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Loc Govt : Part 4
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9

SECRET

Ref. A03391

PRIME MINISTER

Public Expenditure Programmes

(C(80) 58, 62 and 64)

The Chief Secretary's proposals for increases and reductions in individual programmes were summarised in his memorandum C(80) 58. As agreed by Cabinet, ref in Item 5(a) last week the Chancellor of the Exchequer, the Home Secretary (available for only two meetings because of the prison crisis), the Lord President and the Chief Secretary, meeting as MISC 47, have discussed these proposals in separate meetings with eleven spending Ministers. The Chancellor of the Exchequer and the Chief Secretary have summarised the outcome of the Group's discussions in C(80) 64. I suggest that this latest paper, and its tables (which update those in C(80) 58), should form the basis for discussion.

2. You will also wish to have before you the Chancellor of the Exchequer's minute of 29th October to you about the social security programme (copied only to the Home Secretary, the Lord President and the Secretary of State for Social Services); and the Secretary of State for Scotland's memorandum (C(80) 62) on the proposed cuts on his programme.

3. If the Cabinet gets round to discussing the unresolved issues on departmental programmes, you might take them under the following seven headings:

I. The 1 per cent cut on local authority current expenditure
- and the education programme in particular.

II. Social Security and Health.

III. Employment.

IV. Defence.

V. Scotland.

VI. Wales.

VII. The 2 per cent cut on cash controlled programmes
- this in effect wraps up all the other Departments and issues.

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It is important to take I. first in order to make headway on the Rate Support Grant discussions. The Cabinet generally do not know of the social security proposals and therefore these need to be explained early in the discussion. There are no overriding arguments for taking the other items in the order suggested, although it follows that in C(80) 64. It would however be prudent to leave VII. to the end, or each Minister will be tempted to spend time on exposing to colleagues the difficulties of recommendations which he has accepted.

4. I attach separate notes on each of the seven items, with cross-references to the Chancellor's paper C(80) 64. For ease of presentation I have for the most part focussed on 1981-82 although the decisions for the later years are of course extremely important. In commenting in some cases on the practicability of proposed cuts I have drawn on the impressions gained by the Secretariat of MISC 47 in listening to discussion in that group.

5. Although most Ministers have signed up on the 1 per cent local authority cuts and on the 2 per cent cuts on cash controlled expenditure, they have done so on the understanding that there is equality of misery all round. If they were to see exceptions being made, their provisional agreement could well crumble. This point has very much influenced the Chancellor in his handling of MISC 47. It is also our impression that, in accepting the 1 per cent local authority cut 'subject to the decisions of other colleagues' the "territorial" Ministers had in mind that the real battle here is on educational spending i.e. that to a significant extent they were giving away someone else's money.

6. Finally, a number of Ministers may be tempted to point to the additional provision earmarked for the nationalised industries, and to argue that if this could be reduced the burden on them would be so much less. This cannot be taken any further at this stage. E Committee will be considering on 5th November the latest recommendations on the External Financing Limits for 1981-82. You will recall that at the last discussion in E firm agreement was not reached on the measures necessary to get the total additional requirement down to £500 million, let alone the £300 million which the Chief Secretary notes in C(80) 58.

RA

(Robert Armstrong)

29th October, 1980

I. LOCAL AUTHORITY CURRENT EXPENDITURE AND EDUCATION
(Section Bi of C(80) 64)

1. Proposed reduction: a further 1 per cent cut in local authority expenditure (in addition to the 2 per cent reduction already announced) saving £130 million in each year for England and Wales, of which £61 million on education services.

2. All local authority Ministers agree to this except the Secretary of State for Education who argues -

(i) Education has already been reduced by $3\frac{1}{2}$ per cent compared with the overall reduction of 2 per cent on local authority current expenditure so far imposed.

(ii) With the further cuts a total of at least £100 million would have to come from primary and secondary schools, and in practice from a moratorium on recruitment of teachers.

(iii) The education authorities are already stretched to the utmost in finding cuts, and anything more would be both politically unacceptable and, more to the point, impractible.

3. Subject to the views of the Secretary of State for the Environment the Rate Support Grant calculations are now so advanced, and the timetable so tight, that the 1 per cent cuts cannot be made selectively. It is all or nothing. So unless the Secretary of State for Education accepts this £61 million cut the full £130 million is lost, plus the consequentials for Scotland. If this were to happen it would strongly reinforce the case for an RSG of 60 per cent rather than 61 per cent - this issue will come up in discussion of C(80) 61.

4. It would be helpful to dispose of two further issues on education at the same time. First, the 2 per cent cut on cash controlled expenditure requires the Secretary of State for Education to save £30 million on his programmes for higher education. This will have to be done mainly by

reducing places available at universities and polytechnics. He offers only £7½ million on the grounds that he has already made a 1½ per cent reduction as part of the cuts agreed for his programme in July. If this is conceded other Ministers, who for the moment are signing up on their 2 per cent cuts, will also be tempted to renege.

5. Secondly, the Secretary of State for Education has yet to sign up on the proposal that the 1981-82 cuts should be carried forward into the two later years by reductions of £236 million and £241 million. It was suggested in MISC 47 that the two Ministers might discuss this further bilaterally before final decisions were sought, though this has not yet been done.

II SOCIAL SECURITY AND HEALTH
(Chancellor of the Exchequer's minute to you of 29 October on the social security programme; and Section E ii of C(80) 64).

Social Security

1. In C(80) 58 the Chief Secretary said that the question of provision for social security, and public service pensions, were being considered separately. For reasons of security his table did not show the figures under discussion. The main proposal is the uprating of all benefits in November 1981 by 3 per centage points less than is needed to give full price protection. The savings would be approximately £175 million in 1981-82 and £500 million in each of the later years. The Chancellor and the Secretary of State for Social Services agree that exceptions should be made for war pensions and mobility and attendance allowances. They have not yet reached agreement on exceptions for invalidity benefit and short-term supplementary benefit - see Annex C of the Chancellor's minute.

2. As the Chancellor points out, in his paragraphs 7 and 8, there are major questions over the tactics for presenting these decisions, if they are approved, and over the form of legislation. I suggest, however, that for the purposes of the discussion tomorrow it is sufficient for the Chancellor to make an oral report to Cabinet, as he proposes, on the basis of his minute. As he says, it may be necessary, in the light of the discussion, to circulate a paper setting out the proposals in more detail. The main purpose of tomorrow's discussion will be to measure the first reactions of Cabinet.

3. The Chief Secretary will circulate his separate letter on the holding back on index-linked public sector pensions in the same way after Cabinet's discussion - see paragraph 10 of the Chancellor's minute.

<u>Health</u>

4. Proposed reductions -

£126 million (2 per cent off cash controlled programmes) and £12 million (1 per cent local authority current spending); and no requirement to make good the £100 million loss of receipts from expected charges.

5. The Secretary of State for Social Services does not dispute his local authority contribution. He strongly argues, however, for finding the rest of the saving by a relatively small increase in the national insurance health contribution rather than by cuts on services or higher charges. He sees this as socially and politically more acceptable.

6. Treasury Ministers wish to insist on the expenditure cuts. The national insurance contribution is essentially a form of tax. It helps the PSBR but not the public expenditure totals.

7. The choice is between -

<u>either</u>
a PSBR saving through the national insurance health contribution
<u>or</u>
a 2 per cent expenditure cut as proposed by Treasury Ministers and in line with the cuts on other spending Departments (who do not have the tax alternative).

III. EMPLOYMENT

(Section B iii of C(80) 64).

1. Proposed additions: setting aside his contribution to the general percentage cuts, the Secretary of State for Employment is bidding for a net additional £269 million in 1981-82 for the special employment measures discussed by E. Treasury Ministers offer him £167 million. There are similar large gaps in the two later years.

2. The Secretary of State for Employment will argue -

(i) most of his additional bid is for maintaining existing schemes and arises in part because of rising unemployment and in part because two schemes were previously financed from the Contingency Reserve and are now being brought into his programme ie that in the latter case the Treasury are backing the reality of an ongoing programme on purely accounting grounds.

(ii) There are some modest improvement for Youth Opportunities Programme, in line with the views of E.

(iii) It is ridiculous to talk of cutting schemes at a time of sharply rising unemployment.

(iv) The net PSBR cost is about half the expenditure cost if allowance is made for payments avoided eg on unemployment benefit - the Treasury would say the offer is about one third.

3. Cabinet may judge that Treasury Ministers have made unrealisticly low provision for these measures. To the extent that provision is increased, however, the pressure on other programmes also goes up. The choice is -

either to stick to the Treasury figures, though Mr Prior will find these totally unacceptable

or to approve Mr Prior's proposals, and seek offsetting savings elsewhere.

IV. DEFENCE
(Section B iv. of C(80) 64).

1. Proposed reduction: £500 million in each year, of which £188 million for the 2 per cent general cut on cash controlled expenditure.

2. The Secretary of State for Defence is strongly opposed to any cut. His line will be -

i. Defence is already squeezed to the limit and any further reduction is tantamount to a significant change in defence policy.

ii. Need to finance Trident, and to honour the undertaking given to President Carter and NATO not to reduce conventional defence capability.

iii. Damage to the NATO alliance and the 3 per cent growth target.

iv. Effects on British industry (£1 billion already lost from cuts).

v. Effects on jobs - he estimates that £500 million cuts would cost 75,000 jobs in the United Kingdom.

Nevertheless, and without any commitment, he agreed in MISC 47 to consider the implications of accepting the £188 million equivalent to the standard 2 per cent cut in cash limited expenditure as an alternative to the full £500 million on the understanding that the commitment to 3 per cent real growth would be renewed thereafter.

3. Is it unlikely that the Cabinet will have other than a provisional discussion of this. You may, however wish, to probe the Defence Secretary on the possibilities of his contributing at least the £188 million a year. Provisional calculations suggest that, if the cut were limited to this amount, and subject to the effects of cash limit decisions, it would be possible to argue that defence spending would increase by 2½ per cent in 1981-82 over 1980-81 and that we would be on track with the 3 per cent target in the two later years.

V. SCOTLAND

(Section B v. of C(80) 64; and C(80) 62 by the Secretary of State for Scotland)

1. Proposed reduction: £150 million each year.

The Secretary of State accepts the formula cuts of £60 million provided the equivalent percentage reductions are made by other Departments (surprisingly perhaps he made no particular play in MISC 47 with the educational element in their decision - but perhaps he hopes to ride on the back of Mr Carlisle's separate fight to defend the educational programme). He is however strongly against the further £90 million cut which the Chief Secretary proposes on the grounds that the Scottish share of public expenditure on comparable services is larger than justified by relative need.

2. His case, which is set out in C(80) 62, is on two grounds -

i. political - a "levy on the Scottish people"; nothing similar being imposed on Wales and Northern Ireland; playing into the hands of the Scottish Nationalist Party.

ii. Practicability - could only be done, by a 16 month moratorium on capital expenditure, so ravaging the Scottish construction industry.

3. Counter arguments -

i. Even with the £90 million cut, expenditure per head in Scotland would be about 30 per cent higher than in England compared with the 17 per cent which the Needs Assessment Study would justify.

ii. Wrong to continue to cushion Scotland when the North of England, and other regions too, are being hard hit.

4. Cabinet may judge that it is impracticable to get anything near the full £90 million. But, unless they find Mr Younger's political argument to be overriding, they will wish to press for some contribution. The choice seems to be -

<u>either</u> insist on full £90 million
<u>or</u> let the Scots off the £90 million
<u>or</u> press Mr Younger to find <u>some</u> contribution towards the £90 million.

VI. WALES
(Section Bvi of C(80) 64)

1. The Secretary of State for Wales agrees to take his percentage cuts. However, he wants an additional £20 million in each of 1981-83 and 1983-84 for factory building in areas affected by steel closures.

2. The Secretary of State for Wales will argue -

i. Increased provision has been made to deal with the consequences of steel closures in 1980-81 and 1981-82 but not in the two later years, and this is unrealistic with the general industrial situation in South Wales getting much worse.

ii. He has already diverted resources to his industrial programme from elsewhere.

iii. With this additional provision he would stand a reasonable chance of riding the problems in front of him and of attracting some inward investment from the States.

3. The counter arguments are -

i. There are also pressures in England, Scotland and Northern Ireland, and a concession to Wales would mean concessions to them too.

ii. He should find the money by switching resources within his overall programme.

4. The choice is -
either
i. stick to the proposed cuts but leave Mr Edwardes free to switch his own resources into his industrial programme if he wishes
or
ii. modify the cuts by giving Mr Edwardes the £20 million more he wants for industrial support in 1982-83 and 1983-84.

VII. 2 PER CENT CUT ON CASH CONTROLLED PROGRAMMES
(Section A - Agreed programmes - of C(80) 64).

1. The problems of the Departments who are dissenting from cuts under this heading will have already been discussed - Education, Health and Defence.

2. Section A of C(80) 64 records that agreement has been reached with Environment, Transport, the Foreign Office and the Office of Arts and Libraries. The Secretary of State for the Environment will want to point out that, in order to avoid capital investment cuts, he will be requiring a rent guideline for next year indicating an average rent increase of £3.25 as against the £2.85 previously assumed - see Section A i.

3. The Treasury reached agreement on the remaining programmes - Industry, Trade, Energy and the Lord Chancellor's Department - without meetings.

4. Provided that any exemptions agreed for the currently dissenting departments do not provoke other Ministers into withdrawing their offers, it should be sufficient to record general agreement on these proposals and to avoid detailed discussion on the problems of each department.