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PRIME MINISTER

TIMETABLE AND KEY DECISIONS TO CHRISTMAS 1981

I have been giving thought as to how best we might secure the necessary decisions that have to be taken this autumn in the public expenditure context, having regard to the various constraints such as our absences abroad. This minute sets out my proposals for your consideration.

2. The run-up prior to the holidays is comparatively simple. We have arranged for a macroeconomic discussion, probably on 18 June, which will be very important but at which no substantive decisions will be sought. More specifically on public expenditure, I suggest that on 23 July we consider my preliminary proposals as to what we might aim for in the Public Expenditure Survey, and what preliminary guidance, if any, might then be given to local authorities for 1982-83.

3. From September onwards the timetable gets more difficult. I proposed that on September 15 or 16 we discuss the cash inflation factors - that is, review our decision as to the 7 per cent, 6 per cent and 5 per cent which we took last week. I shall be chairing a European Finance Ministers meeting on 17 September, and I shall then be away from 21 September to 2 October at the Commonwealth Finance Ministers meeting in New Zealand and the IMF in Washington. But we need to settle this aspect of expenditure early, so we can start the expenditure discussions on a firm basis.

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4. Last week Cabinet decided that decisions on local authority expenditure for 1982-83 should be taken in good time for the Rate Support Grant (RSG) settlement to be announced in November. This means that decisions on local authority expenditure for 1982-83, in terms of the totals to be spent on various services, must be taken in September. The need for some bilateral discussions with Spending Ministers after they return from leave, as the basis for final proposals to Cabinet, rules out Cabinet discussions before 15 or 16 September, although even this date will not be easy. Nevertheless I suggest we aim for it, recognising that we may end up with the 24 September. I shall be away on that date, as I say, but the Chief Secretary will be present.

5. We cannot manage in September in addition to start on the main round of public expenditure discussions which will deal with all expenditure programmes (including local authority programmes for the years after 1982-83). You and I will both be away on 1 October. I suggest therefore that Cabinet should in early/middle October have another macroeconomic discussion and give consideration to detailed proposals on public expenditure which the Chief Secretary and I will circulate. The ideal date for this would be 8 October, but you may not be back from Melbourne by then. Having regard to the Party Conference starting the following week and our departure for Mexico on 21 October, this means having this discussion on either Monday 12 October or Monday 19 October.

6. Of these two I would prefer the 12 October. The reason for this lies in the need to settle public expenditure plans by around the middle of November. This is not an absolute (eg statutory) deadline, but a variety of factors combine to make it very important - the need to have nationalised industries EFLs published in mid-November, the need (if we are to have a better chance of making reductions stick) to give programme managers as early a warning as possible of

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changes from the Cmnd 8175 figures, and the desirability that any immediate public expenditure announcements which may be thought necessary should be compatible with and reflect the Industry Act forecast we shall be publishing. Given the scale of reductions we may be seeking, and the novelty of the cash planning basis, we can expect discussions to be even more difficult than previously. Working backwards from mid-November, we cannot risk the final round of detailed discussions in Cabinet starting later than 29 October. And allowing for the bilateral discussions that must take place between Treasury Ministers and spending Ministers before that, we have to go for 12 October for a first look at our detailed proposals. I recognise that having regard to our absences abroad the 19th would be more convenient eg from the point of view of considering our proposals before they are generally circulated to colleagues. But I think that this date would put the already very tight timetable at serious risk.

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7. The attached sheet sets out my proposals in summary form. I hope you are able to agree to it.

8. I am copying this to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

19 May 1981