



PRIME MINISTER

CASH LIMITS 1979-80

On 17 May Cabinet agreed that cash limits for 1979-80 should not be increased to accommodate higher prices, and Geoffrey Howe announced this policy in the debate on the Address on 22 May. The Cabinet discussion was based on my paper C(79)5, in which I said that it should be possible to absorb a squeeze of up to 4-5% on expenditure other than pay, and concluded against increasing the cash limits "provided the post-Budget forecasts do not indicate a larger squeeze than this".

2. The latest forecasts reflecting our current Budget proposals now show the squeeze on local authority capital expenditure covered by cash limits to be in line with my earlier figures but the squeeze on central government expenditure comes out some 2 percentage points higher, ie up to 6 - 7% rather than 4 - 5%.

3. I do not propose any easement on this account of our cash limits policy as decided and announced. The additional squeeze will be difficult for spending Ministers, but in my view should be practicable. We need it for the Budget. It pushes expenditure in the direction we want. It should contribute to stimulating efficiency and driving out waste.

4. But it is tougher than our colleagues are yet expecting, and in view of the qualification in C(79)5 I think it would be right to inform them of what has now emerged as the implication of their decisions on May 17, especially as its successful implementation depends on their personal co-operation. I think they would have ground for complaint if they were only informed orally at the Budget Cabinet on 11 June, and given no chance first to consult in their departments about any special problems for them.

Pm's Minute

Are you content -

i) with the substance - i.e. the extra squeeze

ii) that the Chief Secretary

Agree reluctantly should warn colleagues?

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TL

4/6

in volume
to us

... 5. I therefore suggest that I might circulate the attached minute on 7 June. But I seek your approval first, because to do this will mean circulating more widely than we otherwise should in advance of the Budget material from which implications can be inferred about the content of the Budget as to VAT. Nevertheless I believe that we should take this risk in order to avoid the bad feeling that might otherwise be generated among our colleagues.

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

W. J. B.

JOHN BIFFEN
4th June 1979

DRAFT MINUTE TO PRIME MINISTER

Copies to other Members of Cabinet and Sir John Hunt.

Cash Limits 1979-80

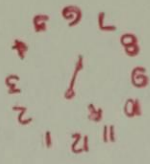
On June 11 the Chancellor will be outlining his budget to Cabinet. There is one matter I would like to draw to my colleagues' attention in advance as it directly affects their departmental responsibilities.

2. Cabinet have already decided that cash limits should not be increased to accommodate higher prices. Geoffrey Howe announced this in the debate on the Address on May 22 and this policy has been taken into account in the Budget arithmetic.

3. The latest forecasts taking account of the proposed Budget measures now show a squeeze on local authorities' capital expenditure in line with my earlier figures, but for central government up to 2 percentage points more, ie a squeeze of up to 6 - 7% rather than the 4 - 5% expected earlier and mentioned in my paper C(79)5, on which Cabinet took their decision.

4. Despite the difficulties, I do not believe we should change what is now our announced policy. But I wish my colleagues to recognise its implications.

5. I am copying this to other Members of Cabinet, to the Minister of Transport, and to Sir John Hunt. To avoid speculation about the contents of the budget I ask that this minute be given only the most strictly limited (and recorded) circulation in departments.



1-4 JUN 1979



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10 DOWNING STREET

From the Private Secretary

5 June 1979

Cash Limits 1979/80

The Prime Minister has considered the Chief Secretary's minute of 4 June concerning cash limits in 1979/80 and she agrees that there should be no easement of the cash limits policy as already decided and announced on account of the higher RPI in the post-Budget forecast. She also agrees that Ministerial colleagues should be warned of the extra volume squeeze which this will imply, though she has noted that the Chief Secretary's minute which he proposes to send to colleagues will need to have the most strictly limited circulation within Departments.

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

T. P. LANKESTER

KRB

A.C. Pirie, Esq.,
HM Treasury.

BUDGET SECRET

