debate what is the proper level. Should it be a relative level or, as Beveridge had contemplated, an absolute level, which seeks to meet the basic needs of a person and his family? These are difficult questions. The answers are not made any easier by the fact that the supplementary benefit scheme covers so many varied circumstances, with more than three million beneficiaries at any one time, ranging from the old and infirm to healthy young people capable of work. But clearly no action we take should be at the expense of the really weak and needy. Accordingly we propose that supplementary benefit rates, too, will be increased next November in line with the projected level of prices. A large part of the additional help with fuel costs which I have just announced will also go to supplementary benefit recipients, particularly the old and those with young children."
>
> [HC Deb, 26 March 1980, cc 1458-91]

The Second was made by Patrick Jenkin in his statement the day following when he said:

> "The Government are determined to maintain the safety net for the poorest people, and accordingly the scale rates of short term supplementary benefit will be fully price protected by increasing them in line with the 16½ per cent forecast.

E.R.

> The savings that we have identified affect primarily those on short-term benefit, above the supplementary benefit level. Though I cannot pretend that they will be welcome, I must stress again that the "safety-net" - the short-term supplementary benefit level below which none shall fall - retains its real value."
>
> [HC Deb., 27 March 1980, cc 1659, 1660]

In his note to me Chris gave warning that he intends to ask "what the Government had in mind when Ministers made these statements". Clearly he intends to raise these points in the debate tomorrow and can be expected to attract some support from others on our own Benches as well as the other side. (We should remember that he is a former Parliamentary Private Secretary to Patrick Jenkin.) There is the further problem which arose in the Adjournment Debate last Thursday of whether long term supplementary allowance should have been included in the benefits on which the shortfall would be made good given the terms of your statement. I attach the relevant Hansard Report.

I have been considering here how we might best advise you to deal with these points. The first point to make is what we have achieved for social services generally - increasing real expenditure on both health and social services. But on the shortfall, and in particular the question of supplementary allowances, we could reduce the temperature by reminding the House that final decisions on the precise amounts in the 1982 uprating will be taken as usual next spring and we will look carefully then at the points raised. This would not commit us to any changes and would give us time to look more carefully at the exclusion of long term supplementary allowances from complete price protection when it is a long term benefit paid for example to disabled people.

This is very much for your judgement in the light of the form of your opening speech but it does seem to me that a form of words on the lines I have suggested could ease the debate without making concessions. What we must avoid is being forced into concessions.

I am copying this letter to the Prime Minister, Michael Jopling and Leon Brittan.

Yours ever,
Norman

NORMAN FOWLER

Econ Pol.

Final Draft

MW

GOVERNMENT MOTION FOR THE DEBATE ON PUBLIC EXPENDITURE PROPOSALS FOR 1982/83 - ON TUESDAY 8TH DECEMBER 1981

That this House approves the Statement made by the Chancellor of the Exchequer on 2nd December, and in particular welcomes the Industry Act forecast for 1982 of lower inflation and rising output; approves the provision of extra resources for employment and training measures, particularly for the young; supports the Government's decision to maintain the real value of retirement pensions and to continue the Christmas bonus for pensioners; and endorses the decision to allocate extra money for capital investment by nationalised industries and for the defence programme.

FILE

VLB

7 December 1981

Thank you for sending me a copy of your letter to Murdo Maclean of 4 December, suggesting a text for the motion for Tuesday's debate.

As you know, the Chancellor and the Prime Minister have been in touch about this overnight. The amended text of the motion is as follows:

> "That this House approves the Statement made by the Chancellor of the Exchequer on 2nd December; and in particular welcomes the Industry Act forecast for 1982 of lower inflation and rising output; approves the provision of extra resources for employment and training measures, particularly for the young; supports the Government's decision to maintain the real value of retirement pensions and to continue the Christmas bonus for pensioners; and endorses the decision to allocate extra money for capital investment by nationalised industries and for the defence programme."

I am sending copies of this letter to David Heyhoe (Lord President's Office), Richard Dykes (Department of Employment), Don Brereton (Department of Health and Social Security), Ian Ellison (Department of Industry), David Omand (Ministry of Defence) and Murdo Maclean (Chief Whip's Office).

M. A. PATTISON

John Kerr, Esq.,
H.M. Treasury.

P.S. This could yet be subject to further amendment.

VLB

MIKE PATTISON

Final Draft

GOVERNMENT MOTION FOR THE DEBATE ON PUBLIC EXPENDITURE PROPOSALS FOR 1982/83 - ON TUESDAY 8TH DECEMBER 1981

That this House approves the Statement made by the Chancellor of the Exchequer on 2nd December, and in particular welcomes the Industry Act forecast for 1982 of lower inflation and rising output; approves the provision of extra resources for employment and training measures, particularly for the young; supports the Government's decision to maintain the real value of retirement pensions and to continue the Christmas bonus for pensioners; and endorses the decision to allocate extra money for capital investment by nationalised industries and for the defence programme.

RESTRICTED

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

4 December 1981

Murdo MacLean, Esq.,
No.12 Downing Street

Dear Murdo,

DEBATE ON 8 DECEMBER

We spoke this morning about the timing of the tabling of the Motion for Tuesday's debate. You told me that the Chief Whip would wish it to be tabled on Monday afternoon.

The Chancellor has given some preliminary consideration to the wording of the Motion. His present feeling is that something along the following lines would be about right:-

> "That this House notes the statement made by the Chancellor of the Exchequer on 2 December; welcomes the Industry Act forecast of lower inflation and a further rise in output; welcomes the proposed provision of extra resources for the Defence programme, for capital investment by nationalised industries, and for employment and training programmes (particularly for the young); approves the additional provision for the local authorities [while regretting the lack of economy shown in the past by certain of them]; wholeheartedly endorses the Government's action to maintain the real value of retirement pensions; and warmly welcomes the Government's continuing determination to sustain the process of economic recovery."

Perhaps we could have a word about this on Monday morning?

Copies of this letter go to Mike Pattison (No.10), David Heyhoe (Lord President's Office), Richard Dykes (Employment), Don Brereton (DHSS), Ian Ellison (DOI) and David Omand(MOD).

Yours ever,

John Kerr.

J.O. KERR

CONFIDENTIAL

File AH

ccs Tsy(2)
DES

10 DOWNING STREET

From the Principal Private Secretary

Econ Pol

SIR ROBERT ARMSTRONG

STUDENT GRANTS

The Prime Minister has seen and noted your minute A06158 of 1st December 1981 about student grants.

I am sending copies of this minute to Mr Kerr (Chancellor of the Exchequer's Office), Mr Mathews (Chief Secretary to the Treasury's Office) and Mr Shaw (Department of Education and Science).

FAW.

3 December 1981

AH

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Mr Scholar

We spoke

Ian

CHANCELLOR OF THE EXCHEQUER

(1) sympathetically

aware

With the Compliments

of the

Chancellor of the Exchequer

Treasury Chambers,
Parliament Street,
S.W.1.

(1) assumed actual (2) asset sales BNOC demand act 10% for NCV cont reserve uprating

104 × 107.5 = 111.80
105 × 107.5 = 112.88
107 × 107.5 = 115.03

COMPARISONS BETWEEN PUBLIC EXPENDITURE FIGURES

(i) The basic decision was that to increase the cash spent in 1982-83 from £110 billion, the figure in the White Paper revalued using the 4/9% factors, to £115 billion.

(ii) If a comparison was to be made between years, then it is more valid to use the plan figure (£105 billion) for this year, than the expected outturn (£107 billion given by the Chancellor in a reply).

(iii) On that basis, the increase in cash provided is nearly 10%, (115 on 105) which is broadly the same as the expected increase in prices generally. [This is the basis for saying that in "cost terms" expenditure is level between the two years.] ;

(iv) In addition, the Government is looking for a fall in relative prices paid by the public sector, particularly because of the 4% factor for public services pay. If allowance is made for this, then in the old volume terms, the volume figure would be about 2% higher;

(v) so the volume plans for 1982-83 are higher than the plans in the last White Paper for 1981-82. We cannot say precisely how much because we are no longer working in volume and keeping figures on that basis.

(vi) The use of a comparison of plans on plans does not imply that we are expecting a comparable overshoot on plans next year to that likely this year. We do not know if there will be an overshoot or an undershoot at this stage. But the provisional outturn figure of £107 billion for this year is a very uncertain one, based on partial information. The final figure could prove to be significantly higher or lower. So it is a very shaky basis for any comparison.

Pay was 30% (approx) of total public expenditure in 1979-80.

30% of £105 b = £31.5 b £32.76
70% £73.5 b = £80.12 } = £112.88 (i.e 7½ is the right composite factor)

J. M. B.

J M BRIDGEMAN
2 December 1981

A0

A. TOTAL 1982-83
Increase in plans is £5 billion, say 4½%

Reflects need to take account of changed circumstances - training for the young unemployed, financial position of nationalised industries, what it is realistic to expect local authorities to achieve. Realism, not dogmatism.

B. REAL TERMS COMPARISON (DEFENSIVE)

We are planning in cash and it is that comparison which matters. The key figure is that cash is being increased for the coming year by £5 billion over earlier plans. It is the cash figures which will determine expenditure, not volume, or other measures of volume.

If pressed: Real terms has various meanings.

The amount of cash which it is planned to make available next year is nearly 10% higher than the plans for this year. This is broadly equal to the change in prices. So, ignoring the effect of relative price changes, one could say the two sets of plans are much the same in real terms. ("cost terms")

The Government however intends that the relative cost of the public sector should continue to fall, particularly because of the provision which it is making for public service pay. So in the old volume terms plans for 1982-83 would show rise from 1981-82. We cannot say precisely how much because we have not done the arithmetic on that basis.
(For background : It could be 2 or 3% increase, compared with the 1½% fall provided for in the last White Paper.)

C. PUBLIC EXPENDITURE IN RELATION TO GDP (DEFENSIVE)

It is unwise to forecast this since it depends on two forecasts for two years. (Moreover the statisticians keep changing the past figures.) The most that it would be prudent to say is that there is more chance that it will be lower next year than this than it would be higher.

If pressed : (NB only to be given by the Minister.) Industry Act Forecast and plans announced today would imply 44% for next year. This year depends on uncertain outturn. [Budget forecast was 45%.]

D. <u>1981-82 OUTTURN</u>

Too early to give a firm figure for outturn. Too many uncertainties remain in rest of year. Particularly difficult this year because of effects of civil service strike on monitoring and situation with local authorities. We do not normally give a firm figure at this time of year.

If pressed : It could be of order of £107 billion. But that figure is a mixture of fact, extrapolation and guestimates. The final outturn cannot be reliably estimated on purely mechanical projections. It depends on how far we have to draw on the Contingency Reserve and a whole range of other uncertainties.

Known position on components is:

a. The Financial Secretary's Note on the Winter Supplementaries to be published on Friday will show that supply expenditure in the first half of this year was in total in line with Budget estimates.

b. Cash limits are holding generally and increases in such limits and EFLs are being charged to the Contingency Reserve and so do not add to the Budget estimates.

c. Higher expenditure is likely on some demand-determined services - housing subsidies, export credits, supplementary benefits - and Winter Supplementary Estimates will be presented for them.

d. Local authority revised budgets of current expenditure showed an excess of £1$\frac{3}{4}$ billion, but we must hope that the excess will prove less than that.

PROGRAMMES

(a) CAPITAL

Could not escape all reductions in cash provided.

Hope to maintain activity on housing construction and improvement but depends on the success of council house sales and on my rhf's decision on rents. to be taken after consultation.

Reductions in cash for roads, motorways and water schemes offset by fall in tender prices, so plans should be maintained.

Nationalised industry capital should be maintained in total if they secure economies in current costs. Responsible pay settlements are essential for future investment, and to health of industry.

(b) HOUSING RENTS

My rhf the Secretaries of State for the Environment and Wales are consulting the local authority assocations on a proposal that local authorities' reckonable income (including rents) for housing subsidy purposes should be assumed to increase by a flat rate of £2.50 per dwelling per week.

The exact figure will depend on the results of that consultation, and will vary from authority to authority.

The figure of £2.50 reflects my rhf's view of the increase required in the light of the factors which are set out in the consultation document he will issue later today. Among these is the fact that almost half council house tenants receive help with their rents from rebates or supplementary benefit.

(c) HEALTH

Most people would regard increases in some charges and in the health element of the national insurance contribution charge (16 pence a week for a person on average earnings) as preferable to the alternative of a cut in health services provided.

(d) SOCIAL SECURITY UPRATING

We are protecting retirement pensions and other long term benefits as we promised.

Short term benefits will not be making good the loss this November. Proposal is not a further cut.

The nation as a whole is living beyond its means. Those at work are accepting falls in real incomes. We can only afford to protect fully those most in need -

the retirement pensioners and others on long-term benefits.

Decision on uprating for public service pensioners in November 1982 and later depends on Government's decisions on Scott Report.

(e) LOCAL AUTHORITY CURRENT

My rhf the Secretary of State for the Environment has made clear the Government's view on the problems caused by some authorities exceeding their spending plans. We are considering further the points made by the House about the proposed legislation. In the meantime we must set realistic targets.

My rhf the Secretary of State for the Environment is announcing today the proposals which he is putting as a basis for consultation to local authority associations for expenditure, housing revenue accounts and the RSG settlement.

(f) NATIONALISED INDUSTRIES

We must sustain pressure for greater efficiency. The Financial Secretary announced on Monday arrangements for a review by Monopolies Commission.

If nationalised industries do contain their current costs - including pay - they will in total be able to maintain capital expenditure at about level envisaged in last White Paper. (Higher than last year.) Some will be able to do more, others less.

Direct access to the markets could be justified in some circumstances, particularly as a way of stimulating the performance of an industry. But it does not change significantly effect of investment on economic management.

(g) DEFENCE

Increase reflects high priority attached to Defence spending. But emphasis is on military effectiveness, not just spending; rigorous pursuit of efficiency and economy to increase maximum resources for front line.

Increases in defence expenditure will benefit industry and employment in the UK. MOD will spend about £6,000 million on procurement this year; next year the figure will be even higher.

PUBLIC EXPENDITURE 1982-83 - GENERAL

Line To Take

1. The Government now think it appropriate to increase the planned provision for certain programmes to reflect changes circumstances eg employment measures. Part has to be offset by reductions elsewhere. The net increase is £5 billion.

NB Avoid comparisons with 1981-82, particularly in real terms.

Further Points

2. The Government has now completed its review of the expenditure plans for 1982-83 as part of the normal public expenditure planning cycle. This year for the first time the plans have been considered and decided in cash rather than constant prices ('volume') - see brief B1.

1981-82

3. The Government will be publishing with the Winter Supplementaries on Friday estimates of the outturn on supply expenditure in 1981-82. There is very little suggestion of overspending in these estimates - all the increases in cash-limited programmes are charged to the contingency reserve and therefore contained within the planning total. But as is well known, local authorities are overspending on current account, though some underspending on capital account will provide a small offset to this.

If pressed

4. Putting these figures together leads to a provisional total of the order of £107 billion. But this is very mechanistic, and changes in circumstances could well lead to a higher or lower total.

"Real terms" comparisons

5. If asked for a comparison in real terms, point out that plans must be compared with plans, not with outturn. On a comparison of plans, it depends on what is meant by real terms. The cash increase in plans between 1981-82 and 1982-83 (£105bn to £115bn) is roughly the same as the likely price rise in the economy as a whole. Thus in cost terms, not much change in level between years. However, a fall in relative prices is expected. This means that in old 'volume' terms, the plans would show an increase between the two years. But no volume figures are available for 1982-83 (see brief B2).

1982-83

6. Plans for 1982-83 in last White Paper (revalued and adjusted for Gas Levy etc) were £110 bn, but have been increased to £115 bn.

i) Main increases:

Nationalised industries:	£1.3 bn
Local authority current expenditure:	£1.35 bn
Employment services:	£0.8 bn
Defence:	£0.5 bn
Estimating changes etc still be finally decided:	£1.3 bn

ii) Main decreases:

General cut in cash-limited expenditure (including cut in staff and other administrative expenditure and in some capital):	£0.5 bn

7. The final White Paper total has not yet been set - that will be included in the public expenditure White Paper to be published at the time of the Budget. The precise figure will depend upon the economic assumptions then considered to be appropriate, and on decisions still to be taken (including on the size of the Contingency Reserve).

8. The White Paper will be published with the Budget, when it can be set against the tax plans. It will include plans for 1983-84 and 1984-85.

9. The present statement is about the expenditure decisions which have to be taken at this stage if the various spending authorities - nationalised industries, local authorities, health authorities, Government departments etc. - are to have time to put the plans into effect. These decisions are the basis of the Estimates which are now being prepared.

FACT SHEET (All figures CASH)

	£ billion		
1. Planning total	1980-81	1981-82	1982-83
White Paper revalued	94	104½	109½
PSBR - neutral adjustments	-	½	½
Starting point for survey	94	105	110
Present plans			115
Increase			5

Planning total for 1982-83 subject to variation (up to £1 billion) to reflect later decisions on economic assumptions, and other decisions still to be taken (eg contingency reserve).

2. Increases and decreases - see attached table.

The totals proposed for 1982-83 incorporate a general cut of at least 2% on cash limited expenditure (except for defence) (£½ billion) but there could be a squeeze on top of that in terms of 'volume', if 9% and 4% factors were inadequate. (See below on cash limit squeezes in past years).

In cash terms 9%

[more than] 3¼% on latest budgets £13¼b

3. Local authority current expenditure in 1981-82 now forecast at least £1½ billion above plan. Provision in 1982-83 increased by £1,350 million, but still only 2% higher than revised budgets for 1981-82. 3%, cut in real terms

4. RPI effects of expenditure decisions are:

(a) Proposed £2.50 average council rent increase: 0.6%
(N.B. This is subject to consultation)

(b) Health service charges: 0.03%

5. Debt interest (not included in planning total)

	1981-82		1982-83	
Net Debt interest:	WP revalued	latest estimate	WP revalued	lastest estimate
	6.1	6.2	6.6	6.8

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until after Statement 2.12.81

Background

6. Ratio of public expenditure (planning total + debt interest) to GDP%

	1979-80	1980-81	1981-82	1982-83
Last PUBLISHED figures	41½	44½	45	
ONLY TO BE USED IF PRESSED				
Present plans with classification changes	41	43½	[45]	[44]

FIGURES FOR 1981-82 & 1982-83 ONLY TO BE GIVEN IF ALREADY USED BY MINISTER

7. Ready Reckoner

Each 100,000 change in unemployment is estimated to change social security programme by about £140 million in 1981-82 (full year effect). A change of 1% in public service pay, if fully matched by a change in cash limits, would affect public expenditure in 1982-83 by about £350 million and PSBR by about £200 million.

8. Cash limit squeezes in past years have been:

1977-78	negligible
1978-79	3%
1979-80	4%
1980-81	2%
1981-82(current estimate)	negligible

[Note: the figures for 1980-81 and 1981-82 take account of Defence Supplementary Estimates in those years.]

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A2 Addendum

Changes in 1982-83 compared with White Paper revalued

Breakdown of: Other departments	Increases	Decreases	Net change
European Community budget	+ 86	-	+ 86
FCO	+ 18	- 28	- 10
IBAP	+ 71	-	+ 71
Forestry	+ 5	- 7	- 2
Energy	+ 26	- 24	+ 2
Trade	+ 7	- 19	- 12
ECGD	+113	- 87	+ 26
Transport	+ 95	- 90	+ 5
Home Office	+ 29	- 68	- 39
Education	+ 30	- 18	+ 12
Health	+139	- 97	+ 42
Territorials	+146	-127	+ 19
Other Depts (small)	+ 47	- 44	+ 3
Total other Departments	812	609*	+203

* Total slightly different from previous table due to changed student grant figures

NOT FOR USE :—

Estimating changes & contingency reserve

	Increases	Decreases	Net change
Local authority overspend	+500	-	+ 500
Reduction in shortfall elsewhere to £½bn	+210	-	+ 210
Interest rates & unemployment	+1000	-	+1000
Prices (on social security etc)	+ 600	-	+ 600
Special sales of assets	-	- 275	- 275
Contingency reserve	-	- 750	- 750
	+2310	-1025	+1285

rounded up to +1380 to produce planning total of £115bn

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Note: table 2 of the summary for Hansard (circulated in the Press Notice) may be misunderstood. Under 1982-83 (second column of table) it gives a breakdown of the Contingency Reserve, asset sales and allowance for underspend, but these figures are the White Paper plans (revalued). The final column gives only an aggregate amount of £3300 million representing the present plans.

VOLUME AND COST TERMS COMPARISONS

1. There are no volume equivalents available of the cash plans being published.

If asked for a comparison in real terms, point out that plans must be compared with plans, not with outturn. On a comparison of plans, it depends on what is meant by real terms. The cash increase in plans between 1981-82 and 1982-83 (£105 bn to £115 bn) is roughly the same as the likely price rise in the economy as a whole. Thus in cost terms, not much change in level between years. However, a fall in relative prices is expected. This means that in old 'volume' terms, theplans would show an increase between the two years.

2. Cost terms figures for individual main programmes will be published in next White Paper. [If pressed: volume figures will not, because of lack of detailed price information and forecasts].

Explanation

3. Both "volume" and "cost terms" figures are measures of expenditure in "real" terms. Both describe inputs, not levels of service achieved. Greater efficiency, for example, can produce higher levels of service for same real expenditure.

4. "Volume" = expenditure in constant prices, as in last White Paper (prices of broadly autumn 1979).

"Cost terms" = expenditure including relative price changes, ie cash expenditure deflated by general movement in prices only.

5. For example, if public service pay increases are held to broadly 4% in coming pay round, this would not affect expenditure plans expressed in constant historic prices, ie volume. But the relative fall in this particular "price" compared with prices in economy generally would mean a fall in the relative cost of public expenditure, ie in expenditure in "cost terms".

6. The GDP deflator is used as the measure of general movement of prices in economy as a whole.

Why no volume?

7. Switch to cash is designed to get away from view of spending managers that they are "entitled" to a planned volume of inputs, and need not try to curb costs, or to adjust their expenditure if their costs rise. See EPR article attached to brief B1.

8. Pay and price information necessary to convert current cash estimates for 1981-82 and plans for 1982-83 into constant prices has therefore not been collected comprehensively to timetable which was necessary for planning in volume. (Conversion of cash plans for 1982-83 would also require detailed forecasts of prices of individual compenents of expenditure). So, volume equivalents of present plans do not exist.

Contact

Miss M E Peirson (233 7208)
GEP1 Division
HM Treasury
30 November 1981

CONFIDENTIAL 2

Prime Minister.
MS
[illegible]
1.xii.81

Ref. A06158

MR. WHITMORE

Student Grants

In the course of their discussion of public expenditure on 26th November the Cabinet agreed that in 1982-83 student grants should be increased by 4 per cent, that the level of grants in 1983-84 would be settled later, and that the minimum maintenance award and the scale of parental contributions should be frozen at their present cash level (CC(81) 38th Conclusions, Minute 5, Conclusion 4).

2. Freezing the scale of parental contributions does not mean that all parental contributions are frozen: savings are achieved through allowing contributions to rise in accordance with the present scale instead of, as normally, revaluing the points on the scale at which changed rates of contribution are required. The effect is similar to not indexing income tax allowances. The result will be that some students will receive less grant i.e. parents will be expected to pay more than if the scale had been indexed in the normal way. On the other hand, parents and students will be better off than if the minimum grant was abolished and student grants were not increased by 4 per cent.

3. Since the implications of freezing the scale were not explicitly brought out in the Cabinet's discussion, I should like you to draw this point to the Prime Minister's attention.

4. I am sending copies of this minute to the Chancellor of the Exchequer and the Chief Secretary and to the Secretary of State for Education and Science.

RCA.

ROBERT ARMSTRONG

1st December, 1981

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Ec Pol
Pub Exp

23

10 DOWNING STREET

From the Press Secretary

1 December 1981

Dear David,

I held a meeting this morning with the Heads of Information of all Departments most closely involved in the public expenditure exercise. You will wish to hear the outcome.

First of all the Chancellor will make his statement at 3.30 pm tomorrow and this will be supplemented by 3 written answers from HM Treasury - on public expenditure programmes (Department by Department), external financing limits for nationalised industries and the Industry Act forecast.

The DHSS will publish the Government Actuary's Report with an associated written answer setting out the full details of changes in National Insurance contribution rates and limits, and changes in health service charges.

The Department of the Environment will set out in a series of written answers the RSG statement, the allocation between services within the overall total, including council house rent guidelines, and housing capital expenditure; and possibly other DOE services.

It is intended that all these written answers will be timed for 4.30 pm when the Chancellor sits down.

All Departments will be encouraged to produce their own material on the implications of the public expenditure review. Briefing arrangements for the Departments central to the announcement are:

We have agreed that the Treasury should have as clear a field as possible with radio and television; the Chancellor and the Chief Secretary are accepting as many radio and television bids as possible.

However it is agreed that the Secretary of State for the Environment should also accept radio and television interviews to deal with the very important and tricky problem of local government finance.

So far as other Ministers are concerned it is agreed that they will not take up invitations for radio and television tomorrow evening. This, of course, does not apply to Scottish, Welsh and Northern Ireland Ministers addressing their own communities through their own radio and television channels.

So far as the lobby and press conferences are concerned, the Chancellor and Chief Secretary have accepted an invitation to see the lobby immediately after the statement. Both of them are also to see the backbench Finance Committee at 6.30 pm.

Mr Heseltine is to hold a press conference for local government correspondents at 5:00 pm.

The Chancellor is proposing to see economic and possibly political correspondents from Thursday onwards.

We have strongly urged all other Departments to ensure the most positive presentation of their aspects of the announcements tomorrow afternoon and subsequently. DHSS propose, at this stage, to do no more than brief their particular clientele extensively.

Mr Vereker will finalise a speaking note on the public expenditure exercise directed particularly at the implications for pay bargaining for issue at Thursday lunchtime. I attach a draft (not copied to others) for you to examine overnight.

We are pursuing with Departments the balance sheet of presentational plusses and minuses and will report later. So far little material has arrived. We expect much more in the course of the day.

Yours sincerely
Bernard Ingham

B INGHAM

David Heyhoe, Esq.,
PPS to the
Lord President of the Council

cc. T. J. B. Dawes, Esq., MAFF
H. Jarmany, Esq., CSD
L. Jeanes, Esq., MOD
T. Perks, Esq., DES
B. L. Mower, Esq., D/Employment
I. Gillis, Esq., D/Energy
Mrs. J. Hewlett-Davies, D/Environment
N. M. Fenn, Esq., FCO
N. Taylor, Esq., DHSS
D. D. Grant, Esq., Home Office
J. Woodrow, Esq., D/Industry
Miss R. Christopherson, NIO
P. Broderick, Esq., ODA
A. H. Sutherland, Esq., Scottish Office
M. Garrod, Esq., D/Trade
R. Goodfellow, Esq., D/Transport
Mrs. R. Gilmore, HMT
H. G. Roberts, Esq., Welsh Office

J. Vereker, Esq., No. 10
N. Gaffin, Esq., No. 10
Ms. E. Drummond, No. 10
M. Scholar, Esq., No. 10

COVERING SECRET

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Public Exp

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CHIEF SECRETARY

cc Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
Sir A Rawlinson
Sir K Couzens
Mr Burns
Mr Ryrie
Mr Le Cheminant
Mr Wilding
Mr Littler
Mr Barratt
Mr Middleton
Mr Bridgeman
Mr Britton
Mr Burgner
Mr Evans
Mr Hansford
Mr Kemp
Mr Dixon
Mr Kitcatt
Mr Monger
Mr Battishill
Mrs Gilmore
Miss Peirson
Mr Norgrove
Mr Ridley
Mr Cropper
Mr Harris

PUBLIC EXPENDITURE STATEMENT

... I attach a copy of the draft of the Chancellor's Statement as circulated to Cabinet this afternoon.

JOK.

J O KERR
1 December 1981

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER : 2 DECEMBER

1. With permission, Mr. Speaker, I wish to make a statement about two matters on which it is necessary to take decisions at this time of year. The Government has now completed its annual review of the plans for public expenditure. We have also decided the future pattern of National Insurance contributions on the basis of the Government Actuary's report which is being laid before the House today. In each case the proposals follow reviews which are normal at this time of year. They will take effect not in this financial year but in the next one: 1982-83.

2. I am also publishing today, as required by the 1975 Industry Act, the forecast of economic prospects for 1982. The outlook is for a further fall in inflation. Whereas 15 months ago the annual increase in the RPI was 22 per cent and a year ago 15 per cent, it is now about 12 per cent. We expect an increase over the next year of 10 per cent. GDP at constant prices is expected to be higher in 1982 than in 1981 - by about 1 per cent - and manufacturing output should continue to increase rather more rapidly. The forecast, in short, is for gradual recovery, despite the difficult world environment.

<u>1981-82</u>

3. I begin, however, with the current year. Public

? spending in 1981-82, covered by the planning total, is now expected to be about £107 billion. That involves a substantive increase since the Budget of just over £2 billion. This increase does not arise from the programmes subject to cash limits. They are being held. Where exceptionally increases have been made in cash limits, or in nationalised industry external financing limits, these have been charged to the Contingency Reserve, and so have not added to the planned total. That applies for example to the increase of £319 million announced today in the Defence cash limit for this year.

4. About a quarter of the expected increase in spending this year is due to the effect on the cost of some demand-led programmes, like export credit and housing subsidies, of higher interest rates and slightly higher unemployment than was allowed for in this year's White Paper. Some three-quarters of the increase is due to higher current expenditure by some, but by no means all, local authorities.

5. Revenue during the current year is also likely to be rather higher than expected at the time of the Budget. The PSBR for 1981-82 therefore still appears to be on track for the estimate of £10½ billion which I gave at that time.

<u>1982-83</u>

6. I turn now to the year ahead, 1982-83. As I told the House in my Budget statement, we are no longer planning public expenditure in volume terms but in cash. The plans for next year, which appeared in the last White Paper in volume terms, had therefore to be revalued in cash. On this basis the starting point for discussions about 1982-83 was a cash total of £110 billion.

7. The <u>net</u> result of the decisions which I am announcing today will be to raise that figure by almost £5 billion, to bring the planning total for next year to about £115 billion.

8. At the time of the Budget we expected cash expenditure in 1982-83 to grow more slowly than we now envisage. ~~But as my rt. hon. Friend, the Prime Minister, has told the House on numerous occasions,~~ We believe it is right to show flexibility as well as consistency with our long-term objectives. We have felt it appropriate to increase the planned provision for certain programmes to ~~reflect changed~~ today's circumstances.

9. Even so, our plans for public expenditure in 1982-83 will be some 7½ per cent higher than the expected outturn this year. The expected increase in prices between the two years is about 10 per cent. So we expect some reduction in public expenditure in real terms next year.

10. The Government has throughout been clear about the need to restrain the proportion of the nation's resources pre-empted by public spending. The new plans for public spending will enable us to make good some of the ground lost in previous years. There is still a considerable way to go to achieve what we would regard as a healthy balance. However, on present forecasts public expenditure as a proportion of GDP should fall from about 45 per cent this year to perhaps 44 per cent next.

PSBR

11. It is too early to judge with precision what these changes will mean for next year's PSBR. But our current judgement is that, with revenue again likely to be higher than previously foreseen, the figures point to a PSBR next year broadly in line with the projections published at the time of the last Budget. Were that assessment to change, or were it necessary to take a different view of the PSBR for 1982-83, I would of course have to consider appropriate fiscal action in my next Budget.

Public expenditure Plans

12. Full details of our new plans for 1982-83, and the two following years, will be set out in the public expenditure White Paper to be published at the time of the Budget. The exact figure for next year will depend upon decisions which cannot be taken yet about the appropriate provision for certain demand-determined programmes and for the Contingency Reserve. I am in the meantime circulating in the Official Report a summary of the changes for 1982-83 in the cash allocation to Departments and in the External Financing Limits for nationalised industries.

13. I shall inform the House now about some of the main changes. Increases in programmes - whether on account of policy or of changed demands - amount to about £6 billion. But, to keep the total to an acceptable level, we have found offsetting reductions in previous plans of over £1 billion. This restricts the net increase to the figure previously mentioned - £5 billion.

Current Costs

14. The administrative costs of central government are not far short of 10 per cent of total public expenditure. We are determined to reduce that proportion and maintain the drive for more efficient management throughout Government. Our spending plans provide broadly for increases in the pay of public servants of 4 per cent from next settlement dates. The provision for administrative costs will be further reduced by the impact of a general reduction of at least 2 per cent in all cash-limited expenditure, which will involve economies in the cost of maintenance and improvement of Government buildings as well as economies in manpower and ancillary services. And we shall continue to reduce Civil Service numbers so as to sustain progress towards our aim of 102,000 fewer staff in post in April 1984 than when this Government came into office.

15. We have not been able to avoid a reduction in the cash provision for some capital programmes. This will apply to water services, motorways and trunk roads, and certain local authority services. But because of a substantial fall in tender prices there should be no significant impact on our published plans for motorways, trunk roads and water works. As for housing, my rt. hon. Friends the Secretaries of State for the Environment and for Wales are about to undertake consultations with the local authority associations on the increase in local housing income including rents to be assumed for grant and subsidy purposes. Subject to those consultations and to the contribution of our successful policy for increasing council house sales, we hope to be able to maintain activity on public housing construction and improvement at approximately the same level as this year.

Health

16. More of the cost of the Health Services will be financed by contributions from those using them. The full present range of exemptions from charging is however unchanged, so that two out of every three prescriptions will continue to be provided free of charge. Where a charge is payable, it will be raised to £1.30. There will be some increases in dental charges, for example raising the maximum cost of a routine course of treatment by £4, and in charges for spectacle lenses, raising the maximum cost per lens by £6.70. We will also be increasing the Health Service contribution by 0.1 per cent on this account. We shall continue to honour our promise to increase the real resources available to the National Health Service.

Benefits and Grants

17. I turn now to National Insurance Benefits. The increase in the RPI to November 1981 will probably be some 2 per cent higher than the 10 per cent increase allowed for when calculating this year's uprating. For retirement pensions and other long-term benefits, the shortfall will be made good in the November 1982 uprating, which will allow for that difference as well as the expected increase in the RPI between this year and next. The Government will thus continue to fulfil our pledge to retirement pensioners that they will be fully protected against inflation.

take full account of the expected increase

18. In the case of the short-term benefits, however, next year's ~~uprating~~ increase will ~~be limited to the expected increase~~ in the RPI over the next 12 months. To allow more would mean that the payments to those out of work could rise significantly faster than the earnings of those in work. ~~There will also be some detailed changes in the rules governing supplementary benefit and child benefit.~~

19. ~~It would be difficult to justify an increase in student grants beyond the broad level of pay increase envisaged for employees in the public service. Accordingly the increase in~~ The cash limit for student grants for the next academic year will be ~~limited to~~ increased by 4 per cent, in line with the general pay factor.

NIC

20. It is convenient to inform the House at this stage about the Government's decisions on the scale of National Insurance Contributions to be paid from next April.

21. I have already referred to the increase in pensions. This, together with the slower rate of growth in contribution income, and increases in unemployment and redundancy, would mean that if we took no action on contributions, there would be substantial deficits in the National Insurance and Redundancy Funds. It is right for those deficits to be dealt with. In addition, as I have said, we have decided to propose an increase of 0.1 per cent in the allocation to the NHS.

22. The Government think it right that the greater part of the increase in contributions should come from those in work, the employees rather than the employers, particularly since I am not in a position to propose any change in the rate of National Insurance Surcharge from next April. The rate of contribution for employees will therefore be raised by 1 per cent from the beginning of April next: it will then be 8.75 per cent of relevant earnings. There will be some increase for the self-employed. The percentage rate for employers will not be changed. The Treasury supplement to the Fund will at the same time be reduced by 1½ per cent.

23. The lower earnings limit, which sets the starting point of the contributions, will be increased to £29.50 per week, in line with the single rate retirement pension. The upper earnings limit, which sets the ceiling up to which payments are made proportionate to income, will be increased to £220 per week, within the normal criteria. The House will appreciate that, although the percentage rates charged to employers will not be changed, the cash amount which they pay in national insurance contributions and national insurance surcharge will rise in line with any increase in the wages and salaries which they pay, and also as a result of the increase in the upper earnings limit. The amount which employees pay in contributions will be similarly affected, as well as by changes in their contribution rates.

24. The increase in contribution rates, as well as the decision to exempt employers from it, both in respect of the Redundancy Fund and in respect of National Insurance, will require legislation. My rt. hon. Friend, the Secretary of State for Social Services, will present the necessary Bill today. He will also lay before the House the Government Actuary's Report, together with full details of the changes in rates and limits for all classes of contributors, including the self-employed, and a table showing a breakdown of total payments in 1982-83 compared with 1981-82.

25. I turn now to the areas where spending next year is planned to rise. The increases have been concentrated in four main areas - special employment measures, local government, Defence, and finance for nationalised industries.

Employment

26. Although unemployment is rising less steeply than before, we have to assume a slight further rise; an assumption which is reflected in the Government Actuary's Report. My rt. hon. Friend, the Prime Minister announced on 27 July improvements to the various special employment programmes which added some

£650 million to public expenditure next year. My rt. hon. Friend, the Secretary of State for Employment, will be making an announcement on further training measures in due course. In all, nearly £800 million will be added to the employment programme next year.

Local authorities

27. Local authorities are likely to spend this year 9 per cent more than was allowed for in the White Paper. The Government clearly cannot accept continuing over-spending on this scale. We recognise however that it would not be practicable to eliminate such a substantial overshoot in a single year. We therefore propose to increase the provision in programmes for local authority current expenditure in 1982-83 by some £1,350 million. This will provide a realistic target for authorities. But since the cash provision is only some 2 per cent higher than the probable outturn for this year, they will still be required to make substantial reductions in their spending plans.

28. My rt. hon. Friend the Secretary of State for the Environmen proposes to reduce the level of grant support to local authorities in England to 56 per cent. My rt. hon. Friends will be consulting local authorities about this and about commensurate reductions in Scotland and Wales.

29. We will be looking to local authorities to take further steps in the following years to get back closer to the level envisaged in the previous White Papers.

Defence

30. In order to enable us to carry through the policies set out in the June Defence White Paper (Cmnd 8288) we are increasing the provision for Defence next year by a further £500 million. This includes the cost of carrying forward the 1981 Armed Forces pay award.

Nationalised industries

31. And finally the nationalised industries. Their total bids for increased external finance amounted to about £2½ billion. This would have been in addition to the nearly £1½ billion already provided in the plans. Such a massive increase would be quite unacceptable. We have been able to allow them only about half their new bids, some £1,300 million in total. Nevertheless if, as the Government and the House very clearly expect, they continue their drive to contain current costs, both by increasing efficiency and by making moderate pay settlements, they should be able to maintain their aggregate capital investment programme at much the same level as was envisaged in the last White Paper.

Conclusion

32. The scale of the planned increase in cash spending next year is larger than we initially envisaged, though right in present circumstances. But the Government remains convinced that economic recovery requires a reduction in the burden that the public sector imposes on productive private enterprise, and we remain determined to achieve precisely that. I am satisfied that today's statement is consistent with the attainment of that objective.

H.M. Treasury
1 December 1981

Econ Pol
Pol Pl

cc BI
JV
bcc: John Vereker
B. Ingham

10 DOWNING STREET

From the Private Secretary

30 November, 1981.

Cash Limits in 1980/81

The Prime Minister was grateful for the Chief Secretary's minute of 26 November about the Cash Limits White Paper.

She agrees to the publication of the White Paper as proposed by the Chief Secretary.

I am sending copies of this letter to the Private Secretaries to Members of the Cabinet and to David Wright (Cabinet Office).

M. C. SCHOLAR

Terry Mathews, Esq.,
Office of the Chief Secretary.

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Econ Pol
Pub Exp.

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

PRIME MINISTER

PUBLIC EXPENDITURE ANNOUNCEMENT

.... I attach a copy of the statement which I propose to make in the House on 2 December.

2. I should draw your attention to two points.

3. First, I am clear that it would not be right to say nothing about the treatment of short-term benefits. The increase in the RPI means that I must reassure retirement pensioners that we will next year honour the pledge to make good the deficiency in this November's uprating. But having said that, Norman Fowler and I are bound to be asked what will happen to short-term benefits. Moreover the Government Actuary will state in his report that he has "been instructed to assume, for purposes of illustration, that there will be a benefit uprating of 10 per cent in November 1982 in line with the expected movement in prices, plus, in the case of long term benefits, a further 2 per cent to make good the expected shortfall in the November 1982 uprating". To attempt to conceal the fact that the further 2 per cent will not apply to the short-term benefits would, in my considered view, be wholly counter-productive. We could not hope to prevaricate for more than a day or two, let alone until the Budget, and it seems unwise to try: there is everything to be gained in taking the initiative and presenting the decision in the best light.

4. Second, I propose to list the EFLs for individual nationalised industries in the supporting text to be circulated in the official report. My reasons for doing so, rather than giving only an aggregate figure, are set out in a separate letter to the Energy Secretary.

5. The detailed text to be circulated in the official report, and the Treasury Press statement, have been shown to Departments at official level.

6. I am sending copies of this minute to all members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

(G.H.)

30 November 1981

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER : 2 DECEMBER

1. With permission, Mr. Speaker, I wish to make a statement about two matters on which it is necessary to take decisions at this time of year. The Government has now completed its annual review of the plans for public expenditure. We have also decided the future pattern of National Insurance contributions on the basis of the Government Actuary's report which is being laid before the House today. In each case the proposals follow reviews which are normal at this time of year. They will take effect not in this financial year but in the next one: 1982-83.

2. I am also publishing today, as required by the 1975 Industry Act, the forecast of economic prospects for 1982. The outlook is for a further fall in inflation. Whereas 15 months ago the annual increase in the RPI was 22 per cent and a year ago 15 per cent, it is now about 12 per cent. We expect an increase over the next year of 10 per cent. GDP at constant prices is expected to be higher in 1982 than in 1981 - by about 1 per cent - and manufacturing output should continue to increase rather more rapidly. The forecast, in short, is for gradual recovery, despite the difficult world environment.

1981-82

3. I begin, however, with the current year. Public spending in 1981-82, covered by the planning total, is now expected to be about £107 billion. That involves a substantive increase since the Budget of just over £2 billion. This increase does not arise from the programmes subject to cash limits. They are being held. Where exceptionally increases have been made in cash limits, or in nationalised industry external financing limits, these have been charged to the Contingency Reserve, and so have not added to the planned total. That applies for example to the increase of £319 million announced today in the Defence cash limit for this year.

4. About a quarter of the expected increase in spending this year is due to the effect on the cost of some demand-led programmes, like export credit and housing subsidies, of higher interest rates and slightly higher unemployment than was allowed for in this year's White Paper. Some three-quarters of the increase is due to higher current expenditure by some, but by no means all, local authorities.

5. Revenue during the current year is also likely to be rather higher than expected at the time of the Budget. The PSBR for 1981-82 therefore still appears to be on track for the estimate of £10½ billion which I gave at that time.

1982-83

6. I turn now to the year ahead, 1982-83. As I told the House in my Budget statement we are no longer planning public expenditure in volume terms but in cash. The plans for next year, which appeared in the last White Paper in volume terms, had therefore to be revalued in cash. On this basis the starting point for discussions about 1982-83 was a cash total of £110 billion.

7. The net result of the decisions which I am announcing today will be to raise that figure by almost £5 billion, to bring the planning total for next year to about £115 billion.

8. At the time of the Budget we expected cash expenditure in 1982-83 to grow more slowly than we now envisage. ~~But as my rt. hon. Friend, the Prime Minister, has told the House on numerous occasions, we believe it is right to show flexibility as well as consistency with our long-term objectives~~. We have felt it appropriate to increase the planned provision for certain programmes to reflect changed circumstances.

9. Even so, our plans for public expenditure in 1982-83 will be some 7½ per cent higher than the expected outturn this year. The expected increase in prices between the two years is about 10 per cent. So we expect some reduction in public expenditure in real terms next year.

10. The Government has throughout been clear about the need to restrain the proportion of the nation's resources pre-empted by public spending. The new plans for public spending will enable us to make good some of the ground lost in previous years. There is still a considerable way to go to achieve what we would regard as a healthy balance. However, on present forecasts public expenditure as a proportion of GDP should fall from about 45 per cent this year to perhaps 44 per cent next.

PSBR

11. It is too early to judge with precision what these changes will mean for next year's PSBR. But our current judgement is that, with revenue again likely to be higher than previously foreseen, the figures point to a PSBR next year broadly in line with the projections published at the time of the last Budget. Were that assessment to change, or were it necessary to take a different view of the PSBR for 1982-83, I would of course have to consider appropriate fiscal action in my next Budget.

Public expenditure Plans

12. Full details of our new plans for 1982-83, and the two following years, will be set out in the public expenditure White Paper to be published at the time of the Budget. The exact figure for next year will depend upon decisions which cannot be taken yet about the appropriate provision for certain demand-determined programmes and for the Contingency Reserve. I am in the meantime circulating in the Official Report a summary of the changes for 1982-83 in the cash allocation to Departments and in the External Financing Limits for nationalised industries.

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14. The administrative costs of central government are not far short of 10 per cent of total public expenditure. We are determined to reduce that proportion and maintain the drive for more efficient management throughout Government. Our spending plans provide broadly for increases in the pay of public servants of 4 per cent from next settlement dates. The provision for administrative costs will be further reduced by the impact of a general reduction of at least 2 per cent in all cash-limited expenditure, which will involve economies in the cost of maintenance and improvement of Government buildings as well as economies in manpower and ancillary services. And we shall continue to reduce Civil Service numbers so as to sustain progress towards our aim of 102,000 fewer staff in post in April 1984 than when this Government came into office.

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Health

16. More of the cost of the Health Services will be financed by contributions from those using them. The full present range of exemptions from charging is however unchanged, so that two out of every three prescriptions will continue to be provided free of charge. Where a charge is payable, it will be raised to £1.30. There will be some increases in dental charges, for example raising the maximum cost of a routine course of treatment by £4, and in charges for spectacle lenses, raising the maximum cost per lens by £6.70. We will also be increasing the Health Service contribution by 0.1 per cent on this account. We shall continue to honour our promise to increase the real resources available to the National Health Service.

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18. In the case of the short-term benefits, however, next year's uprating will be limited to the expected increase in the RPI over the next 12 months. ~~To allow more would mean that the payments to those out of work could rise significantly faster than the earnings of those in work. There will also be some detailed changes in the rules governing supplementary benefit and child benefit.~~

19. ~~It would be difficult to justify an increase in student grants beyond the broad level of pay increase envisaged for employees in the public service~~. Accordingly the increase in student grants for the next academic year will be limited to 4 per cent.

NIC

20. It is convenient to inform the House at this stage about the Government's decisions on the scale of National Insurance Contributions to be paid from next April.

21. I have already referred to the increase in pensions. This, together with the slower rate of growth in contribution income, and increases in unemployment and redundancy, would mean that if we took no action on contributions, there would be substantial deficits in the National Insurance and Redundancy Funds. It is right for those deficits to be dealt with. !! In addition, ~~as I have said~~, we have decided to propose an increase of 0.1 per cent in the allocation to the NHS.

!!

22. The Government think it right that the greater part of the increase in contributions should come from those in work, the employees rather than the employers, particularly since I am not ~~in a position to propose any change in the rate of National Insurance Surcharge from next April~~. The rate of contribution for employees will therefore be raised by 1 per cent from the beginning of April next: it will then be 8.75 per cent of relevant earnings. There will be some increase for the self-employed. The percentage rate for employers will not be changed. The Treasury supplement to the Fund will at the same time be reduced by 1½ per cent.

23. The lower earnings limit, which sets the starting point of the contributions, will be increased to £29.50 per week, in line with the single rate retirement pension. The upper earnings limit, which sets the ceiling up to which payments are made proportionate to income, will be increased to £220 per week, within the normal criteria. The House will appreciate that, although the percentage rates charged to employers will not be changed, the cash amount which they pay in national insurance contributions and national insurance surcharge will rise in line with any increase in the wages and salaries which they pay, and also as a result of the increase in the upper earnings limit. The amount which employees pay in contributions will be similarly affected, as well as by changes in their contribution rates.

24. The increase in contribution rates, as well as the decision to exempt employers from it, both in respect of the Redundancy Fund and in respect of National Insurance, will require legislation. My rt. hon. Friend, the Secretary of State for Social Services, will present the necessary Bill today. He will also lay before the House the Government Actuary's Report, together with full details of the changes in rates and limits for all classes of contributors, including the self-employed, and a table showing a breakdown of total payments in 1982-83 compared with 1981-82.

25. I turn now to the areas where spending next year is planned to rise. The increases have been concentrated in four main areas - special employment measures, local government, Defence, and finance for nationalised industries.

Employment

26. Although unemployment is rising less steeply than before, we have to assume a slight further rise; an assumption which is reflected in the Government Actuary's Report. My rt. hon. Friend, the Prime Minister announced on 27 July improvements to the various special employment programmes which added some

£650 million to public expenditure next year. My rt. hon. Friend, the Secretary of State for Employment, will be making an announcement on further training measures in due course. In all, nearly £800 million will be added to the employment programme next year.

Local authorities

27. Local authorities are likely to spend this year 9 per cent more than was allowed for in the White Paper. The Government clearly cannot accept continuing over-spending on this scale. We recognise however that it would not be practicable to eliminate such a substantial overshoot in a single year. We therefore propose to increase the provision in programmes for local authority current expenditure in 1982-83 by some £1,350 million. ~~This will provide a realistic target for authorities~~ reasonable. But since the cash provision is only some 2 per cent higher than the probable outturn for this year, they will still be required to make substantial reductions in their spending plans.

28. My rt. hon. Friend the Secretary of State for the Environment proposes to ~~reduce~~ [illegible] the level of grant support to local authorities in England to 56 per cent. My rt. hon. Friends will be consulting local authorities about this and about commensurate reductions in Scotland and Wales.

29. We will be looking to local authorities to take further steps in the following years to get back closer to the level envisaged in the previous White Papers.

Defence

30. In order to enable us to carry through the policies set out in the June Defence White Paper (Cmnd 8288) we are increasing the provision for Defence next year by a further £480m £500 million. This includes the cost of carrying forward the 1981 Armed Forces pay award.

<u>Nationalised industries</u>

31. And finally the nationalised industries. Their total bids for increased external finance amounted to about £2½ billion. This would have been in addition to the nearly £1½ billion already provided in the plans. Such a massive increase would be quite unacceptable. We have been able to allow them only about half their new bids, some £1,300 million in total. Nevertheless if, as the Government and the House very clearly expect, they continue their drive to contain current costs, both by increasing efficiency and by making moderate pay settlements, they should be able to maintain their aggregate capital investment programme at much the same level as was envisaged in the last White Paper.

<u>Conclusion</u>

32. The scale of the planned increase in cash spending next year <u>is</u> larger than we initially envisaged, though right in present circumstances. But the Government remains convinced that economic recovery requires a reduction in the burden that the public sector imposes on productive private enterprise, and we remain determined to achieve precisely that. I am satisfied that today's statement is consistent with the attainment of that objective.

H.M. Treasury
1 December 1981

Public Expenditure on Roads and Rail
1981/82 estimate (cash) £m

	England	GB
Motorway and Trunk	680	905
Local Roads	1075	1425
Total Roads	1755	2330
BR	not applicable	920*

* BR's EFL, which includes grants and borrowing

There is additional public expenditure on road transport which does not appear in the table. The largest element is on bus services, whose total amount in 1981/82 is of the order of £700m.

Public expenditure is only a part of the overall commitment of national resources to road transport. Motorists and road hauliers spent some £33b last year on buying and running vehicles: of this, £4.5b went on fuel and vehicle excise duties.

93% of passenger miles are by road.
7% of passenger miles are by rail.
77% of freight ton-miles are by road.
14% of freight ton-miles are by rail.

London and South East commuter lines account for about 40% of passenger miles travelled, for which they get about 25% of the subsidy to BR.

Econ Pol

10 DOWNING STREET

From the Private Secretary

30 November, 1981.

Thank you for your letter of 25 November.

The Prime Minister saw this over the weekend, and was grateful to have this piece of background briefing.

I am sending a copy of this letter to Terry Mathews (Chief Secretary's Office).

M.C. SCHOLAR

R.A.J. Mayer, Esq.,
Department of Transport.

(1)

Prime Minister

Agree to publication of the White Paper?

MCS 26/11

Yes ms

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

CASH LIMITS IN 1980-81

We are due to publish at the beginning of December the usual White Paper showing the provisional outturn of expenditure against cash limits in 1980-81. A draft is attached, following the factual, low-key format of previous White Papers. I send it to you and colleagues for information.

2. The vast majority of cash limits were once again correctly observed in 1980-81. In aggregate there was as usual some underspending. Central government voted cash limits were underspent in total by about £450 million, equivalent to 1.1%. Underspending in 1979-80 is now thought to be slightly less than this, at 0.7%. It was 1.5% in 1978-79 and 2.6% in both 1977-78 and 1976-77.

3. There were six cases in which cash limits were breached. This is a better performance than in 1979-80, when there were 13. But it is still higher than in any year under our predecessors; the number of breaches was two in 1976-77, two in 1977-78 and four in 1978-79. To some extent this may reflect greater stringency in setting the limits. Nevertheless it sits ill with the importance which, as a Government, we attach to cash limits in controlling expenditure.

4. I therefore take this opportunity to remind colleagues in charge of spending departments of our collective commitment to cash limits, and to request their cooperation in securing an even better record both for the current year and in relation to the cash limits for next year soon to be settled.

5. My intention is to publish the White Paper one or two days after any statement the Chancellor or I may make about public expenditure in 1982-83.

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

L.B

LEON BRITTAN
26 November 1981

Please return to Duty Clerk a.s.a.p.

Proof—For Official Use only

CASH LIMITS 1980–81 PROVISIONAL OUTTURN

(AND 1979–80 OUTTURN)

Presented to Parliament by the Chief Secretary to the Treasury
by Command of Her Majesty
November 1981

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CASH LIMITS
1980-81 PROVISIONAL OUTTURN
(AND 1979-80 OUTTURN)

1. This White Paper gives provisional outturn figures for cash-limited public expenditure in 1980–81, and revised figures for 1979–80.

2. The cash limits for 1980-81 on expenditure by central Government departments were published in the Supply Estimates on 26 March 1980, as amended by the Revised Estimates on 4 July 1980. Also included amongst the original limits are provisions for Class XVII votes 1a, 3a and 18 which were voted at the time of the Supplementary Estimates published on 2 December 1980. The remaining cash limits, on local authority capital expenditure and on the expenditure of certain other bodies, were announced to Parliament by the Chief Secretary in answer to a written question on 26 March 1980.

3. Table 1 shows changes to the original limits announced subsequently, but excluding token increases.

4. Tables 2 and 3 give provisional outturn figures for 1980-81 compared with the cash limits. These figures may be subject to some adjustment when the final accounts are available. The estimated outturn of the External Financing Limits on nationalised industries in 1980–81 has already been published in Table 17 of the Financial Statement and Budget Report 1981–82.

5. Table 4 gives final outturn figures for central Government cash blocks in 1979–80. Table 5 shows revised figures for the same year for the capital blocks for local authorities and certain other bodies, but these may still be subject to some subsequent revision. Provisional outturn figures for 1979–80 were published in July 1980 in the White Paper "Cash Limits For 1979–80 Provisional Outturn" (Cmnd. 7983).

CHANGES TO CASH LIMITS; 1980-81, EXCLUDING TOKEN INCREASES, WHICH WERE ANNOUNCED IN 1980-81

Table 1

Class and Vote/Cash Block(1)	*Department*	*Size of Change £ thousand*	*Purpose of Change*
CENTRAL GOVERNMENT VOTES			
I. 1,2,4 & 5	Ministry of Defence and Department of the Environment (Property Services Agency)	+203,000	Additional provision to meet Armed Forces pay award and international considerations offset by a deduction for overspending in 1979-80, a transfer to the FCO for additional military training assistance and an underspend on advertising through the COI. Announced on 8 August 1980
II. 5	Foreign and Commonwealth Office	+ 2,000	Additional provision to provide for an expanded programme of military training assistance. Announced on 19 June 1980
		+ 2,000	Additional provision to meet increased military training assistance to Zimbabwe. Announced on 21 November 1980
II. 10	Foreign and Commonwealth Office; Overseas Development Administration	+ 8,000	Additional provision to accommodate assistance to Zimbabwe. Announced on 20 June 1980
		− 2,400	Transfer to Class II, 9 (not subject to cash limits). Announced on 5 February 1981
III. 6	Department of Agriculture and Fisheries Scotland	+ 900	Additional provision for increased aid to the fishing industry. Announced on 23 May 1980
		+ 6,909	Additional provision to meet increase in aid to the fishing industry and for fishery protection costs. Announced on 13 November 1980
III. 8	Ministry of Agriculture Fisheries and Food	+ 2,100	Additional provision for increased aid to the fishing industry. Announced on 23 May 1980
		+ 6,279	Additional provision for aid to the fishing industry and fishery protection costs. Announced on 13 November 1980
III. 9	Forestry Commission	+ 750	Additional provision to meet increased requirements as a consequence of a sharp decline in receipts from the sale of timber. Announced on 22 January 1981
IV. 2	Department of Industry	+ 5,000	Additional provision to provide for an increase in funds for the small factory units as announced in the Chancellor's Budget statement. Announced on 19 June 1980
		− 84	Deduction for overspend in 1979-80. Announced on 29 July 1980

Class and Vote/Cash Block(1)	Department	Size of Change £ thousand	Purpose of Change
IV. 8	Department of Trade	+ 1,000	Additional provision to meet grant to the National Film Finance Corporation on enactment of the Films Bill. Announced on 15 July 1980
IV. 9	Department of Energy	− 5,160	Decrease due to identified savings on research and development and the phasing of the payment of operational grants to the National Coal Board. Announced on 13 November 1980
IV. 10	Department of Industry	− 1,941	Deduction for overspend in 1979–80. Announced on 29 July 1980
IV. 17	Department of Employment	− 10,000	Transfer to Class IV, 20 and 22. Announced on 12 November 1980
		− 350	Decrease due to economies in the research budget. Announced on 24 November 1980
		− 1,500	Transfer to Class IV, 20, 21 and 22. Announced on 30 January 1981
IV. 20	Department of Employment	+ 5,084	Additional provision to meet increased expenditure on the Youth Opportunities Programme, employment and rehabilitation services and central and regional manpower services. Announced on 12 November 1980
		+ 6,000	Additional provision to meet further demand for places under the Youth Opportunities Programme. Announced on 30 January 1981
IV. 21	Welsh Office	+ 1,000	Additional provision to meet further demand for places under the Youth Opportunities Programme. Announced on 30 January 1981
IV. 22	Scottish Economic Planning Department	+ 5,366	Additional provision to meet increased expenditure on the Youth Opportunities Programme. Announced on 12 November 1980
		+ 500	Additional provision to meet further demand for places under the Youth Opportunities Programme. Announced on 30 January 1981
IV. 24*	Department of Industry	+ 675	Additional provision to meet payment to Lazard Freres in connection with the appointment of Mr Ian MacGregor as Chairman of the British Steel Corporation. Announced on 20 June 1980
VI. 1	Scottish Development Department	− 2,631	Deduction for overspend in 1979–80. Announced on 24 July 1980
		+ 3,260	Additional provision required following the transfer of responsibility from the Department of Trade for the payment of grant to the Civil Aviation Authority for the operation of its aerodromes in the Highlands and Islands. Announced on 13 November 1980

Class and Vote/Cash Block(¹)	*Department*	*Size of Change £ thousand*	*Purpose of Change*
VI. 3	Department of Transport	− 3,398	Deduction for overspend in 1979–80. Announced on 25 July 1980
		− 204	Decrease due to a revised deduction for overspend in 1979–80 offset by an increase in expenditure on land compensation payments. Announced on 25 November 1980
VI. 7	Department of Trade	− 2,000	Transfer to Class VI, 1. Announced on 13 November 1980
VIII. 6	Department of the Environment	− 389	Deduction for overspend in 1979–80. Announced on 27 November 1980
VIII. 8	Welsh Office	+ 212	Additional provision for aid to the fishing industry. Announced on 13 November 1980
		+ 400	Additional provision to meet cost of flood damage repairs to the National Centre, Cardiff. Announced on 13 November 1980
VIII. 9*	Department of the Environment	− 2,340	Adjustment for classification change. Announced on 27 November 1980
IX. 11*	Scottish Home and Health Department	− 158	Deduction for overspend in 1979–80. Announced on 24 July 1980
		− 13	Decrease due to a revised deduction for overspend in 1979–80. Announced on 13 November 1980
IX. 12	Home Office	+ 13,000	Additional provision to meet the cost of emergency arrangements to deal with the effects of industrial action by Prison Officers. Announced on 24 November 1980
		+ 3,382	Additional provision to cover the costs of the effects of the prolongation of the industrial action by prison officers. Announced on 29 January 1981
IX. 17*	Queen's and Lord Treasurer's Remembrancer	− 25	Deduction for overspend in 1979–80. Announced on 13 November 1980
X. 5	Department of Education and Science	− 450	Transfer to Class IV, 20 and 22. Announced on 12 November 1980
XIII. 6*	Inland Revenue	− 1,000	Decrease in expenditure on pay and general administrative expenses required to offset additional expenditure on Class XIII, 8 (not subject to cash limits). Announced on 30 January 1981
XIII. 11	Department for National Savings	+ 3,476	Additional provision required to meet the decision to fund a significantly larger proportion of the PSBR through National Savings and to defund the National Savings Bank investment account from 1 January 1981. Announced on 4 February 1981

Class and Vote/Cash Block([1])	*Department*	*Size of Change £ thousand*	*Purpose of Change*
XIV. 1	Department of the Environment (Property Services Agency)	+ 6,405	Additional provision to meet transfer of responsibility for works and other accommodation services at the Palace of Westminster from Class VIII, 6. Announced on 28 March 1980 as £7 million but the subsequent Supplementary Estimate only amounted to £6.405m as a consequence of economies
		+ 1,100	Additional provision to allow starts to be made on certain urgent building projects to meet the operational needs of other Government Departments. Announced on 19 June 1980
		− 306	Deduction for overspend in 1979–80. Announced on 27 November 1980
XIV. 2*	Department of the Environment (Property Services Agency)	− 617	Deduction for overspend in 1979–80. Announced on 27 November 1980
XIV. 3	Central Office of Information	− 1,000	Transfer to Class I. Announced on 8 August 1980
XV. 1	Northern Ireland Office	+ 436	Additional provision to fund the State pathology service in Northern Ireland following transfer of responsibility from Class IX, 4 plus a pay award for the probation service which was settled too late for inclusion in the 1980–81 Main Estimates. Announced on 19 June 1980
		+ 11,041	Additional provision for compensation awards for criminal injuries to persons and criminal damage to property and a further grant to the Police Authority for Northern Ireland. Announced on 8 August 1980
		+ 3,930	Additional provision for emergency arrangements to deal with the effects of the prison officers' industrial action and a further grant to the Police Authority for Northern Ireland. Announced on 24 November 1980
OTHER CENTRAL GOVERNMENT EXPENDITURE			
NID 1	Northern Ireland Departments	− 15,000	Deduction for overspend in 1979–80 and a transfer to areas not subject to cash limits to meet changed priorities and new demands. Announced on 8 August 1980
		− 14,800	Decrease due to a switch in resources to services not subject to cash limits. Announced on 17 February 1981
CAPITAL EXPENDITURE OF LOCAL AUTHORITIES			
DOE/LA2	Department of the Environment	+ 4,500	Additional provision to meet the extension of the homes insulation grants scheme. Announced on 30 April 1980

Class and Vote/Cash Block(1)	*Department*	*Size of Change £ thousand*	*Purpose of Change*
		+ 3,000	Additional provision to meet measures to promote housing improvements for sales schemes. Announced on 4 December 1980
DOE/LA4	Department of the Environment	+ 1,000	Additional provision to meet increased capital expenditure on coast protection. Announced on 27 November 1980
DOE/LA5	Department of the Environment	− 1,000	Transfer to DOE/LA4. Announced on 27 November 1980
		− 3,000	Transfer to DOE/LA2. Announced on 4 December 1980
SO/LA1	Scottish Office	− 3,500	Deduction for overspend in 1979–80. Announced on 24 July 1980
SO/LA2	Scottish Office	+ 500	Additional provision to meet the extension of the homes insulation grants scheme. Announced on 30 April 1980
		− 5,500	Deduction for overspend in 1979–80. Announced on 24 July 1980
WO/LA1	Welsh Office	+ 300	Additional provision to meet the extension of the homes insulation grants scheme. Announced on 30 April 1980

NOTES:

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

CASH LIMITS 1980–81: PROVISIONAL OUTTURN; CENTRAL GOVERNMENT VOTES

Table 2

Class and Vote Number([1])		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
I.	1	Ministry of Defence	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	4,581,206	4,502,487	
	2	Ministry of Defence	Procurement	4,891,375([2])	5,095,106	
	4	Property Services Agency	Defence accommodation services	620,000	572,071	+ 0.6([2])
	5	Ministry of Defence	Dockyard services	399,623	386,786	
II.	1*	Foreign and Commonwealth Office	Overseas representation: diplomatic and consular services	180,858	161,999	−10.4
	2	Property Services Agency	Overseas representation: accommodation services	33,611	29,566	−12.0
	3	Foreign and Commonwealth Office	BBC: external services	54,645	54,145	− 0.9
	4	Foreign and Commonwealth Office	British Council	31,617	31,497	− 0.4
	5	Foreign and Commonwealth Office	Foreign and commonwealth services	23,880	23,365	− 2.2
	8	Cabinet Office	Secret Service	53,500	52,966	− 1.0
	10	FCO: Overseas Development Administration	Overseas aid	905,218	902,360	− 0.3
	11*	FCO: Overseas Development Administration	Overseas aid administration	19,873	18,600	− 6.4
III.	5	Ministry of Agriculture Fisheries and Food	Other agricultural and food services	61,407	60,341	− 1.7
	6	Department of Agriculture and Fisheries for Scotland	Other agricultural services and fisheries and herring industry	56,631	54,464	− 3.8
	7*	Intervention Board for Agricultural Produce	Central administration	10,885	9,361	−14.0
	8	Ministry of Agriculture Fisheries and Food	Support for the fishing industry	30,636	29,863	− 2.5
	9	Forestry Commission	Forestry	42,535	40,719	− 4.3
	10*	Ministry of Agriculture, Fisheries and Food	Departmental administration	131,313	127,984	− 2.5
IV.	2	Department of Industry	Miscellaneous support services	39,979	35,071	−12.3
	4	Scottish Economic Planning Department	Industry, energy, trade and employment	105,226	105,162	− 0.1
	5	Welsh Office	Regional and industrial development	73,977	73,688	− 0.4
	8	Department of Trade	Pay, general administrative expenditure export promotion etc	117,870	102,032	−13.4
	9	Department of Energy	Industrial support, research & development and miscellaneous services	221,762	212,000	− 4.4
	10	Department of Industry	Scientific and technological assistance	180,754	168,066	− 7.0

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
	11	Department of Energy	Scientific and technological assistance: nuclear energy	189,447	188,700	− 0.4
	13*	Export Credits Guarantee Department	Central services	19,246	16,967	−11.8
	15*	Registry of Friendly Societies	Pay and general administrative expenditure	970	932	− 3.9
	16*	Office of Fair Trading	Pay and general administrative expenditure	4,207	3,381	−19.6
	17	Department of Employment	Labour market services	129,902	128,179	− 1.3
	19*	Department of Employment	Advisory conciliation and arbitration service	13,518	12,210	− 9.7
	20	Department of Employment	Manpower Services Commission	639,546	634,486	− 0.8
	21	Welsh Office	Manpower Services Commission	41,156	39,558	− 3.9
	22	Scottish Economic Planning Department	Manpower Services Commission	74,803	73,552	− 1.7
	23*	Department of Employment	Administration	85,672	84,328	− 1.6
	24*	Department of Industry	Central and miscellaneous services	45,894	42,409	− 7.6
	25*	Department of Energy	Administrative and miscellaneous services	14,632	12,532	−14.4
	26	Department of Employment	Health and Safety Commission	70,970	69,899	− 1.5
VI.	1	Scottish Development Department	Roads and transport services	101,406	100,651	− 0.7
	2	Welsh Office	Roads and transport services	94,581	94,550	—
	3	Department of Transport	Roads, etc England	548,360	543,059	− 1.0
	4	Department of Transport	Transport services	100,559	96,152	− 4.4
	7	Department of Trade	Shipping and civil aviation services	67,064	61,244	− 8.7
	8*	Department of Transport	Central and miscellaneous services	49,601	46,673	− 5.9
VIII.	4	Department of the Environment	Central environmental services, etc	80,838	74,634	− 7.7
	6	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments	44,998	41,104	− 8.7
	7	Scottish Development Department	Royal parks, historic buildings, ancient monuments and central environmental services	9,708	9,466	− 2.5
	8	Welsh Office	Other environmental and agricultural services and support for fishing industry	5,608	5,574	− 0.6
	9*	Department of the Environment	Central administration and environmental research	154,059	139,500	− 9.5

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
IX	3*	Lord Chancellor's Department	Administration of justice: England and Wales	44,781	43,190	− 3.6
	4*	Northern Ireland Court Service	Administration of justice: Northern Ireland	6,124	5,980	− 2.4
	5*	Scottish Courts Administration	Administration of justice: Scotland	1,147	1,068	− 6.9
	6	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	39,913	38,024	− 4.7
	11*	Scottish Home and Health Department	Law, order and protective services (central support and other services)	48,297	46,576	− 3.5
	12	Home Office	Prisons: England and Wales	400,721(2)	401,755	+ 0.3
	13	Home Office	General protective services and civil defence England and Wales	46,498	40,435	−13.0
	15*	Home Office	Central and administrative services	107,805	104,923	− 2.7
	16*	Treasury Solicitor	Pay and general administrative expenditure	8,775	8,156	− 7.1
	17*	Queen's and Lord Treasurer's Remembrancer	Pay and general administrative expenditure	7,285	[illegible]	− 3.4
X.	2	Scottish Education Department	Education, libraries and arts: Scotland	82,152	[illegible]	− 2.0
	3	Welsh Office	Education, libraries and arts: Wales	11,832	11,410	− 3.6
	5	Department of Education and Science	Universities, etc	1,118,465	1,108,460	− 0.9
	7	Department of Education and Science	Educational services	[illegible]	[illegible]	− 4.1
	10	Office of Arts and Libraries	Libraries: England	35,899	35,899	—
	11	Trustees of National Library of Scotland	Libraries: National Library of Scotland	2,520	2,400	− 4.8
	12*	Department of Education and Science	Central administration	29,579	28,832	− 2.5
	13*	Office of Arts and Libraries	Administration	580	580	—
	14	Department of Education and Science	Agricultural Research Council	37,477	37,477	—
	15	Department of Education and Science	Medical Research Council	72,737	72,737	—
	16	Department of Education and Science	Natural Environment Research Council	46,730	46,730	—
	17	Department of Education and Science	Science Research Council	204,017	201,44[illegible]	− 1.3

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
	18	Department of Education and Science	Social Science Research Council	19,919(2)	20,219	+ 1.5
	19	Trustees of British Museum (Natural History)	British Museum (Natural History)	7,432	7,422	− 0.1
	20	Department of Education and Science	Other science	3,720	3,718	− 0.1
	21	Trustees of British Museum	British Museum	10,290	10,141	− 1.4
	22*	Office of Arts and Libraries	Science Museum	5,987	5,917	− 1.2
	23*	Office of Arts and Libraries	Victoria and Albert Museum	8,898	8,774	− 1.4
	24	Trustees of Imperial War Museum	Imperial War Museum	3,277	3,086	− 5.8
	25	Trustees of National Gallery	National Gallery	5,603	5,545	− 1.0
	26	Trustees of National Maritime Museum	National Maritime Museum	3,411	3,381	− 0.9
	27	Trustees of National Portrait Gallery	National Portrait Gallery	1,482	1,474	− 0.5
	28	Trustees of Tate Gallery	Tate Gallery	4,591	4,302	− 6.3
	29	Trustees of Wallace Collection	Wallace Collection	676	617	− 8.7
	30	Board of Trustees of National Galleries of Scotland	National Galleries of Scotland	2,063	2,057	− 0.3
	31	Board of Trustees of National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	665	661	− 0.6
	32	Office of Arts and Libraries	Arts, Arts Council etc	88,814	88,811	—
XI.	1	Department of Health and Social Security	Health and personal social services England	7,061,035	7,018,335	− 0.6
	3	Welsh Office	Health and personal social services: Wales	439,407	435,218	− 1.0
	5	Scottish Home and Health Departments	Health: Scotland	1,032,332	1,022,060	− 1.0
	7	Scottish Education Department	Social work in Scotland	9,539(2)	9,500	− 0.4
XII.	4*	Department of Health and Social Security	Administration and miscellaneous services	419,122	415,465	− 0.9
XIII.	3*	Privy Council Office	Pay and general administrative expenditure	620	610	− 1.6
	4	Treasury	Pay and general administrative expenditure	20,145	18,842	− 6.5
	5*	Customs and Excise	Pay, general administrative and capital expenditure	238,453	232,756	− 2.4
	6*	Inland Revenue	Pay and general administrative expenditure	551,680	542,552	− 1.7
	7*	Department of Transport	Driver and vehicle licensing	69,110	64,808	− 6.2

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
	9*	Exchequer and Audit Department	Economic and financial administration	7,759	6,135	−20.9
	10	National Investment and Loans Office	Pay and general administrative expenditure	1	—	—
	11	Department for National Savings	Pay and general administrative expenditure	65,475	63,925	− 2.4
	13	Civil Service Department	Central management of the civil service	34,390	33,170	− 3.5
	14*	Civil Service Department	Computers and Telecommunications	6,174	4,534	−26.6
	15*	Public Record Office	Pay and general administrative expenditure	2,905(2)	2,955	+ 1.7
	16*	Scottish Record Office	Pay and general administrative expenditure	863	821	− 4.9
	17*	Office of Population Censuses and Surveys	Pay and general administrative expenditure	22,591	18,609	−17.6
	18*	Registrar General's Office Scotland	Pay and general administrative expenditure	3,163	2,949	− 6.8
	19*	Land Registry	Pay, general administrative expenditure and capital expenditure	43,429	43,414	—
	20*	Department of the Registers of Scotland	Pay and general administrative expenditure	1	—	—
	21*	Charity Commission	Pay and general administrative expenditure	2,877	2,769	− 3.8
	22	Ordnance Survey	Pay and general administrative expenditure on mapping services (net)	17,502	15,225	−13.0
	23*	Cabinet Office	Pay and general administrative expenditure	7,373	7,039	− 4.5
	24*	Scottish Office	Other services	68,141	65,500	− 3.9
	25*	Welsh Office	Other services	22,953	22,816	− 0.6
	26*	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenditure	1,209	1,021	−15.6
	27	Public Trustee	Pay and general administrative expenditure	1	—	—
	29	Her Majesty's Stationery Office	Payments to the trading fund	4,837	4,837	—
	31	Civil Service Department	Increase in remuneration	1	—	—
XIV.	1	Property Services Agency	Office and general accommodation services	416,109	402,326	− 3.3
	2*	Property Services Agency	Administration and miscellaneous services	224,271	216,937	− 3.3

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Provisional Outturn	% Overspend or Underspend
	3	Central Office of Information	Publicity and departmental administration	44,434	37,892	−14.7
	6*	Government Actuary's Department	Pay and general administrative expenditure	614	526	−14.3
	7*	Civil Service Department	Civil service catering services	1,845	1,416	−23.3
	8*	Paymaster General's Office	Pay and general administrative expenditure	8,893	8,180	− 8.0
XV.	1	Northern Ireland Office	Law, order and protective services (Northern Ireland)	300,126	299,696	− 0.1
	2*	Northern Ireland Office	Central and miscellaneous services (Northern Ireland)	5,395	4,794	−11.1
XVII.	1	Department of the Environment	Rate Support Grants to local revenues: England and Wales (1980–81)	9,376,000	9,176,000	− 2.1
	1a	Department of the Environment	Rate Support Grants (1979–80) to local revenues, England and Wales	215,000	215,000	—
	2	Department of the Environment	National parks supplementary grants (1980–81)	5,200	5,200	—
	3	Scottish Office	Rate Support Grants (1980–81) to local revenues, Scotland	1,441,900	1,441,000	− 0.1
	3a	Scottish Office	Rate Support Grants (1979–80) to local revenues, Scotland	19,000	19,000	—
	13*	Crown Estate Office	Pay and general administrative expenditure	1,155	1,045	− 9.5
	17	Department of Transport	Transport supplementary grants: England and Wales	396,000	396,000	—
	18	Department of Transport	Transport supplementary grants (1979–80), England and Wales	2,000	2,000	—
TOTAL				40,683,813	40,235,530	− 1.1

NOTES

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

(2) This figure does not include provision granted in the Spring Supplementary Estimates in the expectation that the previously announced cash limit would be overspent.

(3) The four cash-limited Defence Votes are each separate cash limits, but by agreement with the Treasury they are managed as a global cash limit.

CASH LIMITS 1980–81: PROVISIONAL OUTTURN FOR LOCAL AUTHORITIES' CAPITAL EXPENDITURE AND FOR CERTAIN OTHER BODIES

Table 3

Department	*Block Number*	*Description of Block*	*£ million Cash Limit*	*£ million Provisional Outturn*	*% Overspend or Underspend*
Bank of England	BOE 1	Financial management	69.2	68.0	− 1.7
Department of Education and Science	DES/LA 1	Value of building projects started in 1980–81 under the aegis of the Department of Education and Science, local authorities, and other public bodies and the universities, for schools, further education and teacher training and higher education (England) and for universities (Great Britain)	221.2	220.3	− 0.4
Department of Employment	DEM/LA 1	Capital expenditure by local authorities on employment services	1.2	0.8	−33.3
Department of the Environment	DOE/LA 1	Borrowing allocations made for capital expenditure within the locally determined sector in England and Wales	115.0	115.0	—
	DOE/LA 2	Gross capital expenditure on housing by local authorities and new towns (other than that included in DOE/LA 1) excluding lending associated with the sale of public sector houses	2360.5	2366.6	+ 0.3
	DOE/LA 3	Value of housing associations' projects approved by the Housing Corporation	368.4	182.0	−50.6
	DOE/LA 4	Capital expenditure by local authorities on reclamation of derelict land, acquisition of land for development and coast protection work	39.9	41.5	+ 4.0
	DOE/LA 5	Urban Programme: expenditure by local authorities	202.1	194.5	− 3.8
	DOE/NT1	New towns' industrial and commercial investment (net)	36.2	36.2	—
Department of the Environment and Welsh Office	RWA 1	External financing requirements of the regional water authorities in England and Wales	395.0	353.5	−10.5
Department of Health and Social Security	DHSS/LA 1	Value of capital projects for personal social services approved by the Department of Health and Social Security	58.4	40.3	−31.0
Home Office	HO/LA 1	Capital expenditure on police, courts and probation	26.9	11.8	−56.1
Department of Transport	DTP/LA 1	Key sector loan sanctions for capital expenditure on roads and other transport in England and Wales	154.7	153.9	− 0.5

Department	Block Number	Description of Block	£ million Cash Limit	£ million Provisional Outturn	% Overspend or Underspend
SCOTLAND					
Scottish Office	SO/LA 1	Capital expenditure by local authorities on roads and transport, water and sewerage, general services, urban programme, police and social work, school buildings, further education and teacher training	366.1	344.4	− 5.9
	SO/LA 2	Gross capital expenditure on housing by local authorities, new towns, the Scottish Special Housing Association and the Housing Corporation excluding lending associated with the sale of public sector houses: and new industrial and commercial investment by new towns	470.6	467.3	− 0.7
WALES					
Welsh Office	WO/LA 1	Gross capital expenditure (other than that included in DOE/LA 1) by local authorities, new towns and the Housing Corporation on housing; capital receipts from the sale of land and dwellings; capital expenditure by new towns on roads and commercial and industrial investment; net expenditure by the Land Authority for Wales; expenditure by local authorities on coast protection and urban programmes	159.3	153.5	− 3.6
	WO/LA 2	Value of building projects started in 1980–81 under the aegis of the Welsh Office and local authorities in Wales for schools, further education and teacher training, and higher education	15.9	15.9	—
	WO/LA 3	Value of capital projects for personal social services approved by the Welsh Office	3.1	0.8	−74.2
NORTHERN IRELAND					
Northern Ireland Depts	NID 1	Services analogous to Great Britain services covered by cash limits	1581.2	1576.1	− 0.3
		TOTAL	6644.9	6342.4	− 4.6

CASH LIMITS 1979–80: OUTTURN
CENTRAL GOVERNMENT BLOCKS

Table 4

A. Central Government Assimilated Blocks

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	£ thousand Outturn	% Overspend or Underspend
I.	1	Ministry of Defence	Pay etc of armed forces and civilians, stores, supplies and miscellaneous services	3,946,241(2)	3,939,069	+ 0.7(2)
	2	Ministry of Defence	Defence procurement	3,770,644(2)	3,816,877	
	4	Department of the Environment (Property Services Agency)	Defence accommodation services etc	509,100(2)	534,184	
	5	Ministry of Defence	Defence dockyard services	327,627	325,600	
II.	1*	Foreign and Commonwealth Office	Overseas representation: diplomatic and consular services	145,831	136,798	− 6.2
	2	Department of the Environment (Property Services Agency)	Overseas representation: accommodation services	31,661	31,208	− 1.4
	3	Foreign and Commonwealth Office	British Broadcasting Services: external services	42,176	42,176	—
	4	Foreign and Commonwealth Office	British Council	28,924	28,924	—
	5	Foreign and Commonwealth Office	Foreign and Commonwealth services	16,999	14,665	−13.7
	8	Cabinet Office	Secret service	40,000	39,838	− 0.4
	10	Foreign and Commonwealth Office Overseas Development Administration)	Overseas aid	804,300	785,110	− 2.4
	11*	Foreign and Commonwealth Office (Overseas Development Administration)	Overseas aid administration	15,175	14,165	− 6.7
III.	5	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	76,584	74,771	− 2.4
	7*	Intervention Board for Agricultural Produce	Central administration	8,621	7,399	−14.2
	8	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	17,235	16,221	− 5.9
	9	Forestry Commission	Forestry	47,426	43,250	− 8.8
	10*	Ministry of Agriculture, Fisheries and Food	Departmental administration	101,366	98,779	− 2.6
IV.	2	Department of Industry	Miscellaneous support services	30,080	30,162	+ 0.3

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Outturn	% Overspend or Underspend
	4	Department of Trade	Pay, general administrative expenses, export promotion and trade co-operation, tourism, regulation of trading practices and other support services	80,248	71,800	−10.5
	7	Department of Industry	Scientific and technological assistance	137,817	139,852	+ 1.5
	8	Department of Energy	Industrial support	199,255	197,045	− 1.1
	9	Department of Energy	Scientific, technological assistance, nuclear energy	148,801	147,405	− 0.9
	11*	Export Credits Guarantee Department	Central services	13,721	12,955	− 5.6
	13	Department of Prices and Consumer Protection	Pay, general administrative expenses and consumer protection	20,671	18,472	−10.6
	14*	Friendly Societies Registry	Pay and general administrative expenses	739	707	− 4.3
	15*	Office of Fair Trading	Pay and general administrative expenses	2,633	2,407	− 8.6
	16	Department of Employment	Labour market services	123,834	116,947	− 5.6
	18*	Department of Employment	Advisory, Conciliation and Arbitration Service	11,807	10,451	−11.5
	19	Department of Employment	Manpower Services Commission	524,188	522,927	− 0.2
	22*	Department of Employment	Departmental administration	74,442	63,927	−14.1
	23*	Department of Industry	Central and miscellaneous services	35,862	34,604	− 3.5
	24*	Department of Energy	Administration and miscellaneous services	9,270	9,132	− 1.5
	25	Department of Employment	Health and Safety Commission	55,757	55,730	—
VI.	3	Department of Transport	Roads, etc England	450,542	454,271	+ 0.8
	4	Department of Transport	Transport services	89,809	87,262	− 2.8
	6	Department of Trade	Shipping and civil aviation services	53,861	51,137	− 5.1
	7*	Department of Transport	Central and miscellaneous services	30,979	26,761	−13.6
VIII.	4	Department of the Environment	Central environmental services etc	69,549	69,137	− 0.6

Class and Vote Number[1]		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Outturn	% Overspend or Underspend
	6	Department of the Environment	Royal palaces, royal parks, historic buildings and ancient monuments	41,598	42,435	+ 2.0
	7*	Department of the Environment	Central administration and environmental research	101,435	93,779	− 7.5
IX.	1*	Lord Chancellor's Department	Administration of justice: England and Wales	33,884	30,813	− 9.1
	13*	Treasury Solicitor	Pay and general administrative expenses	6,019	5,844	− 2.9
X.	4	Department of Education and Science	Universities etc	872,730	870,793	− 0.2
	6	Department of Education and Science	Educational services	75,918	74,956	− 1.3
	9	Department of Education and Science	Libraries, England	32,405	32,405	—
	11*	Department of Education and Science	Central administration services	22,810	22,227	− 2.6
	11a*	Office of Arts and Libraries	Office of Arts and Libraries	1	—	—
	12	Department of Education and Science	Agricultural Research Council	29,501	29,501	—
	13	Department of Education and Science	Medical Research Council	57,263	57,240	—
	14	Department of Education and Science	Natural Environment Research Council	36,605	36,605	—
	15	Department of Education and Science	Science Research Council	175,594	175,583	—
	16	Department of Education and Science	Social Science Research Council	16,765	16,765	—
	17	Trustees of the British Museum (Natural History)	British Museum (Natural History)	5,835	5,812	− 0.4
	18	Department of Education and Science	Other science etc	2,989	2,988	—
	19	Trustees of the British Museum	British Museum	8,237	7,843	− 4.8
	20*	Office of Arts and Libraries	Science Museum	4,559	4,526	− 0.7
	21*	Office of Arts and Libraries	Victoria and Albert Museum	6,994	6,882	− 1.6
	22	Trustees of the Imperial War Museum	Imperial War Museum	2,694	2,445	− 9.2
	23	Trustees of the National Gallery	National Gallery	4,487	4,441	− 1.0
	24	Trustees of the National Maritime Museum	National Maritime Museum	2,784	2,538	− 8.8
	25	Trustees of the National Portrait Gallery	National Portrait Gallery	1,228	1,196	− 2.6
	26	Trustees of the Tate Gallery	Tate Gallery	3,528	3,328	− 5.7

Class and Vote Number(1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Outturn	% Overspend or Underspend
	27	Trustees of the Wallace Collection	Wallace Collection	479	414	−13.6
	30	Office of Arts and Libraries	Arts Council and other grants	71,782	71,493	− 0.4
XI.	1	Department of Health and Social Security	Health and personal social services, England	5,351,281	5,255,430	− 1.8
XII.	4*	Department of Health and Social Security	Administration and miscellaneous services	357,164	349,038	− 2.3
XIII.	3*	Privy Council Office	Pay and general administrative expenses	376	365	− 2.9
	4*	Treasury	Pay and general administrative expenses	14,599	13,844	− 5.2
	5*	Customs and Excise	Pay, general administrative expenses and capital expenditure	190,804	183,339	− 3.9
	6*	Board of Inland Revenue	Pay and general administrative expenses	439,508	422,991	− 3.8
	7*	Department of Transport	Driver and vehicle licensing	49,313	47,558	− 3.6
	9*	Exchequer and Audit Department	Pay and general administrative expenses	5,216	4,710	− 9.7
	10*	National Debt Office	Pay and general administrative expenses	1	—	—
	11*	Public Works Loan Commission	Pay and general administrative expenses	1	—	—
	12*	Department for National Savings	Pay and general administrative expenses	43,725	41,024	− 6.2
	15	Civil Service Department	Central management of the Civil Service	26,131	26,109	− 0.1
	16*	Public Record Office	Pay and general administrative expenses	2,198	2,075	− 5.6
	18*	Office of Population Censuses and Surveys	Pay and general administrative expenses	12,271	11,391	− 7.2
	20*	Land Registry	Pay, general administrative expenses and capital expenditure	33,551	32,283	− 3.8
	22*	Charity Commission	Pay and general administrative expenses	2,279	2,084	− 8.6
	23*	Ordnance Survey	Pay and general administrative expenses on mapping services (net)	14,349	12,627	−12.0

Class and Vote Number (1)		Accounting Department	Description of Expenditure	£ thousand Cash Limit	Outturn	% Overspend or Underspend
	24*	Cabinet Office	Pay and general administrative expenses	5,333	5,213	− 2.3
	28*	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	941	796	−15.4
	29*	Public Trustee	Pay and general administrative expenses	2	—	—
XIV.	1	Department of the Environment (Property Services Agency)	Office and general accommodation services	385,802	382,815	− 0.8
	2*	Department of the Environment (Property Services Agency)	Administration and miscellaneous services	181,200	181,807	+ 0.3
	3	Stationery Office	Stationery and printing	114,319	112,794	− 1.3
	4	Civil Service Department	Computers and Telecommunications	58,277	57,454	− 1.4
	5	Central Office of Information	Publicity and departmental administration	36,314	33,207	− 8.6
	8*	Government Actuary's Department	Pay and general administrative expenses	381	354	− 7.1
	9	Civil Service Department	Civil Service catering services	1,175	1,193	+ 1.5
	10*	Paymaster General's Office	Pay and general administrative expenses	5,487	5,283	− 3.7
XV.	2	Northern Ireland Office	Law, order and protective services (Northern Ireland)	241,330	240,782	− 0.2
	3*	Northern Ireland Court Service	Administration of Justice: Northern Ireland	3,779	3,771	− 0.2
	4*	Northern Ireland Office	Central and miscellaneous services (Northern Ireland)	4,187	3,821	− 8.7
XVII.	1	Department of the Environment	Rate support grant and supplementary grants to local authorities(4)	7,786,400	7,786,400	—
	10*	Crown Estate Office	Pay and general administrative expenses	925	896	− 3.1
	14	Department of Transport	Transport supplementary grants: England and Wales (4)	350,800	350,800	—
TOTAL				29,431,323	29,247,231	− 0.6

B. Other Central Government Blocks

Department	Block Number(1)	Description of Expenditure	£ thousand Cash Limit	£ thousand Outturn	% Overspend or Underspend
Bank of England	BOE 1	Financial management	64,500	64,066	− 0.7
Home Office	HO 1*	Pay and general administrative expenses	315,867	312,064	− 1.2
	HO 2	Law, order and protective services	154,908	149,173	− 3.7
SCOTLAND					
Scottish Office	SO 1*	Pay and general administrative expenses	59,514	49,886	−16.2
	SO 2	Rate support grant for local authorities in Scotland(4)	1,170,300	1,170,300	—
Department of Agriculture and Fisheries for Scotland	DAFS 1	Agriculture services and fisheries support	38,900	37,881	− 2.6
Scottish Courts Administration	SCA 1*	Pay and general administrative expenses	4,881	4,622	− 5.3
Scottish Development Department	SDD 1	Motorways, trunk roads and other environmental services	93,750(2)	96,380	+ 2.8
Scottish Economic Planning Department	SEPD 1	Regional and industrial development	80,019	80,019	—
	SEPD 2	Manpower Services Commission	59,377	53,244	−10.3
Scottish Education Department	SED 1	Education, libraries and arts	60,394	59,438	− 1.6
	SED 2	Social work	8,922	6,523	−26.9
National Library of Scotland	SED 3	National Library of Scotland	1,471	1,425	− 3.1
National Galleries of Scotland	SED 4	National Galleries of Scotland	1,540	1,514	− 1.7
National Museum of Antiquities of Scotland	SED 5	National Museum of Antiquities of Scotland	555	548	− 1.3
Scottish Home and Health Department	SHHD 1	Health	840,650	833,127	− 0.9
	SHHD 2*	Law, order and protective services (central support and other services)	34,845(2)	35,073	+ 0.7
Department of the Registers of Scotland	DRS 1*	Pay and general administrative expenses	2	—	—
Registrar General's Office, Scotland	RGO(S)1*	Pay and general administrative expenses	1,723	1,588	− 7.8
Scottish Record Office	SRO 1*	Pay and general administrative expenses	583	555	− 4.8
Queen's and Lord Treasurer's Remembrancer	QLTR 1*	Pay and general administrative expenses	4,912(2)	5,071	+ 3.2

Department	Block Number(1)	Description of Expenditure	£ thousand Cash Limit	Outturn	% Overspend or Underspend
WALES					
Welsh Office	WO 1*	Pay and general administrative expenses	19,013	17,667	− 7.1
	WO 2	Health and personal social services, roads, education, libraries, arts and other environmental services and agriculture	458,300	450,681	− 1.7
	WO 3	Regional and industrial development	58,015	54,249	− 6.5
	WO 4	Manpower Services Commission	34,450	31,021	−10.0
NORTHERN IRELAND					
Northern Ireland Departments	NID 1	Services analogous to GB services covered by cash limits	1,319,100	1,323,024	+ 0.3
TOTAL			4,886,491	4,839,139	− 1.0
TOTAL CENTRAL GOVERNMENT BLOCKS (TABLES A & B)			34,317,814	34,086,370	− 0.7

NOTES

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

(2) This figure does not include provision granted in the Spring Supplementary Estimates in the expectation that the previously announced cash limit would be overspent.

(3) The four cash-limited Defence Votes are each separate cash limits, but by agreement with the Treasury they are managed as a global cash limit.

(4) The cash limits on rate support grants and on National Parks and transport supplementary grants apply to increase orders for 1979–80. The figures given here for XVII 1 and XVII 14 represent the limits on amounts disbursed in 1979–80, ie the amounts provided in second increase orders for 1978–79 and in main and first increase orders for 1979–80. XVII 1 covers both rate support grant and National Parks Supplementary grants: XVII 14 covers transport supplementary grants. The figures given here for SO 2, the Scottish rate support grant limit, represent the limit on the amount disbursed in 1979–80, in respect of 1979–80, ie the main and first increase orders for 1979–80; a second increase order of £5.3 million in respect of 1978–79 was also disbursed in 1979–80.

CASH LIMITS 1979–80: OUTTURN CAPITAL BLOCKS FOR LOCAL AUTHORITIES AND CERTAIN OTHER BODIES

Table 5

Department	Block Number	Description of Block	£ million Cash Limit	Outturn	% Overspend or Underspend
EXPENDITURE CONTROLLED					
Department of Employment	DEM/LA 1	Capital expenditure on employment services	2.8	0.8	−71.4
Department of the Environment	DOE/LA 2	Capital expenditure by local authorities and new towns on new house building, land improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by the local authorities, and other housing investment (other than that included in DOE/LA 1)	2748.2	2719.5	− 1.0
	DOE/LA 4	Capital expenditure on reclamation of derelict land and coast protection work	32.1	30.6	− 4.7
	DOE/LA 5	Gross expenditure on the community land scheme	22.3	22.3	—
	DOE/LA 6	Urban programme: expenditure by local authorities	172.6	132.9	−23.0
	DOE/NT 1	New towns' industrial and commercial investment	37.6	37.6	—
Home Office	HO/LA 1	Capital expenditure on police courts and probation	20.6	9.7	−52.9
Scottish Office	SO/LA 1	Capital expenditure by local authorities on roads and transport, water and sewerage, general services, urban programme, police and social work, school buildings, further education and teacher training	341.7	345.2	+ 1.0
	SO/LA 2	Capital expenditure by local authorities, new towns, and the Scottish Special Housing Association on new house building, land, improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by local authorities, other housing investment and new towns' industrial and commercial investment	374.6	380.1	+ 1.5
	SO/LA 4	Gross expenditure on the community land scheme	1.5	0.9	−40.0

Department	Block Number	Description of Block	£ million Cash Limit	£ million Outturn	% Overspend or Underspend
Welsh Office	WO/LA 1	Capital expenditure by local authorities on new house building, land and improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by the Housing Corporation and by local authorities, and other housing investment (other than that included in DOE/LA 1); capital expenditure by new towns on new house building, land and improvements, acquisition of existing dwellings, roads and industrial and commercial investment; capital receipts from sales of land and dwellings associated gross lending	153.3	149.3	− 2.6
	WO/CL 1	Gross expenditure on the community land scheme	9.5	7.3	−23.2
TOTAL EXPENDITURE CONTROLLED BLOCKS			3,916.8	3,836.2	− 2.1
STARTS/APPROVAL CONTROLLED					
Department of Education and Science	DES/LA 1	Value of building projects started in 1979-80 under the aegis of the Department of Education and Science, local authorities, and other public bodies and the universities, for schools, further education and teacher training and higher education (England) and for universities (Great Britain)	201.6	196.5	− 2.5
Department of the Environment	DOE/LA 3	Value of housing associations' projects approved by the Housing Corporation	526.5	525.0	− 0.3
Department of Health and Social Security	DHSS/LA 1	Value of capital projects for personal social services approved by the Department of Health and Social Security	57.4	47.3	−17.6
Scottish Office	SO/LA 3	Value of housing associations' projects approved by the Housing Corporation	76.6	76.6	—
Welsh Office	WO/LA 2	Value of building projects started in 1979–80 under the aegis of the Welsh Office and local authorities in Wales for schools, further education and teacher training, and higher education	17.2	16.3	− 5.2

Department	Block Number	Description of Block	£ million Cash Limit	Outturn	% Overspend or Underspend
	WO/LA 3	Value of capital projects for personal social services approved by the Welsh Office	2.6	2.4	− 7.7
TOTAL STARTS/APPROVAL CONTROLLED BLOCKS			881.9	864.1	− 2.0
BORROWING CONTROLLED					
Department of the Environment	DOE/LA 1	Borrowing allocations made for capital expenditure within the locally determined sector in England and Wales	100.0	100.0	—
Department of the Environment and Welsh Office	RWA 1	External financing requirements of the regional water authorities in England and Wales	354.0	337.3	− 4.7
Department of Transport	DTP/LA 1	Key sector loan sanctions for capital expenditure on roads and other transport in England and Wales	126.6	126.0	− 0.5
TOTAL BORROWING CONTROLLED BLOCKS			580.6	563.3	− 3.0

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Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
London SW1A 2AL

26 November 1981

Underneath Amended

Dear Michael,

REGIONAL DEVELOPMENT GRANTS

I am very sorry to record that there were two errors in the Chief Secretary's minute of 25 November to the Prime Minister reporting the outcome of a meeting with the Secretaries of State for Industry, Scotland, Wales, Energy and Mr Ibbs. I should be grateful if you would note the following amendments to that minute.

i. Paragraph 3, third sentence: after "...if the detailed proposals" add "for achieving £50 million savings appeared too harsh. Equally, I reserved my right to seek higher savings if the detailed proposals...."

ii. Paragraph 5: "£3 million" should read "£30 million".

I am copying this letter to the Private Secretaries to the Secretaries of State for Industry, Scotland, Wales, Energy, Northern Ireland, the Lord President, the Chief Whip and to Sir Robert Armstrong.

Yours sincerely

JMS

MISS J M SWIFT
Assistant Private Secretary

(4)

18

CHIEF SECRETARY TO THE TREASURY

~~Prime Minister~~

~~I'm not sure if you saw~~

overtaken p.a.

PRIME MINISTER

REGIONAL DEVELOPMENT GRANTS

I chaired a meeting this morning to continue the search for cuts in expenditure on Regional Development Grants. The Secretaries of State for Industry, Scotland, Wales and Energy and Mr Ibbs were present.

2. We agreed that we should seek early legislation to enable the Secretary of State for Industry to taper the grants paid on very large projects. At present, a disproportionately large amount of expenditure goes on relatively few large projects which may create very few jobs in development areas. The proposed legislation would mean that expenditure on RDGs was much more cost-effective in future. The plan would be for a short Bill giving the Secretary of State power to make the necessary Orders. The Bill needs to be introduced as early as possible this Session, so that Royal Assent can be secured early next year and the full savings obtained in 1983-84. Some savings may be possible in 1982-83, but not more than £1 or 2 million

3. We agreed that we should aim for net savings of £50 million a year in 1983-84 and 1984-85 (after allowing for some increased expenditure on selective assistance for particularly important internationally mobile projects). The precise proposals for tapering the grants will be worked out with that objective in mind. The Secretaries of State present at the meeting indicated that they might wish to argue for smaller savings if the detailed proposals* indicated that this would be practicable. For the present, the public expenditure plans will include net savings of £50 million.

* for achieving £50 million savings appeared too harsh. Equally, I reserved my right to seek higher savings if the detailed proposals...

4. For 1982-83, it was agreed that the Ministers concerned should impose some restraint on RDG expenditure so that total expenditure for the year will be £30 million less than it otherwise would be. The estimate for RDGs will therefore be reduced by £30 million. If during the year it becomes apparent that expenditure is likely to exceed the reduced estimate for any reason other than a genuine increase in investment in the development areas, then administrative action will be taken to hold down the level of payments. This would involve some additional delays in payments but we have agreed that this step should apply for 1982-83 only: it is a short-term measure designed to secure early savings before the effects of the new legislation come through. The Secretary of State for Industry agreed to this proposal in principle, but indicated that he would wish to consult his Accounting Officer.

5. If you agree, I shall report on this to Cabinet tomorrow, but I propose to refer to the £30m reduction in RDG in 1982-83 only in general terms.

6. I am copying this minute to those attending this morning's meeting, to the Lord President, to the Secretary of State for Northern Ireland and to Sir Robert Armstrong.

L.B.

LEON BRITTAN
25 November 1981

(2)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

I hope this letter, with its ominous last ~~paragraph~~ sentence, doesn't mean that D Tp aren't putting maximum pressure on BR to reduce costs.

MCS 27/11

Michael Scholar Esq
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
LONDON SW1

25 November 1981

Dear Michael,

The Prime Minister recently reported her concern to my Secretary of State about the apparent imbalance in public expenditure in the transport sector between road and rail.

In the next few weeks my Secretary of State feels that there will continue to be a great deal of pressure on colleagues both in Parliament and outside on the balance of public expenditure in transport. In view of the pressures from the various lobbies and their political supporters, my Secretary of State feels it would be useful for the Prime Minister to have the following basic figures and points to hand.

The latest road and rail public expenditure figures are as follows:-

Public Expenditure on Roads and Rail
1981/82 estimate (cash)£m

	England	GB
Motorway and Trunk	680	905
Local Roads	1075	1425
Total Roads	1755	2330
BR	not applicable	920*

*BR's EFL, which includes grants and borrowing.

In addition, there is public expenditure on road transport which does not appear in the table. The largest element is public expenditure on bus services, whose total amount in 1981/82 is of the order of £700 million. And of course public expenditure is only a fraction of the overall resources committed nationally to road transport. Motorists and road hauliers spent some £33 billion last year on buying and running vehicles: of this, £4.5 billion went on fuel and vehicle excise duties.

At first sight, the amount of public expenditure on road and rail may appear to be out of balance, since so much more transport is by road than by rail (93% of passenger miles are by road and 7% by rail; 77% of freight ton-miles are by road and 14% by rail). But the two systems are not comparable. Road expenditure is to maintain and increase the capacity of the system. Most public expenditure on rail (other than borrowing for commercial investment) is to maintain a railway system of a larger size and higher level of activity than could be justified on purely financial grounds, particularly commuter services for London and other conurbations.

In passenger miles the London and South East commuter lines account for about 40% of passenger miles travelled for which they get about 25% of the subsidy to BR. The subsidy is the cost of avoiding the unacceptable political and economic consequences of very high real fares increases for commuters and very large cuts in services.

It would in principle be possible to close large parts of the network. Apart from the commuter services and some heavy freight flows the roads could carry all traffic which now goes by rail, though there would be environmental and safety costs. No other comparable country has gone down this route. Restrictions and controls on road transport, to protect the railways, are still widespread in Europe. Yet France, Germany, Japan and Italy all pay much larger subsidies to their railways. We have chosen to promote efficient road transport by encouraging competition, and to allow this to bear on the railways while maintaining a national railway network. Proposals for large scale line closures would bring us straight up against very great political difficulties.

In my Secretary of State's view we have to concentrate our efforts on pressing BR to adjust the level of services more closely and more quickly to demand - their finances are currently suffering very badly from heavy loss of traffic due to the recession - and to become more efficient by a better use of the resources they have and substantial improvements in manpower productivity. By these means we should keep the cost of the railway to the minimum practicable while maintaining substantially the present passenger network. Hard and realistic financial targets will be a vital part of maintaining this pressure on the Board and the management. My Secretary of State will be proposing to the Prime Minister very shortly the establishment of a review of BR's finances, under an independent Chairman, to throw light on the key questions about the size and quality of railway the country wants, and how the cost can be minimised and met. We are currently consulting Treasury on this.

If by these means we can reduce the flow of public funds to BR, we will do so, irrespective of the level of expenditure on roads. My Secretary of State believes that there is in fact a very strong case for more investment in the roads to cut industrial costs, meet the needs of traffic, which continues to increase, and take traffic out of towns and villages. He is also conscious of the fact that road users pay in taxation two and a half times the total costs they impose on the public purse. But in view of the inescapable cost of maintaining a railway of anything like the present size, the resources required cannot realistically be expected to come from reducing public expenditure on the railways.

Yours,

Anthony Mayer

R A J MAYER
Private Secretary

3F

CIRC.
cc. Mr Scholar

GEOFFREY RIPPON (MP)

PETER RIDDLE (FINANCIAL TIMES)

PUBLIC EXPENDITURE

Transcript from BBC Radio 4, Today Programme. November 25 1981

Interviewer: BRIAN REDHEAD

REDHEAD: When the Cabinet meets tomorrow morning and Ministers have placed their bets on the result of the Crosby by-election, the Treasury Ministers are expected to agree to allow Government spending to rise - to rise by at least £3,500 million above the existing budget plans for 1982-83. Some spending Ministers would like it to rise even higher but the Cabinet will also discuss both possible savings and where extra revenue might be raised. So, is this a victory for the 'wets' or even, dare I say it, a U-turn. Well an hour ago I was talking to Geoffrey Rippon MP who, you'll remember, was being tipped, not so long ago, as the likeliest candidate from the 'wets' to challenge Mrs Thatcher for the Leadership of the Conservative Party, but last night he was rejected as Chairman of the Party's Back Bench Foreign Affairs Group and I put it to him· was it not ironic that he should be ousted just when the Cabinet was espousing his policy?

RIPPON: It is perhaps, as you say, ironic because most of the views that I've been expressing about Government's policies now seem to be falling on more receptive ears. I've been much encouraged, and have said so, by two, I think, very significant speeches which the Prime Minister has made in the House of Commons; one on the vote of confidence at the end of the last session and one on the Queen's speech. In those speeches she really went out of her way to emphasise the Government's flexibility: and there are growing signs of this. We've just heard how the Secretary of State For the Environment, Michael Heseltine, is, certainly, showing a willingness to listen to other people's views.

REDHEAD: Of course, if the Government is going to spend more money it's going to have to raise it. I mean, where do you think the existing revenue is going to come from?

RIPPON: It may be preferable even to increase income tax because, what I think you have to accept in the present circumstances, is that those in work have got to bear a major responsibility for looking after those who are out of work.

REDHEAD: Geoffrey Rippon. Well now with me is Peter Riddle, Political Editor of the Financial Times. Peter, if the Treasury is giving in, is it just bending to economic forces or to political forces, or is it abandoning the whole economic strategy?

RIDDLE: It's not abandoning the strategy, it's saying it's trying to get as near the strategy as possible. There are two main factors; one is external pressures - the recession resulting in more money being spent on unemployment benefit, the nationalised industries have bigger deficets - and that's one factor pushing up spending. Secondly, there are political pressures. A lot of Ministers have made it quite plain that they're just not willing to make significant savings in their programmes.

REDHEAD: So what's going to happen. If they're not going to make savings, if they're going to spend more, are they going to increase income tax, National Insurance contributions, what, or lower benefits?

RIDDLE: Well it's quite clear that National Insurance contributions are going to rise and the average worker is going to pay more to pay for the unemployment benefits. We won't know about income tax until the budget and it's quite clear that Geoffrey Howe in his statement, probably next week or the week after, is going to be very cautious about that. He's going to see what happens over the winter. The one thing going for Geoffrey Howe is that, not only is spending higher than planned but revenue is and, therefore, the two sides don't exactly even out but he is helped on that side. North Sea oil's taxes are coming in and things like that. So it may not be quite as bad. But, nonetheless, his freedom for manoeuvre is very, very limited and he's not going to be able to a give-away budget next spring.

REDHEAD: Do you think that they will lower the amount of unemployment benefit: I don't mean the actual, sort of, money in your hand but, I mean, they won't increase it by as much as inflation?

RIDDLE: Well that's one of the most interesting and contentious issues. The Treasury started off asking for a cut of about 5 per cent in the real value of benefit, in other words, increasing the benefit by 5 per cent less than the inflation rate. Well that seems to have been whittled down to about 2-3 per cent and that may be the compromise the Cabinet agrees on the argument that people in work's pay is going up by less than the inflation rate therefore, those out of work shouldn't be better off than those in work. However, I think they could run into big, big trouble on the Tory Back Benches. There are a lot of Tory Back Benchers who think, at a time of nearly 3 million unemployed, that it would be completely wrong to do that and the Tory Whips and Tory Party managers will have to be very careful on that one. There's a much bigger conscience, perhaps, on this side of the Atlantic on that issue. There's a much bigger assault on welfare Benefits in the States than there is here.

REDHEAD: Well now I always tend to talk to you as if you were an economics man, as you used to be, I forget that you've discended from the abstractions of economics to the mire of politics. Do us a little speculation, have the Tories abandoned all hope of winning Crosby?

RIDDLE: Well I'd describe it as an ascent into politics: they certainly would at Westminster. I think there are very few Tory MP's you'd find willing to take a bet on Crosby. A lot of them, last night at Westminster, were really giving up hope on it. They only believe that a miracle, perhaps some complacency amongst potential defectors to the Social Democrats, or what they would regard as people seeing the truth at last would save them; but very few. And it's ironic that it would be regarded as a triumph to hold on to a majority of any kind, even if it's only 2-300, from a majority of 19 thousand at the last election; that's how desperate they've become and they've started blaming the candidate there who seems to be very accident prone: and there's going to be a lot of knives out, I think, after Thursday night.

PRIME MINISTER

You have (in my earlier minute on the European Council) recognised the need for us to have (at least) a briefing line after Cabinet tomorrow.

You may feel it would be sensible to spend a few minutes at the end of the public expenditure discussion tomorrow on how to present the outcome.

In the meantime, it may be useful to you to have the following note which is based on a meeting held by the Lord President this morning with Heads of Information.

There are essentially only two options:

(i) to hold everything back until next week when the Chancellor can make a statement covering public expenditure, Industry Act forecast, Government Actuary report and, I hope, the RSG decision and put the whole outcome in its macroeconomic context;

(ii) for the Chief Secretary to make as full a statement as possible tomorrow afternoon setting the overall outcome in its macro-economic context and selling the package of decisions as positively as possible;

I understand from the Lord President that, having consulted the Party Chairman and Chief Whip, the idea of a Chief Secretary statement tomorrow is ruled out because of Crosby. As you know, we took the view that a statement tomorrow would be inadvisable because of the by-election.

That being so, we are left with a substantive statement by the Chancellor next week which puts the overall outcome in the most positive light and kills as many birds - i.e. bad news - as possible with one stone. But that puts a premium on tight security after tomorrow's Cabinet and over the weekend until the

/Chancellor

Chancellor is in a position to make a full statement.

If we could guarantee security, it would suffice for me to say after Cabinet:

"The Cabinet has [to all intents and purposes] completed its public expenditure review and the Chancellor will make a full statement setting out the outcome next week/Wednesday."

Facing up to reality, you will wish to consider whether there is anything more that might usefully be said to try to retain the initiative which we could so easily and embarrassingly lose with a 5-6 day gap between decisions and announcement.

So far as presentation of the package is concerned, the most difficult decisions are:

(i) Whether making a virtue out of the necessity to raise next year's public expenditure conflicts with the line you and the Treasury have been taking so strongly this autumn against the merits of reflation. We must avoid getting the worst of both worlds by facing criticism for cuts in particular programmes while being unable to claim credit for our flexibility over the total. I propose to take the line that the Government is, of course, still committed to tight control of public spending; that that does not rule out flexibility in the face of the recession; and that what we have achieved is a total level consistent with a continuing decline in the PSBR.

(ii) The effect of the various announcements, and their implications for take-home pay and cost of living, on pay bargaining. John Vereker is preparing some guidance for

/Ministers

Ministers which the Lord President has agreed to circulate when the announcements are made. Inevitably this focusses on the fact that we have always said that those in work would sooner or later have to have a fall in living standards in order to get the economy competitive again.

B. INGHAM

25 November, 1981

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
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Secretary of State for Industry

25 November 1981

Rt Hon John Nott MP
Secretary of State for Defence
Ministry of Defence
Whitehall SW1

Dear Secretary of State

DEFENCE EXPENDITURE

I have been considering the issues raised at MISC 62 at the beginning of the month and in your minutes of 3, 12 and 18 November to the Home Secretary, Chief Secretary and Prime Minister, in particular the likely effect on British Aerospace and their sub-contractors of even meeting the compromise proposals put forward by the Chief Secretary.

2 As the measures required to meet any major reduction in expenditure become clearer I think it is right to voice my concern about the implications these may have for British Aerospace. Any such measures must be seen against the picture of the company presented in the prospectus when shares in the company were floated in February this year. The company was put forward as a going concern with a promising future as a major military and civil aerospace manufacturer. Before taking the decision to go ahead with a proposal for flotation the Department of Industry sought your Department's best advice and certain assurances about future intentions were reflected in the prospectus itself, for example the capability in air launched weapons. Public announcements since, including the June review, have confirmed public expectations on the AV8-B, Sea Eagle and military satellite programmes.

3 Although I do not expect, and nor can others, that British Aerospace should be insulated from the effects of measures which are deemed necessary in reducing public expenditure, I am very concerned about the scope of the measures which would affect the company, in particular the cancellation of Sea Eagle, the defence communications satellite and AV8-B, withdrawal from the AMRAAM/ASRAAM MOU and rephasing of the Tornado programme. The cumulative effect would be not only a serious short term cash problem but also to lose effectively the national air launched missile technology and to put at risk VSTOL capability. This would seriously undermine BAe's credibility as a manufacturer of military aircraft following so closely on a decision which means that a direct Jaguar replacement is unlikely. I agree that cancellation of the AV8-B would place British Aerospace's

SECRETARY OF STATE FOR INDUSTRY

participation in the US order in doubt. I welcome the recent announcement about potential Hawk purchases for the US Navy training programme. If the package is formally confirmed in the US budget, it will provide valuable and profitable business but I think we must recognise that it will not help with short term cash flow difficulties, nor does it provide significant major development work.

4 The measures, if taken, will have a direct and damaging effect on the company and I believe they will cast doubt on the Government's good faith, not only in respect of British Aerospace, but in respect of the whole of our privatisation programme.

6 I am copying this letter to the Prime Minister, the Home Secretary, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretary of State for Scotland, the Chief Secretary to the Treasury, the Secretary of State for Employment, the Chief Whip and to Sir Robert Armstrong.

Yours sincerely
Ian Ellison

PATRICK JENKIN

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

From: Miss M E Peirson
25 November 1981

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SECRET

Prime Minister

The new summary table is attached to this useful minute I have extracted from the Treasury.

MCS 25/11

CHIEF SECRETARY

cc Chancellor
PEX
Mr Hansford
Mr Kitcatt
Mr Lovell

PUBLIC EXPENDITURE SUMMARY

You asked for a revised summary table, for circulation at Cabinet tomorrow morning, incorporating the agreed defence figures in line 3 and showing the outstanding issues on DOE programmes as minimum and maximum additions.

... 2. I attach a table which is as close as I can get to your objective. I have not shown minimum additions for DOE, because these are zero. You will recall that in C(81)51 you proposed reductions in both DOE (housing) and DOE (other), and these reductions are included in line 2. You have not changed your proposals. What is at issue is Mr Heseltine's refusal to accept these reductions, and, in the case of housing, his wish to increase the programme instead. Therefore any move from your position is an addition.

3. I have shown the territorial consequences of Mr Heseltine's bids separately, in line 6. The sum of (5) and (6), ie £0.6bn a year is the amount "still at issue" quoted in paragraph 3 of Mr Whitelaw's report.

4. You will see that the figures in line 3 have risen substantially compared with the table circulated in Mr Whitelaw's report. That is because the agreements on defence and industry represent a significant increase compared with what you originally proposed (ie. line 2). On defence, in 1982-83, you originally proposed to add only £85m (the AFPRB 1981 award carry-through), whereas now on top of that is to be added £375m + £19m (ROFs), so line 3 now includes £394m

for defence. On industry, your original proposal was a net reduction in 1982-83 of £105m, but the result of all the agreements since is a net reduction of only £31m, so an increase of £74m has to be included in line 3.

5. I have assumed that Mr Jenkin agrees to your proposal to exclude the possible Sullom Voe payments from 1983-84 as well as from 1982-83.

MEP

MISS M E PEIRSON
25 November 1981

ANNEX A. Table 1 (Revise)

£ billion

	1981-82	1982-83	1983-84	1984-85
1. White Paper revalued and adjusted	104.6	110.0	113.9	119.6
2. Chief Secretary's proposals in C(81)51*	107.3	113.5	118.1	123.8
3. Changes agreed (for programmes now fully agreed) since Chief Secretary's proposals	-	+ 1.3	+ 2.3	+ 2.2
4. Resulting total	107.3	114.8	120.3	126.0
5. Changes not yet agreed on DOE programmes: maximum additions	-	+ 0.5	+ 0.5	+ 0.5
6. Formula consequentials of (5) for Scotland, Wales and N.Ireland: maximum additions	-	+ 0.1	+ 0.1	+ 0.1
7. Resulting total	107.3	115.4	120.9	126.5

* Adjusted for corrections since 20 October.

Note: Figures do not all add up because of rounding.

25 November 1981

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A06096

PRIME MINISTER

Public Expenditure
(C(81)57)

BACKGROUND

The Home Secretary's paper (C(81)57) reports on progress in the public expenditure discussions both in his MISC 62 Group and elsewhere since the Cabinet considered this subject on 20 October (CC(81)33rd Conclusions, Minute 5). He puts on one side two expenditure issues which are being discussed separately (regional development grants and defence), reports on the agreed programmes and identifies the remaining disagreed programmes - housing and other environmental services.

2. The purpose of the meeting is:

i. to settle the housing and other environmental services programmes;

ii. to secure Cabinet endorsement for the agreed programmes and the overall public expenditure totals which result from them;

iii. to ensure that the Cabinet has no objection to certain specific proposals agreed by the Chief Secretary and the relevant spending Minister and listed at (a) to (g) in para 4 of the Home Secretary's paper.

(NB on one of these proposals concerning supplementary benefit for 16 year olds the Secretary of State for Employment disagrees with the timing.)

3. An agreement has been reached on regional development grants on which the Chief Secretary will be able to report orally. We understand that legislation is proposed which would reduce the amount of grant payable on very large projects and save £50 million a year starting in 1983/84, net of any consequential increase in selective assistance. Some savings might accrue in 1982/83 from these proposals; in addition it has been provisionally agreed that up to £30 million should be saved in that year by administrative means, although the Secretary of State for Industry is to consider how far this can be done. The timing of the legislation will need to be discussed with the Lord President and Chief Whip.

4. I hope that it will prove possible to report an agreement on defence. If it is not, there will be available an addendum to the Home Secretary's paper, setting out the issues as they emerged from MISC 62, on the basis of which the Cabinet can discuss the matter.

MAIN ISSUES

Overall expenditure position

5. The Home Secretary's paper makes it clear (para 3) that, even without any further concessions by the Treasury, the planned public expenditure totals will be significantly higher than those proposed by the Chief Secretary in C(81) 51 - by £1.2 billion in 1982/83, £2.2 billion in 1983/84 and £1.1 billion in 1984/85. Acceptance of the Secretary of State for the Environment's proposals on his two disagreed programmes would add another £0.5 billion or more a year. The decisions already reached are bound to have some adverse effect on the PSBR and on fiscal policy. Ministers recognised however that there were political constraints

and in some cases specific commitments which limited the scope for reductions in expenditure. The agreements made have taken account of these conflicting considerations. You will want to discourage any general re-opening of settlements reached, while allowing some discussion of those proposals listed in para 4 of the Home Secretary's paper.

Secretary of State for the Environment's programmes

General

6. The Cabinet has to decide on the expenditure totals for housing (Annex B(i) of C(81)57) and other environmental services (Annex B(ii)). The Secretary of State for the Environment will make the following general points (which are drawn from the draft paper attached to his Private

FLAG A Secretary's letter of 23 November):

a. The construction industry has already suffered heavily from Government cut-backs in capital expenditure.

- Unemployment in the industry is now 25 per cent; the number of trainees entering the industry is falling sharply; without more work the industry will not be in a position to respond quickly to an upturn in the economy.

b. Housing capital has been cut by 45 per cent in real terms from 1979-80 to 1981-82.

- This is at a time when net households are rising by 150,000 a year and when home improvement is falling sharply, as is provision for the needy and the elderly.

c. Investment in the water industry has fallen by 54 per cent in seven years.

- Renewals and replacements are essential.

There may be a good deal of sympathy for the general argument that this capital expenditure should not be cut. The counter argument is that while the cuts are not desirable they have been made necessary by the failure to cut current expenditure, not least in the housing and local authority area.

Housing

7. The figures in Annex B(i) are for England only; the decisions for the three other countries will be calculated by formula with reference to those for England. The main details given are for 1982/83. It will probably be necessary to settle the figures for the two later years out of Cabinet and on the basis of some agreed method for carrying forward the 1982/83 figures.

8. It seems unlikely that the Chief Secretary will be able to sustain his case for cutting the Cmnd 8175 total of £3,869 million by £93 million. If this is right, the discussion will focus on the extent to which the Secretary of State for the Environment's additional bid of £292 million should be allowed. The main questions are likely to be:

a. Whether the local authorities could reasonably be expected to contain their management and maintenance expenditure without the necessity of a further £67 million for this purpose.
- If not, the choice is between allowing additional subsidies of that amount and seeking offsetting capital cuts.

b. Whether the bid for preserving capital expenditure should be disallowed on the grounds that local authorities can spend the proceeds from council house sales on new investment, so that the more they sell the more they have to spend on investment in the year without exceeding public expenditure totals.

c. Whether, as the Chief Secretary may suggest, council house rents should be higher than £2.50 (each 10p more yields £15 million).

- Cabinet may well be reluctant, however, to re-open the decision on £2.50 which, though provisional, was taken after a good deal of discussion.

d. Depending on discussion of the above possibilities, whether some of all of the remaining bid should be refused in the interests of the public expenditure totals as a whole.

9. The Secretary of State for the Environment may also refer to a proposal which he has put to the Chief Secretary that unspent capital receipts in 1981-82 should be carried forward to finance housing and other capital investment in 1982-83. The Chief Secretary has refused to agree to this: he will not accept end-year flexibility for one programme alone; he regards these receipts, which reduce public expenditure this year, as being offset several times over by overspending on current expenditure.

Other environmental services

10. MISC 62 recommended cuts in capital expenditure by regional water authorities and by local authorities on environmental services totalling £110 million in 1982/83 and £150 million in the two following years. Such cuts would be practicable without legislation and tbe breaking of commitments. At his meeting with you, the most that the Secretary of State was willing to offer was cuts of £80 million in 1982/83 and £100 million in each of the two following years. Unless the cuts endorsed by MISC 62 are approved in full other Ministers might well be tempted to re-open the very painful cuts

which they have accepted. The Secretary of State for the Environment's case will be all the weaker if concessions have been made to him on the housing programme.

11. The Secretary of State for the Environment may refer to proposals which he has put to Treasury Ministers for the introduction of private sector finance into the water industry which, if it went ahead, could reduce the public expenditure figures in the later years. Treasury Ministers are willing to look at this but they are not yet persuaded that the full risks would be borne by the private sector so that the costs could legitimately be taken out of the Public Sector Borrowing Requirement. The fact that his idea is under discussion should not be accepted as a reason for abating the cuts now being asked of the Secretary of State. Any benefits which might flow, if the scheme turns out to be workable, should be seen as a much needed bonus which will help to reduce pressure on the later years.

Supplementary benefit for 16 year olds

12. This may be the most difficult of the agreed proposals listed in para 4 of the Home Secretary's paper. The problem is that E Committee agreed on 2 November (E(81)31st Meeting, Item 3) to withdraw supplementary benefits from 16 year olds from September 1983 as part of the Employment Secretary's training package. There was to be a trade-off between the new training scheme available to 16 year olds from that date (a major improvement on the existing Youth Opportunities Programme (YOP)) and the lower allowances which would then be available to 16 year olds (ie for those not on training, child benefit for their parents; for those on training, a sum equivalent to child benefit plus £8). MISC 62 took the view that there was a case on merits for withdrawing supplementary benefit from 16 year olds who might more

appropriately be regarded as dependent on their parents to whom child benefit would then be paid. They therefore ageed to make the change from November 1982, (nearly one year earlier) thus providing savings of £12 million in 1982/83, £35 million in 1983/84 and £40 million in 1984/85.

13. The Chief Secretary subsequently pointed out that this would produce an odd result. Between November 1982 and September 1983 YOP trainees would receive some £25 a week - a much greater margin over other 16 year olds than would be the case under the post September 1983 scheme or under the pre November 1982 arrangement. He therefore propœed to reduce the YOP allowance to the level of the new training allowance.

Flag C

14. In his letter of 23 November the Employment Secretary has argued strongly and persuasively against both these modifications of the earlier decision by E Committee. The withdrawal of supplementary benefit for 16 year olds is much easier to present and defend if it is combined with the introduction of the new training scheme in September 1983. The Cabinet may well therefore conclude that they should confirm the earlier E decision and reject the proposal in para 4c of C(81)57. The expenditure savings would be deferred for about a year ie no savings in 1982/83 (as against £12 million), £12 million in 1983/84 (as against £35 million), and £35 million in 1984/85 (as against £40m).

Other agreed proposals

15. It is hoped that there will be no dissent from the other agreed proposals in para 4 of the Home Secretary's paper. On student grants, the Secretary of State for Education and Science will no doubt say that he was originally prepared to go further; likewise the Secretary of State for Social Services on prescription charges. On the proposed road traffic accident levy, it should

be acknowledged that H Committee has twice considered and twice rejected schemes of this kind; the new proposal is said to avoid the problem of "no fault liability" but the content and timing of the legislation will clearly need careful examination.

ANNOUNCEMENT

16. If, as the Treasury hopes, all outstanding issues are resolved at this meeting, the Chancellor will probably want to make an announcement early next week. We understand that present Treasury thinking is that this would take the following form:

a. a general oral statement to the House, referring to the main changes, and giving a broad indication of the result of the planning total, but for 1982-83 only;

b. an accompanying text circulated in Hansard setting out the totals proposed for each programme, and probably also the EFLs for each nationalised industry, again confined to 1982-83;

c. a short press notice covering that material, together with Notes for Editors: last year those Notes for Editors included a short passage on each programme.

HANDLING

17. Subject to your talk on tactics this evening, you will probably want to ask the Home Secretary to open the discussion by introducing his paper, to ask for reports from the Chief Secretary, Treasury on regional development grants and (if agreement has been reached) on defence, and then call on the Chancellor of the Exchequer for comment on the overall expenditure position.

18. Unless there is a need for a discussion on defence, the next stage would be to call on the Secretary of State for the Environment and then the Chief Secretary to present their cases on the housing and other environmental services programmes. The Secretaries of State for Scotland and Wales are likely to wish to contribute.

19. There will then need to be a discussion on supplementary benefit for 16 year olds with contributions from the Secretary of State for Social Services, the Chief Secretary and the Secretary of State for Employment.

20. Finally, after dealing with any other disputed points, you will wish to call on the Chancellor of the Exchequer to outline his thinking about the form and timing of an announcement.

CONCLUSION

21. You will wish to record conclusions on the following:

i. the expenditure totals for housing, and other environmental services, and, if not agreed before the meeting, for defence;

ii. whether supplementary benefit for 16 year olds should be withdrawn from September 1983 as agreed earlier by the Committee or from November 1982 as envisaged in the Home Secretary's paper;

iii. confirmation of the expenditure totals for all the agreed programmes, subject to any modifications made by the Cabinet;

iv. the form and timing of an announcement.

D J Wright

25 November 1981

ROBERT ARMSTRONG

(approved by Sir R Armstrong & signed on his behalf)

CONFIDENTIAL

10 DOWNING STREET

From the Press Secretary

Mr Whitmore
cc Mr Gaffin
Mr Vereker
Mrs Gilmore
Mr Taylor
Mrs Hewlett-Davies
Mr Gillis
Mr Woodrow
Mr Mower
Mr Ward
Mr Scholar

MR HAYHOE
Office of the Lord President

PUBLIC EXPENDITURE - PRESENTATION

The economic group of Chief Information Officers met under my Chairmanship today to prepare for their meeting with the Lord President tomorrow. We considered my paper to you of 20 November and accepted it as a correct statement of our collective view.

2. We were pleased to hear that our recommendations on an early, comprehensive statement (possibly next week) had apparently been accepted. We then turned to the fundamental questions of presentation and identified the following:

- How is the overall outcome of the public expenditure review to be presented - in simple terms, as good or bad news; as taking credit for the outcome or regretting it? On the one hand, we get the worst of both worlds if we cut some programmes but have to present the overall increase as a matter of regret; on the other, we cannot present an overall increase as desirable because then we play into the hands of those who argue for substantial reflation. We need, therefore, to try and present the outcome as an achievement in keeping the likely PSBR on its downward path, despite the recession.

- How can we minimise the adverse effect on pay bargaining of such items as, for example, increases in rents, rates, health service charges, national insurance, direct and indirect taxation and higher interest rates (with their

/usual

CONFIDENTIAL

usual implications for mortgage payments), set against a 4% pay factor for the public service which is widely perceived as a pay limit?

- What can we do to sell the package to industry, given the likely disappointment by the CBI and the company sector in general at the higher than expected level of public expenditure; at the possibly adverse effect of the package on pay determination; at our inability to do anything about the N.I.S.; and at the implications for interest rates?

3. We would like to discuss these points with the Lord President at the meeting arranged for tomorrow, with a view to establishing an agreed presentational line and agreed arrangements for disseminating it among Ministers.

4. In addition to all this, we think we should raise with the Lord President what, if anything, the Government proposes to do (especially post-Crosby) to rally opinion among its own backbenchers when the Chancellor makes his statement.

B. INGHAM
24 November, 1981.

Prime Minister

Just arrived (10.45)
MCS 24/11

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

E(81) 116: REGIONAL DEVELOPMENT GRANTS

I am extremely concerned about the implication of this paper by the Secretaries of State for Wales and Scotland that we should not make even a 2 per cent reduction in the rates of regional development grant. As you know, I believe that cuts of 3 per cent in the development areas and 4 per cent in the special development areas would be an entirely defensible way of achieving worthwhile savings of some £90 million in a full year.

2. The suggestion in E (81) 116 that we should be looking towards legislation to introduce a completely new system of regional incentives is irrelevant to the present exercise. We could not hope to have new legislation on the statute book before Spring 1983, and it must be doubtful whether there would be any significant savings before 1984-85.

3. If my colleagues are unwilling to make a cut in the rate of grant we must look carefully at the alternative, which would be to exclude certain sectors of industry by Order. Patrick Jenkin gave some examples in his paper E(81) 115, but he envisaged transitional arrangements which would mean no savings in 1982-83. I am advised that if we were to make an announcement very soon that expenses not already defrayed and assets not already provided would not attract grant it might be possible to achieve 30 per cent of a full year saving in 1982-83. We might think of excluding five industrial sectors, concentrating on those that are particularly capital-intensive and those we would not expect to make a great future contribution to the economy:-

		£ million	
		1982-83	1983-84
IV	Coal and petroleum	14	45
V	Chemical and allied industries	27	90
VI	Metal manufacture	10	33
X	Shipbuilding	1	3
XIII	Textiles	3	9
	Total Savings	55	180

4. Colleagues would no doubt wish to see these savings offset by some additional provision for selective financial assistance to attract internationally mobile projects: I have therefore pitched them high enough to allow for this.

5. These are rough estimates based on the assumption that proportions of RDG spend in future are the same as in the recent past. But they serve to indicate the sorts of exclusion we would have to contemplate to provide a sufficient alternative to my proposed rate cut.

6. I am sending copies to other Members of E Committee and to Sir Robert Armstrong.

L.B

LEON BRITTAN
23 November 1981

P.0592

PRIME MINISTER

Regional Development Grants
(E(81)115 & 116)

BACKGROUND

At their meeting on 10 November (E(81)33rd Meeting, Item 2) the Committee agreed that Ministerial discretion should not be exercised so as to deny Regional Development Grants (RDGs) to the Sullom Voe and Flotta oil pipeline terminals; if the applications, which have yet to be examined, satisfy present criteria the grants will be paid. The Committee did not decide whether to reduce the present RDG percentage rate but asked the Secretary of State for Industry to consider with the Chief Secretary and the Secretaries of State for Scotland and for Wales the possibility of selective changes in the present RDG system.

2. The Secretary of State for Industry reports in E(81)115 that in his view such selective changes are not practicable and that the only sensible option is to reduce the rate by 2 per cent. The Secretaries of State for Wales and for Scotland, in E(81)116, are opposed to such an across-the-board cut and recommend legislation leading to selective changes taking effect from 1983-84. The Chief Secretary, Treasury recommended in C(81)51 cuts of 4 per cent in the RDGs for the Special Development Areas (SDAs) and of 3 per cent for the Development Areas (DAs). The object of the meeting will be to reach a firm decision on the amount and form of any changes in RDGs so that the outcome can be taken into account when the Cabinet looks at the overall public expenditure totals on Thursday.

3. The savings which would flow from the 3 main proposals now before the Committee are:

	£ million 1982-83	1983-84	1984-85	
Secretary of State for Industry	20	53	51	2% off RDG rate
Chief Secretary	36	90	90	3% off DA rate; 4% off SDA rate
Scotland/Wales	0	?	?	Legislation leading to selective changes

MAIN ISSUES

4. The Secretary of State for Industry advises in E(81)115 against selective cuts. In his view, to limit grants by reference to the numbers employed, or by a monetary limit on the grant to be paid on an individual asset, would create uncertainty and so deter potential investment, including inward investment, and might be challenged in the courts as an arbitrary exercise of the Secretary of State's discretion in the payment of grants. He also advises against the exclusion of capital intensive sectors on the grounds that this would deter internationally mobile investment unless selective financial assistance were to be offered, so reducing the savings in prospect.

5. Because of these doubts, the Secretary of State for Industry advises that the only sensible option is to reduce by 2 percentage points the present RDG rates of 22 per cent in the SDAs and of 15 per cent in the DAs. He is opposed to the Chief Secretary's proposals for larger percentage cuts because he judges that 2 per cent is the most that could be done consistently with the statement made by his predecessor in July 1979 after the Government's review of regional policy, and repeated since, that:

> "Our objective is to maintain reasonable stability in the framework of regional investment incentives and to avoid abrupt changes."

6. In the previous discussion, the Secretary of State made clear that he would be willing to support a 2 per cent cut in RDGs only if this were in the wider context of a package helpful to industry. In particular he had in mind a reduction in the National Insurance Surcharge; now that he knows that the Chancellor of the Exchequer cannot accept this for the time being, he may be reluctant to go along with an RDG cut. One possibility is that he might revert to his proposal, which he did not press at the last meeting, that the present deferment of payment of grant by 4 months from approval should be reduced to 2 months. Unless the costs could be brought forward into 1981-82 this would be highly unattractive because there would be additional payments of £70 million in 1982-83 and of £4 million and £11 million in the 2 following years; since it is no longer proposed to deny grants for Sullom Voe and Flotta, which might have saved £122 million in 1982-83, there would be a net increase in expenditure next year.

7. The Chief Secretary will probably continue to argue for the higher savings for which he bid in his public expenditure paper C(81)51. We understand that he may, later today, send you a minute suggesting that an alternative would be to remove, perhaps, five industrial sectors from eligibility for the scheme. This would seem to be wholly inconsistent with the present pledge and not to be a runner.

8. The Secretary of State for Wales, who took the lead in preparing E(81)116, and the Secretary of State for Scotland are strongly opposed to a general cut of even 2 per cent. They believe that it would create uncertainty which would deter inward investment; would perhaps lose some finely balanced projects; and would be an untimely blow to the cash flow of firms in the Development and Special Development Areas. They suggest instead that there should be legislation to remedy the present deficiencies of the RDG scheme by providing for tapering rates of grant above defined thresholds or lower rates of grant for capital intensive industries. They accept that new legislation could not be introduced in the present Session.

9. There are two strong objections to this proposal: there would be no public expenditure savings in the key year of 1982-83, negligible savings in the following year, and an unquantified amount in 1984-85; such changes, in the lifetime of the present Parliament, would not sit easily with present pledges. The better course would be to take these ideas on board in the general review of RDGs which is to be undertaken with a view to fundamental changes in the next Parliament; the CPRS will shortly be putting a paper on this to the Chancellor of the Exchequer's MISC 14 Group.

10. Given the need to have regard to the Government's pledges on RDGs, to make public expenditure savings as soon as possible, and to avoid further legislation, you might wish to consider steering the Committee to a conclusion in favour of a cut of at least the 2 per cent suggested by the Secretary of State for Industry. Since this is a relatively modest cut, the Secretaries of State for Wales and for Scotland might be persuaded that their fears about the effect on industrial cash flow and on inward investment are exaggerated. Treasury Ministers will no doubt argue that no strings should be attached to this saving; the main benefit to industry will be in helping to keep down the overall total of public expenditure and so reducing the pressure on interest rates.

HANDLING

11. After the Secretary of State for Industry has introduced his paper you might ask the Secretaries of State for Wales and for Scotland to speak to E(81)116 and then invite the Chief Secretary to state his position. The Secretary of State for Energy may want to comment on the selective options, which could affect in particular oil refining projects. You will wish to guide the meeting to reaching a firm decision which can be taken into the public expenditure arithmetic which the Cabinet is to consider on Thursday.

CONCLUSIONS

12. In the light of the discussion you will wish to record conclusions on which of the three main options before the Committee is to be adopted:

i. a general 2 per cent cut in the RDG rate as proposed by the Secretary of State for Industry;

or ii. a cut of 4 per cent in the rate in the SDAs and of 3 per cent in the DAs, as proposed by the Chief Secretary;

or iii. no savings in 1982-83 but legislation next Session to provide for unspecified savings in the later years, as proposed by the Secretaries of State for Wales and for Scotland.

PG

P L GREGSON

23 November 1981

CONFIDENTIAL

MR. SCHOLAR

cc. Mr. Heyhoe,
Mr. Pym's office
Mr. Gaffin
Mr. Vereker
Mrs. Hewlett-Davies,
DoE

Ref E (81) 117 on RSG 1982-83 and my latest paper to the Lord President on public expenditure presentation, dated November 20, 1981.

As you know, our advice is that as many as possible of public expenditure decisions should be announced simultaneously. But E (81) 117 leaves timing open and does not take on board the desirability of bringing all public expenditure decisions together in one announcement.

The case for a single package rests not only on the desirability of relating individual decisions to the overall judgment; there is also the presentational point that it is far better to kill off the bad news in one fell swoop than allow it to dribble out, with each individual item of bad news getting maximum treatment.

B. INGHAM

23 November, 1981

CONFIDENTIAL

- COVERING SECRET

A

Prime Minister

I understand CST that, if Mr Heseltine does put a paper round, the Chief Secretary will ask for one by him to be circulated too.

MCS 23/11

PM has seen - does not wish a paper to be circulated

14

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

23 November 1981

Dear Michael

You told me this morning that the Prime Minister has said that she would prefer my Secretary of State not to submit a separate paper on Capital Expenditure and the Construction Industry for Cabinet discussion on Thursday.

I have reported this to my Secretary of State, who is in Wolverhampton today. He has asked me to write in the following terms. He would be most grateful if the Prime Minister could reconsider her view. He does not feel that the paper by the Home Secretary reporting on the MISC 62 discussions can possibly provide the depth of background information which he believes should be before all members of the Cabinet, in view of the very serious political implications of current proposals for construction and housing in particular. The paper which he has prepared has been seen in draft by the Treasury and their requests for drafting amendments have been met.

In these circumstances, he would be grateful if his paper, a copy of which is attached, could be circulated for discussion at Cabinet.

I am copying this letter, together with a copy of the draft paper to Terry Mathews (Chief Secretary's Office) and to David Wright in Sir Robert Armstrong's Office.

Yours sincerely

David Edmonds

D A EDMONDS
Private Secretary

Michael Scholar Esq - NO 10

CAPITAL EXPENDITURE AND THE CONSTRUCTION INDUSTRY

MEMORANDUM BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

1. At the previous meeting of Cabinet on 12 November (CC(81)36th) colleagues requested that decisions on the English housing capital programme should be considered in the overall public expenditure context. I am particularly concerned to draw colleagues' attention to the following points:

THE STATE OF THE CONSTRUCTION INDUSTRY

- the construction industry which represents some 20% of total industrial production has suffered heavily from the severe cutbacks we have made in capital expenditure. By March 1982 public expenditure on construction will have fallen by 17% in real terms since 1978-79 (Annex A);

- in the 3 years 1979-81, real output has fallen 20% but some 12% has occurred in 1981 alone (Annex B). The temporary increase in new orders in the commercial and industrial sectors for July and August was reversed in September. The lower level of orders reflects the likely output in 1982;

- unemployment in the construction industry, now at 25%, has increased much faster than in the economy as a whole since 1979. Since the Government took office the growth in construction unemployment has represented 14% of the total increase in unemployment, though construction workers represent only 5% of the nation's workforce;

- the number of trainees who have started the industry's standard scheme this autumn has declined sharply (Annex C). Employment sponsored trainees have fallen by over 25% since 1980;

- all these factors make it increasingly unlikely that the construction industry will be able to respond at all quickly to any upturn in the economy. Materials manufacturing capacity (eg cement and brick kilns) is very difficult to reactivate once it has shut down; new investment in plant has an even longer timescale. This will lead either to developers switching to imported materials and plant (possibly losing markets for British companies for the long term), or to prices of labour and materials rising rapidly with no commensurate increase in output. In either case the level of construction supply is likely to impede growth.

HOUSING ISSUES

- housing has borne 78% of this Government's capital cuts;

- in only 2 years (1979/80 outturn to 1981/82 allocations) we have cut housing capital by 45% in real terms. This followed successive cuts since 1974/5 (Annex D);

- these cuts have occurred at a time when the net number of households in England is rising by 150,000 a year, an increase that can be expected to continue throughout the 1980's at broadly the same rate;

- public sector housing starts are currently the lowest in peace-time since the early 1920's. Starts by local authorities on homes for those with special needs have fallen particularly sharply;

- in the first half of 1981 wheelchair housing starts were 70% below those for the equivalent period last year;

- in 1980 approvals for elderly person dwellings were 47% down on 1979 at a time when the number of the elderly, many of whom can afford only to rent, is rising significantly;

- private sector housing cannot be expected to compensate for these reductions. Private provision for special needs is minimal; and although the general level of starts this year is expected to improve on 1980's total of 97,400 (the lowest since 1953) there are no grounds for believing that the level of starts in 1982 will be anywhere near sufficient to compensate for the fall in the public sector since 1979 (Annex E);

- homlessness continues to grow. In the second half of 1980 the number of households for which English local authorities accepted responsibility under the Housing (Homeless Persons) Act 1977 increased by some 11% on the equivalent period in 1979;

- home improvement is also falling sharply. The number of dwellings renovated in the first half of 1981 is down by over a third on the number renovated in the equivalent period in 1980.

2. It is against this background that we must judge the Chief Secretary's proposal to secure a reduction in total housing expenditure of £93m below the provision of 1982/83 in Command 8175. This, if taken together with the consequences of the provisional average rent increase of £2.50 and if I am allowed no PESC adjustment in respect of the inevitable extra management and maintenance expenditure next year, would imply a cut of 17.6% off provision for 1981/82 in real terms, bringing down the housing capital programme to 54% below outturn in 1979/80. These figures take no account of the possible implications of the surpluses arising on authorities' housing revenue accounts, an issue I am currently discussing with the Chief Secretary. I cannot believe that we could effectively defend cuts of such severity against the charges of irresponsibility which are bound to arise from many quarters including our own supporters. The ADC have recently passed a unanimous resolution which deprecates "the Government's policy in restricting the level of housing investment programme allocations to district councils to such an extent that they are finding it difficult and almost impossible to carry out their statutory housing function."

CAPITAL EXPENDITURE IN THE WATER INDUSTRY

3. I am also concerned about reductions in water capital expenditure. Investment in this sector has already fallen by 54% in the last 7 years, yet the Chief Secretary's proposals imply a further 12% decline over the next 3 years. 60% of the programme is for renewals and replacements, notably of sewers and water-mains. The current renewal level is deplorably low for an industry with assets valued at £45,000 million: the practical consequences of neglect are already visible - in sewer collapses (3 per day in England) and discoloured water particularly in the North West and Yorkshire. Elsewhere the lack of funds for new sewers and water-mains rules out new development.

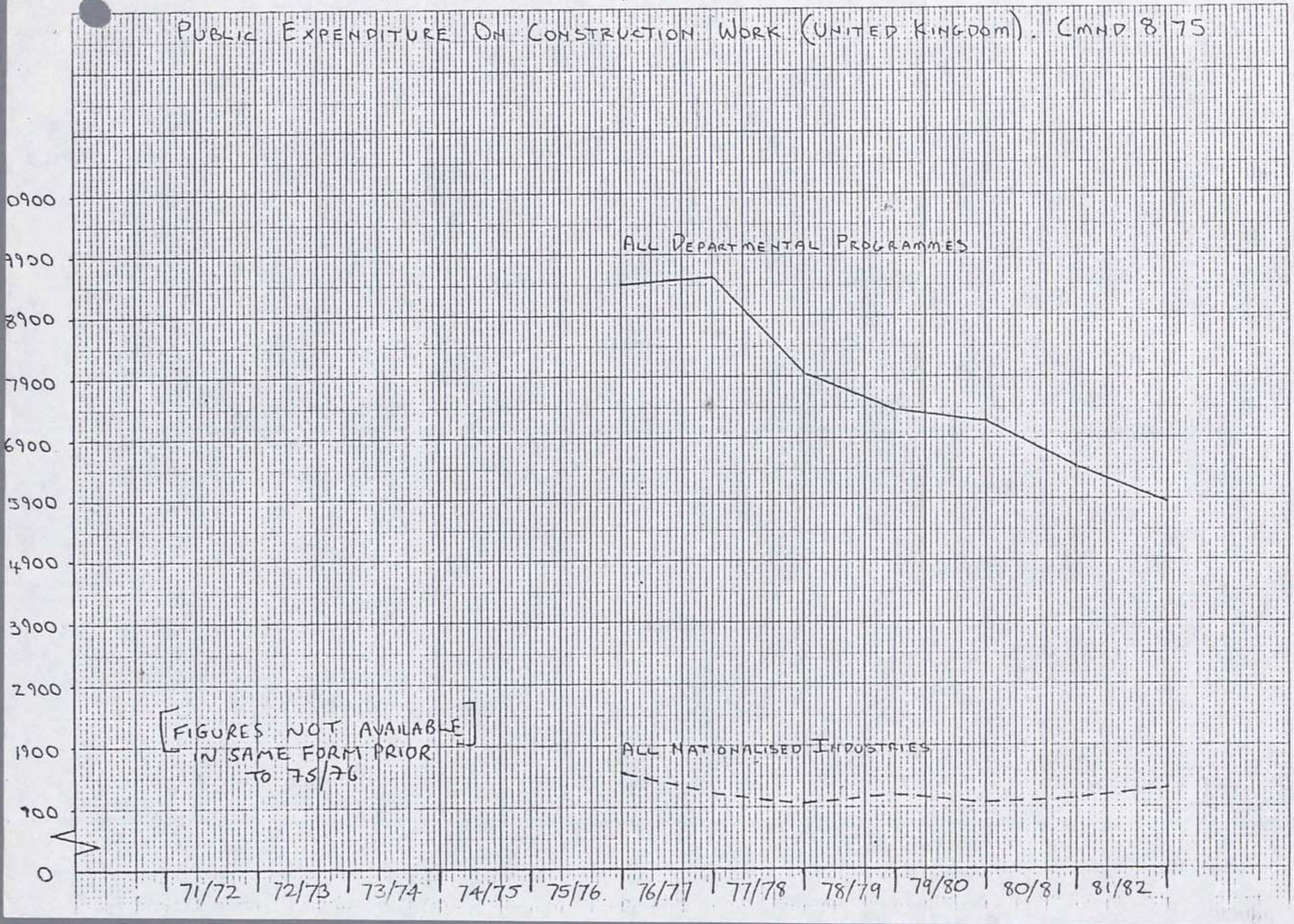
4. The Regional Water Authorities proposed a 14% volume increase in its capital investment over the PES period; we bid for a level programme. Current restraints in the capital programme are leading to a shortfall in this year's outturn and make it feasible to accommodate some cuts in the cash allocation for 1982-83. But the further reductions sought for 1983-84 and 1984-85 (£100 million in each year) would set the industry's programme and the construction industry back still further at a time when they should be making up lost ground: 90% of this programme consists of work carried out in the private sector.

CONCLUSION

5. It is for these reasons that I have argued against making reductions in my water and local environmental programmes on the scale recommended by MISC 62; and for keeping housing capital at least to the 1981/82 level in real terms. As I explained to colleagues at our last discussion, I do not believe that housing capital can be expected to bear the cost of the politcal judgements we are having to make on rent levels and on the treatment of surpluses on authorities' housing revenue accounts. Alternative means of treating surpluses may be found; but the cost of a provisional rent increase assumption of £2.50 per week, and of the inescapable extra provision for mangement and maintenance, account for an additional £292m which I must ask my colleagues to provide.

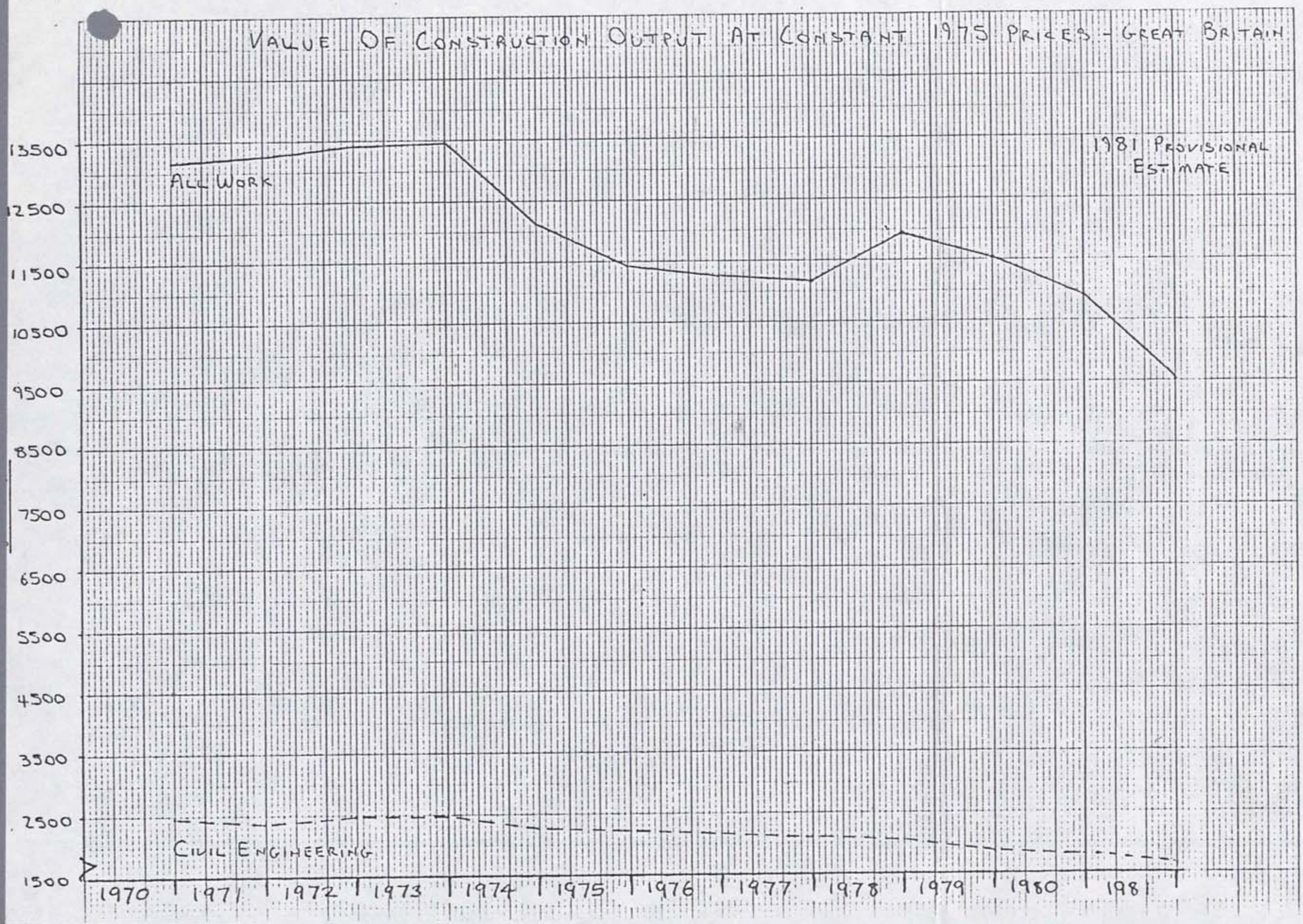
Chartwell Graph Data Ref. 5508 20th, ¼ and ½ inch

ANNEX A



ANNEX B

Chartwell Graph Data Ref. 5508 20th, ¼ and ½ inch



ANNEX C

CONSTRUCTION APPRENTICESHIPS

STANDARD "OFF-THE-JOB" TRAINING SCHEME STARTS

	1980	1981
Building	7,566	6,085
Specialist Building	338	211
Mechanical Engineering	1,500	1,222
Electrical Engineering	1,730	1,326
TOTALS:	11,134	8,844

Net Capital Expenditure on Housing: England
(1982/83 'Cash' Prices)
£million
6000
5000
4000
3000
2000
1000
0
72/73
73/74
74/75
75/76
76/77
77/78
78/79
79/80
80/81
81/82

HOUSING PERFORMANCE - ENGLAND 1971-81

ANNEX E

thousands

	STARTS		COMPLETIONS		RENOVATIONS		
	Public	Private	Public	Private	LA	Housing Assns	Private (grant-aided)
1971	109.2	185.1	123.8	170.8	61.1+	6.2+	130.2+
1972	99.8	200.7	98.5	174.0	104.0+	6.8+	208.4+
1973	92.5	187.5	86.3	163.5	110.0	5.0	214.3
1974	116.7	89.7	107.9	121.5	73.5	5.3	137.3
1975	144.7	129.8	130.0	131.5	36.2	5.2	76.2
1976	148.8	130.4	132.5	130.9	39.0	13.9	65.8
1977	117.1	115.6	140.0	121.6	37.6	19.3	62.1
1978	93.1	113.6	113.9	127.5	60.9	14.0	49.4
1979	69.4	121.1	91.0	118.3	76.0	18.2	57.2
1980	46.6	82.7	93.8	108.0	76.9	16.7	65.8
<u>First nine months</u>							
1981	21.7	79.8	60.4	73.7	25.1*	3.5*	24.2*

+ England <u>and</u> Wales

* January - June <u>only</u>

CHANCELLOR

cc Mr Burns
Mr Middleton
Mr Cassell
Mr Kemp
Mr Norgrove
Mr Gleed

TREASURY SELECT COMMITTEE APPEARANCE: 23 NOVEMBER

I attach briefing on an article which appeared in today's Financial Times (attached) which reported the results of some simulations carried out on the Treasury Model by the Economist Intelligence Unit for the Federation of Civil Engineering Contractors. The simulations look at the effects of increasing public investment on different financing assumptions. The Federation want a cut in current spending, to finance more capital expenditure, but the $\frac{1}{2}$m extra jobs referred to in the FT headline refer to simulations in which both public expenditure and the money supply are increased.

2. The Committee may refer to this article in their questioning this afternoon.

RACHEL LOMAX
23 November 1981

Encl.

"More public investment could bring ½m jobs" FT (p28) 23/11/81 (attached)

Main points

1. Can't comment on detailed figuring - results depend on particular assumptions eg. about nature of changes.

2. Note that Federation want change in composition of public spending, not higher spending in total. Agree with this in principle but benefit of switch depends on finding profitable public sector projects. feasible cuts in current spending. Distinction between current and capital spending blurred in practice.

3. Case for switch rests on supply side consequences. Benefit to inflation, PSBR likely to be very small. Probably increase unemployment, because current spending typically more labour intensive than capital.

4. Extra total public spending will add to inflation in medium term whether financed by extra gilt sales or higher money supply. How much and how quickly depends on response of exchange rate wage settlements. Both very uncertain.

5. Can't be sure that even short run inflationary effects of financing extra public spending by higher money supply would be modest. If markets interpret policy as significant change in direction, effects on exchange rate and prices could be much larger than predicted by model.

6. Selling more gilts to finance higher public expenditure means higher interest rates. Adds directly to RPI as well as crowding out private sector spending.

7. Government determined not to repeat mistakes of previous Governments by going for another quick fix. Not prepared to sacrifice progress made so far for purely temporary gains to output and employment. Reduction in inflation essential for sustainable growth in output and employment.

Background

FT reports results of series of simulations carried out by Economist Intelligence Unit for Federation of Civil Engineering Contractors Investment increased by £20.5bn cumulatively by 1985 (extra £2bn in each year).

- Headlined result seems to refer to case in which higher total public spending is financed by higher monetary growth. Claim this would increase GDP by 3.8%, and create 550,000 jobs, and add only 1.5% to inflation rate (though figures quoted in article imply 2.5% on inflation rate). Effects on level of prices not quoted but would be much larger. No mention of consequences for money supply, but almost certainly very large increase.

- Article points out that funding extra investment by extra gilt sales would be almost as inflationary, but much smaller effect on output and employment.

- Federation favours a switch from current to capital spending. Article points out this would increase unemployment (by 183,000 in 1983). GDP only ½% higher by 1985. Claims that medium term inflationary output be improved, but figures quoted (in paras 6 and 11) imply higher inflation rate by 1985 (9.2%, compared with 8.8% in 'base' case).

You will not want to get drawn into a detailed discussion of figures, or offer estimates of your own, but you could draw on these points to illustrate difficulties of interpreting simulations.

EXTRACT FROM FINANCIAL TIMES

23 November 1981

FT 23/11/81

More public investment 'could bring ½m jobs'

By Anatole Kaletsky

INCREASES in public sector capital investment over the next four years could create up to 550,000 jobs and raise output by 4 per cent while adding only 1.5 percentage points to the inflation rate.

This is one of the main findings of a series of simulations carried out on the Treasury's economic model by the Economist Intelligence Unit in a study commissioned by the Federation of Civil Engineering Contractors.

The unit says financing public investment increases by cuts in current spending would improve the medium-term prospects for inflation and reduce the level of public borrowing. But it would only slightly improve aggregate economic activity and employment by 1985.

(1) The study suggests that even if public investment is increased cumulatively by £2bn each year, bringing a total rise of £20.5bn by 1985, the adverse effects on inflation and public borrowing will be modest.

If the extra capital spending were financed by expanding the money supply, the annual inflation rate would be 11.3 per cent and the Public Sector borrowing requirement £3.5bn by 1985.

This compares with a "base" projection of 8.8 per cent for inflation and £0.2bn if current policies are continued.

The higher capital spending would raise GDP 3.8 per cent and manufacturing output 5.1 per cent relative to base levels, and create 550,000 jobs.

(2) Funding the extra investment through gilt sales would enable the Government to meet its monetary targets, but would reduce the expansionary effects without significantly improving the medium-term inflation prospects. The PSBR would be £9.4bn in 1985 under this option.

(3) The option favoured by the federation would be to cut current spending at the same rate as capital expenditure is increased.

If compensatory cuts were made across the board, unemployment would rise by 183,000 in 1983, since public current spending is more labour intensive than capital spending.

But by 1985 GDP would be 0.5 per cent higher than on the basis of present policies, manufacturing output 2.5 per cent higher, and the inflation rate would be 9.2 per cent.

CONFIDENTIAL

Prime Minister

REGIONAL DEVELOPMENT GRANTS: POSSIBLE CHANGES

1. I regret that I shall not be able to attend E Committee on 24 November and should like you and colleagues to be aware of my views.

2. As colleagues have acknowledged, any reduction - even of only 2% - in the rate of Regional Development Grant could be attacked as a retreat on the Government's part from an effective regional policy. I am also conscious of the question of ensuring that we retain the confidence of industry in the stability of our grant system. If reduction is agreed its presentation will obviously require careful consideration.

3. As you know, the position in Northern Ireland is different from that in Great Britain in that we have our own Standard Capital Grants Scheme. That scheme is, however, broadly analogous to the RDGs - though the percentage available is higher at 30% - and accordingly any change in the RDG rate would have implications for the NI arrangements. In fact we are already considering the general thrust of our industrial development incentives in Northern Ireland and whether restructuring of the existing package could make it more effective.

4. In this context one change which I may wish to make in the near future to allow discretion in giving support to capital intensive projects is to introduce a limit of £1m on the amount of assistance payable in 4 consecutive quarters to all companies seeking Standard Capital Grant assistance. Such a limitation can be imposed by Order.

/...

CONFIDENTIAL

5. However, given the greater economic difficulties which Northern Ireland currently faces (the seasonally unadjusted unemployment rate stands at 19.5% compared with 14.4% in Scotland, 15.7% in Wales and the UK average of 12.4%) and the current political climate, I have concluded that any cut in the rate of standard capital grant should only be made in the context of an overall package of changes in industrial incentives in Northern Ireland which would make them more attractive. A cut in the capital grant rate at this time would, in isolation, tend to exacerbate the Province's already critical economic circumstances. I will, of course, consult colleagues further in due course about my own proposals.

6. A copy of this minute goes to other Members of E, George Younger, Nicholas Edwards and Sir Robert Armstrong.

PP J P
(Signed on behalf of the Secretary of State in his absence)

20 November 1981

KW

SECRET

(1) B

Prime Minister

Agree circulation of Home Sec's paper?

MLS 20/11

Ref. A06051

PRIME MINISTER

Public Expenditure

If the Cabinet is to discuss public expenditure on 26th November, a paper should be circulated, preferably not later than Monday evening, setting out the figures for the agreed programmes and isolating the remaining issues for decision. This might take the form of an updated version of the draft report by the Home Secretary, which he sent to you on 11th November; it would cover not only the agreements reached in his MISC 62 Group and the bilaterals which preceded, or were associated with, those discussions, but also (without identifying this specifically) the progress made in your informal meetings over the past week.

2. A revised version of the report is attached, which takes account of the agreements now reached on the agriculture, health and FCO/ODA programmes and reflects the current, but not yet finally agreed, position on the social security programme. In the case of social security, the assumption for the purposes of this paper is that there will be no change in the pensioners' Christmas Bonus, but the Secretary of State for Social Services is still examining whether it would be worth while and defensible to exclude from eligibility all those under the age of 70. Defence and other environmental services are treated as programmes not yet agreed in the form in which they emerged from MISC 62. A new annex has been added on housing, so as to provide a basis on which the Cabinet can take decisions on that programme. The Secretary of State for the Environment now wishes to circulate on Monday a paper on housing and the construction industry; this would not be a separate item on the agenda but would be discussed with the section of the report dealing with other environmental services and with housing.

If he does every other Minister will circulate paper on his own expenditure. We must rely on the Home Sec: Misc paper. And possibly [illegible] personally. MT

3. I should be grateful to know, as soon as possible, whether you, the Home Secretary, the Chancellor of the Exchequer and the Chief Secretary agree that the Home Secretary should circulate a paper on these lines in time for discussion

SECRET

by the Cabinet on 26th November. It would of course be open to the Chancellor, if he wished, to circulate a short paper on the overall public expenditure position.

4. You will wish to consider whether, either before or after the paper is circulated, there should be any further efforts to resolve the outstanding issues. I understand that the Chancellor and the Chief Secretary are still considering whether to accept the Secretary of State for Social Services' package offer on social security. You will in particular wish to consider whether anything further should be done to try and reach an accommodation on defence, a programme not well suited to discussion in full Cabinet, and I have minuted you separately about this. In any event however it would be undesirable to delay circulation of the paper to the Cabinet later than Monday evening, since some Ministers might then claim that they had inadequate time to consider proposals of major importance and the risk that no final decision would be reached on 26th November would be increased.

5. I am sending copies of this minute to the Home Secretary, the Chancellor of the Exchequer and the Chief Secretary, Treasury.

RA

ROBERT ARMSTRONG

20th November, 1981

PUBLIC EXPENDITURE

MEMORANDUM BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT

This memorandum:

(a) reports on progress so far towards agreeing plans for public expenditure, following discussions under my Chairmanship in the Ministerial Group on Public Expenditure (MISC 62) or elsewhere;

(b) lists the remaining programmes which have not been agreed and indicates the main questions still at issue between Treasury Ministers and other colleagues.

PROGRESS SO FAR

2. In his memorandum to the Cabinet on public expenditure (C(81)51) the Chief Secretary, Treasury proposed that planned public expenditure should be £113.5 billion in 1982-83, £118.1 billion in 1983-84 and £124.8 billion in 1984-85: respectively £3.6 billion, £4.2 billion and £5.2 billion <u>more</u> than the cash equivalent of the plans in the last Public Expenditure White Paper (Cmnd 8175); but £3.6 billion, £6.4 billion and £6.8 billion <u>less</u> than the total of Departments' proposals. Cabinet agreed on 20 October that in further discussions on public expenditure the aim should be to get as near as possible to the totals proposed by the Chief Secretary (CC(81)33rd Conclusions, Item 5).

3. Agreement has now been reached on most programmes, including the external financing limits for all nationalised industries. Brief details

are in table 2 of Annex A. The present position is as follows. Taking account of progress so far both on agreed programmes and on programmes not yet fully agreed, the lowest possible outcome is £114.1 bn in 1981-82 1982-83, £119.7bn in 1983-84 and £125.4bn in 1984-85. Leaving aside regional development grants, which the Committee on Economic Strategy is to discuss on 24 November, the sums still at issue are £1.2bn in 1982-83, £2.0 bn in 1983-84 and £2.1 bn in 1984-85. These figures assume that local authority current expenditure in 1983-84 and 1984-85, which the Chief Secretary is to discuss with the other Ministers concerned on 24 November, will fall by 2 per cent in real terms in each year (as proposed in C(81)51).
The sums at issue in relation to regional development grants are £36 million in 1982-83, £19 million in 1983-84 and £90 million in 1984-85.

4. The Cabinet should be aware of the following matters on which agreement has been reached by the Ministers concerned:

a. Student grants

It is proposed that student grants should be reduced by $7\frac{1}{2}$ per cent in real terms in each of the years 1982-83 and 1983-84 (ie approximately frozen in cash terms); and that there should be substantial increases in parental contributions. For example, parents with a residual income of about £8,300 will pay almost £200 more in 1983-84 than now; parents with a residual income of about £13,200 almost £500 more. The minimum maintenance award will be abolished. These measures together will produce savings of approximately £60 million in 1982-83 and £130 million in each of the two subsequent years. The new parental contribution scales, and grant levels will be set out in an Order subject to negative resolution.

Following your discussion with the Chancellor on this point I understand Leon Brittan is looking at the issue afresh.
MCS 20/11

b. Earnings rule for pensioners

We are committed by the 1979 Election Manifesto to phase out the earnings rule during this Parliament. It had been our intention to remove the earnings rule in November 1983, but no announcement to this effect has been made. It is now proposed that the earnings rule should not be phased out until 1984. Savings: £28 million in 1983-84 and £95 million in 1984-85.

c. Supplementary benefit for 16 year olds

It is proposed that from November 1982 16 year olds should no longer be permitted to draw supplementary benefit; instead their parents will be able to claim child benefit. The net saving will be £12 million in 1982-83, £35 million in 1983-84 and £40 million in 1984-85. An additional provision in the Social Security Bill will be necessary. E Committee has already agreed (E(81)31st meeting, item 3) that supplementary benefit will not be paid to 16 year olds from September 1983, but it will be possible to justify that decision as helping to pay for the comprehensive youth training scheme which is to be introduced at the same time. That argument cannot be used to justify withdrawing supplementary benefit from 16 year olds next November; it will be necessary to argue that unemployed 16 year olds must look to their parents for support. The allowances paid to those participating in the Youth Opportunities Programme (YOP) are such that from November 1982 16 year old YOP trainees will be about £25 a week better off than their unemployed contemporaries if the latter cannot obtain supplementary benefit. In his letter of 16 November to the Secretary of State for Employment, the Chief Secretary has therefore proposed that YOP allowances should be reduced so as to give YOP trainees an advantage of about £12.75 a week over their unemployed contemporaries who are not on a YOP scheme, ie the same advantage as that enjoyed by trainees under the new training scheme.

d. Health charges

Our policy of keeping prescription charges in line with cost increases would imply that they should increase in April 1982 from £1.00 to £1.15. It is now proposed that they should rise instead to £1.30.

Increases are also proposed in the charges for dental treatment (up to £13 for a course of routine treatment and up to £100 for dentures and dental crowns) and for spectacle lenses (up to £40). Altogether these increases will yield savings of £44 million in 1982-83, £46 million in 1983-84 and £39 million in 1984-85. All of these charges are set out in Regulations, subject to negative resolution.

e. Road Traffic Accidents

The plans for health expenditure set out in Table 2 of Annex A include savings of £6 million in 1982-83, £93 million in 1983-84 and £101 million in 1984-85 from charging motor vehicle insurers the costs which health authorities incur in treating casualties in road traffic accidents. This is on the assumption, which may not be proved correct, that it would be feasible to include provisions with this effect in the 1982 Finance Bill. If legislation had to be introduced instead in the 1982-83 session the savings would be nil in 1982-83, £45 million in 1983-84 and £101 million in 1984-85. The Secretary of State for Social Services will be putting forward detailed proposals in the near future.

f. National Health Service (NHS) Pay

In his memorandum C(81)44 the then Secretary of State for Social Services proposed increased expenditure to permit certain groups of NHS staff to receive increases of more than 4 per cent in the next pay round. The totals for health expenditure set out in table 2 of

Annex A make no extra provision for this purpose on the understanding that the Secretary of State will use his best endeavours to keep increases to not more than 4 per cent; but that he may need to re-open the matter in the light of developments.

g. Property Services Agency (PSA)

MISC 62 agreed to a reduction of £20 million (about $4\frac{1}{2}$ per cent) per annum in planned expenditure by the PSA. The Secretary of State for the Environment pointed out that, to the extent that the PSA are unable to find the required savings by speeding up disposals or increasing efficiency, other Ministers' plans and programmes will be adversely affected.

CONTINUING DISAGREEMENT

5. Expenditure totals have not been agreed for the following programmes: (Annex B gives an outline of the points at issue on each)

i. Defence
ii. Housing
iii. Other Environmental Services
iv. Social Security

6. I invite my colleagues to decide on the public expenditure totals for these programmes for the years 1982-83 and 1983-84, together with the consequentials for 1984-85.

£ billion

		1981-82	1982-83	1983-84	1984-85
1.	White Paper revalued and adjusted.	104.6	110.0	113.9	119.6
2.	Chief Secretary's proposals in C(81)51*	107.3	113.1	118.1	124.8
3.	Changes agreed (for programmes now fully agreed) since Chief Secretary's proposals	-	+ 0.6	+ 1.2	+ 1.1
4.	Range of outcomes for programmes not yet agreed	-	+ 0.4 to + 1.6	+ 0.5 to + 2.4	+ 0.5 to + 2.6
5.	Resulting total	107.3	114.1 to 115.3	119.7 to 121.7	125.4 to 127.5

* Adjusted for corrections since 20 October.

ANNEX A TABLE 1

SECRET

ANNEX A TABLE 2

TO BE UPDATED

AGREED PROGRAMMES

£ billion

(a) Programmes other than nationalised industries			1981-82	1982-83	1983-84	1984-85
7.	Forestry	WP revalued	0.059	0.064	0.066	0.069
		Proposal 20/10	0.059	0.062	0.064	0.064
		Agreed	0.059	0.062	0.064	0.064
8.	Industry	WP revalued	1.970	1.460	1.006	1.056
		Proposal 20/10	1.972	1.353	0.854	0.874
		Agreed	1.972	1.401	0.858	0.873
9.	Energy	WP revalued	0.354	0.385	0.398	0.418
		Proposal 20/10	0.362	0.381	0.393	0.422
		Agreed	0.362	0.387	0.405	0.435
10.	Trade	WP revalued	0.287	0.302	0.284	0.298
		Proposal 20/10	0.288	0.289	0.269	0.284
		Agreed	0.288	0.291	0.276	0.278
11.	ECGD	WP revalued	-0.041	0.089	-0.039	-0.041
		Proposal 20/10	0.004	0.144	0.043	0.225
		Agreed	0.049	0.115	-0.011	0.125
12.	Employment	WP revalued	2.320	1.911	1.875	1.969
		Proposal 20/10	2.424	2.741	2.828	2.699
		Agreed	2.440	2.832	2.909	2.924
13.	Transport	WP revalued	2.840	3.036	3.237	3.400
		Proposal 20/10	3.252	3.182	3.300	3.381
		Agreed	3.252	3.197	3.315	3.396
17.	Home Office	WP revalued	3.263	3.529	3.785	3.974
		Proposal 20/10	3.411	3.639	3.920	4.111
		Agreed	3.411	3.639	3.920	4.111
19.	Education	WP revalued	11.315	11.667	12.104	12.709
		Proposal 20/10	11.785	11.952	12.284	12.680
		Agreed	11.785	11.990	12.330	12.735
20A	DHSS PSS	WP revalued	1.657	1.787	1.933	2.030
		Proposal 20/10	1.927	1.927	1.996	2.050
		Agreed	1.927	1.927	1.996	2.050
23.	Scotland	WP revalued	5.628	5.875	6.121	6.427
		Proposal 20/10	5.838	5.870	6.038	6.274
		Agreed *	5.838	5.922	6.130	6.378

£ billion

(a) Programmes other than nationalised industries		1981-82	1982-83	1983-84	1984-85
24. Wales	WP revalued	2.235	2.326	2.415	2.536
	Proposal 20/10	2.275	2.347	2.402	2.500
	Agreed*	2.275	2.360	2.434	2.538
25. Northern Ireland	WP revalued	3.223	3.419	3.630	3.812
	Proposal 20/10	3.272	3.480	3.645	3.868
	Agreed*	3.272	3.496	3.684	3.904

* Subject to formula consequentials of comparable proposals on non-agreed programmes and Welsh housing bid.

(b) Nationalised Industry programmes		1981-82	1982-83	1983-84	1984-85
1. Coal	WP revalued	0.886	0.792	0.652	0.685
	Proposal 20/10	1.117	1.026	0.973	0.962
	Agreed	1.117	1.026	0.973	0.962
2. Electricity (E&W)	WP revalued	-0.210	-0.499	-0.651	-0.684
	Proposal 20/10	-0.165	-0.419	-0.975	-0.860
	Agreed	-0.165	-0.319	-0.450	-0.530
3. Gas	WP revalued +	-0.390	-0.446	-0.825	-0.880
	Proposal 20/10	-0.317	-0.002	-0.341	-0.482
	Agreed	-0.317	-0.002	-0.077	-0.240
4. BNOC	WP revalued	0.360	-0.266	-*	-*
	Proposal 20/10	0.220	-0.120	-*	-*
	Agreed	0.220	-0.075	-*	-*
5. Steel	WP revalued	0.730	0.394	0.266	0.279
	Proposal 20/10	0.730	0.350	0.217	0.203
	Agreed	0.730	0.350	0.200	0.010
6. Telecom	WP revalued	0.180	0.032	-0.034	-0.037
	Proposal 20/10	0.380	0.340	0.222	0.244
	Agreed	0.380	0.435	0.335	0.335
7. Posts	WP revalued	0.011	-0.015	-0.015	-0.015
	Proposal 20/10	0.011	-0.050	-0.242	-0.206
	Agreed	0.011	-0.025	-0.025	-0.025
8. Giro	WP revalued	0.005	0.003	0.001	0.001
	Proposal 20/10	0.012	-	-0.007	-0.008
	Agreed	0.013	-	-	-
9. Shipbuilders	WP revalued	0.150	0.091	0.056	0.059
	Proposal 20/10	0.150	0.125	0.095	0.044
	Agreed	0.150	0.125	0.100	0.060
10 Airways	WP revalued	0.101	0.133	0.156	0.165
	Proposal 20/10	0.101	0.044	0.051	0.018
	Agreed	0.101	0.044	0.096	0.094
11. Airports	WP revalued	0.014	0.072	0.018	0.035
	Proposal 20/10	0.014	0.048	0.037	0.020
	Agreed	0.014	0.048	0.037	0.020
12. Railways	WP revalued	0.920	0.833	0.878	0.922
	Proposal 20/10	0.920	0.925	0.992	0.971
	Agreed	0.920	0.950	1.007	1.057
13. Docks	WP revalued	-0.005	-0.009	-0.008	-0.008
	Proposal 20/10	-0.005	-0.007	-0.010	-0.011
	Agreed	-0.005	-0.007	-0.010	-0.011

(b) Nationalised Industry programmes			1981-82	1982-83	1983-84	1984-85
14.	Freight Co	WP revalued	0·007	-0.002	-0.003	-0.003
		Proposal 20/10	0·007	-0.010	-0.016	-0.016
		Agreed	0·007	-0.010	0.001	0.003
15.	Bus Co.	WP revalued	0·075	0.077	0.084	0.089
		Proposal 20/10	0·075	0.071	0.069	0.065
		Agreed	0·075	0.071	0.074	0.074
16.	Waterways	WP revalued	0·032	0.033	0.035	0.037
		Proposal 20/10	0·032	0.036	0.039	0.041
		Agreed	0·032	0.036	0.039	0.041
17.	Scottish Electricity	WP revalued	0·109	0.224	0.240	0.252
		Proposal 20/10	0·109	0.265	0.254	0.233
		Agreed	0·109	0.245	0.254	0.233
18.	Scottish Bus	WP revalued	0·017	0.017	0.017	0.018
		Proposal 20/10	0·017	0.026	0.024	0.025
		Agreed	0·017	0.026	0.029	0.031

+ Adjusted for gas levy in later years (ie not adjusted in 1981-82 because BGC has not been set a post-levy EFL)

* All 1983-84 & 1984-85 figures for BNOC now excluded

DEFENCE

£ million

	1981-82	1982-83	1983-84	1984-85
Cmnd 8175 revalued	12270	13624	14881	15625
Secretary of State's proposals	12754	14333	15816	17317
MISC 62's proposals	12629	13959	15219	16422
Gap	125	374	597	895

The Government is publicly committed to increase defence expenditure in real terms by 8 per cent up to the end of 1981-82 and by 3 per cent in each of the three subsequent years. The Cabinet has agreed that those volume targets should be translated realistically into cash and that the defence programme should then be expressed in cash terms. The question at issue, for the next three years, is what realistic translation into cash means. There is a related question concerning the cash limit for the current year.

2. The Secretary of State for Defence proposes that, in addition to the increase in the 1981-82 defence cash limit which has already been agreed to cover the 1981-82 armed forces pay settlement, the limit should be increased by a further £400 million to allow for increased prices of defence equipment; and that this increase should be carried forward into further years (£436 million in 1982-83, £462 million in 1983-84 and £485 million in 1984-85).

3. The Secretary of State also argues that planned expenditure on defence should allow for a 2 per cent annual increase in the future relative price of all defence expenditure other than pay, on the grounds that defence procurement involves the purchase of sophisticated equipment whose prices

typically increase more rapidly than the general price level. The cost would be £169 million in 1982-83, £381 million in 1983-84 and £643 million in 1984-85.

4. The Chief Secretary, Treasury argues that the evidence of recent years supports neither the case for an increase in this year's cash limit specifically to take account of higher prices nor the assumption of a positive relative price effect for defence equipment in future years. He points out that since 1977 the relative price effect for defence equipment has been either minimal or negative; and that the Ministry of Defence's own index of defence equipment costs shows a rise of only about 10 per cent over the last 12 months, compared with the 11 per cent factor used for non-pay items in drawing up 1981-82 cash limits. He contends that to incorporate into the Government's plans provision for a relative price effect for whose recent existence the evidence was so weak would permit defence contractors to agree to high wage demands and would remove pressure on the Ministry of Defence to limit costs. In bilateral discussions with the Secretary of State for Defence he has however accepted that there should be a special transitional addition to the 1981-82 cash limit to ease the pressure on the defence budget as the Government's plans for reshaping the defence programme are put into effect.

5. MISC 62 concluded that it would not be appropriate to translate the Government's plans for defence spending into cash terms other than by using the general expenditure planning factors unless a higher figure could be clearly and precisely justified. Nonetheless the Group recognised the special problems of the defence budget. The Group proposed that the special transitional addition to the 1981-82 cash limit should be £275 million; and

that there should be further special additions to planned expenditure in 1982-83, 1983-84 and 1984-85 of £250 million, £250 million and £225 million respectively. The Group invited the Secretary of State for Defence to consider whether he could agree to this approach.

6. In his minute of 3 November the Secretary of State for Defence has replied that he could settle on the £275 million addition to this year's cash limit, which the Group proposed, but that to do so would leave a risk of overspending; that it is unlikely that the 1982-83 figure can be settled until December, when he will probably wish to put before Cabinet difficult proposals for savings in defence expenditure which will probably be necessary anyway; and that for 1983-84 and 1984-85, he cannot accept MISC 62's proposals without colleagues' knowing of the consequences for the Government's defence effort, which will not be clear until early in the New Year.

7. The Chief Secretary, Treasury in a letter of 9 November has asked the Secretary of State for Defence to consider accepting the MISC 62 proposals as an overall package covering the four years 1981-82 to 1984-85. The offer for 1982-83 is conditional on there being no in-year review clause and no relative price effect allowance, and an agreement to plan to keep within the resulting cash provision. It is recognised that the Public Expenditure White Paper figures for 1983-84 and 1984-85 will be provisional.

DEPARTMENT OF THE ENVIRONMENT: HOUSING.

			£ million
	1982-83	1983-84	1984-85
Cmnd 8175	3,869	3,372	3,540
Secretary of State's proposals	4,163		
Chief Secretary's proposals	3,778	3,274	3,205
Gap	385		

2. The housing programme was not discussed by MISC 62. Cabinet agreed on 12 November that further work on the Rate Support Grant settlement in 1982-83 should be on the assumption of council house rent increases averaging £2.50 a week (CC(81)36th Conclusions, Item 5).

3. To maintain in 1982-83 the 1981-82 volume of capital, management and maintenance expenditure within the total Cmnd 8175 provision of £3,869 million would have required rent increases averaging about £4 a week. The decision that rent increases should average £2.50 means that if the housing total is not to be increased capital must be cut by £292 million, of which:-

(i) £225 million to offset the lower rent increase,

and (ii) £ 67 million to offset additional provision, recommended by the Secretary of State, for the management and maintenance of housing stock.

4. The Chief Secretary suggested in C(81)51 that the existing housing total should be cut by £93 million. This together with the £292 million gives a gap of £385 million.

5. The table shows the Chief Secretary's proposals for 1983-84 and 1984-85. Cabinet will need to decide on these in the light of their decisions on 1982-83.

OTHER ENVIRONMENTAL SERVICES (DOE - OTHER)

	1982-83	1983-84	1984-85
			£ million
Cmnd 8175	3669	3875	4069
Secretary of State's proposals	3778	3960	4015
MISC 62's proposals	3668	3810	3965
Gap	110	150	150

The Chief Secretary proposes cuts of £85 million in 1982-83 and £100 million in 1983-84 and 1984-85 in capital expenditure by the Regional Water Authorities; and savings of £25 million in 1982-83 and £50 million in each of the two subsequent years in capital expenditure by local authorities on services within this programme (refuse collection and disposal, recreation, planning, assistance to industry, derelict land reclamation and coast protection).

2. The Secretary of State for the Environment points out that these reductions involve substantial cuts in public sector investment and would have an immediate and undesirable impact on the construction industry. Both water industry and local authority investment have, moreover, been drastically cut over the past few years.

3. MISC 62 recognises the force of the Secretary of State's objections to the cuts proposed. Given the choice, they are not the sort of reductions which the Government should be making. These reductions can however be easily achieved and involve neither legislation nor the breaking of public commiements. The Group recommends that the Chief Secretary's proposals should be accepted.

4. In discussion subsequent to MISC 62, the Secretary of State has suggested that on these two items taken together the largest cuts to which he might be able to agree are £80 million in 1982-83 and £100 million in each of the two following years.

SOCIAL SECURITY

£ million

	1982-83	1983-84	1984-85
Cmnd 8175 revalued	30,197	31,819	33,410
Secretary of State's proposals as modified by discussion	29,943	31,667	33,704
Chief Secretary's proposals as modified by discussion	29,752	31,105	33,115
Gap	191	562	589

The totals above include the effects of the decisions on phasing out the earnings rule for pensioners and withdrawing 16 year olds' entitlement to claim supplementary benefit.

2. There are three questions at issue.

Invalidity pensions

3. The Secretary of State has proposed that at the November 1982 uprating of social security benefits the Government should make good the 5 per cent abatement in invalidity pensions which was made in 1980. The cost would be £18 million in 1982-83, £54 million in 1983-84 and £58 million in 1984-85. He argues that at least one specific improvement in social security is necessary to provide some defence against critics of the Government's actions in this area; that the 1980 decision to abate invalidity pensions has been widely criticised as an attack upon the disabled and chronically sick; and that to restore it in the International Year of the Disabled would be a popular measure. The Chief Secretary argues that the abatement should

be restored when benefits become taxable, as we have undertaken to do; but not before.

Shortfall in non-pensioner supplementary allowances

4. The Secretary of State has proposed that at the November 1982 uprating the Government should make good the 2 per cent by which, because of the under-estimate of inflation in the November 1981 uprating, supplementary allowances paid other than to pensioners will have fallen in real terms. The cost would be £28 million in 1982-83, £68 million in 1983-84 and £71 million in 1984-85. (The Chief Secretary's proposals already allow for restoration of the same shortfall for retirement pensions and other benefits whose real value the Government is pledged to maintain. No such pledge exists in this case). He argues that it would be difficult to do otherwise, since in 1981 the Government held down the uprating of these allowances to make up for the extent by which the 1980 uprating inflation had been over-estimated.

Abatement of November 1982 uprating

5. The Chief Secretary has proposed that in the November 1982 uprating short term benefits not subject to an absolute pledge of price protection should be increased by 5 per cent less than the increase in the Retail Price Index. The benefits involved are supplementary allowances, unemployment benefit, child benefit, (including one parent benefit), family income supplement, sickness and injury benefit, mobility allowances and maternity allowances. The saving would be £145 million in 1982-83, £440 million in 1983-84 and £460 million in 1984-85. He argues that such a decision could be defended on the grounds that the incomes of those at work, some of them not much better off than some

recipients of supplementary benefit, are increasing less rapidly than prices. The Secretary of State argues that such a decision would be very difficult to defend, particularly against the background of savings which have already been achieved in this area such as the abolition of earnings-related supplement.

6. In discussion outside MISC 62 the Secretary of State for Social Services and the Chief Secretary have undertaken to consider a package of proposals by the Secretary of State with the following elements.

(a) A revised and less expensive proposal for invalidity pensions than that described at paragraph 3 above: extension of the long term rate of supplementary benefit to invalidity pensioners, at a cost of £7 million in 1982-83, £21 million on 1983-84 and £22 million in 1984-85.

(b) Withdrawal of the Secretary of State's proposal (paragraph 4 above) to make good the 2 per cent shortfall in non-pensioner supplementary allowances.

(c) Withdrawal of the Chief Secretary's proposal (paragraph 5 above) to abate by 5 per cent the November 1982 uprating of short-term benefits not subject to an absolute pledge of price protection.

SUBJECT

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NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 19 NOVEMBER 1981 AT 8:30PM TO DISCUSS PUBLIC EXPENDITURE ON FOREIGN AND COMMONWEALTH OFFICE (INCLUDING THE OVERSEAS DEVELOPMENT ADMINISTRATION) PROGRAMMES.

Present

The Prime Minister
Secretary of State for Foreign and Commonwealth Affairs
Chancellor of the Exchequer
Chief Secretary, Treasury

Sir Robert Armstrong
Mr D J L Moore

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The meeting had before it the Annex on Foreign and Commonwealth Office programmes to the Home Secretary's draft paper on the work of MISC 62 circulated by the Prime Minister's Private Secretary on 13 November.

The Chief Secretary, Treasury said that he recommended cuts in the provision for overseas representation, information and other external services of £10 million in 1982-83 and of £13 million and £14 million in the two following years; an increase of £10 million a year in commercial borrowing by the Commonwealth Development Corporation (CDC), rather than of £20 million a year as recommended by the Foreign and Commonwealth Secretary; and reductions in the Overseas Aid Programme in the three years of, respectively, £48 million, £49 million, and £50 million, of which £18 million, £19 million and £20 million represented the excess from using the 9 per cent non-pay revaluation factor rather than 7 per cent which, in the Treasury's view, would be appropriate to this particular programme. Since MISC 62's discussions the proposal for additional aid to Poland of £60 million in 1982-83 had been withdrawn in discussions by the Defence and Oversea Policy Committee.

The Foreign and Commonwealth Secretary said that, since the BBC's external services, the British Council and international subscriptions were effectively exempted from the present exercise, the cuts on the FCO's programmes, other than aid, would all fall on overseas representation. Cuts of the order proposed by the Chief Secretary would lead to the closure of a good number of overseas posts; the criticism of the Government over the resulting damage to British trade and diplomacy was not worth incurring for the relatively small savings at issue. The most he could accept on this part of the programme was savings of £3 million a year. To go further would involve reductions in trade posts in embassies in Europe and this would be opposed by the Secretary of State for Trade; labour and agriculture attachés were on the payroll of the FCO but he could not cut such posts without the agreement of the Secretary of State for Employment and the Minister of Agriculture. He would be willing to accept increases to £15 million a year in commercial borrowing by the CDC although he might wish to reopen this decision if it led to threats of resignation from the Board of the CDC who had argued for increases of £30 million a year. It seemed unlikely that the CDC could borrow abroad without Government guarantee but if such borrowing were practicable, and if it were then accepted that it should not be scored in the Public Sector Borrowing Requirement, the possibility could be explored further. Although his Department did not accept the Treasury's arguments that the re-valuation factor of 9 per cent was inappropriate to the aid programme he would, reluctantly, accept the proposed cut of £18 million in 1982-83 and of £19 million and £20 million in the two following years. He would not, however, accept the proposed remaining cut of £30 million a year. The aid programme had already been cut in real terms by 25 per cent since the 1979 Election and to go further now would raise serious difficulties both within the United Kingdom and internationally.

The Prime Minister, summing up the discussion, said that in the interests of achieving the Government's overall objectives for public expenditure there was a strong case for accepting the Chief Secretary's proposals in full for this programme. The Meeting were persuaded, however, that the cuts should be as proposed by the Foreign and Commonwealth Secretary. The Meeting had questioned whether further savings might be made by reductions in certain trade, labour and agriculture posts in embassies and the Foreign and Commonwealth Secretary should consider this further with the other Ministers concerned; the Meeting recognised that agreement would not be reached in time for decisions to be incorporated in the present public expenditure exercise.

The Meeting -

1. Agreed that the total for the Foreign and Commonwealth Office programmes should be £1571 million in 1982-83, £1675 million in 1983-84 and £1753 million in 1984-85.

2. Invited the Foreign and Commonwealth Secretary, in consultation with the Chief Secretary, Treasury, to consider further with the Ministers concerned the number of trade, labour and agriculture posts in United Kingdom embassies.

19 November 1981

cc masters.

SUBJECT

11A

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 19 NOVEMBER 1981 AT 12.15PM TO DISCUSS PUBLIC EXPENDITURE ON HEALTH AND SOCIAL SECURITY

Present

The Prime Minister
Home Secretary
Chancellor of the Exchequer
Secretary of State for Social Services
Chief Secretary, Treasury

Sir Robert Armstrong
Mr P L Gregson

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The meeting had before it the annexes on Health and Social Security to the Home Secretary's draft paper on the work of MISC 62, circulated by the Prime Minister's Private Secretary on 13 November, and a minute from the Secretary of State for Social Services to the Prime Minister of 17 November.

On health, the meeting agreed:

1. That prescription charges should be increased to £1.30 rather than £1.50 as envisaged by MISC 62.

2. That increases should be made in charges for dental treatment and spectacles, as proposed by the Secretary of State for Social Services in MISC 62, subject to the Secretary of State's providing the Prime Minister with details of the dental charges.

3. That, in relation to the provisions for the Hospital and Community Health Service (HCHS):

i. no increase should be made to compensate for price increases in 1981-82 in excess of the cash limit factors;

ii. the proposed reductions of £93m in 1982-83, £98m in 1983-84 and £101m in 1984-85 should not be made, in order to permit a 1.7 per cent real growth increase between 1981-82 and 1982-83;

iii. there should be further increases of £43m in 1983-84 and £91m in 1984-85 to permit a small real growth increase in those years.

4. That no extra provision should be made to permit certain groups of NHS staff to receive increases of more than 4 per cent in the next pay round on the understanding that the Secretary of State for Social services would use his best endeavours to keep increases to not more than 4 per cent but might need to re-open the matter in the light of developments.

5. That, subject to approval by the Cabinet, legislation should be introduced to charge motor vehicle insurers for the cost of treating casualties in road traffic accidents either in the 1982 Finance Bill (if this proved practicable) or in the 1982-83 Session.

6. That the National Health Contribution should be increased by 0.1 per cent.

On social security the meeting agreed:

1. That, contrary to the conclusion reached in MISC 62, the pensioners' Christmas bonus should remain at £10, with no change in coverage, subject to further consideration of whether the savings to be derived from excluding those under 70 would justify the controversy which might be provoked.

2. That supplementary benefit should be withdrawn from 16 year olds (offset by payment of child benefit in respect of them) from November 1982.

3. That the phasing out of the earnings rules for pensioners should be deferred until 1984.

4. That savings should be made from miscellaneous amendments to supplementary benefit rules amounting to £50m a year in 1983-84 and 1984-85, and a smaller sum in 1982-83.

5. That further consideration should be given to a package of proposals by the Secretary of State for Social Services with the following elements:

i. a revised proposal relating to the abatement in invalidity pensions which would involve increases of only £7m in 1982-83, £21m in 1983-84 and £22m in 1984-85;

ii. withdrawal of the proposal to make good the 2 per cent shortfall in non-pensioner supplementary allowances;

iii. withdrawal of the proposal of a 5 per cent abatement in the November 1982 uprating of short term benefits not subject to an absolute pledge of price protection.

19 November 1981

SVB 5/855 Econ Pol Public Exp — ce Master

11

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON WEDNESDAY 18 NOVEMBER 1981 AT 8:30pm TO DISCUSS PUBLIC EXPENDITURE ON ENVIRONMENTAL SERVICES

Present

The Prime Minister

Home Secretary	Chancellor of the Exchequer
Secretary of State for the Environment	Secretary of State for Wales
Chief Secretary, Treasury	Minister for Local Government and Environmental Services
Minister for Housing and Construction	Parliamentary Under Secretary of State Scottish Office (Mr Rifkind)

Mr P L Gregson

Mr D J L Moore

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The meeting had before it the Annex on the Department of the Environment's other environmental services to the Home Secretary's draft paper on the work of MISC 62, circulated by the Prime Minister's Private Secretary on 13 November.

The Home Secretary said that, by comparison with the Secretary of State for the Environment's proposals for this programme, the Chief Secretary, Treasury had recommended cuts totalling £110 million in 1982-83 and £150 million in each of the two following years. These proposed cuts were made up of £85 million in 1982-83 and £100 million in each of the two later years in capital expenditure by the Regional Water Authorities with the balance coming from cuts in capital expenditure by local authorities on their services within this programme (refuse collection and disposal, recreation, planning, assistance to industry, derelict land reclamation and coast protection). MISC 62 had recognised the force of the Secretary of State for the Environment's objections that such cuts would fall on capital programmes which had already been drastically reduced over the past few years and would be damaging to the construction industry. On the other hand, in contrast to many of the options considered by MISC 62 for other programmes, these reductions could be easily achieved in practice and would involve neither legislation nor the breaking of public commitments. In view of this, and of the overriding objective of reaching agreement on public expenditure totals as near as possible to those proposed by the Chief Secretary in C(81)51, MISC 62 had recommended that the Chief Secretary's proposals for this programme should be accepted. If they were the total provision for the programme would be, from 1982-83, £3635 million, £3764 million, and £3909 million.

The Secretary of State for the Environment said that although such cuts could be made they were sensitive politically. They would fall on the private sector construction industry, where unemployment was already high, and the industry would be bitterly critical of the Government for this. The most by which he could agree to reduce his own proposals for the programme would be £80 million in 1982-83 and £100 million in each of the two following years. This was short of the Chief Secretary's proposals by £30 million in 1982-83 and by £50 million in each of the following years. While these figures might seem small in the context of public expenditure totals overall they were significant in relation to the particular capital programmes concerned and to the current problems of the construction industry. Before reaching final decisions on these programmes there were two other proposals which he would like to discuss urgently with the Chief Secretary. First, he now had proposals for introducing private sector financing into the water industry and this could lead to reductions in public expenditure in the later years of the Survey period. Secondly, he wished to discuss the treatment of local authority capital receipts from the sale of land and other assets. The latest returns showed that such receipts in 1981-82 might be £700 million higher than expected and if they were not spent in the year this would lead to a net reduction in public expenditure. He would like to consider whether, contrary to present practice, these receipts could be used to finance investment in 1982-83 which would not then be scored as additional public expenditure.

The Prime Minister, summing up the discussion, said that while the meeting recognised the disadvantage of capital cuts on these programmes it was necessary to make them in full, as recommended by MISC 62, if the Government's overall objectives for public expenditure were to be achieved. The Secretary of State for the Environment should, therefore, consider urgently, and in advance of the meeting of Cabinet on 26 November, whether he would be willing to accept the programme for other environmental services recommended by MISC 62.

The meeting noted that he would also write to the Chief Secretary, Treasury on the suggestions, which he wished to discuss, for the financing of the water industry and for the treatment of local authority capital receipts.

The Meeting -

Invited the Secretary of State for the Environment to report further, and as soon as possible, as indicated by the Prime Minister in her summing up of their discussion.

18 November 1981

MR JENKINS

cc Mr Mathews
Mr Burns
Mr Middleton
Mr Cassell
Mrs Gilmore
Mr Norgrove

DAVID BLAKE ARTICLE - 1982-83 PSBR

Mr Cassell's minute of today quotes paragraph 16 of the final version of the Cabinet paper for 20 October as put to colleagues. You should know that the earlier version which went to the Prime Minister was a little different in that instead of saying :-

> "I am convinced that we cannot at this stage plan for a 1982-83 PSBR larger than some £9 billion (at current prices) or about $3\frac{1}{4}$ per cent of GDP, in line with what we have announced; .....",

as it did finally, it said :-

> "I am convinced that we cannot now plan for a 1982-83 PSBR bigger than we envisaged in March .....".

The change was made by the Chancellor himself in the course of, fairly substantial redrafting to the whole of this paragraph. We had an opportunity to look at this redrafting, and indeed did make some comments on it; but did not advise returning to the previous version on this particular point. I recall we did wonder whether we should suggest that the figure of £9 billion should be in some way qualified by reference to "effects of civil service strike etc", but we felt - and in the light of later events I think we were right - that this would just raise suspicions and hares and worry people. (Indeed the Chancellor may have felt that the earlier version raised this risk, which was one reason for the change). The full arithmetic was spelt out for the benefit of the Chancellor in brief E amongst the bundle provided for the Cabinet meeting; and in fact the point that the arithmetic lying behind the Chancellor's proposals led to a PSBR rather less than £9 billion had emerged earlier at a meeting of departmental economic advisers which Mr Burns had arranged. And of course the Chancellor has since had Mr Middleton's note of 12 November, and my crib of 13 November, which sets out all the figures very clearly.

2. Nevertheless with the benefit of hindsight it is possible that some colleagues may have taken the Chancellor's £9 billion figure not as being a maximum, with the actual figure really rather less; but as also being, in effect, a minimum. In other words, they may not have realised that whether you look at it from the point of view of starting from the MTFS (which means that you should deduct the civil service strike and other adjustments) or whether you look at it from the point of view of the autumn forecast (which in order to get at tolerable interest rates points to a somewhat lower figure) the £9 billion is in the Chancellor's view too high (as seen at this stage - naturally a further judgement will be made before the Budget) and was put in solely as a top-end figure to deal with claims that we might now decide to move upwards from the MTFS figure. (I take it that this, also was in the Chancellor's mind in making the change.) That there may be a misconception here is borne out by the reference - presumably deriving from a leak - about half way down in the second column of the David Blake article where he says "in his discussion with other departments, the Treasury has been talking of public borrowing next year being limited to £9,000 million....".

3. We shall have to consider how this is handled in the Industry Act forecast, for instance, and also in the briefing for the Cabinet discussions on 26 November. (And is likely to come up sooner - when the Treasury returns in front of the TCSC next Wednesday). In current discussions with colleagues, it seems to me the line to take is :-

a. What was said in the 20 October Cabinet paper about the £9 billion was very much the top limit, and in any case the £9 billion itself would require adjustment eg for the civil service strike.

b. The 20 October Cabinet paper also made it clear that interest rates pressures might, at the end of the day, call for something lower.

c. David Blake's article says nothing new - the points he makes are all taken up in the Chancellor's arithmetic [though the paper itself for 20 October did not say so].

d. There are very excellent reasons, quite apart from the PSBR, for trying to get at public expenditure totals as close as possible to the Chancellor's and Chief Secretary's proposals - thus the effects on confidence in the markets, political considerations relating to overrun on Cmnd 8175, and the Government's general political stance relating to public expenditure.

4. You told me that Mr Scholar at No 10 had been on to you on the David Blake article. You will no doubt be considering whether if Mr Cassell's note is to be conveyed to No 10, it would not be a good thing, as the Chief Secretary suggested, also to send across Mr Middleton's note and my crib sheet. But this is something you would presumably want to consult the Chancellor on. I would hope that for the Chancellor and the Chief Secretary the position and the figures are all now very clear; the purpose of this present note is to draw attention to this potential ambiguity over the quality of the £9 billion as quoted in the 20 October paper, so as to try to ensure that there is no further misunderstanding.

5. Of course at the end of the day (Budget time) the Chancellor may actually go for - or be forced to - a PSBR much nearer £9 billion cash than the £6¾ billion underlying the 20 October paper. To that extent arguably it is better for the £9 billion to gain currency in the Press than something lower! But this is not a point for wide use.

E P KEMP
18 November 1981

CONFIDENTIAL

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (L)
Sir A Rawlinson
Mr Burns
Mr Bridgeman
Mr Middleton
Mr Kemp
Mr Evans
Mrs Lomax
Mrs Gilmore
Mr Ridley
Mr Cropper
Mr Harris

"£3,000m. BONUS FOR NEXT BUDGET"

Two quick points on David Blake's article in The Times today.

2. First, the story does not bear out the headline. Half-way through the article Blake admits that the components producing this "bonus" - the spill-over of taxes into 1982-83 as a result of the civil service dispute and sales of assets (including BNOC) - would have no economic impact. The first is an accident of timing: the "gain" in 1982-83 would justify higher expenditure only if the "loss" in 1981-82 had been the cause of a reduction in spending (which it plainly was not). The second, asset sales, should reduce the PSBR but will also reduce the capacity of the private sector to buy government debt: so the net effect on money supply and interest rates will be negligible.

3. Second, these factors were taken into account in the arithmetic underlying the paper you put to Cabinet on 20 October. Some £1 billion was allowed for delayed tax receipts, and the PSBR 'target' adjusted accordingly, though this was not mentioned in the final version of the paper circulated to Cabinet - which included only the crude £9 billion figure (as an upper limit). The allowance for asset sales in the forecast did not include the whole BNOC disposal (which had not then been proposed) - but for the reasons given above such sales are irrelevant to the judgement on the PSBR appropriate for next year. Paragraph 16 of C(81)50 said:

CONFIDENTIAL

"Not until the time of the next Budget will I be able to take a final view as to what we should aim for. But, particularly in view of the risks on interest rates and the effect on market confidence, I am convinced that we cannot at this stage plan for a 1982-83 PSBR larger than some £9 billion (at current prices), or about $3\frac{1}{4}$ per cent of GDP, in line with what we have announced; indeed the possibility cannot be excluded that when final decisions have to be made, interest rate pressures will call for something lower."

Lying behind this last warning was the thought that the PSBR planned for next year would need to take account of such factors as the tax spill-over and any major changes bearing on interest rates (eg in the programme for asset sales). There is no recently discovered 'bonus' that would lead you to change the judgement you put to Cabinet in October.

F CASSELL
18 November 1981

SECRET

10

Treasury Chambers, Parliament Street, SW1P 3AG

D A Edmonds Esq
Private Secretary to the
Secretary of State
Department of the Environment
2 Marxham Street
London SW1P 3ED

18 November 1981

Dear David,

PUBLIC EXPENDITURE

Thank you for your letter of 17 November.

The Chief Secretary has noted your Secretary of State's views. But he still thinks it would be useful to discuss housing capital this evening, and he has asked me to let you know that he intends to raise the matter. I understand that the Secretaries of State for Scotland and Wales have been invited to the meeting for this purpose.

I should add that the Chief Secretary will be interested to learn what further information has come to light since the Cabinet discussed this subject on Thursday last, and which has led your Secretary of State to commission further work on the housing capital and maintenance programmes.

I am copying this letter to Michael Scholar (No.10), John Halliday (Home Office), John Wilson (Scottish Office), John Craig (Welsh Office) and David Wright (Cabinet Office).

Yours sincerely

Terry Mathews

T F MATHEWS
Private Secretary

SECRET

P 0586

9

PRIME MINISTER

Public Expenditure:
Foreign and Commonwealth Office (including aid)

There is no need to discuss Poland. OD agreed on 12 November that as things stand at present no new public expenditure on aid to Poland should be undertaken in 1982; but that it might be necessary to reconsider the provision of extra aid if circumstances change during 1982.

2. Without Poland, the gap between the Chief Secretary's and the Foreign and Commonwealth Secretary's proposals becomes £68 million in 1982-83; and stays at £72 million and £74 million respectively in 1983-84 and 1984-85.

3. The main question is the level of aid expenditure: the Chief Secretary proposes cuts of £48 million in 1982-83, £49 million in 1983-84 and £50 million in 1984-85.

4. The other two questions at issue - overseas representation and other external services (£10 million, £13 million and £14 million) and overseas borrowing by the Commonwealth Development Corporation (£10 million a year) can probably only be settled in the context of an agreement on aid.

PLG

P L GREGSON

18 November 1981

8A

Prime Minister

This is the minute

I handed you at the end

of the meeting with Mr Heseltine

MLS 18/11

Prime Minister

The paper tabled on health and social security programmes fairly summarises the issue for discussion at our meeting this evening, but it does not fully bring out how far I have already gone to help Treasury colleagues. My proposals already make up an exceedingly tough political package.

On health, I have agreed to the following:

- withdrawal of bids amounting to £184 million in 1982/83 and more in later years (some of these reflect unavoidable demand, eg. wheelchairs for the disabled, welfare milk for children, which will have to be met by cuts in other central services, eg. research);

1.30

- prescription charges at £1.50 (instead of £1.15 for inflation); we should remember that when the Government took office the prescription charge was 20p and is now £1.

- higher charges for dentures and dental crowns (up to £100) and for a course of routine dental treatment (up to £13, the full cost);

- higher charges for spectacles (up to £40);

- efficiency savings well in excess of those proposed by Patrick Jenkin, fully up to the limit of what is realistic and carrying risks that standards of service will suffer;

0.1%

£41

£93m

- reducing the proposed growth rate for hospital and community health services in 1983/84, 1984/85 by half to the minimum of one per cent necessary to maintain standards for the growing number of very old people and to allow doctors to make use of important medical advances - it will leave no room for improvements in care which require extra resources;

- provision for pay which will mean that this year and next NHS staff will suffer a cumulative reduction in living standards of between 9 and 12 per cent.

- my proposals for 1982/83 entail already a reduction in real terms in expenditure on the NHS.

On social security, we start from the position that £1.4 bn has already been cut in the past two years. On top of that, I have already agreed -

- to withdraw bids amounting to £172 m in 1983/84 - all on points where we are vulnerable to political criticism;

- to accept a cut on administrative expenses worth £30 m in 1983/84;

- to save half the expenditure on the Christmas bonus, by making it more selective (£50 m); £100 Suppl.

- to defer the phasing out of the earnings rule (despite our manifesto pledge) saving £28 m in 1983/84 and £95 m in 1984/85;

- to abolish supplementary benefit for 16-year olds (saving £35 m in 1983/84);

- to seek to find additional supplementary benefit savings in 1983/84, as suggested by MISC62 and I shall be discussing these with the Chief Secretary.

As you will know from the Chancellor's minute of 17 November, it is proposed that there should be an urgent Social Security Contributions Bill introduced shortly to increase contributions, possibly entailing a steep increase in employees' contributions. Concurrently my Social Security Bill will require amendment to make certain of the changes proposed above (Christmas bonus; supplementary benefit for 16 year olds). At the same time it is becoming evident that the 1981 uprating next week will have left a two per cent shortfall in the value of benefits: this will be made good for the retirement pension and other "pledged benefits" in November 1982, but for the other benefits, including supplementary benefit, it immediately raises the question whether we shall similarly make good the shortfall next year (as we are recovering a one per cent overshoot in this year's uprating). If we do not, we have a two per cent abatement before we start. Finally, the abolition of earnings-related supplement for which we legislated in 1980, takes effect in January, and will markedly reduce National Insurance benefits for many of those becoming unemployed or sick next year. We face considerable political difficulties on this point.

I am copying this minute to Willie Whitelaw, Geoffrey Howe, Leon Brittan and Sir Robert Armstrong.

Retirement

← Shortfall

Abatement.

22.

18 November 1981

cc masters.

7

E. Pol Pub. Exp.

SUBJECT

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON TUESDAY 17 NOVEMBER 1981 AT 08.15 TO DISCUSS PUBLIC EXPENDITURE ON AGRICULTURAL PROGRAMMES

Present

The Prime Minister
Home Secretary
Minister of Agriculture, Fisheries and Food
Secretary of State for Scotland
Secretary of State for Wales
Chief Secretary, Treasury

Sir Robert Armstrong
Mr P L Gregson

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The meeting had before it the Annex on Agricultural Programmes to the Home Secretary's draft paper on the work of MISC 62, circulated by the Prime Minister's Private Secretary on 13 November, a letter from the Minister of Agriculture, Fisheries and Food to the Chief Secretary, Treasury of 13 November, and the Chief Secretary, Treasury's reply of 16 November.

The Chief Secretary, Treasury said that a basis for agreement had been identified on all the issues except that of capital grants. He had originally sought savings on that item of £30m in 1982/83, £50m in 1983/84 and £50m in 1984/85. In view of the savings on fishery protection vessels offered by the Minister of Agriculture in his letter of 13 November (amounting to £3m in 1982/83, £9m in 1983/84 and £6m in 1984/85), he would be prepared to reach an overall settlement on the agricultural programmes, if the Minister of Agriculture could agree to savings on capital grants of £15m in 1982/83, £25m in 1983/84 and £25m in 1984/85; the overall totals for the programmes of the agricultural departments would then be £1027m in 1982/83, £970m in 1983/84 and £987m in 1984/85. The position in relation to the beef premium, the rate of allowance for hill cows, and adaptation aids for glasshouses would be as set out in his letter of 16 November.

The Minister of Agriculture said that he had originally argued for an increase in capital grants, mainly because of the serious position of United Kingdom producers of agricultural machinery. A cut in grants was very difficult to justify at a time when capital investment in agriculture was already depressed. This was demonstrated by the fact that a £20m shortfall in take up of grants had been assumed over the survey period and the Secretary of State for Scotland now believed that there was an additional shortfall in take up of grant in Scotland of £8m in 1982/83, £10m in 1983/84 and £11m in 1984/85. A reduction in capital grants would have a bad psychological effect on the agricultural industry which was suffering from a severe fall in farm incomes and from the burden of high interest rates on large overdrafts. The Chief Secretary, Treasury said that, provided that the projected shorfall in Scottish take up of capital grants could be shown to be valid, he could accept these reductions as counting towards the desired savings on capital grants. In the interests of reaching an agreement he was prepared to seek further savings of only £4m in 1982/83, £6m in 1983/84 and £8m in 1984/85. This would mean that the total provision for the programme of the agricultural departments would be £1030m in 1982/83, £979m in 1983/84 and £993m in 1984/85.

The Minister of Agriculture said that he was prepared to agree to these totals provided that it was open to him, with the help of other agricultural ministers, to find the remaining savings without reducing capital grants. He would like to announce the £2 increase in the rate of allowance for hill cows by the end of the week; an early announcement was also desirable about the extension of adaptation aid for glasshouses, which could be found within the agreed public expenditure total for 1982/83.

The Prime Minister, summing up the discussion, said that it was agreed that the totals for the agricultural departments' programme should be £1030m in 1982/83, £979m in 1983/84 and £993m in 1984/85. The corresponding totals for the programme for the Intervention Board for Agricultural Produce were £664m, £661m and £677m. This agreement was however conditional on it being shown that the provisions for capital grants could properly be reduced by £8m in 1982/83, £10m in 1983/84 and £11m in 1984/85 to reflect shortfall in take up in Scotland and on further savings being found by the Minister of Agriculture, with the help of other agricultural ministers, of £4m in 1982/83, £6m in 1983/84 and £8m in 1984/85. As soon as the position about the Scottish shortfall had been confirmed, the Minister of Agriculture could go ahead with the announcement about the increased allowance for hill cows. On aid for glasshouses, while those present at the meeting were sympathetic to the proposal, the Secretary of State for Industry, in his letter to the Chief Secretary of 13 November, had seen difficulties because of the resentment which might be caused in manufacturing industry; the Minister of Agriculture should therefore discuss this matter further with the Secretary of State for Industry, keeping the Chief Secretary, Treasury informed, with a view to reaching agreement on an early announcement.

The Meeting -

1. Agreed, subject to the points made in the Prime Minister's summing up, that the public expenditure totals for the agricultural departments' programme should be £1030m in 1982/83, £979m in 1983/84 and £993m in 1984/85 and that the corresponding totals for the IBAP programme should be £664m, £661m and £677m.

2. Invited the Minister of Agriculture, Fisheries and Food to make an announcement about the increased allowance for hill cows, subject to the point made in the Prime Minister's summing up.

3. Invited the Minister of Agriculture, Fisheries and Food to have further discussions with the Secretary of State for Industry about the extension of aid for glasshouses, on the lines indicated in the Prime Minister's summing up.

17 November 1981

SECRET

Copy No 4 of 17

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

8

My ref:

Your ref:
17 November 1981

Dear Terry

PUBLIC EXPENDITURE

Thank you for sending me a copy of your letter of 16 November to Michael Scholar, about public expenditure, suggesting that it would be helpful to have a discussion of housing capital and management maintenance at the meeting on Wednesday evening.

That is not the view of my Secretary of State. He has asked me to say that following the discussion at Cabinet last week, and the clear agreements recorded in the Prime Minister's summing up and the Cabinet conclusions, it is his understanding that further discussions of housing capital should take place in the context of Cabinet's further discussions of the 1981 Public Expenditure Survey.

Further, my Secretary of State has put in hand more work on the housing capital and maintenance programmes in the light of the Cabinet's discussion, which cannot be completed at a day's notice. He has therefore asked me to say that he is not in a position to accept the Chief Secretary's suggestion of discussion tomorrow.

I am copying this letter to the recipients of your letter of 16 November - Michael Scholar (No 10), John Halliday (Home Office) and David Wright (Cabinet Office).

Yours sincerely
David Edmonds

D A EDMONDS
Private Secretary

Terry F Mathews Esq
PS/Chief Secretary

6A

P.0585

PRIME MINISTER

Public Expenditure: Health and Social Security

HEALTH

You might suggest that the discussion should concentrate on the main outstanding issues identified in the Annex on Health to the Home Secretary's draft MISC 62 report.

Hospital and Community Health Service (HCHS)

2. The three questions at issue under this heading are as follows:

a. The Secretary of State wishes to increase planned expenditure to compensate for the effects of 1981-82 price increases above cash limit factors (cost: £41 million in 1982-83, £44 million in 1983-84, £48 million in 1984-85).

b. The Secretary of State proposes 1.7 per cent real growth in 1982-83. The Chief Secretary proposes no real growth (saving: £93 million, £98 million, £101 million).

c. The Secretary of State proposes 1 per cent real growth per annum in 1983-84 and 1984-85. The Chief Secretary proposes no real growth (saving: £86 million in 1983-84 and £182 million in 1984-85).

3. The following public commitments are relevant:

a. The 1979 Election Manifesto said "It is not our intention to reduce spending on the Health Service; indeed we intend to make better use of what resources are available".

b. On 8 April 1979 you said at Beeston "We shall not reduce the resources devoted to the Health Service".

c. On 27 April 1979 Mr Jenkin said at Peterborough "In their Public Expenditure White Paper published at the beginning of the year the [Labour] Government set out their spending plans for the National Health Service over the four years up to 1982-83. This provides for a modest growth in National Health Service spending. These spending plans will be at the very least maintained by a Conservative Government".

d. On 22 January 1980 you said in answer to a Parliamentary Question from the Leader of the Opposition: "Our pledge that we shall keep up expenditure on the National Health Service as we gave it in the election will be maintained".

These statements, and particularly that at 3(c), appear to commit the Government to maintaining in real terms the growth in HCHS expenditure planned by the previous Government. This would imply accepting both the Secretary of State's proposals at 2(a) and (b) above.

4. The Chief Secretary will point out that these commitments were made before the Government introduced cash planning. He may suggest that savings can be found by increasing efficiency. But the Secretary of State's proposals already assume increases in efficiency higher than the CBI have proposed for the Health Service; and he will probably argue that there is no scope to do better. To plan on unrealistic assumptions about efficiency is likely to result in a fall in standards.

5. It is unlikely that these questions can be settled outside the Cabinet without some compromise between the Chief Secretary's wish to preserve the principles of cash planning and the Secretary of State's concern about the public commitments made. So far as cash planning is concerned, the Chief Secretary is likely to be particularly keen to resist the "validation" of the 1981-82 price increases. Discussion in MISC 62 suggested that the Secretary of State might be willing to forgo that so long as he secured the 1.7 per cent volume increase in

1982-83 and some volume increase (say $\frac{1}{2}$ per cent) in 1983-84 and 1984-85, in recognition of increased demands on the HCHS (resulting, for example, from the growing proportion of old people in the population). This would involve the Chief Secretary's revising his proposals upwards by £93 million next year, about £150 million in 1983-84 and about £190 million in 1984-85.

National Health Service Pay

6. The extra provision for NHS pay (£100 million in 1982-83, £106 million in 1983-84, and £111 million in 1984-85) has been agreed to be desirable in principle, mainly because it may be necessary to avert a damaging industrial dispute with the nurses. The Chief Secretary is reserving his position until he can be sure that he does not have to make too many concessions on other items.

You have expressed a reservation about this and said that it is to be decided in the light of the public expenditure discussions (i.e. they can have this extra provision if we can afford it.) MCS 17/11

Road Traffic Accidents

7. MISC 62 took the view that there was no prospect of the necessary legislation being passed in this Session and there are some difficult legal issues. If this proposal does not go ahead, the Chief Secretary will have to forgo savings of £6 million in 1982-83, £93 million in 1983-84 and £101 million in 1984-85.

National Health Contribution

8. The Secretary of State may suggest that the gap between the Chief Secretary's proposals and his own should be closed by increasing the National Health Contribution (part of the employee's National Insurance contribution). A 0.1 per cent rise has the same effect on the PSBR as a £100 million cut in Health Service expenditure - though it does not affect public expenditure totals. But as you are aware from the Chancellor of the Exchequer's minute of 12 November any such decision would be on top of the hefty increase in National Insurance contributions which will probably be necessary next year.

flag A

SOCIAL SECURITY

9. Of the three questions at issue the most important is the Chief Secretary's

0.85

0

0.2 0.15 0.35 Red

0.2
0.4
0.1
0.7

mes. bonus £50m

£34m

Postpone

52-3

proposal that in November 1982 short term benefits not subject to an absolute pledge of price protection should be increased by 5 per cent less than prices, (saving £145 million in 1982-83, £440 million in 1983-84 and £460 million in 1984-85). The benefits concerned are:

a. a group of "family" benefits - child benefit, one parent benefit, family income supplement, and maternity allowance;

b. sickness and injury benefit and mobility allowances;

c. supplementary allowances;

d. unemployment benefit.

10. You will want to explore the political implications of explicitly reducing the real value of these benefits. In particular:

a. Would it be necessary to announce decisions on these benefits at about the same time as a decision to increase employee contributions?

b. Could the Government's critics successfully argue that decisions to reduce the real value of social security benefits were inconsistent with past undertakings? Although the Government is not pledged to protect the real value of the benefits in question, the Chancellor of the Exchequer said in the House on 26 March 1980 "Any civilised society should provide a safety net below which a poor person's standard of living should not fall ... . No action we take should be at the expense of the really weak and needy".

11. You may wish the Cabinet as a whole to reach a decision on this question. But if there is to be a compromise the obvious approaches are:

a. to abate the uprating by less than 5 per cent;

b. to abate the uprating of some but not all of these benefits. (Child
180. 148 75
benefit, supplementary allowances and unemployment benefit account for most of the expenditure at issue: respectively 35, 35 and 20 per cent of the total spent on these 'unpledged' benefits.)

440

12. The other two questions at issue - making good the 1980 abatement in invalidity pensions (£18 million, £54 million and £58 million) and making good in 1982 the underestimate of inflation in the 1981 uprating of non pensioner supplementary allowances (£28 million, £68 million and £71 million) can probably only be settled in the context of an agreement on the Chief Secretary's 5 per cent abatement proposal.

PLG

P L GREGSON

17 November 1981

6

P.0584

PRIME MINISTER

Public Expenditure: Housing, and Other
Department of Environment Expenditure

Flag A
Flag B

You will probably wish first to discuss housing on the basis of the factual note attached to the letter of 16 November from the Chief Secretary's Office, and then the Annex on other environmental services attached to the Home Secretary's draft report. The Secretaries of State for Scotland and for Wales both have some interest in the second item and you may like to invite them to stay on for it if they so wish.

Housing

2. The Secretary of State for the Environment may well be reluctant to discuss housing on the grounds that this is an issue already before the Cabinet as a whole, on which many Ministers not present at this small meeting may have views. However the same applies to most other important expenditure issues. It is the Cabinet's clear wish that all the outstanding expenditure issues should be resolved as far as possible before the overall position is reported back to them.

3. When Cabinet discussed the Rate Support Grant settlement, and related housing questions, on 12 November they:

i. commissioned further work on the RSG on the assumption, inter alia, of council house rent increases averaging £2.50 a week;

ii. asked the Secretary of State for the Environment to consider urgently with the Chief Secretary the treatment of surpluses on housing revenue accounts;

iii. agreed that the public expenditure for housing capital and maintenance should be considered further in the light of the final decision on rents and in the context of their further discussion of the 1981 Public Expenditure Survey (CC(81)36th Conclusions, item 5).

Further work on the RSG is in progress and this should be ready for discussion next week. The Secretary of State and the Chief Secretary are discussing the treatment of surpluses and it should not be necessary for your meeting to go into this. The remaining issue is the expenditure provision for housing capital and maintenance.

4. The present total for housing in 1982-83 is £3869 million. If that total were to stand, and if the 1981-82 volume of housing capital and maintenance expenditure were to be maintained, council house rents would have had to increase by about £4 a week. The decision that the rent increase should average £2.50 leads the Chief Secretary to argue that capital must be reduced by £225 million and the additional bid of £67 million for maintenance refused; hence the total of £292 million in line 8 of the table circulated for your meeting. The Chief Secretary's further proposal that the existing total should be reduced by £93 million increases the gap to £385 million.

5. The Secretary of State for the Environment will argue for his additional £292 million, and no cut, on the grounds that:

i. housing capital has already been slashed (by 45 per cent between 1979-80 and 1981-82) at a time when total households are growing at a net rate of 150,000 a year;

ii. housing capital expenditure provides relatively more jobs than many other kinds of expenditure;

iii. cuts will jeopardise the Government's low cost home ownership and home improvement policies;

iv. it would be realistic, in the light of outturn in 1981-82, to assume that local authorities will want to spend more on management and maintenance.

6. The Chief Secretary, Treasury is likely to respond on the following lines:

i. he had not wished to advocate capital cuts but this is a necessary consequence of the decision to subsidise current expenditure through low rent increases;

ii. he would not accept that jobs in housing construction can be provided at exceptionally low public expenditure cost;

iii. private sector housebuilding starts are, according to the latest figures, 10-15 per cent up on a year ago, although completions are still falling;

iv. local authorities can spend the proceeds from council house sales on more new investment; the more successful they are in house sales the more able they should be to maintain or even improve the volume of new capital spending.

7. It is unlikely that this matter can be settled outside Cabinet on the basis either of the Chief Secretary's proposed cut of £93 million or the Secretary of State for the Environment's proposed addition of £292 million. In view of the overall public expenditure position you will want to try and close the gap of £385 million at the lowest acceptable level.

8. In the light of the discussion you will wish either to agree on figures for recommendation to Cabinet or to agree on a narrower range of options to be put to Cabinet or, at worse, accept that Cabinet will have to decide on the present range. For Scotland and Wales your aim will be to agree that they should take the formula consequentials of the decision on England.

9. Although housing was not discussed by MISC 62 you may wish to consider whether, as a matter of convenience, the Home Secretary might report on the position reached in his memorandum to the Cabinet on public expenditure. If the figures are agreed at your meeting a paragraph in the main report should suffice. If not, an annex explaining the issues will be necessary and the Cabinet Office could draft it.

Other Environmental Services

10. There is nothing of substance to add to Annex B(iv) attached to the Home Secretary's report. MISC 62 acknowledged that capital cuts on water and local authority environmental services were not desirable but concluded that they could, and should, be made as a necessary contribution to the overall expenditure target.

11. All the other Ministers concerned have agreed to the local authority capital programmes for which they are responsible. It ought to be in the Secretary of State for the Environment's interests to do likewise and quickly: until this is agreed he cannot make the final calculation of the interest charges on capital expenditure which feed into the RSG arithmetic.

12. Your aim in this part of the discussion will be to press the Secretary of State very hard to agree to accept the cuts. If necessary the Secretary of State's reservations about these cuts, and the fact that he accepted them only with great reluctance, could be recorded in the Home Secretary's report to the Cabinet.

Property Services Agency

13. As the draft report makes clear, agreement has been reached on the reduction of £20 million a year in planned expenditure by the PSA. Other Ministers will, however, have to accept that this could have repercussions for their own building plans and programmes. This should not require further discussion at your meeting.

L.A's

PG

P L GREGSON

17 November 1981

Econ Pol
Public Exp.

(2)

Prime Minister

Mes 17/11

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education
and Science
Elizabeth House
York Road
London SE1 7PH

16 November 1981

Dear Keith,

Thank you for your letter of 11 November recording your agreement to a proposition I had put to you on 9 November. That proposition involved an additional £7½ million for science and £1 million for the universities and MRC (contingent on Cabinet's decision about NHS pay) in 1982-83 in return for which you would renounce your claim to £100 million of the additional allocation to local authority expenditure proposed by Michael Heseltine.

I accept that the central government element applies also to the subsequent years of the Survey period. As for the local authority element officials will be discussing this very soon, consequent on Cabinet's decisions of 12 November.

I do not now need to reply to your earlier letter (9 November), which I think has been overtaken by our discussion and the settlement we have reached.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Michael Heseltine and Sir Robert Armstrong.

Yours Leon

LEON BRITTAN

33 Copy 1 of 27.

SECRET

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:
Your ref:
16 November 1981

Prime Minister

MCS 17/11

Dear Leon

MISC 62 - HOUSING

Thank you for sending me a copy of your helpful letter of 2 November to Willie Whitelaw. I was glad to see that you found attractions of principle in my proposal on the treatment of HRA surpluses. In the meantime, Cabinet has recognised the importance of this problem and has invited us to consider it urgently. To facilitate the discussion which we have now arranged for tomorrow, it may be useful if I set out our thinking and the factual background to it. In doing so, I hope that I may answer the various queries set out in your letter.

Perhaps I might begin by commenting on your observation that, at present, surpluses 'go into the general rate fund and the method of calculating RSG payable to individual authorities is, in substance, the mechanism we have for ensuring that local authorities comply with our policy on rents.' There are two very important points to make here. The first is that authorities are not at present obliged to transfer HRA surpluses to the general rate fund (GRF), and indeed we have no powers to make them do so. Second, the RSG machinery is not the only means we possess to ensure compliance with our policy on rents. A further pressure is applied by the withdrawal of housing subsidy implicit in setting, by determination, a local contribution differential.

You asked four specific questions about the measures we envisaged to guarantee delivery of the surpluses and their use for purposes beneficial to public expenditure terms. These can best be dealt with together. There is a choice between either relying on administrative means within existing statutes, or taking new legislative powers. Administratively, the powerful pressures of the subsidy determination will still be available to us. Taking the present print out assumption of an average rent increase of £2.50 the subsidy pressure will continue to apply to almost 60% of all authorities who will still be in receipt of housing subsidy in 1982-83. Of the remaining authorities many will be Conservative-controlled and are those we can most likely influence to make the rent increases which we are seeking provided that we do not penalise them if they opt to apply the additional income to debt redemption rather than transferring it to the GRF.

An alternative - and I must stress that I am not recommending this - would be to seek new powers of direction to require all authorities judged capable of generating a surplus to apply the amount of their deemed surplus to the redemption of outstanding housing debt. I think it right to warn colleagues that such a measure would be bound to be highly controversial and should in my view not be contemplated. Although the provisions could prove straightforward to draft and therefore might be worked up rapidly enough, you are already aware of the contention surrounding the Local Government Finance Bill without adding further controversial provision to it by means of Government amendments.

Colleagues made their views very clear on the subject of directions generally in our recent discussions. I know of no other legislative vehicle to hand.

Finally, you may care to know that every authority's existing housing debt comfortably exceeds the amount of any surplus it is likely to generate in 1982/83 on the assumption of an average rent increase of £2.50 per week.

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

yours ever

MICHAEL HESELTINE

Rt Hon Leon Brittan QC MP

2F

Prime Minister

(2)

4

MCS 17/11

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
London SW1

16 November 1981

Dear Michael,

PUBLIC EXPENDITURE

As I said to you on the telephone on Friday, the Chief Secretary feels it would be helpful to have some discussion of the outstanding issues on housing (ie capital and management and maintenance) at the meeting on Wednesday evening as well as other environmental services and the PSA.

... I attach, as you requested, a brief factual note as a basis for the discussion.

I am copying this letter to David Edmonds (DOE), John Halliday (Home Office) David Wright (Cabinet Office) and to John Kerr here.

Yours sincerely

Terry Mathews

T F MATHEWS
Private Secretary

SECRET

A

DOE HOUSING

		£ Million 1982-83
1. The programme total equivalent to Cmnd 8175 is		3869
2. Cabinet has agreed a provisional assumption that council house rents should increase by an average £2.50 per week. This would require total current spending (mainly general and personal subsidies) of:	1909	
3. In addition, the Secretary of State for the Environment believes that local authorities are spending more than assumed in Cmnd 8175 on the management and maintenance of their housing stock in the current year. He asks that provision should be increased in 1982-83, to reflect this, by:	+67	
4. Giving total current spending of:	1976	3869
5. The balance remaining for capital spending within the existing programme total would therefore be:	1893	
6. The Secretary of State wishes, however, to maintain provision for capital at the volume provided for in 1981-82 ie:	2185	
7. Which, added to current spending in para 4, gives a total asked for by the Secretary of State of:		4161
8. This would require an addition to the programme total of:	+292	
9. The Chief Secretary believes that the existing programme total should be reduced by the £93 million suggested in C(81)51, ie:		3776

R H

SECRET

3

B/C A Duguid

16 November,1981

Public Expenditure

The Prime Minister has seen and carefully noted the Chancellor's minute to her of 13 November. As you know, the Prime Minister is holding a series of meetings with colleagues this week in order to narrow further the area of disagreement in the public expenditure discussions.

I am sending copies of this letter to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office) and David Wright (Cabinet Office.

M. C. SCHOLAR

John Kerr,Esq
HM Treasury

SECRET

CONFIDENTIAL

Mr Bridgeman
Miss Peirson
Mr Wicks
Mr Gray

cc PPS
FST
ES
MST (L)
Sir D Wass
Sir A Rawlinson
Mr Ryrie
Mr Quinlan
Mr Lovell
Mr Battishill

Treasury Chambers, Parliament Street, SWIP 3AG

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
London SW1A 2HH

16 November 1981

Dear Minister,

MISC 62: AGRICULTURAL PROGRAMMES

Thank you for your letter of 13 November.

I am grateful to you for the further effort you have made to look for additional savings and for your proposal to defer the purchase of the two sea-fisheries protection vessels.

I am afraid, however, that, even if this additional saving is made, there still remains a substantial gap between your proposals for total agricultural expenditure and mine as spelled out in the MISC 62 report (and indeed between your proposal and the revalued Cmnd. 8175 totals). The figures are as follows:

66 —
30 —

		£ million		
		1982-83	1983-84	1984-85
978	(1) Cmnd 8175 revalued	978	940	987
1059	(2) ~~Proposal in your letter of 13 November~~ Proposed by Minister at MISC 62	~~1042~~ 1103	~~995~~ 1068	~~1012~~ 1064
	(3) My proposal to MISC 62	1012	946	960
	(4) ~~Difference between (2) and (1)~~ Post-MISC 62 gap	~~66~~ 91	~~55~~ 122	~~25~~ 104
	(5) Difference between (2) and (3)	30	49	52

I recognise that you have now offered to make significant savings on land drainage and on extra-mural research as well as on the

CONFIDENTIAL

sea-fisheries protection vessels. But I am bound to point out that the major part of the savings figures, which you quote in paragraph 8 on page 2 of your letter include the additional bids for marketing and the extension of capital grants, which MISC 62 felt unable to support and provision for a 10% increase in Hill Livestock Compensatory allowances in 1982, which we have all now agreed to be unnecessarily high.

The gap between us shown in the table above is in my view still a significant one - about 3% of the relevant programmes in 1982-83 and 5% in the later years. Given the overall difficulties on the public expenditure totals, which I spelled out in my last letter, I believe we must make a further effort to narrow the gap between us.

Subject to detailed examination by officials and agreement by the Secretary of State for Defence, I certainly welcome the savings you are offering on the sea-fisheries protection vessels as a helpful contribution towards an overall agreement. But I am afraid I must still ask you, as I did at MISC 62, to accept that there should be a small reduction on capital grants. Leaving aside the question of the total programme levels, I do not believe that we could justify exempting capital grants to agriculture from the savings exercise, if we are simultaneously making reductions in Regional Development Grants (RDGs). It is already arguable that the rates of grant, which can reach up to 70% in the less favoured areas, are more generous for agriculture than manufacturing; and the agricultural grants are nation wide, whereas the coverage of RDGs is much more limited.

As you will know, I have proposed that there should be saving on RDGs, amounting to about 20% of the total expenditure involved; and Patrick Jenkin in return has offered somewhat more than half that figure. (Following E Committee, officials are discussing how savings in RDGs could be achieved). In view of the savings which you have now been able to find on sea-fisheries protection vessels, I would be prepared to reach an overall settlement with you on the agricultural PES programmes, if you could agree to make the following savings in capital grants' expenditure:-

	£ million	
1982-83	1983-84	1984-85
15	25	25
12	16	19.

With these additional savings the total provision for your programmes would be as follows:-

1027	970	987

If you are able to reach agreement on these figures, I would be prepared to accept your view that we should not initiate any move now to bring an end to the variable beef premium, though I believe this is an issue which we may need to look at again if the Commission proposes its abolition in the next price fixing. I would likewise be prepared to agree that you should make the necessary statutory instrument to provide for the £2 increase in the rate of allowance for hill cows by the end of this week.

As your officials may have told you, Patrick Jenkin has now written to me about the proposed continuation of the adaptation aid for glasshouses. I am now considering the point he has made urgently. I sympathise with your desire to make an early announcement on this point, but you will appreciate that the point he has raised must be sorted out before any announcement can be made.

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

Yours sincerely

PP LEON BRITTAN

[Approved by the Chief Secretary and signed in his absence]

Econ Pol
Pub Exp

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

replied by
phone
13/11
MCS

Michael Scholar.
10. Downing Street.

Dear Michael,

I attach a copy of a letter which Mr. Walker has sent this morning to the Chief Secretary offering additional savings on the PES programme for agriculture. In view of this, and given that the area of dispute on agriculture is now a narrow one, we would hope that the MISC 62 gathering under the PM tentatively fixed for early Tuesday may not be necessary.

Yours sincerely,

Kate Timms

2

(1)

SECRET

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Prime Minister

Mr Walker hopes that this letter will obviate the need for a public expenditure meeting next week. I have said that we keep the meeting pencilled in diaries - but await Leon Brittan's reaction.

MLS 13/11

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury
Parliament Street
London SW1P 3HE

13 November 1981

Dear Leon.

MISC 62: AGRICULTURAL PROGRAMMES

Since our discussion in MISC 62 on 3 November and my subsequent exchange of letters with Willie Whitelaw, I have been considering further how the issues still outstanding between us could best be resolved in order to arrive at an overall settlement on the agricultural PES programmes.

First, as regards horticulture I am grateful for the confirmation in your letter of 9 November that you would not oppose continuation of the adaptation aid for glasshouses for another year. This is without doubt a high priority requirement. It really is out of the question to deprive our growers of the further year's support which will undoubtedly be extended to their competitors elsewhere in the Community. I turn later to the question of finding room for this aid within my overall totals for 1982-83.

Turning to capital grants, where you are still pressing for a small reduction, I explained in my letter to Willie Whitelaw of 3 November why I think that this would be wholly wrong. I have therefore considered very carefully whether there is any alternative way of finding some additional savings which, though unwelcome, would nevertheless be less damaging than cutting into support for agricultural investment at a time when this is flagging and both the construction and agricultural machinery industries are going through a very difficult period.

I have looked again across the whole of my budget to see whether I could find any further savings. You will appreciate, however, that we have been intensively scrutinising our programmes for some months

SECRET

and it is not therefore surprising that I have concluded I cannot identify any further cuts which would not be directly damaging to the objectives of the Agricultural Departments. In the interests, however, of meeting you I have identified one significant possibility which I am prepared to pursue.

I understand that the Ministry of Defence is considering deferring the purchase of two Royal Navy vessels whose functions would include fishery protection and to which I contribute a major part of the cost. You will appreciate that I attach considerable importance to the maintenance of effective fishery protection and that I hesitate to go along with such a proposal. Nevertheless, in view of the financial pressures upon us all, and after a full and thorough assessment of the priorities in my sector as a whole, I have reluctantly concluded that it would be right for me to agree to such a deferment.

On this basis, my savings in cash terms would be £3 million in 1982-83, £9 million in 1983-84 and £6 million in 1984-85. These are substantial savings and I hope that in response to my offer to accept them you for your part will withdraw your request for a small cut in our capital grant scheme.

??

There remains the question of accommodating the cost of extending adaptation aid to glasshouses. Our most recent information about trends of expenditure on capital grants not only confirms the estimating reductions made in September but indicates that our reductions did not go far enough in 1982-83. The data which has now reached us in the last two months points to further reductions of £4-£5 million in our forecast for 1982-83. This will allow provision for the aid to glasshouses to be included within my programme without any addition to the overall total for 1982-83.

My proposals as they stood when we considered them in MISC 62 were in my view fully justified given the needs, competitive situation and economic importance of our agriculture and food sectors. Nevertheless in an endeavour to go as far as I could to help you in containing overall public expenditure totals, I have now agreed to offer savings under no less than seven heads (see table attached) resulting in reductions of £57 million, £73 million and £52 million, for each of the three years respectively of the Survey period.

Excluding the estimating increases in EEC schemes which are 100% FEOGA-funded and after correcting the evident deficiency in our White Paper baseline as regards HLCAs, the totals I am now seeking for the MAFF (+ DAFS/WOAD) programme are less than 1% above our baseline (corrected for HLCAs) in 1982-83 and below the baseline for the following two years. And the recently revised forecasts of expenditure on beef premiums have led to reductions of around £50 million a year in the totals proposed for the Intervention Board.

I hope, therefore, you can accept that we now have a satisfactory basis for an overall settlement. I would ask you to agree that we should now proceed with tabling a Statutory Instrument to implement the £2 a year increase in the rate of allowance for hill cows. The Instrument must be laid at the very latest by Friday, 20 November (and preferably sooner), if Parliamentary approval is to be obtained in time to include this increase in the payments which start in January. If we fail to meet this timetable we shall not only anger the hill farming community: we shall also add irresponsibly to the administrative cost of paying the increase when provision for it is eventually and belatedly made.

I must also press you to agree to announcing the extension of the adaptation aid for glasshouses. The growers should now be assured they will receive this further aid next year so that they can make their plans accordingly. During this week's Adjournment Debate there was considerable anger from both sides of the House at our dithering over this decision, and it was the main subject of criticism at yesterday's meeting of the Conservative Agriculture Committee. I think it would be wrong to do as you suggest and defer our announcement until the MISC 62 report has been considered by Cabinet later this month.

I am copying this to Willie Whitelaw, Patrick Jenkin, George Younger, Jim Prior, Nicholas Edwards and Sir Robert Armstrong.

PETER WALKER

PES 1981

	1982-83	£m 1983-84	1984-85
I Ministry of Agriculture (+ DAFS/WOAD)			
Totals proposed by Minister in MISC 62(81)7 Table 6	1099	1068	1064
Further reductions offered by Minister			
i) Reduced bid for HLCAs	-16	-23	-29
ii) Withdrawal of bid for increases in capital grants	-30	-30	-
iii) Withdrawal of marketing bid	-2	-4	-6
iv) Increased savings on land drainage	-2	-3	-7
v) Increased savings on extra mural R&D	-1	-1	-1
vi) Savings equivalent to 2% in administration costs	-3	-3	-3
vii) Deferment of construction of fishery protection vessels	-3	-9	-6
Total further savings offered	-57	-73	-52
Adaptation aid for glasshouses	+4	-	-
Further estimating reductions in capital grants	-4		
Total provision now required	1042	995	1012
Increase on White Paper baseline adjusted to 1981 HLCA rates; and excluding increase in EC schemes which are 100% FEOGA funded	+0.8%	-0.8%	-0.8%
II Intervention Board for Agricultural Produce			
Totals proposed by Minister in MISC 62(81)6 Table 5.1	711	710	730
Revised beef premium forecast	-47	-49	-53
Total provision now required	664	661	677

DS

cc: HMT
HO
CSO, HMT
CO

10 DOWNING STREET

From the Private Secretary

13 November 1981

bc: Mr. Duguid

Dear David,

PUBLIC EXPENDITURE

As you know, the Prime Minister has decided to hold a series of meetings with Ministers to discuss the public expenditure items which remain disagreed following the conclusion of the work of MISC 62.

The meeting on defence is planned for Thursday 19 November at 1830 hours. Apart from the Prime Minister and the Defence Secretary, the Chancellor, Chief Secretary and Home Secretary will also be present. The Prime Minister thinks that it would be helpful for the meeting to have before it, as a basis for discussion, the attached note on defence expenditure, which is extracted from the Annex to the draft paper which the Home Secretary is preparing for circulation to Cabinet on the work of MISC 62.

I am copying this letter to John Kerr (HM Treasury), John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

David Omand, Esq.,
Ministry of Defence.

DS

File 2 cc: HMT
HO
CSO, HMT
CO

DSG

10 DOWNING STREET

From the Private Secretary

13 November 1981

bc: Mr. Duguid

Bf 17.11.81

Dear Don,

PUBLIC EXPENDITURE

As you know, the Prime Minister has decided to hold a series of meetings with Ministers to discuss the public expenditure items which remain disagreed following the conclusion of the work of MISC 62.

The meeting on health and social security expenditure is planned for Wednesday 18 November at 2215 hours. Apart from the Prime Minister and the Secretary of State for Health and Social Security, the Chancellor, Chief Secretary and Home Secretary will also be present. The Prime Minister thinks that it would be helpful for the meeting to have before it, as a basis for discussion, the attached note on health and social security expenditure, which is extracted from the Annex to the draft paper which the Home Secretary is preparing for circulation to Cabinet on the work of MISC 62.

I am copying this letter to John Kerr (HM Treasury), John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Don Brereton, Esq.,
Department of Health and Social Security.

SECRET

DSG

HEALTH

	1982-83	1983-84	1984-85
			£ million
Cmnd 8175 revalued	11612	12398	13018
Secretary of State's proposals as modified by discussion in MISC 62	11785	12586	13307
Chief Secretary's proposals as modified by discussion in MISC 62	11545	12159	12764
Gap	240	427	543

The totals above include the effects of the decision to increase prescription charges to £1.50 referred to in paragraphs 4 and 5 of the note; and the effects of increases in charges for dental treatment and spectacles which the Secretary of State for Social Services offered in discussion in MISC 62. They make no allowance for the savings which would result from certain other proposals on charges which the Chief Secretary put to MISC 62 (£2 fees for prescriptions, sight tests and consultations with general practitioners; "hotel charges" for stays in hospital; and half price prescription charges for most of those now totally exempt). MISC 62 judged these proposals to be impracticable; the Chief Secretary withdrew them in discussion in the expectation of reaching agreement on appropriate savings for the programme as a whole.

2. There remain at issue three questions concerning current expenditure on the Hospital and Community Health Service (HCHS); National Health Service (NHS) pay; and charging insurers for the cost of the NHS of road traffic accidents.

Hospital and Community Health Service

3. First, the Secretary of State proposes increases of £41 million in 1982-83, £44 million in 1983-84, and £48 million in 1984-85 to compensate for price increases in 1981-82 in excess of the cash limit factors. The Chief Secretary opposes these increases on the grounds that it is contrary to the principles of cash planning to validate or compensate for pay and price increases in excess of cash limit factors and so to lose the efficiency gains achieved in 1981-82.

4. Secondly, the Chief Secretary proposes that there should be no real growth in HCHS expenditure in 1982-83, saving £93 million that year and £98 million and £101 million respectively in the two following years. The Secretary of State for Social Services points out that the Government is publicly committed to match the real growth (1.7 per cent between 1981-82 and 1982-83) for which the previous administration planned. The Chief Secretary argues that it is necessary to reinterpret the pledge, as has been done in the past.

5. Thirdly, the Secretary of State proposes that the Government's plans should provide for 1 per cent real growth per annum in 1983-84 and 1984-85. The cost would be £86 million in 1983-84 and £182 million in 1984-85. The Chief Secretary considers that the plans should provide for no real increases in expenditure in those years, saving £86 million in 1983-84 and £182 million in 1984-85. The Government is not committed to any particular level of spending on hospitals after 1982-83; but the Secretary of State argues that it would be difficult to defend making no allowance for real growth in this area, bearing in mind for example the increasing proportion of old people in the population.

6. In discussion in MISC 62 both the Chief Secretary and the Secretary of State for Social Services suggested compromises on hospital expenditure but were unable to reach agreement.

National Health Service Pay

7. In his memorandum (C(81)44) the then Secretary of State sought agreement to increased expenditure to permit certain groups of NHS staff to receive increases of more than 4 per cent in the next pay round, and the proposal was discussed by the Ministerial Sub-Committee on Public Service Pay on 27 October. The Sub-Committee endorsed in principle the Secretary of State's proposal, but acknowledged that final decisions on the amount of any extra provision would have to be taken in the context of public expenditure generally. The sums at issue are £100 million in 1982-83, £106 million in 1983-84 and £111 million in 1984-85. The Chief Secretary has reserved final judgement on this bid.

Road Traffic Accidents

8. The Chief Secretary proposes that motor vehicle insurers should be billed for the cost to health authorities fo treating casualties in road traffic accidents, producing savings of £6 million in 1982-83, £93 million in 1983-84 and £101 million in 1984-85. The Secretary of State accepts that there are good arguments in principle for charging insurers in this way, but doubts whether the Government could agree on how this should be done and get the necessary legislation through Parliament. The Home and Social Affairs Committee has twice considered and rejected this idea. MISC 62 took the view that there is no reasonable prospect of the necessary

legislation being passed in the 1981-82 session. (If the legislation were deferred to the 1982-83 session, the savings would be nil in 1982-83, £45 million in 1983-84 and £101 million in 1984-85).

National Health Contribution

9. In discussion in MISC 62 the Secretary of State suggested that it might be possible to make good the gap between the Chief Secretary's and his proposals for this programme by increasing the National Health contribution. This would be a tax change, not a reduction in public expenditure.

SOCIAL SECURITY

	1982-83	1983-84	1984-85
			£ million
Cmnd 8175 revalued	30,197	31,819	33,410
Secretary of State's proposals as modified by discussion in MISC 62	29,894	31,609	33,644
Chief Secretary's proposals as modified by discussion in MISC 62	29,703	31,047	33,055
Gap	191	562	589

The totals above include the effects of the decisions on the pensioners' Christmas bonus and phasing out the earnings rule for pensioners discussed in paragraphs 4 and 5 of the note.

2. There are three questions at issue.

Invalidity pensions

3. The Secretary of State proposes that at the November 1982 uprating of social security benefits the Government should make good the 5 per cent abatement in invalidity pensions which was made in 1980. The cost would be £18 million in 1982-83, £54 million in 1983-84 and £58 million in 1984-85. He argues that at least one specific improvement in social security is necessary to provide some defence against critics of the Government's actions in this area; that the 1980 decision to abate invalidity pensions has been widely criticised as an attack upon the disabled and chronically sick; and that to restore it in the International Year of the Disabled would be a popular measure. The Chief Secretary argues that the abatement should

be restored when benefits become taxable, as we have undertaken to do; but not before. MISC 62 agreed that, if the Secretary of State is to be obliged to defend unpopular cuts in the social security budget, it would help him considerably to be able to point to a specific improvement, such as this. On the other hand, the Group agreed that it would only be reasonable to agree to a bid of this sort if the Chief Secretary's proposals for the programme as a whole were substantially accepted.

Shortfall in non-pensioner supplementary allowances

4. The Secretary of State proposes that at the November 1982 uprating the Government should make good the 2 per cent by which, because of the under-estimate of inflation in the November 1981 uprating, supplementary allowances paid other than to pensioners will have fallen in real terms. The cost would be £28 million in 1982-83, £68 million in 1983-84 and £71 million in 1984-85. (The Chief Secretary's proposals already allow for restoration of the same shortfall for retirement pensions and other benefits whose real value the Government is pledged to maintain. No such pledge exists in this case). He argues that it would be difficult to do otherwise, since in 1981 the Government held down the uprating of these allowances to make up for the extent by which at the 1980 uprating inflation had been over-estimated.

Abatement of November 1982 uprating

5. The Chief Secretary proposes that in the November 1982 uprating short term benefits not subject to an absolute pledge of price protection should be increased by 5 per cent less than the increase in the Retail Price Index.

The main such benefits are supplementary allowances, unemployment benefit, child benefit, sickness and injury benefit and maternity allowances. The saving would be £145 million in 1982-83, £440 million in 1983-84 and £460 million in 1984-85. He argues that such a decision could be defended on the grounds that the incomes of those at work, some of them not much better off than some recipients of supplementary benefit, are increasing less rapidly than prices. The Secretary of State argues that such a decision would be inconsistent with the basis of the Government's social policy.

DSG

cc: HMT
HO
CSO, HMT
CO

10 DOWNING STREET

From the Private Secretary

13 November 1981

bc: Mr. Duguid

BF 17.11.81

Dear David,

PUBLIC EXPENDITURE

As you know, the Prime Minister has decided to hold a series of meetings with Ministers to discuss the public expenditure items which remain disagreed following the conclusion of the work of MISC 62.

The meeting on other environment services and the PSA is planned for Wednesday 18 November at 2030 hours. Apart from the Prime Minister and the Secretary of State for the Environment, the Chancellor, Chief Secretary and Home Secretary will also be present. The Prime Minister thinks that it would be helpful for the meeting to have before it, as a basis for discussion, the attached note on environment services and the PSA, which is extracted from the Annex to the draft paper which the Home Secretary is preparing for circulation to Cabinet on the work of MISC 62.

I am copying this letter to John Kerr (HM Treasury), John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

David Edmonds, Esq.,
Department of the Environment.

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DSG

OTHER ENVIRONMENTAL SERVICES (DOE - OTHER)

	1982-83	1983-84	1984-85
			£ million
Cmnd 8175	3669	3875	4069
Secretary of State's proposals	3745	3914	4059
MISC 62's proposals	3635	3764	3909
Gap	110	150	150

The Chief Secretary proposes cuts of £85 million in 1982-83 and £100 million in 1983-84 and 1984-85 in capital expenditure by the Regional Water Authorities; and savings of £25 million in 1982-83 and £50 million in each of the two subsequent years in capital expenditure by local authorities on services within this programme (refuse collection and disposal, recreation, planning, assistance to industry, derelict land reclamation and coast protection).

2. The Secretary of State for the Environment points out that these reductions involve substantial cuts in public sector investment and would have an immediate and undesirable impact on the construction industry. Both water industry and local authority investment have, moreover, been drastically cut over the past few years.

3. MISC 62 recognises the force of the Secretary of State's objections to the cuts proposed. Given the choice, they are not the sort of reductions which the Government should be making. These reductions can however be easily achieved and involve neither legislation nor the breaking of public commitments. The Group recommends that the Chief Secretary's proposals should be accepted.

DSG

cc: HO
CSO, HMT
SO
WO
CO

10 DOWNING STREET

From the Private Secretary

13 November 1981

BF 16.11.81 bc: Mr. Duguid

Dear Kate,

PUBLIC EXPENDITURE

As you know, the Prime Minister has decided to hold a series of meetings with Ministers to discuss the public expenditure items which remain disagreed following the conclusion of the work of MISC 62.

In the light of your Minister's letter to the Chief Secretary of 13 November we may not need to hold a meeting on MAFF/IBAP expenditure, but as a contingency measure we are keeping the meeting pencilled into all our diaries for 0815 hours on Tuesday 17 November. Apart from the Prime Minister and the Agriculture Minister, the Chief Secretary, the Home Secretary, the Welsh and Scottish Secretaries would also be present at the meeting if it takes place. The Prime Minister thinks it would be helpful for the meeting to have before it, as a basis for discussion, the attached note on MAFF/IBAP expenditure, which is extracted from the Annex to the draft paper which the Home Secretary is preparing for circulation to Cabinet on the work of MISC 62.

I am sending copies of this letter to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury), Muir Russell (Scottish Office), John Craig (Welsh Office) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Miss Kate Timms,
Ministry of Agriculture, Fisheries and Food.

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AGRICULTURE

Agriculture Departments

£ million

	1982-83	1983-84	1984-85
Cmnd 8175 revalued	976	940	987
Total proposed by Minister	1103	1068	1064
Total proposed by Chief Secretary	1012	946	960
Gap	91	122	104

Intervention Board for Agricultural Produce (IBAP)

£ million

	1982-83	1983-84	1984-85
Cmnd 8175 revalued	593	620	651
Minister's proposal	664	661	677
Chief Secretary's proposal	662	634	649
Gap	2	27	29

At issue is the planned level of expenditure on seven items: hill livestock compensatory allowances; capital grants; marketing; land drainage; research, advisory services and administration; glasshouse heating subsidies; and the beef premium scheme run by the Intervention Board for Agricultural Produce (IBAP). Provisional agreement was reached in MISC 62 on a number of these items, as described in paragraph 10 below.

Hill Livestock Compensatory Allowances

2. The Minister of Agriculture, Fisheries and Food proposes that the existing provision for this service should be increased by £51 million in

1982-83, £58 million in 1983-84 and £64 million in 1984-85. This would permit rates of subsidy in 1982 on average 10 per cent above the 1981 rates and further increases in later years in line with the cash factors. The Chief Secretary points out that the rate of grant was increased substantially in 1980 and 1981 in response to the exceptional difficulties faced by hill farmers but that they are now benefitting progressively from the European Community sheepmeat regime; and that hill farming cannot be exempted from the general pressures on real incomes. He is nonetheless prepared to agree to an addition of £34 million per annum in the provision for these allowances, which would continue the 1981 rates and should produce a 25 per cent increase in real incomes between 1980-81 and 19~~82-83~~ 81-82. There is thus a gap of £17 million in 1982-83, £24 million in 1983-84 and £30 million in 1984-85 between his and the Minister of Agriculture's proposals.

Capital Grants

3. There is a gap of £60 million in 1982-83, £80 million in 1983-84 and £50 million in 1984-85 between the Chief Secretary's and the Minister of Agriculture's proposals for expenditure on farm capital grants. The Minister proposes that the rates and coverage of capital grants should be increased for two years only, at a cost of £30 million in 1982-83 and the same in 1983-84, to stimulate investment and employment in farming, food processing and the British agricultural machinery industry. The Chief Secretary argues that there is no case for singling out this sector for special assistance and that the effects of any short term stimulus would be more than offset by longer term damage from higher interest rates and inflationary pressures. MISC 62 is unable to recommend that this bid be accepted. The Chief Secretary also proposes reductions of about 30 per cent

in expenditure on capital grants (£30 million in 1982-83 and £50 million in the two subsequent years) either by cutting grant rates or by some combination of cuts in rates and making some items ineligible for grant. For either approach a statutory instrument with affirmative resolution would be required. The Minister of Agriculture argues that it would be wrong to reduce planned expenditure on these grants when latest estimates of their take up are £20 million a year less than expected earlier in the year and when the farming sector is facing particular difficulties. The Chief Secretary however points out that these latest estimates of take-up are little different from those implied by the last Public Expenditure White Paper.

Marketing

4. The Minister of Agriculture proposes expenditure of £2 million in 1982-83, £4 million in 1983-84 and £6 million in 1984-85 in support of more effective marketing of British agricultural and food products which would enable producers and processors to compete more effectively with other European industries. The Chief Secretary, Treasury argues that it is up to the industries concerned to improve their performance in this area. MISC 62 is unable to recommend acceptance of this bid.

Land Drainage

5. The Chief Secretary proposes cuts in land drainage capital expenditure, in addition to those which the Minister of Agriculture has already accepted, of £2 million in 1982-83, £6 million in 1983-84 and £10 million in 1984-85. He argues that such savings can be found without serious adverse effects.

The Minister considers that cuts of this order would mean reducing work to remedy inadequate defences of life and property, and preventing farmers from increasing their production.

Research, Advisory Services and Administration

6. The Chief Secretary proposes cuts of £4 million per annum in extra-mural research, equivalent to a small volume reduction. The Minister of Agriculture proposes that the cut should be £3 million per annum, removing the provision for real growth in Agricultural Research Council expenditure.

7. The Chief Secretary proposes savings in in-house research and advisory work of £5 million in 1982-83 and £7 million in each of the two subsequent years. He accepts that reductions of this order could imply redundancies and cuts in expenditure on travel and subsistence but considers that there is scope for economy in this service: other sectors of the economy do not get free advice of this kind paid for from public funds. The Minister of Agriculture argues that the front line advisory work of the Agricultural Development and Advisory Service is an essential component of our policy towards British agriculture.

Glasshouse Heating Subsidy

8. The Minister of Agriculture argues that £4 million should be made available in 1982-83 to assist in partially correcting the competitive disadvantage to British producers stemming from low Dutch gas prices. The Chief Secretary argues that, if agreed, this expenditure must be contained without an addition to the programme.

Beef Premium Scheme

9. The Chief Secretary argues that the scheme, which applies in the United Kingdom only, and only a quarter of the cost of which is reimbursed by the European Community, should be brought to an end, saving £2 million in 1982-83, £27 million in 1983-84 and £28 million in 1984-85. He argues that if the scheme were ended increased intervention buying would give beef producers comparable returns; and, because the costs of intervention buying are almost fully reimbursed from the European Community budget, ending the premium scheme from 1982-83 would give substantial net public expenditure savings from 1983-84 onwards. The scheme has to be considered for renewal at each Common Agricultural Policy (CAP) price fixing; the Chief Secretary points out that in seeking our Community partners' agreement to continuing the scheme we use up some of our negotiating capital and hence prejudice our wider interests on CAP reform. The Minister of Agriculture argues that ending it would adversely effect farmers' confidence and would involve publicly defending intervention buying and degrading beef on a much larger scale than at present. There would also be a small addition to the Retail Price Index.

Scope for Compromise

10. In MISC 62 both the Minister of Agriculture and the Chief Secretary suggested compromises on some of the questions at issue; but it did not prove possible to reach agreement. The Minister of Agriculture was prepared to accept an increase of £36 million a year in hill livestock compensatory allowances (which would permit a £~~5~~ 2 per head improvement in the rate for cows),* to drop his bid for additional provision for farm capital grants;

to accept the Chief Secretary's proposals for land drainage in 1982-83 and to split the difference between their proposals in the two later years; to accept the Chief Secretary's proposals for extra mural research and to find savings of £3 million, equivalent to a 2 per cent cut in administration expenditure, in other ways. All this was conditional upon the Chief Secretary's agreeing that there should be no cut in expenditure on farm capital grants and that the beef premium scheme should be retained. The Chief Secretary was prepared to agree the Minister of Agriculture's reduced proposals for the hill livestock compensatory allowances; to accept the Minister's revised proposals for savings on land drainage, extra mural research and on administration; and not to pursue the proposal to end the beef premium scheme in April 1982. These concessions however depended on the Minister's agreeing to a small reduction in expenditure on capital grants.

* Officials have now agreed that the cost of this would be £35 million.

File cc: HMT
HO
CSO, HMT
CO

DSG

10 DOWNING STREET

From the Private Secretary

13 November 1981

bc: Mr. Duguid

BF 18.11.81

Dear Brian,

PUBLIC EXPENDITURE

As you know, the Prime Minister has decided to hold a series of meetings with Ministers to discuss the public expenditure items which remain disagreed following the conclusion of the work of MISC 62.

The meeting on Foreign Office and overseas aid expenditure is planned for Thursday 19 November at 1915 hours, on the assumption that the Foreign Secretary has returned from Brussels by that time. If the Foreign Secretary is delayed in Brussels the meeting is to take place at 1800 hours on Friday 20 November. Apart from the Prime Minister and the Foreign and Commonwealth Secretary, the Chancellor, Chief Secretary and Home Secretary will also be present. The Prime Minister thinks that it would be helpful for the meeting to have before it, as a basis for discussion, the attached note on Foreign Office and overseas aid expenditure, which is extracted from the Annex to the draft paper which the Home Secretary is preparing for circulation to Cabinet on the work of MISC 62.

I am copying this letter to John Kerr (HM Treasury), John Halliday (Home Office), Terry Mathews (Chief Secretary's Office HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

Brian Fall, Esq.,
Foreign and Commonwealth Office.

SECRET

DSG

FOREIGN AND COMMONWEALTH OFFICE (INCLUDING OVERSEAS DEVELOPMENT ADMINISTRATION)

£ million

	1982-83	1983-84	1984-85
Cmnd 8175	1575	1672	1755
Secretary of State's proposals	1657	1702	1781
Chief Secretary's proposals	1529	1630	1707
Gap	128	72	74

The Foreign and Commonwealth Secretary and the Chief Secretary, Treasury disagree about the level of expenditure on overseas representation, information and other external services; the Commonwealth Development Corporation (CDC); overseas aid; and aid to Poland.

Overseas representation, etc

2. The Chief Secretary proposes cuts of £10 million in 1982-83, £13 million in 1983-84 and £14 million in 1984-85. It is agreed that the BBC, the British Council and international subscriptions should be exempted; the reductions would represent about $3\frac{1}{2}$ per cent of the remaining programmes concerned in 1982-83 and 4.4 per cent in 1983-84. Most of the cuts would need to be taken on overseas representation. The Foreign and Commonwealth Secretary argues that cuts of this order risk doing disproportionate damage to the United Kingdom's overseas interests. It would be necessary to close overseas posts, with harmful effects on British trade and diplomacy.

Commonwealth Development Corporation

3. At issue is the amount which the CDC should be permitted to borrow abroad. This borrowing, like that of the nationalised industries, is part of the public expenditure planning total. The Chief Secretary proposes that the CDC should be permitted to borrow £10 million per annum, the Foreign and Commonwealth Secretary £20 million per annum. He argues that to limit its borrowing to £10 million might lead its Chairman to resign; and that the CDC has considerable Parliamentary support, including among our own supporters.

Overseas aid

4. The Chief Secretary proposes cuts in the aid budget of £48 million in 1982-83, £49 million in 1983-84 and £50 million in 1984-85. The greater part of these savings would involve a general cut of about 3 per cent in overseas aid; but in the Chief Secretary's view, part of the savings arise because the 9 per cent cash factor for items other than pay over compensates for changes in the cost of the aid programme. Such cuts are technically feasible. The Foreign and Commonwealth Secretary argues that further cuts in the aid programme would raise political difficulties both within the United Kingdom and internationally; would be difficult to reconcile with the Prime Minister's remarks about the value of aid at the recent Summit meeting in Cancun; and would imply a 19 per cent cumulative real cut in aid expenditure since the Government took office.

Poland

5. The Defence and Oversea Policy Committee is to discuss on 12 November the possible provision of aid to Poland, for which the Foreign and Commonwealth Secretary proposes that £60 million will be needed in 1982-83. The Chief Secretary argues that no addition should be made to the programme.

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NBPM

cc A. Duguid.
A Walters.

NBPM

Treasury Chambers, Parliament Street, SWIP 3AG

D J L Moore Esq
Cabinet Office
Whitehall
London SW1A 2AS

13 November 1981

Dear David,

REGIONAL DEVELOPMENT GRANTS

The Chief Secretary believes that the Cabinet Office minutes of the E Committee discussion on Tuesday (E(81)33rd meeting) slightly over-simplified the conclusion with regard to the payment of Regional Development Grants on Sullom Voe and Flotta.

The question before the Committee was not whether or not these grants should be paid but whether a decision should be taken to withhold payment by the exercise of Ministerial discretion. It remains to be seen whether the Sullom Voe and Flotta terminals qualify for payment of grant under the normal rules - a matter on which I understand there is some doubt.

No doubt the conclusion of the meeting as drafted would be correctly understood if read in conjunction with the Secretary of State for Industry's paper (E(81)~~101~~ 105), but the Chief Secretary thinks it would be right to expand it a little to make it absolutely clear.

I am sending copies of this letter to the Private Secretaries to members of E Committee and to David Wright.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

CONFIDENTIAL

File cc: HMT SO DTI Ch Sec, HMT CWO CO

10 DOWNING STREET

From the Private Secretary 13 November 1981

BF 16.11.81

PUBLIC EXPENDITURE

The Prime Minister was grateful for the Home Secretary's minute of 11 November; and most grateful to the Home Secretary and his Ministerial group for the considerable progress they have made in narrowing down the disagreed areas in the public expenditure discussions.

The Prime Minister has carefully noted the points made by the Home Secretary. She has decided to hold informal meetings on all the topics identified by the Home Secretary herself with the relevant spending Ministers, the Chancellor of the Exchequer and the Chief Secretary. She hopes that the Home Secretary will also be able to take part in these meetings.

I am sending copies of this minute to John Kerr (HM Treasury), Muir Russell (Scottish Office), Ian Ellison (Department of Industry), Terry Mathews (Chief Secretary's Office, HM Treasury), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. C. SCHOLAR

John Halliday, Esq.,
Home Office.

SECRET

MS.

PRIME MINISTER

MR WHITMORE

MR SCHOLAR

Prime Minister

We will also need Sir R Armstrong and Mr Gregson as note-takers and because they will have to write the Cabinet Paper (probably by the Home Secretary) pulling the results of these meetings together.

MLS 13/11

1

Public Expenditure Meetings

I have set up the following meetings:-

Agriculture, Tuesday, 17 November, 0815 hrs ?

Chief Secretary + Welsh and Scottish Secretaries
Home Secretary
Minister of Agriculture
(Chancellor leaves at 0750 for Brussels) ?

Environment, Wednesday, 18 November, 2030 hrs

Chancellor
Chief Secretary
Home Secretary
S/S Environment + Mr Tom King?

Health and Social Security, Wednesday, 18 November, 2215 hrs

Chancellor
Chief Secretary
Home Secretary
S/S Health and Social Security

Defence, Thursday, 19 November, 1830 hrs

Chancellor
Chief Secretary
Defence Secretary
Home Secretary
(The Foreign & Commonwealth Secretary is not keen to come to this and in any event may not be back from Brussels.)

FCO/Aid, Thursday, 19 November, 1915 hrs

Chancellor
Chief Secretary
Foreign and Commonwealth Secretary
Home Secretary

All meetings will take place at 10 Downing Street.

If the Foreign Secretary gets delayed in Brussels the FCO/Aid meeting will take place at 1800 hrs on Friday, 20 November.

CS.

13 November, 1981

SECRET

Prime Minister

To note.

MCS 13/11

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

PRIME MINISTER

PUBLIC EXPENDITURE

You have received the Home Secretary's MISC 62 report. To follow up our brief talk the other day, I send you this note about the issues which it raises for our general economic policy.

2. You have in mind yourself now to hold a series of small meetings with the spending Ministers whose programmes have still not been settled. This looks the best way forward now.

3. It is highly desirable to complete these discussions within the next week, so that the final results of the whole Survey can be brought to full Cabinet for ratification on 26 November, and announced during the following week. Any further slippage could cause increasing trouble, both political and practical (in relation eg to the Estimates for next year).

The results so far

4. I must express to you my deep concern about the pubilc expenditure picture which is emerging.

5. The results of MISC 62 are summarised in table 1 of Annex A. Many of the differences concerning individual programmes have been resolved, but those which remain, in addition to the major remaining issues concerning housing capital expenditure and local government which we were discussing at Cabinet on Thursday, involve some large amounts.

attached at flag A

I am especially worried about defence.

6. The MISC 62 figures do not allow for the further increase in his bids half-threatened by the Defence Secretary in his minute of 3 November to the Home Secretary.

7. On economic grounds, we should have aimed at an outcome close to the White Paper revalued, or below it; but the Chief Secretary and I recognised that this was unrealistic politically. Our proposal to Cabinet was therefore for an increase of £3½ bn over the White Paper revalued in 1982-83. We recognised that it might be necessary to go a bit higher, but when Cabinet agreed to aim to arrive at planning totals "as near as possible" to what we had proposed, we hoped, as I am sure you did, for an outcome quite close to that. I had in mind perhaps an extra £½ bn.

8. The outcome now will be at best about £4½ bn over the White Paper. At worst, even without the additional defence threat, it could be over £6 bn above the White Paper.

9. Every extra £ on public expenditure will mean at least an extra £ on tax. We cannot load more onto interest rates.

10. Much can occur in the next four months to change the detailed prospects for the PSBR and interest rates. If public expenditure is £4½ bn above the White Paper revalued, the present guess is that, with no change in taxes beyond revalorisation of allowances and specific duties, and the increase in National Insurance Contribution about which I minuted you yesterday, we would on present forecasts not exceed the PSBR envisaged for 1982-83 at the time of the last Budget, and in fact would be not far off what I envisaged in my 20 October Cabinet paper. But, even so, I might still have to consider increasing taxes in the Budget in order to help with interest rates.

11. An excess of over £6 bn over the White Paper would not be compatible with our economic and tax objectives. Public expenditure as a proportion of GDP would be higher than its already unacceptably high level of 45½ per cent this year (41 per cent in 1978-79 and 1979-80). It would be seen, rightly, as a major change of policy, at odds with our statement in the Queen's Speech that "plans for public expenditure will reflect the importance of restricting the claims of the public sector on the nation's resources".

12. It would shake the markets with ill consequences for interest rates, and the exchange rate.

13. To give spending colleagues the programmes they are now seeking could require up to £3 bn of extra taxation. This is the yield from 3p extra on the basic rate. I should want to avoid doing it that way if I could. But there are no easy options for raising significant amounts of revenue. Failing to increase personal allowances, at least to meet the Rooker-Wise requirement, would worsen the poverty trap. Raising indirect taxes beyond revalorising the specific duties (including petrol) would add to the RPI. We ought to be relieving industry of taxation, not adding to it.

14. The problem is not just for 1982-83. If we do not hold expenditure in the later years, the chances of tax reductions in the 1983 Budget will vanish.

Defence

15. I am particularly worried about defence. You saw the Defence Secretary's minute of 3 November and the Chief Secretary's of 9 November. The Defence Secretary is in effect asking to be exempted from much of our public expenditure control system. We cannot allow arguments based on the NATO target of 3 per cent real growth to justify further postponement of decisions on defence when we are taking

SECRET

decisions on all other programmes and on the totals. We cannot allow defence to stick to volume planning when the rest of public expenditure is being planned in cash, and then give defence a special relative price allowance of 2 per cent p.a. - an invitation to over-pricing by contractors. We cannot allow defence to go on regularly setting aside its cash limit by expecting and exercising a right to re-open half way through each year to bring it more or less into line with the then expected outturn.

16. The sums at stake are huge: £1 bn or more by 1984-85. Defence must be put onto the same cash basis as all other Departments; must get their programmes under control; and must keep within the cash amounts determined. The costs of defence contractors must not be encouraged to grow by frequent additions to the available cash. They should be properly controlled through cash planning.

General Conclusion

17. The Chief Secretary and I consider that in the MISC 62 discussions he has gone as far as is reasonable to meet the wishes of colleagues. A final outcome significantly over £114½ bn for 1982-83 cannot be reconciled with our economic strategy. In the small meetings we must strive for an outcome in each case at the bottom end of the disputed range, so that we can achieve a total very close indeed to £114½ bn and no more.

18. I am sending copies of this minute to the Home Secretary, the Chief Secretary, and Sir Robert Armstrong.

(G.H.)
13 November 1981

ANNEX A TABLE 1

£ billion

		1981-82	1982-83	1983-84	1984-85
1.	White Paper revalued and adjusted.	104.62	109.96	114.28	119.98
2.	Chief Secretary's proposals in C(81)51*	107.24	113.45	118.01	124.43
3.	Changes agreed (for programmes now fully agreed) since Chief Secretary's proposals	-	+ 0.55	+ 0.39	+ 0.13
4.	Range of outcomes for programmes not yet agreed	-	+ 0.28 to + 2.14	+ 0.43 to + 3.12	+ 0.44 to + 3.54
5.	Resulting total	107.24	114.28 to 116.14	118.83 to 121.52	125.00 to 128.10

* Adjusted for corrections since 20 October.

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ANNEX A TABLE 1

PART 16 ends:-

MS to HMT 12.11.81

PART 17 begins:-

CS to PM | CW | MS 13.11.81