

Ref. A0597

PRIME MINISTER

Public Expenditure 1981-82 to 1983-84

(C(79) 54, the Chief Secretary's minute to you of 6th November about housing and his letter of 31st October to the Secretary of State for Education and Science)

BACKGROUND

Cabinet had an inconclusive discussion on the "later years" on 25th October, and you asked the Chief Secretary, Treasury, to pursue the outstanding issues bilaterally with the Ministers concerned. This paper (which summarily reports agreements set out more fully in the related correspondence) is the result.

2. The paper says nothing about defence. I understand that you agreed with the Chancellor of the Exchequer and the Secretary of State for Defence on Monday night that this need not be raised at Cabinet at all this week.

3. So I think you should be able to dispose of this item very briefly. There are no points for decision today, and other Ministers are unlikely to be very interested in the details of the deals which the Chief Secretary has done. (It is arguable that they should be, as you will see from the detailed notes I attach in an annex; but that is another matter.) The resulting figures will then be embodied in the second Public Expenditure White Paper. You are due to discuss shortly with the Chancellor and the Chief Secretary the degree of detail which should go into that White Paper.

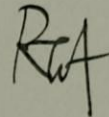
HANDLING

4. I suggest, therefore, that you invite the Chief Secretary to introduce his paper as briefly as possible, merely reporting the circumstances in which he has reached agreement on environment and education, and indicating the basis on which the figures for agriculture have been left. You might then get the three Ministers concerned (the Secretaries of State for the Environment and for Education and Science, and the Minister of Agriculture, Fisheries and Food) to confirm that they accept these deals (this has of course been fixed up behind the scenes already), and simply record Cabinet endorsement.

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## CONCLUSIONS

5. Subject to discussion, I think you should be able to record simply:
- (i) That the Cabinet takes note of the revised figures for housing and for education.
  - (ii) That it agrees to resume its discussion of agriculture at the meeting on 6th December.
  - (iii) That the figures for Civil Service manpower may need revision in the light of discussions in Cabinet on 22nd November.
  - (iv) That the nationalised industry figures arise on the next item on the agenda.
  - (v) Invite the Chief Secretary, Treasury, to bring a draft of the Public Expenditure White Paper for these years to Cabinet on 20th December.



ROBERT ARMSTRONG

7th November, 1979



Here are some notes on the points of substance, in case anybody raises them in the course of discussion.

Environment (Housing)

2. Mr. Heseltine has won on two points: he has secured a reduction in the Chief Secretary's bid, and he has got agreement that he should be free to decide how the available finance will be allocated. In theory, this conforms to your ruling, at the beginning of this Administration, that Departmental Ministers should be free to allocate their own programmes. In practice, it leaves the Chief Secretary in a slightly weak position next summer. There will be no decision in principle in favour of further increases in council house rents, and there will be no Government commitment on record. It would have been preferable, from the point of view of Cabinet as a whole, to have taken those decisions now and to have announced them. But, given the agreement which the Chief Secretary has reached, I do not think you will wish to reopen this issue in Cabinet.

Education

3. The argument last time was about the dis-economies of falling school numbers. The Chief Secretary has gone some way to meet the Secretary of State for Education and Science on this point, by building in a bigger allowance to cover these costs. He has also agreed a number of other changes, resulting in a significantly better deal for the Secretary of State for Education and Science than before. In particular, the package is now biased in favour of non-advanced further education (meeting a generally expressed wish in Cabinet) at the expense of some modification in the new "assisted places" scheme: this may be seen as a degree of back-tracking by the Government on a Manifesto commitment, but again I doubt whether Cabinet will wish to reopen the deal.

Agriculture

4. Mr. Walker may protest that the figures used in the table attached to the Chief Secretary's paper assume that the Treasury wins. But paragraph 2(1) makes it clear that "this is entirely without prejudice to the eventual decision between the Treasury's proposals and those put forward by the Minister of Agriculture ...". If the Minister of Agriculture raises this, you might simply

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say that discussion must wait until Cabinet returns to the question of agriculture at the meeting on 6th December.

## EEC Contribution

5. Mr. Walker may also seek to revert to the point he has made previously in Cabinet - and on which he has corresponded at length with the Chief Secretary - that the White Paper overprovides for our future EEC contribution. If he does so, you might ask the Chief Secretary to comment and then rule on the lines of not counting our chickens before they are hatched. Anything else might tempt other spending Ministers to join Mr. Walker in the hopes of recovering ground they have lost in the Cabinet's discussion on their programmes.

## Staff Savings

6. It now looks likely that the Lord President's paper on staff savings will be postponed until 22nd November. It should not be allowed to slip further, or the timetable for the Public Expenditure White Paper will slip again.

## Nationalised Industries

7. The figures in Annex A reflect the results of separate bilaterals with the sponsor Ministers which are reported in C(79) 56 - next item on the agenda.

## Gas Prices

8. The nationalised industry figures in Annex A assume agreement on the future pattern of gas prices. A paper on this is due to go to E on 13th November. You might remind Mr. Howell that this timetable must not be allowed to slip either.