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*Mr. Sen*

PRIME MINISTER

PUBLIC EXPENDITURE 1980-81 - ANNOUNCEMENT

? We are in a difficulty about the timing of an announcement of Cabinet's decisions on public expenditure in 1980-81, which we hope to settle tomorrow.

2. There are strong reasons for announcing these decisions straightaway:

(i) A large share of the cuts will fall on local authorities, who need to know now what reduction we are planning, and our proposed legislative changes, if the plans for 1980-81 which they will be working out in the coming weeks and months are to reflect these. They have been making strong representations about this, and if they are not told until the autumn, they will be able to say that it is too late for them to implement these cuts in full.

(ii) There is a risk that decisions taken now will begin to leak out, and that the public reception will be more critical than if we present them coherently now as a necessary package.

(iii) There is also of course some risk that circumstances will change and lead colleagues to seek to re-open decisions if they have not been announced.

3. Therefore my preferred course - Option 1 ( and for operational and practical purposes this is much the best) would



be to make a Parliamentary statement before the recess. This would explain briefly why the cuts are needed, and why we are bringing forward the announcement for next year in advance of a full White Paper setting public expenditure in its medium-term context, in the autumn. But the statement will be certain to provoke demands for a debate, which in my judgment we should find it very difficult to resist, given the scale of cuts proposed. The only way that I can see of providing for a debate would be to have a Cabinet on, say, Tuesday of next week, to approve the terms of a statement to be made that afternoon, and to hold a debate on Thursday, postponing other business and hence the recess into the following week. This of course assumes that we can reach the decisions of substance tomorrow. And it has formidable Parliamentary disadvantages, on which we have already spent some time in Cabinet last Thursday.

4. If for these reasons Option 1 is not feasible, one arrives at a possible variant - Option 1A - again intended to meet the operational need. This would be for the Secretary of State for the Environment to call in the local authorities, say in early August, and tell them that:

- (i) the Government intended to announce its full public expenditure plans in the autumn; but
- (ii) to meet their needs he was asking them now to plan on the basis of cuts of x% or £y million in 1980-81;
- (iii) the Government for its part proposed to make certain legislative changes to make these reductions possible;
- (iv) the local authorities were invited to give their views on the feasibility and implications of larger reductions in the later years (perhaps on the basis of up to 12½%





and 17½% proposed earlier, comparable with the 7½% already considered for 1980-81).

However the local authority cuts would leak, and we would not have announced either the central government's own contributions, or the reasons why cuts on this scale were needed. Parliament might feel that they had not been given a proper opportunity to debate the Government's proposals.

5. Therefore in my view, failing Option 1, we are driven back to Option 2 - to publish, say, in early or mid-September a White Paper setting out the 1980-81 cuts in full, with the economic case for them. This has the disadvantages I have suggested in paragraph 2 - too late for local authorities, risks of leaks and re-opening. It would also lead to demands for the recall of Parliament, and would focus criticism at the TUC and Labour Party Conferences. The economic arguments would have to concentrate on next year's problems, and their origins; in the absence of decisions on public expenditure beyond next year they could not point forward in any quantified way to improved medium-term prospects. But our general case could and would be put in a coherent fashion.

6. In any case, we must aim to reach our public expenditure decisions for the later years in October, so that we can publish a full White Paper by about the end of that month. This would set out our medium-term economic strategy, as well as giving the short-term forecasts required by the Industry Act. The broad thrust of our public expenditure plans would then fall into place, and the details could be given in Part II of the White Paper (as has been done in some previous years) as soon as this could be prepared - that is, about two months later.

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7. All these considerations seem to me to count strongly in favour of a statement on 1980-81 before the recess, if we can possibly meet this timetable - to be followed by a full White Paper setting out our forward plans about the end of October. But even this course is not without its difficulties.

8. This is not an easy issue, and in view of its relevance to tomorrow's Cabinet discussion, I am sending copies of this minute to all members of Cabinet, the Chief Whip, and Sir John Hunt.

*G.H.*

(G.H.)

18 July, 1979

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