

SECRET

16

Ref. A052

PRIME MINISTER

Public Expenditure 1980-81

(Resumed discussion)

BACKGROUND

This, the last in the present series of meetings, need only tie up a few loose ends left over from Monday, and give instructions for the next stage of the operation. The two key documents are:

- (i) The Chief Secretary's minute of 25th July (headed "Northern Ireland, Scotland, Wales and Coal") recording the final discussions in MISC 11.
- (ii) The Chancellor's minute of the same date (headed "Guidance to Local Authorities"), containing the text of a possible announcement to the local authorities and nationalised industries to be made early in the Recess.

HANDLING

2. You might break the discussion down under these two headings. You could ask the Chancellor first to report briefly on the MISC 11 discussions, and on the separate bilateral talk with the Secretary of State for Energy. The figures for Scotland and for Wales have now been agreed, and the Secretary of State for Wales has now abandoned his claim for specially preferential treatment for Welsh expenditure programmes. The Secretary of State for Northern Ireland did not attend the MISC 11 meeting on Tuesday (the timing of which had specially been arranged to meet his convenience) and sent an official who had no plenipotentiary powers. Thus, the "formula" cut for Northern Ireland has been established, but the Secretary of State's claim for special treatment remains on the table. The gap looks like being between the MISC 11 revised recommendation of £97 million cuts, and the Secretary of State's offer of £90 million cuts. The Chief Secretary is now prepared to accept £90 million; all Cabinet needs to do is to confirm this deal.

3. There has been a separate bilateral exchange about coal, reported in the Chief Secretary's minute. The Chief Secretary has suggested a cut of £25 million on total finance of £623 million requested by the NCB (grant and loan

SECRET

combined). This should not involve any additional price increase beyond the 3 per cent real price increase already assumed for next year. We understand that Mr. Howell is being advised to accept this figure. You could ask him to confirm this.

4. Mr. Jenkin may try to raise a point about Monday's decisions on social security. (He is being advised to take it up in correspondence instead.) He said his savings added up to £222 million, and this was recorded in the minutes. In fact, closer examination in the Treasury and the Department gives savings of £192 million as the consequence of the specific decisions taken at the meeting (i. e. the substitution of "anti-fraud measures" for waiting days). If he raises this, you might invite him to settle it bilaterally with the Chief Secretary.

5. You might then move to the next steps. The Chancellor's second minute of today's date sets out a possible formula for use with the local authorities. This has been agreed at official level between the Departments concerned. There are three points to be covered:

- (i) Should the statement be "global" or should it itemise the cuts service by service? There are two alternative versions of the text. You will want to hear the views of the Secretary of State for the Environment (who favours "globalisation"), and of the Secretary of State for Education and Science (who opposes it). You may also want to consider whether it should be made clear that this "globalisation" is for one year only, or whether it is a pointer to the way in which local authority expenditure should be controlled in future. If the latter, you may wish to commission a further paper from the Chief Secretary, the Secretary of State for the Environment and the Secretaries of State for Scotland and for Wales, for consideration after the Recess, about future control mechanisms.
- (ii) Later years. The Chancellor's minute brings out also the need for clear guidance to the local authorities about the range of cuts to be sought in later years. You said at Cabinet on Monday that the figures for those years would be much more "blurred". But the authorities need to have some sort of guidance. Decisions are needed both on the base-line (should it be the new level for 1980-81) on the percentages to be applied to that base-line.

SECRET

(iii) Timing. Despite today's PNQ the pressure for a Parliamentary statement before the Recess has been contained (although the Government is now committed to a White Paper in the autumn). The question now becomes one of an approach to the local authorities. It should be possible to arrange a meeting of the consultative machinery next week: to leave it much longer risks running into the holiday season.

6. You may also want to give instructions about the next stages of the operation extending the decisions forward to 1983-84. The Treasury believe that two meetings of the Cabinet will be needed. The first would consider proposals from the Chief Secretary about the options for reductions set out in the official report (C(79) 25). There would then probably be a series of further bilaterals (or possibly meetings of MISC 11 if a quorum can be found). Thereafter there would need to be a further meeting to agree the final figures for publication in an early public expenditure White Paper. Given the Chancellor's and your own movements, possible dates for these Cabinet meetings would be 13th September for the first one (before the Chancellor leaves for the IMF/IBRD/Commonwealth Finance Ministers' meetings) and 18th October (the week after the Party Conference) for the second. It might also be prudent to allow for one more meeting on 25th October on a contingent basis. A timetable on these lines would make it possible to publish the White Paper by mid-November. There is however a potential problem over the closely related paper on Civil Service manpower reductions. The Lord President had intended to circulate this in "mid-September" though it is we gather most unlikely that this will represent a fully worked out presentation. Nevertheless it must be possible for him to present preliminary conclusions and to identify the main problems before then. If you accept the timetable above, you might ask the Lord President to ensure that at least a preliminary paper is ready in time for Cabinet on 13th September so that the main threads of the two exercises can be brought together then and in the subsequent bilaterals. Failing this we risk an unco-ordinated muddle.

CONCLUSIONS

7. The conclusions of the meeting might be:

- (i) To note the agreement reached with Scotland, Wales, Northern Ireland and Energy.

SECRET

- (ii) To agree that all the figures arrived at in the last four meetings for 1980-81 should be included in the public expenditure White Paper.
- (iii) To agree that guidance should be given to the local authorities along the lines of the draft attached to the Chancellor's minute of today as amended in discussion.
- (iv) To agree that consultation should proceed with the local authorities (excluding housing expenditure) on the basis of cuts of $12\frac{1}{2}$ per cent in 1981-82, and $17\frac{1}{2}$ per cent in 1982-83.
- (v) Possibly to invite the Chief Secretary, Treasury, in consultation with the Secretary of State for the Environment and the Secretaries of State for Scotland and for Wales to consider possible future control mechanisms for local government expenditure.
- (vi) To agree to resume discussion on public expenditure in later years in September on the basis of papers from the Chief Secretary, Treasury, and the Lord President of the Council.

John

JOHN HUNT

25th July, 1979