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C(81) 38th  
Conclusions

COPY NO 79

CABINET

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CONCLUSIONS of a Meeting of the Cabinet  
held at 10 Downing Street on  
THURSDAY 26 NOVEMBER 1981  
at 9.30 am

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PRESENT

The Rt Hon Margaret Thatcher MP  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the Home Department

The Rt Hon Lord Carrington  
Secretary of State for Foreign and  
Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Education and Science

The Rt Hon Francis Pym MP  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Northern Ireland

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Peter Walker MP  
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP  
Lord Privy Seal

The Rt Hon Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Transport

The Rt Hon Norman Fowler MP  
Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster

**SECRET**

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

The Rt Hon Norman Tebbit MP  
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP  
Paymaster General

ALSO PRESENT

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir Robert Armstrong  
Mr M D M Franklin (Items 2 and 3)  
Mr R L Wade-Gery (Items 2-4)  
Mr P L Gregson (Item 5)  
Mr D J L Moore (Item 5)  
Mr D H J Hilary (Item 1)  
Mr L J Harris (Item 1)

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PARLIAMENTARY  
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

Legislative  
Programme  
1982

Previous  
reference:  
(81) 32nd  
conclusions,  
page 5

THE LORD PRESIDENT OF THE COUNCIL said that for reasons largely beyond the Government's control the Coal Industry Bill, the Local Government Finance Bill, and the expected Canada Bill would now be introduced considerably later than had been envisaged. There were now proposals for adding two more Bills, on National Insurance contributions and Regional Development Grants, to the programme. Although this would still not make the total volume of legislation excessive, the bunching of a number of major controversial Bills in the period immediately after the Christmas Recess would present difficult problems of handling in both Houses. In these circumstances, he could not guarantee that the dates for Royal Assent specified by the sponsoring Ministers could be met in every case.

The Cabinet -

Took note.

FOREIGN  
AFFAIRS

Previous  
reference:  
(81) 36th  
conclusions,  
page 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that it was not clear what was the Libyans' motive in withdrawing from Chad. They might well hope that chaos would result and that they would then be invited to return. It was, therefore, welcome that the Organisation for African Unity were pressing forward with their plans to send in a peacekeeping force. Requests for British help over logistic support for this operation had been received from both Kenya and Nigeria; and though the Nigerian bid had been pitched unreasonably high, it was clear that an appropriate response would need to be provided. He was in consultation on this both with the Chancellor of the Exchequer, who had agreed that any underspend in current Foreign and Commonwealth Office Votes could be used to defray the cost involved, and with the Secretary of State for Defence. But a problem would arise if the Ministry of Defence felt obliged to raise charges on the basis of full rather than extra costs; this would reduce by about half the amount of assistance which could be provided for the money available.

In the course of a brief discussion it was noted that the Government's normal accounting rules would require charges to be based on full costs; but that, since the Secretary of State for Defence was content to proceed on the basis of extra costs, the immediate problem should be capable of speedy resolution. More generally, however, it was desirable that the accounting practices involved in such cases should not operate in a way which made more difficult the achievement of policy objectives on which Ministers were agreed.

West/West  
relations

previous  
reference:  
CC(81) 32nd  
conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Federal Chancellor would no doubt be informing the Prime Minister and their Community colleagues later that day, in the margin of the European Council's forthcoming session, about the outcome of President Brezhnev's recent visit to Bonn. Although no authoritative account of this meeting had so far been obtained from the Germans, it seemed clear that the Federal Chancellor had adopted a robust attitude and that President Brezhnev had, therefore, been denied the propaganda advantage he had hoped to gain. President Reagan's highly effective speech on arms control (to which the Prime Minister had referred at the Cabinet's meeting on 19 November (CC(81) 37th Conclusions, Minute 2)) had been well timed in relation to the Bonn meeting, and the stage now seemed satisfactorily set for the arms control negotiations on theatre nuclear weapons which were due to begin in Geneva on 30 November.

Arab/Israel

previous  
reference:  
CC(81) 37th  
conclusions,  
Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that Britain and three other European Community members had announced on 23 November their participation in the proposed Sinai multinational force and observers. They had at the same time made clear, without undue emphasis, that this represented no departure from the principles of the Community's Venice Declaration of June 1980. Because of this the Israeli Government were now threatening to veto the Europeans' participation. The Americans had arranged for the Israeli Foreign Minister, Mr Shamir, to visit Washington to discuss the matter; and it was to be hoped that they would take a robust line with him, since there could be no question of the Europeans resiling from the principles on which their policy towards the Arab/Israel problem had been based for the past two years. Meanwhile the Arabs had inflicted damage on their own cause by rejecting at their Summit meeting in Fez the moderate proposals put forward by Saudi Arabia as a basis for an Arab/Israel settlement.

the Seychelles

THE FOREIGN AND COMMONWEALTH SECRETARY said that during the past night an attempted coup d'etat had been mounted in the Seychelles by a small mercenary force originating in South Africa. Some of the mercenaries appeared to be British nationals, although it was not clear how many of these were based in South Africa. The situation remained obscure, but the coup appeared to be collapsing. Certain members of the mercenary force had seized an Air India airliner at Mahe airport and forced it to fly to Durban, where they were expected to surrender to the South African police. They might well be more leniently treated there than those who surrendered to the authorities in the Seychelles.

The Cabinet -

Took note.

COMMUNITY  
AFFAIRS

3. THE PRIME MINISTER said that the European Council, under British Presidency, would start that afternoon and continue for as long as necessary the following day. The prospects for reaching agreement on the three issues being dealt with under the Mandate of 30 May 1980 - the development of Community policies other than agriculture, the reform of the Common Agricultural Policy (CAP) and the need for an equitable structure in the Community budget - were not good. In spite of several days' discussion in the Council of Ministers (Foreign Affairs), and official contacts in Bonn and Paris, there remained substantial differences which it would be difficult to resolve at this meeting. The discussions on the CAP were highly technical and the differences marked. As regards the budgetary problems, there was no prospect of a detailed settlement, but the British aim was now to agree guidelines which would provide the basis for subsequent negotiation. The discussions on the Mandate were not made any easier by the fact that the Danish Government was facing a general election, and neither the Belgian nor Dutch Prime Minister was in a strong position. The new Greek Prime Minister, Mr Papandreou, would wish to set out the views of his Government, which might well involve a renegotiation of the terms of Greek accession to the Community. This would not be well received by other member states. It would be difficult to bring the Community to accept the major restructuring required until it was on the brink of some crisis, such as the need to settle agricultural prices. There could then be a package deal. Nevertheless, at the forthcoming meeting she intended to push hard for a thorough discussion of the outstanding issues. It would be damaging for the Community if the Heads of Government failed to reach any agreement. The European Council would also have its usual discussion on the economic situation, and would hear from the Germans and the Italians about their plans for further progress towards European union. These ideas, which included the creation of additional Councils, might create domestic political difficulties and would be remitted to Foreign Ministers for study. The European Council would also be invited to state its support for the accession of Spain and Portugal to the Community. Outside the Council meeting itself, there would be important discussions about world affairs. As already noted, the Federal Chancellor would be reporting on his recent talks with President Brezhnev. There would also be discussions about the Middle East and about the further requests from Poland for food and financial aid. These matters would be likely to feature largely in the public presentation of the outcome of the European Council if, in spite of every effort, there was no progress on the Mandate.

THE CHANCELLOR OF THE EXCHEQUER reported that the Council of Ministers (Budget) had succeeded, after a long meeting, in agreeing on the 1981 and 1982 Community budgets, although there could still be difficulties with the European Parliament over the 1982 budget. The British Presidency had made special efforts to avoid conflict with the European Parliament which had been appreciated. The German and French representatives at the Budget Council had made unwelcome references to the level of refunds paid to the United Kingdom under the Agreement of 30 May 1980. Their position would make it more difficult to secure a satisfactory solution for 1982 if no agreement could be reached in time on a long-term arrangement.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that, owing to the Danish elections, the next meeting of the Council of Ministers (Fisheries) had been postponed to 14 December; but it was not certain that, even then, there would be an effective Danish Government.

The Cabinet -

Took note.

NORTHERN  
IRELAND  
AFFAIRS

Previous  
reference:  
(81) 37th  
conclusions,  
minute 4

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the "day of action" organised by Mr Paisley and his supporters in Northern Ireland on 23 November had passed off more quietly than had been feared. No serious incidents had occurred. Under the Chief Constable's leadership the police had handled the occasion well, notwithstanding rumours which had reached him beforehand that he could not rely on their loyalty in such circumstances. The atmosphere was now calmer, although a good deal of underlying tension remained. Surprisingly, the Provisional Irish Republican Army had missed the opportunity to press their attacks at a time of particular vulnerability. There had been no further deaths from terrorist action. The police had succeeded in frustrating a number of assassination plans, despite the considerable strain which such operations imposed on their manpower resources.

The Cabinet -

Took note.

PUBLIC  
EXPENDITURE

previous  
reference:  
(81) 33rd  
conclusions,  
page 5

5. The Cabinet considered a memorandum by the Secretary of State for the Home Department (C(81) 57) reporting on progress towards agreeing plans for public expenditure in the years 1982-83 to 1984-85 and indicating the main questions still at issue.

Their discussion and conclusions are recorded separately.

Cabinet Office

26 November 1981

CABINET

LIMITED CIRCULATION ANNEX

CC(81) 38th Conclusions, Minute 5

Thursday 26 November 1981 at 9.30 am

PUBLIC  
EXPENDITURE

Previous  
reference:  
C(81) 33rd  
conclusions,  
Minute 5

The Cabinet considered a memorandum by the Secretary of State for the Home Department (C(81) 57) reporting on progress towards agreeing plans for public expenditure in the years 1982-83 to 1984-85 and indicating the main questions still at issue.

THE HOME SECRETARY said that the Cabinet had agreed on 20 October that in further discussions on public expenditure the aim should be to get as near as possible to the totals proposed by the Chief Secretary, Treasury in his memorandum (C(81) 51). These further discussions had taken place under his chairmanship in the Ministerial Group on Public Expenditure (MISC 62) and elsewhere. In his memorandum (C(81) 57) he had been able to record that agreements had been reached on all programmes except for regional development grants and defence, which were under separate discussion, and housing and other environmental services, where the points at issue were set out in Annex B. Taking account of the position on regional development grants and defence on which the Chief Secretary, Treasury would be reporting, but ignoring any additions which might be made in respect of housing and other environmental services, the public expenditure totals would be £114.8 billion for 1982-83, £120.3 billion for 1983-84 and £126.0 billion for 1984-85. He had drawn attention to some difficult decisions which had been agreed in the expenditure discussions but which the Cabinet would need to consider carefully. It had been necessary to strike a balance which took into account both the Government's public expenditure objectives and the political constraints which affected many expenditure programmes. He wished to express gratitude to the Chief Secretary, Treasury and to the other Ministers concerned for the understanding and co-operation which had made possible such a wide measure of agreement.



Regional  
Development  
Grants

THE CHIEF SECRETARY, TREASURY said that at the meeting of the Ministerial Committee on Economic Strategy on 24 November he had been asked, together with the Secretary of State for Industry and other Ministers concerned, to reach agreement on ways of reducing public expenditure on regional development grants (RDGs). It was proposed that a short Bill should be introduced as early as possible in the current Session to enable the grants paid on very large projects to be tapered. After allowance for some increased expenditure on selective assistance for particularly important internationally mobile projects, the aim was to achieve net savings of some £50 million in 1983-84 and 1984-85. It was unlikely that the legislation would yield significant savings in 1982-83 but it was estimated that RDG expenditure in that year might be £30 million less than it otherwise would be; if it became apparent that expenditure was likely to exceed this estimate, he would need to review the position with the Secretary of State for Industry.

The Cabinet -

1. Agreed that legislation should be introduced in the current session of Parliament to permit the tapering of regional development grants on very large projects, and that the aim should be to achieve savings in regional development grant expenditure of £30 million in 1982-83 and £50 million a year in 1983-84 and 1984-85.

Defence

Previous

Reference:

C(81) 24th

Conclusions,

Minute 4

THE CHIEF SECRETARY, TREASURY said that the Cabinet had agreed that there should be a realistic translation of the defence programme from volume to cash terms. The Secretary of State for Defence had however found difficulty in doing this with the general expenditure planning factors in the current year 1981-82 and in the three subsequent years. He had therefore agreed with the Secretary of State that there should be an addition to the cash limit for 1981-82 of £300 million and that the planned expenditure figure for 1982-83 should be increased by £375 million; it was also expected that agreement would be reached on figures for the two later years.

THE SECRETARY OF STATE FOR DEFENCE said that the increases proposed for 1981-82 and for 1982-83 were acceptable; and that it should be possible to reach agreement on figures for 1983-84 and 1984-85 which were consistent with the Defence White Paper (Cmd 8288) and the Government's commitments. He would in January seek the agreement of his colleagues for the measures necessary to enable defence expenditure to be kept within the agreed figures. In doing so he would seek to minimise the effect on industry and employment but he feared that the industrial and political

consequences might be serious. He had proposed, and the Treasury had agreed, that there should be an urgent joint review by the Treasury and the Ministry of Defence, with the assistance of a suitable external adviser, of the methodology of calculating movements in defence prices, and of arrangements which would enable defence expenditure to be kept within cash limits without damaging effects on industry. He was not seeking any provision to cover the relative price effect for 1982-83, nor any special mid-year review in that year; but, if it turned out that defence prices rose faster than other prices he would want to take the matter up with the Treasury on the same basis as any other Minister.

The Cabinet -

2. Agreed that the defence cash limit for 1981-82 should be increased by £300 million, that the planned expenditure total for 1982-83 should be increased by £375 million, and that the totals for 1983-84 and 1984-85 should be increased by amounts to be agreed between the Chief Secretary, Treasury and the Secretary of State for Defence.

3. Took note of the points made by the Secretary of State for Defence.

Student Grants

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he had agreed with the Chief Secretary, Treasury the proposal set out in paragraph 4a of C(81) 57 that student grants and the scale of parental contributions should be frozen at their present cash level in 1982-83 and 1983-84. This would be unpopular with students but could be justified on the grounds that many other sectors of the community were suffering cuts in real income.

In discussion it was argued that a complete freeze on student grant levels until April 1984 was excessively harsh and would be difficult to defend politically. It would be preferable to increase the grant in 1982-83 by 4 per cent, which was equivalent to the pay assumption adopted for public expenditure in that year. It was unnecessary to take a decision now on what the level of grant should be in 1983-84. The scale of parental contribution should however be frozen, as proposed.

The Cabinet -

4. Agreed that in 1982-83 student grants should be increased by 4 per cent, that the level of grants in 1983-84 would be settled later, and that the minimum maintenance award and the scale of parental contributions should be frozen at their present cash level.

alth

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that it was proposed that prescription charges should rise in April 1982 from £1 to £1.30; the present arrangements for exemptions and for a £20 'season ticket' for prescriptions would stand. He recommended that the maximum charge for dentures and dental crowns should be £90 rather than £100 as proposed in C(81) 57, but this would not affect the estimated yield from the proposed increases in charges for dental treatment and for spectacle lenses. He would put forward in the near future detailed proposals, in consultation with the Secretaries of State for Trade and for Transport and other Ministers concerned, for a scheme to charge motor vehicle insurers the cost to the National Health Service (NHS) of treating casualties in road traffic accidents; it would be designed to avoid the problem of 'no fault liability'. The Chief Secretary, Treasury had now said that the legislative provisions for this could be included in the Finance Bill. If these proposals were acceptable, they would lead to savings of £6 million in 1982-83, £93 million in 1983-84 and £101 million in 1984-85. Until his detailed proposals had been discussed and approved there should be no announcement of the scheme; the savings of £6 million in 1982-83 should not be included in the Chancellor of the Exchequer's statement on public expenditure in that year; and the savings for the two later years should be credited provisionally, and on the understanding that no figures which included these savings would be published unless and until detailed proposals had been approved and that if the scheme did not go ahead the amounts in question would be restored to the health programme. He agreed that there should be no extra provision in the health programme to permit certain groups of NHS staff to receive pay increases of more than 4 per cent in the next pay round; he might, however, need to reopen this question in the light of negotiations on the settlement.

The Cabinet -

5. Approved the proposals for health charges set out in paragraph 4d. of C(81) 57, subject to the maximum charge for dentures and dental crowns being £90.
6. Agreed in principle to the Secretary of State for Social Services' proposals for charging for road traffic accidents and invited him, in consultation with the other Ministers concerned, to put forward detailed proposals for consideration in the near future.
7. Pending further consideration of proposals for charging for road traffic accidents, agreed that no savings on this account should be announced in the statement on public expenditure in 1982-83 and that the savings on the later years should be credited provisionally on the understanding that no figures which included these savings

should be published unless and until detailed proposals had been approved and that the savings would be reinstated in the health programme if it were to prove impracticable to implement the scheme.

8. Took note that no additional provision for National Health Service pay beyond increases of 4 per cent in 1982-83 would be made in the health programme.

ocial Security

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government were committed by the 1979 Election Manifesto to phase out during this Parliament the earnings rule for pensioners. To achieve savings of £28 million in 1983-84 and of £95 million in 1984-85 he recommended that the earnings rule should not be phased out until 1984. At present rates of unemployment this was unlikely to be contentious. There would be no abatement in the November 1982 uprating of benefits, and that should be made clear at the time of the Government's statement on public expenditure in 1982-83. The shortfall, by comparison with increases in the Retail Price Index, in the uprating of unpledged benefits in November 1981 would not be made good in the November 1982 uprating there was, however, no need to announce that before the 1982 Budget.

The Cabinet -

9. Agreed that the earnings rule for pensioners should not be phased out until 1984.

10. Took note, with approval, of the Secretary of State for Social Services' proposals relating to social security benefits.

THE CHIEF SECRETARY, TREASURY said that, as noted in paragraph 4c of C(81) 57, it had been proposed that from November 1982 16 year olds should no longer be permitted to draw supplementary benefit. He had subsequently agreed with the Secretary of State for Employment that this change should not take place until September 1983, as envisaged by the Ministerial Committee on Economic Strategy at their meeting on 2 November. It would then be possible to defend the withdrawal of benefit as helping to pay for the comprehensive youth training scheme which would be introduced at the same time. The Secretary of State for Employment had agreed to find savings from his programme which would more than offset those savings which, as a result of this decision, would not now be made on the social security programme.

The Cabinet -

11. Agreed that supplementary benefit for 16 year olds should be withdrawn from September 1983.

12. Took note that the Secretary of State for Employment would find offsetting savings from his programme, as indicated by the Chief Secretary, Treasury.

National  
Insurance  
Contributions

THE CHANCELLOR OF THE EXCHEQUER said that, as proposed in his minute of 25 November to the Prime Minister, he and the Secretary of State for Social Services recommended an increase in the employee's National Insurance Contribution (NIC) rate by 1 percentage point to 8.75 per cent; an increase from £200 to £220 in the upper earnings limit, the maximum amount of weekly pay on which the NIC and National Insurance Surcharge (NIS) were levied; and a reduction of  $1\frac{1}{2}$  per cent in the supplement which the Treasury paid into the National Insurance Fund. These changes would enable the Redundancy Fund to stay within its statutory borrowing limit; allow an increase of 0.1 per cent in the contribution to the National Health Service; prevent the National Insurance Fund from going into deficit in 1982-83; and provide a net benefit of £250 million for the Public Sector Borrowing Requirement. He had already decided that he could not announce a reduction in NIS from April 1982. Private sector employers were likely to have to pay an extra £670 million in 1982-83 compared with 1981-82 because of the rise in earnings and in the upper earnings limit. It was for this reason that he proposed that as much as possible of the additional fund income should come from employees rather than employers. To give effect to these changes the Secretary of State for Social Services would need to introduce a Bill next week, when the statement on the public expenditure in 1982-83 would be made. The Bill would need Second Reading by about 14 December, so that First Reading in the House of Lords could be before Christmas, and Royal Assent by the end of January. To ensure its swift passage and to avoid the risk of amendments, he reluctantly could not agree with the Secretary of State for Industry's proposal that the Bill should include a new power to enable changes in the NIS to be made by order. He would be willing to consider further whether this change could be made in other legislation.

The Cabinet -

13. Approved the proposals of the Chancellor of the Exchequer and of the Secretary of State for Social Services for legislation on National Insurance Contributions.

Property  
Services  
Agency

The Cabinet -

14. Took note, with approval, of the proposals in paragraph 4g. of C(81) 57 for reductions of £20 million a year in planned expenditure by the Property Services Agency.

Other  
Environmental  
Services

THE HOME SECRETARY said that MISC 62 had recommended reductions in the Department of the Environment's programme for other environmental services of £110 million in 1982-83 and of £150 million in each of the two following years. These cuts would be in capital expenditure by the Regional Water Authorities and in capital expenditure by local authorities on environmental services within this programme. Capital cuts of this kind were regrettable but they could be easily achieved and would involve neither legislation nor the breaking of public commitments.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that such cuts in public sector investment would have an immediate and undesirable impact on the construction industry. Investment by the water industry and by local authorities had been drastically cut already over the past few years. He would, nevertheless, be willing to accept cuts totalling £80 million in 1982-83 and £100 million in each of the two following years.

THE PRIME MINISTER, summing up this part of the discussion, said that while the Cabinet recognised that the proposed cuts were not desirable they agreed that they should be made to the full extent recommended by MISC 62 in the interests of the Government's objectives for limiting public expenditure overall.

The Cabinet -

15. Agreed that the Department of the Environment's programme for other environmental services should be reduced by £110 million in 1982-83 and by £150 million in each of 1983-84 and 1984-85.

Housing

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the provision in the Public Expenditure White Paper (Cmnd 8175) for housing in England in 1982-83 was £3,869 million. Cabinet's provisional decision that council house rent increases should average £2.50 in that year meant that if the 1981-82 volume of capital expenditure were to be maintained, further provision of £225 million was necessary. He further recommended that, for realism and in line with the agreed approach to other local authority

current expenditure, additional provision of £67 million should be made for the management and maintenance of housing stock; without this provision local authorities would probably have to put up rents or rates higher than otherwise. He was, therefore, proposing total additional provision of £292 million, compared with the cut of £93 million recommended by the Chief Secretary, Treasury. In his view, it was essential to provide for housing investment as he had recommended. The housing programme had borne 78 per cent of the cuts on capital made by the Government since the Election, and the programme had fallen by 45 per cent in real terms between 1979-80 and 1981-82. These cuts had occurred at a time when the net number of households in England was rising by 150,000 a year, an increase that was expected to continue through the 1980s. The cuts were particularly damaging to the home improvement programme and to provision of housing for the needy and the elderly. The construction industry had already suffered heavily from reductions in public expenditure: unemployment in the industry was now 25 per cent, much worse than in other sectors of the economy; without more work the industry would not be in a position to respond quickly to an upturn in the economy. The problem would be eased if it were agreed that unspent capital receipts could be carried forward from 1981-82 to finance housing and other capital investment in 1982-83 without risk of breaking cash limits and so leading to the need for a moratorium on investment, but the Chief Secretary, Treasury was unwilling to agree to this. His proposals for the housing programme, and for the Rate Support Grant settlement, were on the assumption that surpluses on housing revenue account should not be paid into the rate fund but should be used to repay housing debt or to finance new capital expenditure; in his view these arrangements could best be secured by voluntary agreement with the authorities in question rather than by legislation.

THE CHIEF SECRETARY, TREASURY said that there was no need to increase the present housing capital provision of £2,030 million in 1982-83 by £225 million. Council house sales in the year were now thought likely to be much higher than previously assumed and this should give the local authorities further net income of the order of £200 to £250 million which they could then use to finance capital investment over the limit set by the Government. He recommended against additional provision of £67 million for management and maintenance; to allow this sum would be to endorse overspending by the authorities. He was willing to agree to the Secretary of State for the Environment's proposals for the treatment of housing surpluses provided that it could be ensured that the authorities would indeed generate the same level of surpluses and use them as proposed; he considered that this would require legislation.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that the provision for housing capital investment should not be increased, but that the local authorities should be told that they should assume that £250 million additional receipts would be forthcoming in 1982-83 to enable them to finance that amount of additional investment in the year. The Secretary of State for the Environment and the Chief Secretary, Treasury should agree on these arrangements and the form of the assurances to be given to the local authorities; broadly, the aim should be that to the extent that the net income from additional council house sales fell short of £250 million, capital receipts should be carried forward from 1981-82 to finance the balance. The Cabinet agreed that there should be no additional provision for management and for maintenance; they noted the Secretary of State for the Environment's view that this might lead to increases in rates. The Chief Secretary, Treasury had agreed to withdraw his proposal for a £93 million cut in the programme. On this basis, the Cabinet agreed that the housing programme for England in 1982-83 should stand at £3,869 million, as in Cmnd 8175. The Cabinet agreed that surpluses on housing revenue account should be used to reduce housing debt or to finance housing capital investment; they noted that the Secretary of State for the Environment and the Chief Secretary, Treasury were still considering whether this could best be achieved by voluntary arrangements (as would be preferable) or by legislation.

The Cabinet -

16. Agreed that the housing programme for England should be £3,869 million in 1982-83, £3,372 million in 1983-84 £3,540 million in 1984-85.

17. Invited the Secretary of State for the Environment and the Chief Secretary, Treasury to reach agreement on the assurances, on the lines indicated by the Prime Minister in her summing up of their discussion, to be given to local authorities on the availability of capital receipts for the financing of new housing investment, and on the treatment of surpluses on housing revenue account.

General

THE PRIME MINISTER, summing up the discussion, said that the public expenditure planning totals for 1982-83 to 1984-85 in the Home Secretary's memorandum (C(81) 57) should be amended to take account of the decisions which the Cabinet had now taken on all the outstanding issues in the 1981 Public Expenditure Review. The Cabinet were most grateful to the Home Secretary and to the Members of his Group on public expenditure (MISC 62) for their work in reviewing the individual programmes. The Chancellor of the Exchequer planned to make a statement in the House of Commons on



Wednesday 2 December on the decisions for 1982-83, though not for the later years. In the meantime it would be announced that the Cabinet had completed its public expenditure review and that the Chancellor of the Exchequer would make a full statement on the outcome in the week beginning 30 November.

The Cabinet -

18. Took note, with approval, of the Prime Minister's summing up of their discussion.
19. Agreed that the planning totals for public expenditure should be £114.8 billion in 1982-83, £120.3 billion in 1983-84 and £126.0 billion in 1984-85 as amended by the decisions taken in their discussion.
20. Took note that the Chancellor of the Exchequer would make a statement on their decisions for 1982-83 in the week beginning 30 November and probably on Wednesday 2 December.

Cabinet Office

27 November 1981