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Ref. A02591

PRIME MINISTER

Public Expenditure 1981-82 to 1983-84
(C(80) 38, 39 and 40)

BACKGROUND

The main paper, and the basis for discussion, is the Chief Secretary's memorandum, C(80) 40. The other two papers, C(80) 38 (the Red Book with the details of Departments' programmes) and C(80) 39 (the summary of the main issues by Treasury officials) can be treated as background.

① *Objective*
2. The Chief Secretary invites the Cabinet to confirm that the objective should be to keep to the net totals for 1981-82 to 1983-84 published in the last White Paper, Cmnd 7841, as reduced by the European Community (EC) savings. The aim of keeping within existing overall totals - though with some switching to reflect current priorities - was broadly endorsed by the Cabinet last week in the discussion of the economic strategy.

3. This proposition may lead to two different threads of comment and argument:

- (i) Some colleagues, notably the Secretary of State for Northern Ireland, may wish to argue that EC receipts to particular programmes should be additional to, rather than in place of, existing expenditure. There is no need for this detailed "additionality" point to be discussed at Cabinet. The Chancellor of the Exchequer is planning to bring a paper on the general problem of accommodating the new EC receipts to E Committee next week and points about particular programmes can be pursued then. (See postscript to this brief).
- (ii) The other thread may be an attempt to suggest that the EC settlement eases the general financial problem and that, rather than devote the whole of our gains to reducing the PSBR, some should be used to increase the general level of Government spending. You will

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remember that, last year, Mr. Walker argued strongly in the public expenditure discussions then that credit should be taken in advance for the EC settlement. If this line of argument is developed, you will no doubt want to defend the Treasury position. The considerable "downside" risks - particularly in the nationalised industries - provide adequate justification, if justification is needed, for a cautious approach.

4. Assuming that the Cabinet accept the broad thrust of the Chief Secretary's argument on total spending, it will need to take a view, so far as it can at this stage, on the specific net reductions and additions shown in Annex A to C(80) 40. The additions cater for some unavoidable increases, in demand led programmes, but also include proposals to deal with the industrial and social problems created by the recession. In particular, you will see that he has responded to the concerns expressed in Cabinet last week by allowing for increases in the provision for special employment measures and for youth employment, though with some reductions in provision elsewhere for the Manpower Services Commission. His proposals also assume that it will be necessary, for prudence, to drop the assumption that nationalised industries' expenditure as a whole will fall short of programmes by £470 million. After today's discussion in E this is unlikely to be challenged.

5. As to procedure, the Chief Secretary proposes that any Minister who wishes to discuss with him the net reductions and additions shown in the table should ask for a bilateral meeting. He would come back to Cabinet in the autumn with final proposals in the light of these discussions and of other developments. In the meantime there is no need for Cabinet to discuss individual programmes in detail.

6. The Chief Secretary further proposes that the Cabinet should decide later this month on local authorities' current expenditure in 1981-82 with a view to a statement before the Recess. This timing is needed to give local authorities warning of the expenditure reductions expected of them before they get too far down the road of working out their budgets for next year. The Chief Secretary therefore wants authority to start urgent bilateral discussions with each local

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authority Minister, with a view to putting proposals to Cabinet at the meeting on 24th July, before the meeting of the Local Authorities' Consultative Council on 28th July. This is a separate operation from that Mr. Heseltine is conducting on the 1980-81 budgets, though Mr. Heseltine's options for action will be relevant to deciding how the 1981-82 figures can be enforced.

7. You will also wish to note that the Chief Secretary has carried forward for each Department, other than Defence, the $2\frac{1}{2}$ per cent manpower squeeze made this year, but has not taken account of the further savings which will arise from the decision to reduce Civil Service numbers to 630,000 by 1983-84. He will consider this further in the light of the report on manpower savings which the Lord President of the Council will be putting to the Cabinet on 24th July. In the meantime I understand that a provisional estimate is that savings from this source might rise from £30 million in 1981-82 to £100 million in 1983-84 but that these savings might to some extent double count with those in the option cuts tabled by the Chief Secretary.

8. Apart from local authority current expenditure in 1981-82, and decisions on the overall public expenditure ceilings, no other detailed decisions need be taken before the Recess. It will however be necessary to take decisions in September on local authority capital expenditure for 1981-82; to start work on the 1981-82 cash limits and the External Financing Limits for the nationalised industries; and to reach agreement on the figures for the later years which will be incorporated in due course in the next Public Expenditure White Paper.

HANDLING

9. You might open the meeting by explaining that the objective is to agree on the four proposals listed in paragraph 25 of the Chief Secretary's paper. It is not the intention to start detailed discussions of individual Departmental programmes. These should be discussed, if Ministers so wish, bilaterally with the Chief Secretary. The Cabinet will discuss the outcome and any outstanding problems in the autumn.

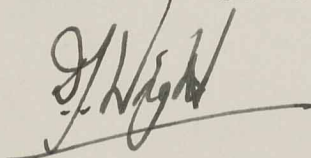
10. You might then invite the Chief Secretary to introduce his paper and give the Chancellor of the Exchequer an opportunity to make supplementary remarks if he wishes. You might then seek agreement to the four points listed in the Chief Secretary's paragraph 25. Point 25(i) - agreement to stick to the totals

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in Cmnd 7841 as reduced by the EC budget settlement - is the critical one. Given this, the rest is a question of changes at the margin - though in some cases, e.g. Education and Scotland, nonetheless difficult for that. Point 25(ii) - the detailed proposals - does not have to be settled now. It would nevertheless be helpful to the Chief Secretary to have an indication how far his suggestions command assent and, on the areas of likely dispute, what is the general feeling of Cabinet colleagues. You may therefore like to run quickly through paragraphs 13 to 23 to get a first reaction and to discover which spending Ministers will accept the proposals without demur. You might also like to end with a request to Ministers whose programmes are not specifically dealt with in the text to confirm whether they are prepared to accept the proposals affecting them set out in Annex A. Points 25(iii) and (iv) are procedural and need cause no difficulty.

CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions:-
- (i) Confirming that the objective is to keep to the net totals published in the last White Paper, as reduced by the EC settlement.
 - (ii) Recording any specific agreements to the Chief Secretary's detailed proposals and inviting Ministers who so wish to discuss bilaterally with the Chief Secretary the net reductions and additions shown in Annex A of his paper;
 - (iii) Inviting the Chief Secretary to have urgent bilateral discussions with the local authority Ministers with a view to bringing proposals to Cabinet on 24th July on local authorities' current expenditure in 1981-82.
 - (iv) Inviting the Chief Secretary to report further to the Cabinet after the Recess with final proposals on the remaining programmes.


(Robert Armstrong)

(Approved by Sir R Armstrong and signed on his behalf)

9th July, 1980

W Postscript. I have now seen Mr. Alexander's letter of 7th July to the Private Secretary to the Secretary of State for Northern Ireland which records that you have reiterated that there can be no additional expenditure as a result of the Article 235 arrangements.