

cc: CDL
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PRIME MINISTER

M
Discussed
with
Chambers
R.
7/2

PUBLIC EXPENDITURE

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

£ million at 1979 Survey prices			
1980-81	1981-82	1982-83	1983-84
<u>780</u>	1600	1900	2050

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

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



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

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

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



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

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

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

G.H.

(G.H.)

4 February, 1980



N.P.