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PRIME MINISTER

White Paper on Public Expenditure in 1980-81
(C(79) 46 and Mr. Howell's minute of 24th October)

BACKGROUND

The Chancellor of the Exchequer sent you a draft of this White Paper at the weekend, and you made some comments (Mr. Lankester's letter of 22nd October). The Chief Secretary also consulted you about the timing (his private secretary's letter of 19th October, and Mr. Lankester's reply of 22nd October). The drafting changes are not incorporated in this version, which had already gone to the printers, but will be picked up later.

2. Although Cabinet took the main decisions on 1980-81 in the summer, there is still some tidying-up to do. The main outstanding points are:-

- (a) The Presentation of the Economic Background. This is now much easier, with the decision to postpone publication of the forecast until later. But the introductory paragraphs still require some care. The changes which you have suggested should do the trick, but there may be other nuances which other Ministers wish to add.
- (b) Nationalised Industries. The present draft of the White Paper assumes that gas and electricity prices will rise in April in line with general inflation. E agreed that there should be a move towards economic pricing, probably involving increases in real terms later in the year. The timing and size were left to be settled between the Chief Secretary and the Secretary of State for Energy. The latter now reports (in his minute of 24th October to you, circulated to Cabinet) that they have agreed to recommend increases of 5 per cent for electricity and 10 per cent for gas in the autumn of 1980, on top of the April increases. This yields about £170 million in the financial year 1980-81. This is the central one of the three options which the Chancellor proposed to you in his minute of 19th October. You agreed then (Mr. Lankester's letter of 22nd October) that a

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decision on this issue should be taken at Cabinet this week. It is a little hard on Ministers who did not hear the E discussion. But you should have no difficulty in convincing them that there is a good economic case for putting up gas and electricity prices in this way. The help it gives in the public expenditure context is clear. If the Cabinet agrees, the revised figure can be incorporated in the White Paper (net of any other changes which may be agreed on other nationalised industries cash limits). The consequences, for the 1980-81 cash limit, and for the profile of price increases in later years, can then be sorted out either bilaterally or at E, probably on 30th October (before the final Cabinet discussion on public expenditure on 1st November).

- (c) Stationery Office. There should be no problem over the minor increase in this provision. From next year, HMSO will be on a full repayment basis, and Departments will have to justify their own demands upon it.
- (d) Housing and Construction. At the very last minute, the Secretary of State for the Environment demanded some changes to the text (his private secretary's letter of 19th October) which are still the subject of dispute. The main difficulty arises on the reference to Council House rents (paragraph 28). Cabinet decided in July (CC(79) 10th and 11th Conclusions, following recommendations from MISC 11) that Council House rents should go up next year. There is no argument about the decision. But the Secretary of State wants to announce it in his own way, at a time of his own choosing (probably 20th November when he presents the RSG decisions). Every Minister could deploy arguments like that, and the result would be no White Paper at all. You might like, therefore, to support the Chief Secretary. Mr. Heseltine is also pressing for a special reference to the construction industry (which seems harmless) and to the 3 per cent target reduction for the current year (which Treasury officials

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recommend accepting). His amendment (iv) (to paragraph 12 of the present text), however, goes to the heart of the earlier argument about 'globalisation', which he lost in Cabinet. He wants to say that the figures are 'only illustrative' not 'necessarily tentative'. **That** could be read to mean that the Government is giving local authorities no real indication of priorities between programmes - and thus failing to protect education etc. Before accepting this amendment you should see whether the Education and Social Service Secretaries are content.

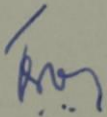
- (e) Timing of Publication. The Chief Secretary's covering note accurately reflects your own worries about timing. I understand from the Treasury that, if publication is delayed from 31st October, 1st November will not be very satisfactory (as it is never easy to get good press coverage for a major economic statement on a Thursday) and that some date the following week would be better. But you will want to know what the Leader of the House thinks about this.

HANDLING

3. You might invite the Chief Secretary to introduce his draft briefly; and then to take each of the points listed above in turn. (I doubt if the Stationery Office point needs comment).

CONCLUSIONS

4. You should be able to record approval for the text of the White Paper, subject to any drafting changes needed to reflect the decisions on gas and electricity, and on housing. You need also to record a decision on the timing on publication.


(John Hunt)

24th October 1979

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