

Prime MinisterCH/EX. REF. NO. rs(87)27
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I thought we were going for maximum "clawback" anyway. But I can see that some of the

colleagues may object. Agree that the Chancellor goes ahead as he proposes?

PRIME MINISTER

ms 5/3

Yes mf

THE BUDGET - THE REDUCTION IN NIS AND THE PUBLIC SECTOR

As you know we aim to clawback as much as possible of the uncovenanted addition to their spending which public sector employers will get from the reduction in the NIS.

2. The Chief Secretary has discussed this in relation to local authorities with the Secretaries of State for Environment, Scotland and Wales. It is clear that in order successfully to impose clawback on local authorities we must be seen by them to be equally firm with Departments, and with nationalised industries.

3. This means that our original plan - clawback through fewer, and reduced, increases in nationalised industry External Financing Limits, and Departmental pay votes - needs modification. Michael Heseltine is clear that we need to adopt a higher profile if we are to succeed with the local authorities. I accept this.

4. What I propose now is that all cash limits, Rate Support Grants and nationalised industries External Financing Limits for 1982-83 should be reduced by the amount of the reduction in the NIS they can expect to receive.

5. This should ensure a rather greater clawback.

6. It is however possible there may be problems with our colleagues when I mention it in Cabinet on Tuesday. Some may argue, not unfairly, that the essence of cash planning is that cash limits, once set, should take the rough with the smooth, and that when we increased VAT in the summer of



1979 cash limits were not increased. The point is particularly relevant to nationalised industry programmes, where we have consistently refused to accept higher tax, NIC etc as a reason for increasing EFLS, on the grounds that industries must cope, like all other businesses, with fluctuations in costs.

7. I think we can deal with these arguments. What I propose leaves programme managers where they would have been had the cash limits totals, and the NIS rate, remained unchanged. There is no loss to them; only the avoidance of an unintended gain. Moreover the reduction in the NIS rate is explicitly designed to help private business and industry and not the public sector; that is of its essence. You will recall, too, that at the Budget Cabinet on 28 January when we discussed NIS there were those who pointed out that steps should be taken to avoid public sector organisations enjoying part of the benefit for any NIS reduction.

8. The Secretaries of State for the Environment, Scotland and Wales, support this course. I shall speak before Cabinet to the Secretaries of State for Energy, Industry, and Transport.

9. A copy of this minute goes to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

5 March 1982