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cy Mr Wolfson

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Prime Minister

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16/10

To note at this stage. A pretty big gap still to be settled.

R 9/10

PRIME MINISTER

PUBLIC EXPENDITURE 1981-82 TO 1983-84

This minute is to report progress on my discussions with the spending Ministers.

2. I hope that before Cabinet I will have provisionally settled the majority of figures at, or close to, the proposals in my paper considered by Cabinet on 13 September. But there will be five or six issues outstanding, each involving large amounts of money. In reaching provisional agreements with other Ministers, I have kept open the possibility of re-opening them if the outstanding issues cannot be resolved satisfactorily.

3. The figures, not yet final, are in the Annex. The gap to be settled at Cabinet arises on five Departments - defence, housing, education, social security and agriculture. The amounts and issues at stake are -

	£m at 1979 Survey prices		
	1981-82	1982-83	1983-84
Defence (interpretation of NATO target)	54	103	160
Housing (mainly rents and new council house-building)	418	587	746
Education (current expenditure on schools non-advanced further education and higher education)	125	210	295
Social security (abolition of earnings-related supplement)	260	195	195
Agriculture (mainly capital grants)	70	93	90
Consequences of these changes for Scottish, Welsh and Northern Ireland programmes	110	150	200
Total	1037	1338	1686

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4. A substantial sum may also be at stake on finance for the nationalised industries: this will depend on decisions to be taken by E Committee on 17 October on coal and gas, and on the outcome of Keith Joseph's negotiations with the Post Office.

5. If the Cabinet accepts my proposals on these points, the total for the later years will be about £68½ billion in each year - compared with about £70 billion in 1978-79 and £67½ billion in 1977-78. If the decisions go the other way, the figures could be close to £70 billion in the first two years and above it again in 1983-84. (These figures must be treated with caution: if unemployment is higher than assumed, social security payments will rise. On the other hand, they take no credit for a successful outcome of negotiations on our EEC contribution).

6. The £1½ billion at issue in 1983-84 is a significant sum in terms of achieving our monetary objectives without excessive interest rates. It represents about 3 pence on the basic rate of income tax. This has to be seen against our aim of getting the basic rate down to 25 pence over the lifetime of the Parliament.

7. This minute is for information only, but I thought that you would like advance notice of the issues to be raised in the paper I am to circulate later this week for discussion at Cabinet on 18 October.

8. I am copying this minute to Sir John Hunt.

WJB

JOHN BIFFEN
9 October 1979

£m 1979 Survey prices

	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>
The inherited plans	75977	77220	77200
Total proposed to Cabinet on 13 September	68647	68051	68333
Reductions proposed to Cabinet on 13 September	7330	9169	8867
<u>of which:-</u>			
Reductions proposed for major spending Departments	5658	7269	7117
Reductions provisionally agreed by major spending Departments*	4288	5381	4893
Proposals conceded by the Treasury	333	550	538
Amount still at stake: 5 Departmental issues	927	1188	1486
Consequential further reduc- tions in Scotland, Wales and Northern Ireland	110	150	200

*assuming agreement in certain bilaterals not yet completed, and net of further increases sought by Defence.

9 OCT 1979



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