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E(82) 19th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held
at 10 Downing Street on
TUESDAY 20 JULY 1982 at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

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 John Nott MP
Secretary of State for Defence

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

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Lord Privy Seal

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
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Cockfield
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

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 John Biffen MP
Lord President of the Council

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



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The Rt Hon Tom King MP
Minister of State, Department of the Environment (Minister for Local Government and Environmental Services)

Lord Elton
Parliamentary Under-Secretary of State, Home Office

Mr J Sparrow
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J Bostock

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1. RATE SUPPORT GRANT SETTLEMENT 1983-84

The Committee discussed a Memorandum by the Secretary of State for the Environment on the English Rate Support Grant settlement for 1983-84 (E(82) 59). They also had before them a minute of 16 July from the Secretary of State for Wales to the Prime Minister and a letter of 19 July from the Secretary of State for Scotland to the Chief Secretary, Treasury.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Government should give early guidance to local authorities about the Rate Support Grant settlement for 1983-84, so as to influence the authorities' expenditure plans. E(82) 59 set out his proposals for expenditure targets, the provision for local authority current expenditure in the Government's public expenditure plans, grant related expenditure (GRE) assessments, the aggregate Exchequer Grant and holdback.

Individual authorities should be set expenditure targets which showed that the Government was not relaxing its policy of restraint or condoning repeated overspending, but were realistic. He proposed that those authorities whose 1982-83 budgets exceeded by not more than one per cent their 1982-83 effective target (the higher of their target and GRE) should be set in 1983-84 a target four per cent greater than their 1982-83 budget. Authorities whose 1982-83 budget exceeded their effective target by more than one per cent should be set a target five per cent greater than their 1982-83 effective target. The latter arrangement should however be modified (in effect for those authorities overspending in 1982-83 by more than six per cent) so that no authority had to reduce its expenditure in cash terms by more than one per cent between 1982-83 and 1983-84, subject to the overriding constraint that no authority's target should exceed by more than twenty per cent, in cash terms, the lower of its original and revised budgets for 1981-82. Targets set on this basis would require those authorities (about two-thirds of the total) who were budgeting to meet their effective target in 1982-83 to reduce their expenditure in real terms by no more than two per cent. Higher spending authorities would have to make real expenditure reductions of up to seven per cent, implying for example substantial increases in public transport fares in the metropolitan counties. These proposals

would involve setting some authorities targets below GRE, although it might be difficult to obtain Parliamentary approval for withdrawing grant from authorities which did not spend more than GRE. In 1982-83, authorities which had found themselves in this position had successfully argued that they should not suffer RSG penalties.

The Government's public expenditure plans as set out in the 1982 Public Expenditure White Paper (Cmnd 8494) at present provided for local authority current expenditure of £18,600 million in 1983-84. Targets constructed on the basis he had prescribed implied local authority current expenditure of £19.5 billion. He proposed that the public expenditure provision for local authority current expenditure should be increased accordingly, ie by £900 million. Total GRE in 1983-84 should however be only five per cent higher than the 1982-83 GRE total, ie £18.8 billion for the 1983-84 current expenditure component of GRE/ or £200 million more than the local authority current expenditure provision in Cmnd 8494. This would imply a year on year on year reduction of about one per cent in real terms in GRE. To make a larger increase in GRE would encourage high spending: GRE was supposed to be an objective measure of what local authorities needed to spend. Increasing GRE would also increase the damage which would be done to the Government's expenditure plans if it proved impossible to persuade Parliament that grant should be withdrawn from authorities whose expenditure exceeded targets but not GRE. The balance of £700 million between the public expenditure provision (£19.5 billion) and total GRE (£18.8 billion) should not be allocated to services but be treated as an unallocated margin, in effect an allowance for realism.

He proposed that the Government should provide a grant total and hold-back scheme which together ensured that authorities spending at their targets in 1983-84 could avoid rate increases, but imposed severe loss of grant and the risk of very large rate increases on authorities which exceeded their targets. The Aggregate Exchequer Grant should be £11.8 billion for spending at targets, implying an overall grant percentage of 53.2 per cent (compared with 56.1 per cent for 1982-83). Annex D to E(82) 59 showed that if local authorities spent at their target there would be no increase in average domestic rates with grant at this level, with a range of increases and reductions in individual

authorities. Actual rate increases would depend on actual expenditure, which would in turn depend on how much influence the Government could exert through a holdback scheme. Local authorities should be told that holdback would be more severe in 1983-84 than in previous years: the details would have to be worked out in the autumn.

He proposed that he should announce these proposals, which in his view amounted to a very tough RSG settlement, at a meeting of the Consultative Council on Local Government Finance (CCLGF) before the Summer Recess; he would follow this up with discussions with the major authorities which were under Conservative control. It would greatly assist in showing the Government's determination to keep local authority expenditure under control if Treasury Ministers and other Cabinet Ministers with local authority responsibilities were present at the meeting of the CCLGF. The proposals would have to be put to the local authorities for consultation; but he would make it clear that while the Government was prepared to listen to representations, his proposals were seriously meant and represented a firm strategy, not merely an opening bid. Ministers would need to reach firm conclusions about the 1983-84 RSG settlement in the autumn, in time for a settlement before Christmas.

THE CHIEF SECRETARY, TREASURY said that during the 1981 Public Expenditure Survey the Government had increased the 1982-83 provision for local authority current expenditure in its public expenditure plans by £1.3 billion on the grounds that authorities were likely to respect and do their best to comply with realistic expenditure totals and individual targets. In the event they were likely to overspend by a considerable margin in 1982-83; and it was distressing that Ministers now had to consider a further increase on the grounds of realism in the public expenditure provision for local authority current expenditure in 1983-84. Nonetheless he accepted that the Government's expenditure plans must take reasonable account of what authorities were likely actually to spend. He therefore agreed to the increase of £900 million which the Secretary of State for the Environment proposed. It was important that this increase should be accompanied by only a modest increase in Aggregate Exchequer Grant; that there should be an effective holdback scheme under which authorities whose expenditure exceeded their

targets lost grant even if their expenditure was below GRE; and that, as the Secretary of State for the Environment proposed, only £200 million of the increased public expenditure provision should be added to total GRE. An Aggregate Exchequer Grant higher than £11.8 billion could not be justified. With an Aggregate Exchequer Grant of that level there would be no increase in the average level of domestic rates if authorities did not exceed their targets; it followed that rates would only rise on average if authorities failed to take satisfactory account of the Government's expenditure plans. As for the unallocated margin between GRE and public expenditure provision, it was important to maintain the distinction between what the Government regarded as a reasonable level of local authority expenditure needs and what, as a matter of unfortunate realism, the Government accepted local authority expenditure was likely to be in practice. If the local authorities suggested that GRE should be increased by more than £200 million, he would want to argue for an increase of less than £900 million in the public expenditure provision for local authority current expenditure.

The following were the main points made in discussion -

a. The proposals in E(82) 59 appeared to imply that local authorities could reasonably be expected to reduce their expenditure in 1983-84 to a figure over three per cent less in real terms than their 1982-83 budgets. But local authority expenditure had never in the past fallen by more than two per cent in real terms in a year. If authorities failed to reduce expenditure in line with their targets, they would have to increase rates; the Government would be blamed. On the other hand, on the assumption that local authorities on average underspent their budgets by one per cent in 1982-83 the targets which the Secretary of State for the Environment proposed for 1983-84 would probably require on average a two per cent volume reduction. As for rate increases, authorities which met their targets this year would have an extra four per cent cash within which to frame their budgets in 1983-84; high spending authorities had only their own past and present profligacy to blame if they failed to meet targets and had to raise rates.

b. The Secretary of State for the Environment's proposal that the total of GRE assessment should be increased by £700 million less than the public expenditure provision for local authorities' current expenditure raised difficult issues of presentation. The Government would be accused of seeking unreasonable reductions in expenditure on individual services if it indicated (for example by what was said in the individual programme chapters of the next Public Expenditure White Paper) that the Government's view was that local authorities ought to spend on all their services only £18.8 million. This figure was likely for example to imply between 30,000 and 40,000 teacher redundancies; make it very difficult for the Secretary of State for Transport to give appropriate guidance to metropolitan counties and the Greater London Council on what he considered an appropriate level of passenger transport subsidy; and pose problems about what could be said in the next Public Expenditure White Paper about law and order. These difficulties would be lessened if the Government could indicate the possible service breakdown of the whole £900 million increase in public expenditure provision proposed in E(82) 59. On the other hand, for the reasons explained by the Secretary of State for the Environment, it was important to leave an unallocated margin of £700 million between public expenditure provision and GRE. In any case, while GRE assessments affected the distribution of grant among authorities, they were a less important part of the Government's system of restraints on local authority expenditure than were individual targets; and authorities were free to decide on how they allocated expenditure among services. The best way forward might be for the Government to be prepared to indicate how the £700 million allocation margin would be distributed among services if local authorities followed the same pattern of spending as had prevailed in recent years.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Government should continue its efforts to restrain local authority expenditure; and that an early announcement of the Government's intentions for the 1983-84 RSG settlement, on the lines proposed by the Secretary of State for the Environment, would assist in achieving this

objective. The Secretary of State for the Environment should discuss urgently with Treasury Ministers and with Ministers whose public expenditure programmes included local authority expenditure, how the Government should present the decision to increase the public expenditure provision for local authority current expenditure by £700 million more than total GRE. It seemed likely that a suitable form of words could be found, which drew attention to the past pattern of expenditure on services by local authorities. As soon as the form of words had been settled the Secretary of State for the Environment should announce the proposals in E(82) 59 at an early meeting of the CCLGF, which the other Ministers with responsibility for areas of local authority spending and Treasury Ministers should attend. An early announcement of the Secretary of State for the Environment's proposals would reduce the strength of the case for extra holdback of 1982-83 RSG. Local authorities which spent more than their expenditure targets in 1983-84 might attempt to blame the Government for the rate increases which they would then have to make; Ministers would need to argue that the Government's plans would not oblige responsible and economical authorities to make significant rate increases.

The Committee -

1. Invited the Secretary of State for the Environment to agree with Treasury Ministers and with other Ministers whose public expenditure programmes included local authority expenditure how the Government should present his proposal that, for 1983-84, the total of grant related expenditure assessments should be increased by £700 million less than the provision for local authority current expenditure in the Government's public expenditure plans.

2. Subject to that, agreed that the Secretary of State for the Environment should announce the proposals set out in E(82) 59 at an early meeting of the Consultative Council on Local Government Finance.

3. Invited the Chief Secretary, Treasury to agree with the Secretaries of State for Scotland and Wales arrangements for the 1983-84 rate support grant settlements for Scotland and Wales which were consistent with the proposals in E(82) 59.

2. ANNUAL REVIEW OF SPECIAL EMPLOYMENT MEASURES

The Committee discussed a Memorandum by the Secretary of State for Employment on the annual review of special employment measures (E(82) 58). They also had before them a minute of 19 July from the Secretary of State for Northern Ireland to the Prime Minister.

THE SECRETARY OF STATE FOR EMPLOYMENT said that Ministers had already decided on the main special employment measures which would be in force during the period to March 1984. The measures now in operation were holding down total unemployment by about 300,000, which should increase to about 500,000 by the third quarter of 1983, largely through the new Youth Training Scheme. Long term unemployment was beginning to match youth unemployment as a problem, with around 1 million people unemployed for over 12 months and a third of them for over 2 years. There had been calls for massive additional expenditure on special employment measures: the recent report of the House of Lords Committee on Unemployment had for example proposed that an extra £5 billion per year should be spent in this way. He regarded such proposals as unrealistic. The Government was already spending £1½ billion a year on special employment measures: if resources allowed he would favour promoting employment by cutting taxes rather than by further massive public expenditure. He proposed, as the outcome of this year's review of special employment measures, a number of minor improvements to existing measures and the introduction of a Job Splitting Scheme under which, over a 12 month period the Government would pay a subsidy to any employer who split a full-time job into two part-time jobs. There was a growing interest in increasing the number of part-time opportunities while full-time employment was limited: a scheme to encourage the provision of genuine part-time jobs in industry and commerce would usefully complement the Budget initiative, which would encourage part-time temporary work for community benefit. It would be a condition of the scheme, which could begin on 1 January 1983 and be open to applications until 31 March 1984, that the new part-time workers were recuited from those on the unemployment register and drawing benefit. The impact of the scheme was uncertain, but if it proved successful it might take around 70,000 people off the register by the third quarter of 1983. The subsidy would need to be set between £500 and £1,000, with the precise level depending on further

information which he was now collecting about employers' costs and reactions. But in any case the scheme would lead to a net saving in public expenditure, because of the reduction in supplementary benefit and would give a net saving to the Exchequer even when account was taken of the losses in tax and national insurance contributions which sometimes occurred when part-time workers replaced full-time workers. There would also be a net saving in Civil Service numbers: the extra staff needed to run the scheme would be more than offset by the reduced requirement for staff to pay benefit. There should be little 'deadweights' in the scheme with employers receiving payment for splitting jobs they would have split anyway. Even when this occurred the rules would generally ensure an effect on the register by requiring the engagement of those on the register. He proposed to announce the new scheme towards the end of July, probably at the same time as the final details of the scheme for the long term unemployed announced in the Budget.

The following were the main points made in discussion:-

a. It could be argued that the scale of unemployment justified a more ambitious expansion of special employment measures than the Secretary of State for Employment proposed. But it was not clear that substantial modifications to schemes already planned or in existence were likely to be cost effective: for example reducing the qualifying age for the Job Release Scheme to 60 (for men) would be likely to add £40 million a year to the cost of the scheme while only taking a further 20,000 people off the unemployment register.

b. There had already been informal discussion with some employers about the proposed Job Splitting Scheme and the reactions had been favourable. It would however be valuable if a number of employers were prepared to make it known that they supported the Government's proposal and would put the new scheme into effect as soon as it was announced.

c. To the extent that part-time jobs under the Scheme were taken by people in receipt of benefits, there would clearly be savings in benefit payments, and these savings would need to be taken into account in the Government's public expenditure plans.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the conclusions of the Secretary of State for Employment's review of special employment measures and agreed that it would be desirable for him to announce before the Summer Recess that the Government would introduce a Job Splitting Scheme on the lines described in E(82) 58. Before doing so however he should ensure that a number of employers would be prepared to make known immediately that they supported and would take advantage of the new proposal. The Secretary of State for Employment should also consult with the Confederation of British Industry and with trade union representatives to assist in securing a favourable public response to the new proposal.

The Committee -

1. Invited the Secretary of State for Employment to ensure that, if the Government announced the introduction of a job splitting scheme on the lines described in E(82) 58, a number of employers would be prepared to indicate immediately that they supported and would take advantage of the new proposal; and to consult with the Confederation of British Industry and trade union representatives to assist in securing a favourable public response to an announcement.

2. Subject to that, agreed the proposals in E(82) 58.

3. Invited the Secretary of State for Social Services to agree with the Chief Secretary, Treasury, in consultation as necessary with the Secretary of State for Employment, how the reductions in benefit payments to which a job splitting scheme would lead should be taken into account in the Government's plans for and control of public expenditure.

Cabinet Office
20 July 1982