

# PREM19

# 18

## ECONOMIC POLICY

### (Public Spending)

### (Part 1)

SECRET

49.71

MT

154.

Confidential Filing

## Public Expenditure and Cash Limits.

## ECONOMIC

## Policy

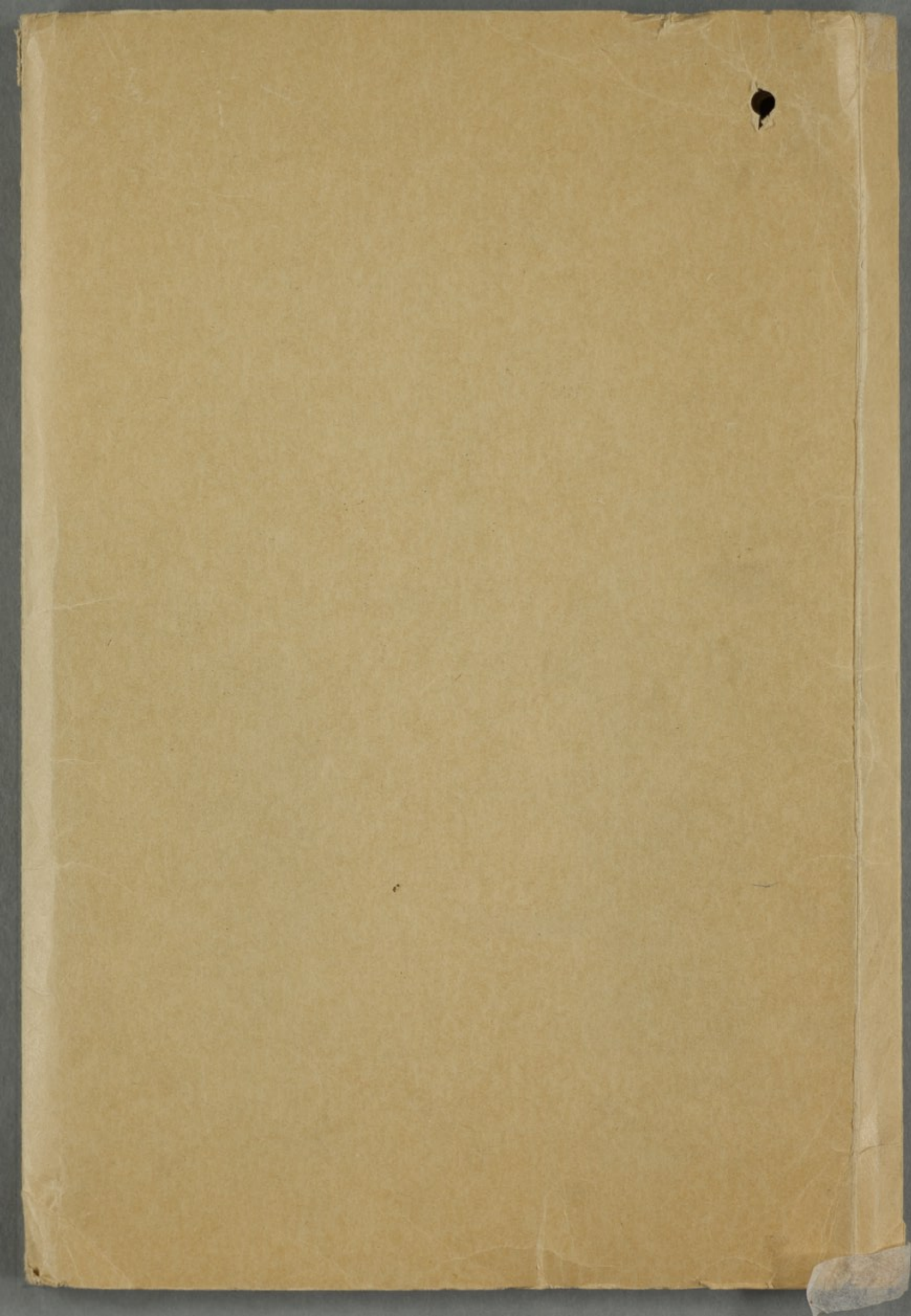
PART I

May 1979

52  
830

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>11-5-79</del>							
<del>17-5-79</del>							
<del>23-5-79</del>							
<del>24-5-79</del>							
<del>29-5-79.</del>							
31-5-79							
-P61-							
ENDS							
PREM 19/18							





PART 2 begins:-

S/SDS to CST 4/6

PART 1 ends:-

M/SMAFF to Fin SecTay 3/5



## Cabinet / Cabinet Committee Documents

[illegible]

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed Wayland

Date 24 October 2009

**PREM Records Team**



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

Nigel Lawson Esq MP  
Financial Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1

31 May 1979

R  
1/6

*Nigel*  
PUBLIC EXPENDITURE CUTS

*Requested.*  
Thank you for your letter of 17 May about my Department's public expenditure requirements in 1979/80.

The additional expenditure required for the Thames Barrier arises from recent developments affecting the programme for this project estimated at £588m (December 1978).

The project is intended to safeguard lives, property and communications in London and other low-lying areas of the Thames Estuary from the threat of tidal flooding. One million people live in the area vulnerable to flooding which also includes many business and industrial properties, power stations, and a major part of the Underground system, as well as the Houses of Parliament and Whitehall. Public concern has been reinforced during the last two winters by a number of more or less serious instances of tidal flooding in the Thames Estuary, Sheerness and elsewhere. The previous Administration responded to this by allocating extra resources to Water Authorities' sea defence projects last year and this, and by promoting a scheme for reversing the worrying and deplorable 'slippage' in the Thames Barrier programme.

The latter was the subject of a formal agreement between the GLC (as the contracting authority) and the main Barrier contractor at the end of January. Work is now proceeding under the more intensive programme aimed at bringing the Barrier into operation in December 1982, some 18 months earlier than otherwise. The extra costs involved and the compression of the programme have had a marked impact on our capital expenditure forecasts, particularly this year and next. The re-appraisal of the contract has also had to take into account the disappointingly low productivity achieved and the prevailing level of the contractor's losses, most of which are ultimately borne by the GLC and grant aided by my Ministry. The immediate effect has been to increase our capital requirement for the Thames Barrier by £14m in 1979/80. This additional sum already allows for £2.5m of offsetting savings from within the Thames Tidal Defences budget.

While increases/...



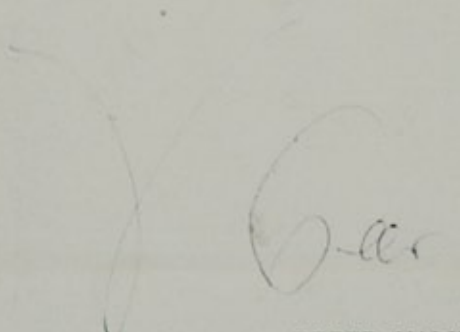
While increases in this order are, of course, unwelcome and arise uncomfortably late in the day for public expenditure planning purposes, they are inextricably bound up with the progress of a project of immense significance for the lives and welfare of the populations currently at risk. The acceleration in the work programme which the increased expenditure represents follows efforts made personally by the Leader of the GLC in close consultation with the previous Government to secure the agreement of the contractors to do everything possible to complete the project by the end of 1982.

I must confess, I am not at all happy with the agreement reached in January last, for I think it creates a very nasty precedent to the building industry. I believe also it is an agreement that will not work, in that the Communist Party are very active as far as this contract is concerned. Only a week ago the main front page story of the Morning Star was applied to the requirements of the workers operating on this project and I think the nearer it gets to completion the greater will be the industrial action to demand ever increasing amounts of money to complete the work.

Quite obviously the whole project of the Thames Barrier would more suitably be placed in the hands of the Department of the Environment. It is purely a fluke of definition that it is classified as a land drainage matter and therefore the responsibility of this Department.

Landed with these soaring costs for the defence of London there is, I think you will understand, no way in which I can agree that these costs should be met at the expense of the agricultural, fisheries and food industries.

I am sending a copy of this letter to the Prime Minister, who I know, has taken a personal interest in the Thames Barrier which she visited some months ago, and also to Michael Heseltine.



PETER WALKER







DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Great George Street  
London SW1

30 May 1979

R  
3  
16

*Dear John,*  
DHSS CASH LIMIT ON MANPOWER COSTS FOR 1979/80

1. At Cabinet on 17 May, the Prime Minister accepted my point that we needed a measure of discretion, in cutting our manpower costs, to make sure that we did not put at risk much larger sums of public expenditure. This applies particularly to the administration of social security benefits, where reductions in staff numbers could prevent the realisation of savings through proper checking of benefit entitlement and the prevention of fraud and abuse. Cabinet agreed that Ministers who found it impossible to achieve the agreed 3 per cent level of saving on wage-related expenditure could suggest to you alternative ways of securing equivalent savings (cc(79)2nd meeting).
2. My task, under the Cabinet decision, is to achieve a saving of about £12.5 million in the current financial year. I am fully prepared to go for savings in staff numbers beyond the 3 per cent limit at DHSS headquarters and in our large central and regional offices. By this means I should achieve a financial saving of the order of £7 million (equivalent to about 1,380 staff). To reduce staff numbers in our local offices would weaken control over benefit payments and reduce measures against fraud and abuse, resulting in higher payments which might more than cancel out the staff savings. This would not be sensible in any circumstances; and it would fly in the face of our manifesto commitments to cut out waste and tackle fraud and abuse more vigorously.
3. What I propose to do therefore is to strengthen our staff engaged (mainly in local offices) in checking fraud and abuse by up to 1,000 posts, and thus make savings in benefit expenditure of the order of £12 million in this financial year and achieve continuing savings of as much as £50 million a year in subsequent years. I am satisfied that this can be done on the basis of the information we have about the average amount of benefit saved by each officer employed on investigating fraud,

reviewing cases of the long-term unemployed receiving supplementary benefit and recovering money from men who have left their families for the maintenance of their wives and children. It allows for these additional staff to be fully effective as soon as possible and no later than the last quarter of the present financial year. It makes no allowance for the wider deterrent effects that such a concentrated attack on abuse would have.

4. To do this would reduce my saving on staff costs by about £5 million; but the balance of £2 million would contribute to a total financial saving of £14 million for this year (above the target) and offer a prospect of much larger, continuing savings in later years. I attach in the annex to this letter a detailed statement of how these savings, both in staff costs and benefits will be achieved.

5. I shall be grateful for your agreement to proceed accordingly. I am copying this to the Prime Minister and also to Christopher Soames, Jim Prior and Sir John Hunt.

cc Mrs Poley  
 Miss Spencer  
 Mrs Fosh  
 Mr Thorpe  
 Mr T. Matthews  
 Mr D. Russell  
 Mr Otton  
 Mrs Brennan  
 Mr Oglesby  
 Mrs Radford  
 Mr R.S. Matthews  
 Mr N.C. Clarke

Yours  
 R. Tate



## RE-DEPLOYMENT OF STAFF TO PRODUCE BENEFIT SAVINGS

1. There are 4 areas of work where an increased investment of staff should produce significant benefit savings.

## UNEMPLOYMENT REVIEW OFFICERS

2. Unemployment Review Officers are local officers whose function is to review the cases of unemployed claimants whose attitude to work is suspect or who have been unemployed for some time.
3. In 1977 UROs called 136,270 cases for interview of whom 57,841 (42%) ceased to draw benefit shortly before or after interview. These figures cover a period of 11 months only, from 1 January to 29 November, and it is reasonable (and conservative) to use a figure of 60,000 for a full year.
4. In 1977 we employed about 300 manyears on UR work, some full-time and others part-time (so that more than 300 staff were involved). Thus each URO manyear led to 200 cases going off the books.
5. Research indicates that some 25% of those men would have gone to work in the year without UR intervention. On this basis, each URO manyear led to 150 cases going off the books who would not otherwise have done so.
6. We assume an average benefit rate (1978 figures) of £22 a week. Research (see para 7.41 of the SBC Report for 1977) and a small sampling exercise conducted in one Region indicate that in fact one-third of those who go off/benefit come back within 6 months and a further third within 12 months. The savings are therefore:-

50 x £22 x 13* weeks	=	£14,300
50 x £22 x 39* weeks	=	£42,900
50 x £22 x 52 weeks	=	£57,200
		<u>£114,400</u>

Round down to £100,000 benefit savings per manyear.

## LIABLE RELATIVE OFFICERS

7. Liable Relative Officers are local officers whose function is to enforce the provisions of the Supplementary Benefits Act whereby a man is liable to maintain his wife and children.

---

\*ie taking 13 weeks as the mean duration of saving for those who come back on benefit within 6 months; and 39 weeks as the mean for those who come back between 6 and 12 months.

8. In 1977 the amount of money received by the Department from (usually) men liable to maintain supplementary benefit claimants or their children was £30m while the men concerned paid a similar amount to claimants, thereby reducing the need for benefit. We employ about 1,750 staff on LR work so that the benefit saved averaged about £34,250 a head.

9. It is a fact of course that some of this money would have come in even if we had employed no LR staff, for instance, because a woman had a regularly paid court order but needed supplementary benefit. On the other hand the figure understates the saving from LR work because:-

- (a) it does not allow for cases where benefit ceased altogether as a result of the man starting to maintain after we approached him, or in some cases of his returning home when he felt that pressure might be put on him; and
- (b) it has no regard to the deterrent effect of prompt action.

#### FRAUD OFFICERS

10. It is more difficult to give firm estimates of the savings realised by the efforts of our fraud officers working either in local offices or in regional special investigation teams, because there is no means of knowing how long benefit would have continued to be paid had the fraud not been discovered. But in our experience a claimant successfully drawing benefit fraudulently is likely to continue doing so until found out rather than to surrender benefit, from his point of view, unnecessarily. Some time limit has to be assumed if savings estimates are to be made and our assumed limit is one year. This is based on research indicating that once benefit has been terminated it is on average more than 52 weeks before the person concerned makes a legitimate new claim.

11. On the basis of saving a year's benefit for each case terminated, cash savings are (for each officer):-



	No. of cases reduced/terminated each year.	Estimated benefit saving per man-year.
Local Office fraud officers	* 98	£23,000
Special Investigators	33	£42,600

\* Including a high proportion of minor frauds .

#### GENERAL

12. For all four activities thought has been given to the point at which diminishing returns may set in but we are satisfied from a number of studies that there is ample scope for further staff resources to be profitably invested in these activities. The sort of "mix" we would envisage from additional efforts to produce the optimum result might be:-

	£
(1) 300 extra unemployment review officers x £100,000 benefit savings per manyear	30,000,000
(2) 400 extra liable relative officers x £35,000 benefit savings per manyear	14,000,000
(3) 50 extra special investigators x £42,000 benefit savings per manyear	2,100,000
(4) 250 extra local staff on fraud work x £23,000 benefit savings per manyear	5,750,000
	<hr/>
	51,850,000
	(say £50,000,000)

NOTE: Consideration is currently being given to the cost-effectiveness of closer control of the Child Benefit premium for one-parent families.

13. It is proposed to find the 1,000 staff for these activities from the following savings:-

/(i)

(i)	4% reduction in Hq staff	280
(ii)	4% reduction in Newcastle staff, plus some staff from deferring work on the transcription of clerical records to the computer	600
(iii)	4% reduction in North Fylde staff	160
(iv)	4% reduction in Regional Offices	140
(v)	Abolish home visiting by local office staff in long-term sickness cases	140
(vi)	Abolish follow-up action by local office staff for people who have not paid contributions and who are difficult to trace.	60
		<hr/> 1,380 <hr/>



SECRET

PRIME MINISTER

Prime Minister

3

I am not enclosing  
all the letters referred to  
here since most of them  
are adequately summarised  
in John Hunt's annex.

Public Expenditure Reductions 1979-80  
(C(79) 13)

72

30/5

BACKGROUND

This paper contains Mr. Biffen's report back on the Public Expenditure cuts in the current year which are needed to support the Budget. You have already discussed it with the Chancellor and a number of changes have been made as a result. His paper identifies five points which are still outstanding. However, there is rather more beneath the surface. I attach as an Annex to this brief a table setting out the complete cuts which have been agreed.

HANDLING

2. You will want to ask Mr. Biffen to introduce his paper. Thereafter, I suggest it will be best to go through the list of cuts (using the updated figures at the end of this note, rather than those set out in the Annex to his paper, which contains his original bids and not the finally-agreed figures).

- (a) Environment. (Mr. Heseltine's minute of 23rd May)

No problem. But note that Mr. Heseltine's total of £450 million actually includes £20 million to fall in Wales: you might ask

Mr. Edwards to confirm that he accepts this. The Scottish and Northern Ireland shares and similar savings are shown separately.

- (b) Industry. (Sir Keith Joseph's letter of 24th May)

The main savings here comes from a four-month moratorium on payment of Regional Development Grant. This is a post-dated cheque which will have to be honoured next year, and makes the problem of securing cuts then even bigger. But it helps with the Budget arithmetic this year. Note, that with the £10 million for the Scottish and Welsh Development Agencies (which Mr. Younger and Mr. Edwards should be asked to confirm) Sir Keith Joseph has actually provided £10 million more than he was asked for.

SECRET

(c) Employment. (Mr. Prior's letter of 24th May)

Mr. Prior has also exceeded his target by £12 million. His contribution is a miscellany of more cuts, some of which will be disproportionately difficult in political terms.

(d) Energy. (No letter; this was all agreed at a bilateral meeting)

I think I should draw your attention to the price assumptions here.

Ministers have already agreed, in the context of the abolition of the Price Commission, that an electricity price increase of 8 per cent and a gas price increase of about the same size, should go ahead in June. They may not have appreciated that a second electricity price increase will be needed later in the year. This is necessary, to absorb (a) the recent increases in oil prices, and (b) a second coal price increase in the autumn, which the previous Government approved in its last few weeks. The second electricity price increase would have been 7 per cent in October. As part of this package, it is now proposed to increase it to <sup>9</sup>~~4~~ per cent. The October price increase will add about <sup>0.25</sup>~~0.3~~ per cent to the RPI. It yields £90 million; but only £40 million of this comes from the domestic consumer. It is also now proposed to have a second gas price increase. Part of this will fall on industrial contracts as they fall due for renewal: this is normal and merely keeps gas prices in line with those for oil. Part will fall on 'commercial' - i.e. business premises - tariffs. But part will involve an increase in domestic tariffs from December, of about  $8\frac{1}{2}$  per cent, yielding £12 million this year - though a good deal more next - and adding 0.2 per cent to the RPI. As you were originally opposed to the idea of a further gas price increase, you might like to question Mr. Howell about this part of his contribution. If either of these increases were postponed, it would be very difficult to find alternative savings elsewhere in the energy programme. They would probably have to fall on someone else's programme.

You agreed  
with the Chancellor  
that the RPI impact  
of the Budget should  
be confined to  
3.6%. (VAT and  
petrol duty). These  
extra increases will  
take it over 4%.



SECRET

Flag B and C (e) Education. (Mr. Carlisle's letters of 24th and 29th May)

The original package here included £22 million from a further increase in school meal prices (+10p rather than +5p in the autumn). You asked that this should be reconsidered. Mr. Carlisle says that he can only find the extra £22 million by a series of minor cuts including £3 million from arts, and by cuts in capital programmes (£13 million). He is prepared to do this, but is worried about the reaction of local authorities. But I doubt if you will want to rule out another look at the school meal service in the longer-term, especially in the context of the major savings which Cabinet will be considering in the Public Expenditure Survey. The cost is very high indeed, in comparison with other educational expenditure; it serves no educational objective; the nutritional value is now arguable; the distributional effects are not particularly helpful to poorer families; and the case for a fundamental re-examination seems very strong.

Mr St. John Stevens  
is refusing to  
find this £3 million  
(Flag A).

12.

(f) Social Services.

At your request, the prescription charges proposal has been dropped for the time being. Again, you may want to make it clear that it is not ruled out in the longer-term.

(g) Foreign Office.

The Foreign Secretary (Lord Carrington's minute of 24th May) refuses to find the last £10 million. You may feel it necessary to overrule him on this: once one Department secures an exemption, it becomes very much more difficult to hold the others.

Flag D

At Flag E is a  
note setting how  
much of the aid  
programme is  
contractually  
committed.

12.

(h) Transport.

We do not yet know how Mr. Fowler proposes to find £25 million savings, which will fall partly on British Rail fares and partly on the road programmes.

(i) Trade. There was already £5 million to score from the abolition of the Price Commission: the extra £25 million re-finance of export credit (ironically from the Co-operative Bank) can be credited here as well.

SECRET

(j) Scotland.

No problem, provided Mr. Younger confirms that he accepts his share of the cuts.

(k) Northern Ireland.

Mr. Atkins has registered a potential claim on the Contingency Reserve here (for his Meat Industry Employment Scheme) but you will want to do no more than note it at this stage. It cannot yet be quantified.

(l) Defence.

The additional resources for the Defence Budget this year have been put at £100 million, as claimed by Mr. Pym. It is not clear exactly how this figure is built up, but Cabinet obviously wishes to make an exception for the Defence Budget. Nevertheless it would be worth checking whether this additional sum can actually be fully spent in the financial year. It would be a pity to over provide.

See also  
Mr Pym's  
minutes at Flag F

(m) Disposals.

The main contribution comes from the sale of 16 per cent of BP, yielding about £600 million. This would bring the Government Holding down from the present 51 per cent to about 35 per cent, of which some 20 per cent (actually held by the Bank of England) is the subject of the outstanding claim from Burmah which may take another two years to settle. Another £500 million comes from sale of Oil and Gas assets by BGC and BNOC. Although the paper says that no legislation will be needed, that is true only if the two Corporations agree. Sir Denis Rooke is at present holding out, and there is likely to be a fight. Moreover, the Government has no statutory power to compel either Corporation to divest itself of assets. You may want to ask Mr. Howell for an up-to-date report on this. You may also want to ask Sir Keith Joseph what the NEB disposals will involve: does he propose to keep the stake in INMOS for the time being, pending a review of Government involvement in microelectronics?

See  
Mr Howell's  
letter at Flag G

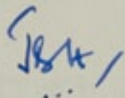


SECRET

3. If all the savings claimed by the Chief Secretary can be confirmed, you will end up with a total of £2470 million - a substantial contribution to the Budget arithmetic.

CONCLUSIONS

4. You might aim to secure Cabinet approval to the proposals put forward by the Chief Secretary, and in particular to record the outcome on the five points listed in his paper: prescription charges, / school meals, / regional development grants, aid, and Northern Ireland. Of these, the only issue likely to be contested is aid.

  
John Hunt

30th May 1979

# PUBLIC EXPEN DITURE CUTS 1979-80

Position at 29.5.79

		£m
Environment		
Community Land	50	
Urban Programme	7	
Water Authorities(E)	55	
PSA	25	
Housing	<u>313</u>	
(of which, 20 falls in Wales)	450	<u>450</u>
Industry		
Industrial Support		
/NEB	55	
RDG - 4 month moratorium	145	
B Aerospace	5	
Post Office	5	
British Steel	<u>15</u>	
	225	<u>225</u>
Scottish & Welsh Devt Agencies	10	10
Employment		
TOPS	24	
Training incl ITBs	9.5	
STEP	42	
YOP	25	
Community Industry	1	
Employment Services	6.5	
MSC Marketing	10	
Emp Devt Scheme	10	
Small Firms Emp		
Subsidy	29	
Temporary Short-Time Wkg Scheme	18	
Short-Time Wkg - Textiles	<u>5</u>	
	172	<u>172</u>
Energy		
BNOC - reduced farm-ins	40	
Energy Research	2	
Increased prices -		
- Electricity	90	
- Gas - Ind & non-domestic	<u>56</u>	
- Gas - Domestic	<u>12</u>	
	200	200

(- { - Electricity 90  
 - Gas - Ind & non-domestic 56  
 - Gas - Domestic 12 } -> 200



£m

Education		
16-18 year olds	10	
Miscellaneous education	11	
Science budget	4	
Recurrant grant to univ. & c.	6	
Education building	5	
Other(to be specified)	<u>22</u>	
	58	58
Social Services		
Increased waiting days	40	40
(Prescription charges proposal dropped)		
Foreign Office		
Mainly aid (Foreign Secretary objects)	50	50
Transport		
BR Fares and roads	25	25
Trade		
Abolition of Price Comm & c.	5	
Refinance of export credit	<u>25</u>	
	30	30
Scotland		
Proportionate share	75	75
N Ireland		
Proportionate share	35	35
		<u>1,370</u>
Subtract extra for Defence		<u>- 100</u>
	Total cuts	1,270
Disposal of Assets		
BP(16%)	600	
BGC - BNOC	500	
NEB & c.	<u>100</u>	
	1,200	<u>1,200</u>
	Total for Budget arithmetic	<u>2,470</u>



SECRETARY OF STATE FOR ENERGY

THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ  
Tel: 01 211 6402

Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1

*MBM*

30 May 1979

*Dear John*

PUBLIC EXPENDITURE SAVINGS 1979/80

Thank you for copying to me your letter of 21 May to Michael Heseltine, in which you sought from me a contribution of £200m towards savings in the current financial year.

I am writing to confirm what I told you last Thursday, namely that I expect to be able to find the additional £158m now asked of me. I expect this to come primarily from further increases in electricity and gas prices, though I cannot yet say in detail how the sum will be made up. I hope to get a clearer picture later this week. I will also be writing later today with details of the progress I have made on the sale of BNOC and BGC's assets.

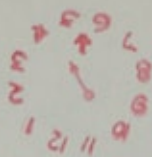
I am copying this letter to the recipients of yours.

D A R HOWELL

*Yours*

*David*





30 MAY 1979

CONFIDENTIAL



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2111/3

CONFIDENTIAL

MO 8/2/12

PRIME MINISTER

CASH LIMITS 1979-80

At the Cabinet's discussion on 17th May about cash limits for 1979-80, it was agreed that if additional resources were needed for the defence or for the law and order programmes, each should be separately considered by the appropriate committees as increases in the public expenditure allocation for the year, and not as exceptions to the cash limits policy.

2. The previous Government had set cash figures for the defence budget which under-provided for the programmes to which they related. As recorded in C(79)13, the Chief Secretary and I are agreed that an extra £100M is necessary to be added to the defence budget in 1979-80. This will cater for Naval re-equipment (fleet submarines, Type 42 destroyers and Type 22 frigates); contract refitting of ships (to help make up the backlog of work resulting from last year's industrial troubles); increased spending on the Milan anti-tank guided weapon and the FH70 howitzer; and increases in planned spending on air systems, which include £80M this year for the Tornado aircraft.

3. The £100M will enable these programmes to go forward as planned. They represent important and necessary additions to our armoury. I am, however, determined that the Ministry of Defence should play its full part in the search for economies and the elimination of waste. The Ministry will also, of course, work within the cash limits and civil pay guidelines which have been agreed for all Departments, and will find the savings necessary (estimated at about £150M) to absorb these cuts. In particular, I shall not be seeking any addition to the cash limit on account of improvements in Forces' conditions of service, TAVR bounties or pay increases for MOD Police.

/4. ...

CONFIDENTIAL

CONFIDENTIAL



CONFIDENTIAL

CONFIDENTIAL



4. I am therefore seeking approval for the proposed increase in the defence budget and cash limit for 1979-80 as set out above. This will form part of the Cabinet's discussion of C(79)13 on 31st May.

5. I am copying this minute to all members of the Cabinet and to Sir John Hunt.

JP  
—

30th May 1979

CONFIDENTIAL



30 MAY 1978





CONFIDENTIAL



MINISTRY OF OVERSEAS DEVELOPMENT ADMINISTRATION  
ELAND HOUSE  
STAG PLACE LONDON SW1E 5DH

Telephone 01-213 5409

From the Minister

30 May 1979

*Dear Tim*

PUBLIC EXPENDITURE CUTS : THE AID PROGRAMME

It has been agreed that I should reply on behalf of the FCO to your letter of 25 May to Alastair Pirie asking for a note distinguishing the different degrees of commitment applying to the various categories of expenditure included in the current Aid Programme.

... I understand that the information immediately required relates to the 1979/80 disbursements. I attach a note which sets out the expenditure expected to arise during 1979/80 under the different types of commitment. Experience in administering the aid programme over the years has shown that there is always a significant shortfall in expenditure against the provisions made at the beginning of the year although it is impossible to forecast at all accurately under which items in the programme the underspending will occur. In order to spend the total agreed resources available as nearly as possible, we have, with the agreement of the Treasury, assumed figures for planning purposes higher than will actually arise in any given year. In the current year, therefore, planned expenditure was set at £1,035 million against a gross figure of £902 million included in the Estimates for the year.

I am copying this letter to Paul Lever (FCO) and Alastair Pirie (Treasury).

*Yours sincerely,*

*Robert Graham-Harrison*

(R M Graham-Harrison)  
Private Secretary

T P Lankester Esq  
10 Downing Street

CONFIDENTIAL

EXPECTED PROPORTION FALLING INTO 1979-80 OF TOTAL COMMITMENTS OF  
ALL KINDS

£ million

a. Contractual

Under signed capital aid agreements with 54 governments (including £120m for India)	380
Under signed technical cooperation agreements with 43 governments, and awards made to individuals from overseas for training in this country (including the special Rhodesian programme)	114
Mandatory contributions to European Community development programmes	146
Contributions to the World Bank group and Regional Development Banks (estimated drawings against promissory notes already deposited or similar contractual arrangements)	108
Assessed contributions to FAO and UNESCO	6
Pensions to former overseas officials	<u>26</u>
	<u>780</u>

b. Pledges

Aid to India (non-contractual part under a pledge of the previous Government covering levels of aid up to March, 1981)	47
Pledged assistance to functional technical cooperation activities by various bodies, mostly in this country - educational (including British Council) research and development, etc	65
Commonwealth Development Corporation (advances for investment projects, firmly promised)	38
Voluntary contributions to UN organisations for developmental programmes (eg UNDP, World Food Programme, UNICEF, UNHCR) - firm pledges for 1979	57
Aid/Trade Contingency Provision	<u>36</u>
	<u>243</u>

/c.



£ million

c. EarmarkedAgreed or likely pledges to economic rescue  
operations - Turkey, Jamaica, Zambia, Zaire

12

---

Total

a. Contractual

780

b. Pledged

243

c. Earmarked

12£1035 million



*cc Mr Hordley  
Mr Weston*

*Prime Minister*

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILBANK LONDON SW1P 4QJ  
TEL: 01 211 6402

*To note.*

At Hon John Biffen MP  
Chief Secretary to the  
Treasury  
HM Treasury  
Parliament Street  
LONDON

*R*

*275*

30 May 1979

*Dear John*

PUBLIC EXPENDITURE 1979/80: BRITISH GAS CORPORATION AND BRITISH NATIONAL OIL CORPORATION

At our brief discussion last Thursday evening, 24 May, it was proposed that a further £500 million towards reducing the Public Sector Borrowing Requirement in 1979/80 should be contributed by selling some of the oil producing assets of the British Gas Corporation (BGC) and the British National Oil Corporation (BNOC).

I am now examining how to do this and have had initial discussions with Lord Kearon and Sir Denis Rooke. They will be reporting to me later this week their assessment of the means and implications of finding £300 million from the BNOC and £200 million from the BGC. Both are not unexpectedly hostile to the idea of such operations. Notwithstanding, I believe that progress can be made in meeting your request. However the policy of selling state assets raises issues of wider Government policy, going beyond the interests of my Department, and I consider that our Cabinet colleagues should have at least a brief opportunity of discussing those issues when they consider tomorrow your proposals for public expenditure reductions in 1979/80.

First, specific decisions to dispose of BNOC's and BGC's assets taken in the immediate context of the Budget statement will not, of course, give us time to consider thoroughly the implications for our strategy for the nationalised industries and for the scope for introducing private shareholdings generally. An immediate selling operation of the kind presently envisaged is likely to benefit mainly the few companies which are well placed, through their partnerships in the oilfields in question or for some other reason. This raises the important issue of our objectives for wider personal ownership, including shares in public sector industries where there is scope for this.

Second, an early sale on this scale will narrow the possibilities for more orderly and successful revenue raising in the future whether from outright sales of assets or from the attraction of private equity into BNOC, assuming we wanted to take these courses in the light of the review of the Corporation I am now undertaking.

It was with these wider considerations in mind that I suggested that it would be preferable if specific commitments on disposal of assets could await the outcome of the BNOC review and discussion of our policies for the nationalised industries and privatisation. However, since you have given me to understand that it is imperative to make these commitments now I am of course ready to tackle the problems which will arise. I suggest, however, that we handle the matter in a way which preserves the maximum flexibility for our future decisions on the wider issues and a strong negotiating position for the disposal operation itself.

One final point: sale of a substantial proportion of BNOC's equity interests in oilfields is likely to call for renegotiation and possibly early repayment of advances under the Britoil credit agreement with a consortium of US banks. The total of the loan outstanding is \$675 million, and the present terms are favourable to us. I understand that any such repayment would not count against the PSBR, but it seems to me to be a factor in the totality of Government expenditure and the balance of payments, and any disposal operation would need to be aimed at minimising adverse effects on this agreement.

I am copying this letter to the Prime Minister, our Cabinet colleagues and Sir John Hunt.

D A R HOWELL

Yours  
David  
7



CONFIDENTIAL

2



Cabinet Office  
70 Whitehall London SW1  
Telephone 01-233 XXX 5826

Chancellor of the Duchy of Lancaster

30 May 1979

*Dear Mark*

*Prin Mark*

*R  
371*

PUBLIC EXPENDITURE 1979-80

You sent me a copy of your letter of 29 May to the Chief Secretary, in which you propose that I should find £5 million from the Arts Budget for the current year. I saw this only this afternoon. The proposal is wholly unacceptable to me.

When the Chief Secretary wrote to his colleagues on 21 May proposing targets for departmental savings, there was no suggestion that your target of £60 million should include the Arts. I was rather surprised to learn subsequently, but not from John Biffen himself, that the Arts were intended to be so included. At that stage the suggestion which was passed on to me was that I should contribute £2 million. To communicate such a message by another Cabinet colleague and not to approach me direct was of course discourteous to me. However, in view of the state of flux which a new Government inevitably finds itself in I decided not to make a protest which I am fully entitled to do. I decided that painful though this would be for the Arts, I would offer such a contribution.

I now learn from your letter to the Chief Secretary sent to him without consultation of any kind with myself, that you propose that my contribution is to be increased to £5 million. I certainly cannot accept that proposals should be made to colleagues on expenditure for which I am responsible without any prior consultation with me or my officials. I am quite frankly astonished that the matter should have been dealt with in such a manner.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, the Minister for Transport and Sir John Hunt.

*Nam PH R Stevens*  
*Sincerely yours,*

The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education & Science  
Elizabeth House  
York Road  
LONDON SE1

CONFIDENTIAL

50 MAY 1979



CONFIDENTIAL



Prime Minister

2

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

2

30/5

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

29 May 1979

Dear John,

PUBLIC EXPENDITURE 1979-80

In paragraph 3ii of C(79)43 you recommend an increase in the school meals charge of 5p, as assumed by our predecessors, and not by 10p, as you yourself suggested in C(79)4 and as I proposed in my letter of 24 May; you also recommend that the difference of £22m should be found from education, science and the arts budgets.

You will appreciate that most current expenditure on education, four-fifths of my total programme, is borne by local education authorities and is therefore outside the scope of the present exercise - though it may be seriously affected by the cuts in rate support grant that we intend to make. The possible areas for savings other than school meals are therefore effectively limited to the recurrent grant to the universities; the Research Councils; the arts; further and higher education fees; and university and local authority capital spending.

I have not, in the time available, been able to consult Norman St John Stevas about the arts budget, but assume that he would be prepared to agree that a further reduction of £3m (which would amount to proportionate cuts for education and the arts) would be reasonable. So far as the other £19m is concerned, I have considered again whether it would be practicable to increase the cuts I originally proposed for the Research Councils and universities in the current financial year; but after very careful scrutiny of existing commitments I feel that there is no scope for doing so. This leaves only two areas where further savings might be made.

The first of these is in further and higher education fees. Our predecessors announced in March a 9 percent increase in these fees from September to maintain their real value. A further increase of 20 percent would yield about £6m in 1979-80. The majority of home students would have the increased fees met in their awards. Half the savings would fall on the remaining self-financed home students (many

CONFIDENTIAL



CONFIDENTIAL

of them postgraduate) and the other half on overseas students. Although I consider this to be possible, my colleagues should be aware that an announcement as late as June would cause considerable administrative (and perhaps legal) difficulties for the local education authorities and universities and the increase for overseas students would be bitterly opposed by the students themselves, their own governments and their friends here.

The remaining additional £13m would have to be found out of the capital programme. Present plans provide for educational building starts this year of some £200m, nearly half of that to provide essential additional new places in schools ("basic needs"). Your paper already assumes a cut of £5m in expenditure, equivalent to a reduction of nearly £20m in starts. To save the additional £13m in expenditure this year would mean eliminating the schools improvement programme and cuts in the building work for under-fives, handicapped children, universities and polytechnics. Existing allocations to local authorities would have to be cut, and the shire counties in particular would be hit hard.

I still feel that an increase to 35p in the school meals charge would cause less damage to the education service, and from my point of view would be politically more acceptable, than any of the possible alternatives - though I realise that this has to be considered in a wider economic context. However, if it is decided to limit the increase in the school meals charge to 5p, and there is no alternative but to ask the Chancellor of the Duchy and myself to find the £22m elsewhere, then I suggest:

- i. A further cut of £3m in the arts and libraries;
- ii. A further increase in student fees, yielding £6m; and
- iii. Further severe reductions in capital expenditure, on top of the £5m already proposed, yielding an additional £13m.

I am sending copies of this letter to the Prime Minister, the other members of the Cabinet, the Minister of Transport and Sir John Hunt.

*James ...*  
*Mark*

MARK CARLISLE

CONFIDENTIAL

30 MAY 1979



CONFIDENTIAL



DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

28. May 1979

Dear John,

In the Annex to your letter of 21 May to Michael Heseltine you proposed a reduction of £80 million in my field as a contribution to the expenditure cuts that Cabinet is looking for in 1979-80.

I can accept this and my proposals for making up the total are as follows:-

	<u>£million (GB) in 1979</u> <u>Survey Prices</u>
Prescription charges (increase from 20p to 60p) .....	45
Dental charges (increase in line with inflation) .....	6
Unemployment and sickness benefit (increase waiting day from 3 to 6) .....	40
TOTAL .....	<hr/> 91 <hr/>

For my part I see no need for discussion between us before these proposals are included in your report back to Cabinet; no doubt George Younger and Nicholas Edwards will let you know if they take the same view so far as they are concerned. I recognise, of course, that none of my proposals will have an easy passage when we come to implement them. We shall certainly face difficulty over the extension of waiting days, which previous Administrations of both parties have shied away from. However, we did discuss this in Opposition and in my view we should now be prepared to carry it through.

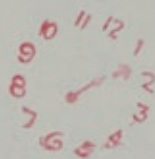
I am copying this to the Prime Minister, to other members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

CONFIDENTIAL

Your  
P  
Biffen



30 MAY 1979



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

29 May 1979

PUBLIC EXPENDITURE 1979/80

This is to confirm that the Prime Minister is content with the draft paper which you sent under cover of your letter of 25 May. Indeed, she regards the degree of cooperation which most Ministers have displayed in fulfilling the target cut of £1.4 billion for this year as highly satisfactory. In relation to this target, only two points appear remaining to be resolved - a further cut of £22 million in the education and science programme and a further £10 million cut in the aid programme. The Prime Minister has commented that these cuts must be found by the two Departments concerned.

I am sending a copy of this letter to Martin Vile in the Cabinet Office.

T. P. LANKESTER

Alistair Pirie, Esq.,  
HM Treasury.

9B

CONFIDENTIAL



file gr  
Overseas  
Aid

10 DOWNING STREET

From the Private Secretary

B/F 30/5/79

25 May 1979

Public Expenditure Cuts:  
The Aid Programme

I mentioned to you that, at the meeting which the Prime Minister had with Treasury Ministers and Permanent Secretaries last week, she asked for a note setting out precisely how much of the Aid Programme was already committed. She had it in mind that some of the so-called commitments did not in fact amount to contractual commitments. I would be grateful if, in consultation with the FCO, you would let me have such a note, which should distinguish clearly between the different degrees of commitment that exist, ie contractual commitments, pledges, earmarking, etc. Could I please have this by 1700 on Wednesday 30 May.

I am sending a copy of this letter to Paul Lever (Foreign and Commonwealth Office) and Robert Graham-Harrison (Office of the Minister for Overseas Development).

T. P. LANKESTER

A. C. Pirie, Esq.,  
Chief Secretary's Office.

CONFIDENTIAL



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

25 May 1979

School Meal Charges

This is to confirm what I told you earlier this morning. The Prime Minister had a discussion with the Chancellor of the Exchequer and the Chief Secretary last night on the Budget, and they agreed that there should be no increase in school meal charges over and above the 5p increase planned by the last Government. However, they also agreed that your Department would have to find offsetting public expenditure savings.

I am sending a copy of this letter to Alistair Pirie (Chief Secretary's Office).

I. P. LANKESTER

Philip Hunter, Esq.,  
Department of Education and Science.

CONFIDENTIAL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

25 May 1979

T. P. Lankester, Esq.,  
No. 10 Downing Street,  
London, S.W.1.

Dear Tim,

PUBLIC EXPENDITURE 1979-80

Prime Minister

This is the draft of the Chief Secretary's  
paper for Cabinet. Mr. Biffen has  
successfully negotiated the £1.4 billion  
cut for 1979/80 between Departments, and  
this is clearly set out. I see no  
reason why the paper should not be  
circulated on Tuesday morning. Agree?

I attach a draft paper designed for the Chief Secretary to  
circulate to Cabinet as a report on his exercise to secure public  
expenditure reductions in 1979-80. I should emphasise that the  
Chief Secretary has not yet seen the draft, although it has been  
prepared in accordance with his instructions.

X I should be most grateful to have your clearance or comments  
on Monday morning, 28 May, as agreed, to enable the Chief  
Secretary to circulate the paper as early as possible on Tuesday  
morning despite the Monday Bank Holiday. I can be reached on  
Shelford (02204) 2616 on Monday morning.

I should be grateful if you would pass the attached spare  
copy of this letter and enclosure to Martin Vile (Cabinet Office).

Yours ever,  
Alistair Pirie

A. C. PIRIE  
Private Secretary

X In view of X, it would  
be very helpful if you could  
give any comments to the  
Garden Room girl on Sunday.  
She can then CONFIDENTIAL  
telephone them to me.

TL

Agreed - am  
very pleased with  
degree of co-operation  
on the part of most  
Ministers.

Freig. Office - Pirie  
Widened - must find this  
out.

CONFIDENTIAL

CHIEF SECRETARY

cc Chancellor of the Exchequer  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir Douglas Wass  
Sir Lawrence Airey  
COGPEC  
Mr. Ridley  
Mr. Cardona  
GECS

PUBLIC EXPENDITURE 1979-80

I attach a draft Cabinet paper. It has been seen and approved by Sir Anthony Rawlinson. As you agreed, it has been sent in parallel to No. 10.

After we spoke, the question arose whether the decision to drop the increase in prescription charges included dropping the increase in dental charges, which would yield about £6 million this year. The paper has been written on the assumption that the two go together. This seemed the most reasonable interpretation of the decision, but I am advised that it would be possible to distinguish them, and if you wanted to persevere with the proposal to increase dental charges, it would be a simple matter to amend the paper over the weekend.

F.E.B.

F E R BUTLER  
25 MAY 1979

CONFIDENTIAL



DRAFT

## PUBLIC EXPENDITURE REDUCTIONS 1979-80

1. At our meeting on 17 May I was asked to propose targets for reductions in departmental programmes for 1979-80 and to report back to Cabinet, following discussions with the Ministers concerned. I attach the allocation which I circulated.

2. I can report that, subject to the unresolved issues mentioned below, the Ministers concerned have agreed to meet the targets proposed. I gratefully acknowledge the positive responses I have received from colleagues, notwithstanding the difficulties to which they have drawn attention.

3. Ministers' responses have confirmed that the savings will be achieved by measures broadly on the lines proposed in the attachment to my letter of 21 May, but I should bring the following points to the Cabinet's attention:-

(i) The Secretary of State for Social Services proposed increasing prescription and dental charges to raise £51 million this year, including Scotland. To mitigate the overall effect of the Budget on prices, the Chancellor and I now recommend against proceeding with this. I propose that the target of the Secretary of State for Social Services should be reduced accordingly to £40 million, which he proposes to achieve by legislation in the Social Security Bill to increase waiting days for sickness and unemployment benefit. A corresponding adjustment should be made in the Secretary of State for Scotland's target.

(ii) For similar reasons, we recommend against raising the proposed increase in the school meals charge from 5p to 10p, by which the Secretary of State for Education and Science proposed to raise £22 million this year. In this instance, it should be practicable to find this amount from the education, science and arts budget in other ways; and I recommend that we should do so.

(iii) A substantial portion (£140 million) of the Secretary of State for Industry's savings consists in a four months' moratorium in payment of regional development grant. I propose that we accept this, but it will impose an additional cost subsequently when it is reversed and will increase the savings we will need in the industry programme in later years.

*Prime Minister*  
You asked for  
a note on  
what precisely  
is committed.  
I am pressing  
the Treasury for this.  
12

(iv) The Foreign and Commonwealth Secretary has proposed savings of £40 million rather than the £50 million I suggested. I believe that it should be practicable to find the remaining £10 million from the aid programme and propose that we ask him to make a further effort to achieve this. *Agreed not*

(v) The Northern Ireland Secretary is concerned that there may be insufficient funds in the Northern Ireland programme this year. He has agreed to meet his proposed share of these reductions, but expects to have to submit a claim on the Contingency Reserve during the year to finance the continuation of Northern Ireland's Meat Industry Employment Scheme.

#### The outcome of the exercise

4. The savings identified by the Secretaries of State for Industry and Employment exceeded their targets by £22 million in total; and the Cooperative Bank have agreed to refinance £25 million of outstanding export credit. These additional amounts come close to offsetting the loss of savings from health charges. Providing that the Education Secretary can make up in other ways the loss of revenue from the school meals charge, and the Foreign and Commonwealth Secretary can find another £10 million from the aid programme, the reductions will reach the overall target of £1365 million this year proposed in my letter of 21 May.

*He must  
- be have  
very big  
budget  
has  
offset  
mainly  
revenue*

#### Defence

5. We agreed on 17 May that there was a case for increased expenditure on defence, and a figure of £100 million was proposed. I recommend accepting this addition to the defence programme this



CONFIDENTIAL

year: the Secretary of State proposes to reinforce it by a vigorous economy campaign.

Disposal of assets

6. I was also asked by Cabinet on 17 May to review the scope for selling public sector assets with the aim of realising at least £1,000 million in 1979-80. After consulting colleagues, the Financial Secretary and I conclude that without special legislation it should be possible to realise £1,200 million.

7. Half would come from selling BP shares and £500 million from the oil assets of BNOC and British Gas, of which British Gas' share should amount to at least £200 million. The remaining £100 million would come from NEB shareholdings. There are a number of minor possibilities which it may be possible to add to this total.

8. We are also examining the scope for selling off land and buildings owned by Government agencies; but this will take time, and may not realise any significant savings in this financial year.

Conclusions

9. I invite the Cabinet:-

- (i) to note that, provided other savings can be found to replace the higher increase in school meals charge and a further £10 million can be found from the aid programme, the overall target of £1365 million (1979 Survey prices) proposed in my letter of 21 May has been achieved;
- (ii) to agree to increase the defence budget this year by £100 million;
- (iii) to note that it should be possible to realise £1200 million this year from the sales of public sector assets proposed in paragraph 7.

CONFIDENTIAL





Treasury Chambers, Parliament Street, SW1P 3AG

21 May 1979

The Rt Hon Michael Heseltine MP  
 Secretary of State  
 Department of the Environment  
 2 Marsham Street  
 London SW1

The Memorandum which I circulated to Cabinet on the scope for cuts in 1979/80 - C(79)4) - proposed reductions of £750-850 million (the proposals in the Annex plus proportionate cuts in the relevant services in Scotland and Northern Ireland). We agreed at Cabinet that the aim should be to find extra savings of £500-600 million and that I should formulate targets for reduction by each Department.

--- I attach an allocation. As pointed out in the Cabinet discussion we cannot tackle this by blanket percentage reductions: the need is to ensure that every Minister makes the maximum savings possible within his own programme. I have therefore started from the proposals in my Memorandum and in scaling them up I have taken account of our priorities and of what is likely to be practicable in the remainder of 1979-80. I indicate in the attachment some areas for reductions which I have had in mind but it will of course be acceptable if the Ministers concerned prefer to make equivalent or larger savings in other ways.

I hope that, in the light of Thursday's Cabinet decisions, you and our other colleagues will accept these reductions and, in consultation as necessary with the Secretaries of State for Scotland and Wales on the programmes covering Great Britain as a whole, let me know in broad terms how you propose to implement them in your respective areas of responsibility.

The measures proposed should be additional to those resulting from our agreed cash limits policy this year and, in the case of the nationalised industries and other bodies, to the proceeds of sales which are being discussed separately with the Ministers concerned. Similarly, the measures should be additional to the reductions in local authority current expenditure which we are seeking to get by reducing the cash limit on the Rate Support Grant.

CONFIDENTIAL

I should be grateful to hear from you and the other colleagues concerned by 24 May so that I can report back to Cabinet in the following week.

There are two further points to which I draw your attention. I recognise the limitations on cutting expenditure in 1979-80 but such reductions are to be preferred to capital expenditure and, in general, to increases in charges. Second, we must avoid choosing reductions in 1979-80 of a kind which will increase our problems in reducing expenditure in 1980-81 or later years. The importance of achieving sufficient reductions in the figures we have inherited for those years will be quite as great as for the current year.

If you or any other colleagues would like to discuss the means by which the reductions should be achieved, I would gladly arrange that.

I am copying this letter to the Prime Minister, to other members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

JOHN BIFFEN

PS. I will be replying separately to your letter to Geoffrey Howe of 18 May.

## CONFIDENTIAL

## PROPOSED REDUCTIONS IN EXPENDITURE 1979-80

£ million in 1979  
Survey prices

Secretary of State for the Environment	450
Very substantial reductions appear feasible through a combination of measures on the housing programme, plus halting further land purchases under the Community Land Scheme.	
Secretary of State for Industry	225
Action on NEB, regional support and the SDA and WDA as proposed in C(79)4: further action appears feasible on nationalised industries and/or assistance to industry.	
Secretary of State for Employment	160
Restriction of special employment measures as proposed in C(79)4 plus further reduction in MSC expenditure.	
Secretary of State for Energy	200
Restraint on BNOC and energy research plus further action on nationalised industries finance, mainly through pricing policies.	
Secretary of State for Education	60
Large proportion of programme is local authority current expenditure to be tackled through reduction in RSG cash limit, but savings should be possible on lines proposed in C(79)4 or by action on capital allocations or grants.	
Secretary of State for Social Services	80
Mainly prescription charges.	
Foreign and Commonwealth Secretary	50
Mainly aid.	
Minister of Transport	25
British Rail fares and possibly road construction.	

CONFIDENTIAL



£ million in 1979  
Survey prices

Secretary of State for Trade

Principally abolition of Price Commission

5

Secretary of State for Scotland

75

Proportionate share of reductions in  
English programmes, plus parallel action  
on energy prices to that proposed in  
England.

Secretary of State for Northern Ireland

35

Proportionate share of reductions in  
GB programmes

---

1365

The reductions allocated to Scotland and Northern Ireland are calculated on the usual population proportion basis and assume:-

- (a) the amounts shown against Industry, Employment, Energy (apart from nationalised industries), Trade and Transport (apart from roads) cover Great Britain;
- (b) the remaining amounts (apart from the FCO) cover England and Wales only.



*Regional Policy May '79*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*Prime Minister*

*To glance*

*R2575*

*24* May 1979

*and*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

In view of the preparations you are now making for the budget and the discussions we are having on public expenditure I hope you may find it helpful to have an account of how we see the economic outlook in Scotland. I am to have a meeting shortly with Keith Joseph to discuss regional policy but I am concerned that any forthcoming changes in policy should be seen against the wider economic background.

The various economic forecasts for the UK economy, though differing in detail, all agree that unemployment during 1979 is likely to rise. In part this is a consequence of the low growth rate in world trade, and in part the result of our own weak export performance stemming from the combination of a strong and stable currency with rising unit costs of production; but the result is that economic growth in the UK is unlikely to match the economies natural growth in productive potential so that there will be an increasing surplus of unemployed labour. Recent economic performance in Scotland has, if anything, been slightly weaker than for the UK as a whole; and with a serious situation affecting a number of our major industries, notably shipbuilding, we would expect this weaker performance also to be a feature of the year ahead. With seasonally adjusted unemployment in Scotland now at 7.3%, this means that rates of between 8 and 10% for Scotland as a whole, and much higher in difficult areas such as Strathclyde, are quite probable next winter with/ out any change in existing policies.

There is of course very widespread concern over unemployment in Scotland, particularly in Strathclyde, and over the difficulties faced by some of our major industries. There is no doubt that this was a major factor in the Scottish election results and I have made it clear publicly that I attach the highest priority to bringing the level of unemployment down. For the longer term I am in no doubt that reduced levels of direct taxation and a reduction in the cost of finance for industries through lower interest rates are a pre-requisite for fostering entrepreneurship and stronger economic growth. But the benefits of these measures will take time to work through. In the short term increased personal disposable income as a result of tax reductions is likely, particularly with the present strong exchange rate, to result in increased imports of consumption goods, while the offsetting reductions in public expenditure which we must make will necessarily give rise to higher levels of unemployment.



I accept that some discomfort in the short term is a price which it is necessary to pay for a better future. But I am particularly concerned that we should not press too far our economies on support for industry in regions of high unemployment and on the MSCs temporary employment measures, both of which are my responsibility in Scotland. If we do, I am convinced that we could rapidly increase Scottish unemployment to levels which become both socially and politically intolerable and jeopardise our chances of holding to our long term aim. We could also find that our hard earned savings were largely offset by a greater outlay on unemployment and social security benefits. The present industrial recession is so severe and the squeeze on company profits and liquidity is so intense that many companies face difficulties which in normal times could be confident of good long run prospects. Under the provisions of our 1972 Industry Act my Department has been able to use section 7 assistance to help in many cases and I attach very great importance to being able to continue to do this. Indeed in my discussions with the STUC I have said that so long as a good prospect for a viable future can be demonstrated we will do our best to help companies in difficulty. For new industrial projects also the level of assistance we can offer is of great importance since we face intense competition from other European countries, as has been evident from some recent cases. As to the temporary employment measures, these are of course only a stop gap in the present very difficult situation, but they reduce the unemployment register in Scotland by some 20 thousand and through the work experience and training they provide are of considerable social benefit. Thus while I accept that it is clearly right to review both regional and industrial policy and the MSCs temporary measures to ensure that we have the maximum cost effectiveness, I hope that the general framework of the 1972 Act can be kept intact and that we will not attempt drastic savings on these policies.

Finally, I must add a political note. We remain the only political party which in the post war years has ever won a majority of the total Scottish vote, but our position in recent years has slipped very badly and, despite the set-back to the SNP, was disappointing at the last election. If we are to improve our position as I believe we must, we have to demonstrate that our policies particularly in the economic field match up to Scotland needs. Regional policy, at least in its modern form, owes its origin to the conservative Government of the early 1960s and since then much can be claimed to its credit; over 100,000 additional jobs in Scotland according to the best independent estimate, greatly reduced emigration and levels of prosperity much closer to the UK average. We would do Scotland and ourselves a great damage if we were to allow that momentum to be lost.

I am sending copies of this letter to the Prime Minister, Keith Joseph, Jim Prior, Michael Heseltine, Nicholas Edwards, Humphrey Atkins and John Biffen.

GEORGE YOUNGER



25





CONFIDENTIAL

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

24 May 1979

*John* *R.*  
Thank you for your letter of 23 May. *W/S*

I quite agree about the difficulties of an across the board percentage cut. I anticipated in my letter that there would have to be exceptions, as you pointed out.

However, as you yourself have suggested an across the board process for all years after 1979/80 I am now content.

I am copying this to other members of the Cabinet and to Sir John Hunt.

*yes am*  
*He*  
MICHAEL HESELTINE

The Rt Hon John Biffen MP



21 MAY 1979



CONFIDENTIAL




FCS/79/104

CHIEF SECRETARY

Public Expenditure Cuts: The Aid Programme

1. You have suggested in the allocation attached to your letter of 21 May to Michael Heseltine that I should find savings of £50 million this year within the programmes for which I am responsible, mainly the aid programme.
2. As far as the FCO's non-aid votes are concerned, having taken account of the 3% contribution to the pay settlement and the fact that other cash limits are not being adjusted, there is no scope whatever for further savings this year from that source. I am therefore faced with a request for savings from the aid programme which are two and a half times the size of the saving which you originally requested. The aid programme consists for the most part of commitments abroad on which it would be wrong for us to renege; and there are wider political implications in sudden changes in our aid disbursements which I must take into account.
3. However, I would be prepared, if necessary, to find savings of up to £40 million, though I cannot at this stage say exactly how this would be made up. I hope you will agree that this is a reasonable FCO contribution.
4. I am copying this minute to the Prime Minister, other members of the Cabinet, the Minister for Transport and to Sir John Hunt.

  
(CARRINGTON)

Foreign and Commonwealth Office

24 May 1979

CONFIDENTIAL



24 MAY 1979



8 ST. JAMES'S SQUARE LONDON SW1Y 4JB

Telephone Direct Line 01-214 6025

Switchboard 01-214 6000

Rt Hon John Biffen MP  
Chief Secretary  
Treasury  
Great George Street  
LONDON SW1P 3AG

24 May 1979

## PUBLIC EXPENDITURE CUTS 1979-80

I am replying to your letter of 21 May 1979. Our main areas of expenditure are the MSC's grant-in-aid and the special employment measures carried on the Department's vote. I have personally been through the various items of expenditure in these two areas. I have also discussed the various possibilities for cuts in the grant-in-aid with the Chairman of the MSC who had been mandated by the full Commission to act on their behalf. I have had regard to the cost effectiveness of the various programmes, to our general approach in this area as adumbrated in the Manifesto and since, and to the need to minimise, to the maximum extent possible, the impact on unemployment.

My proposed savings are listed in the note appended to this letter and you will see that they add up to £172 million which is more than the figure of £160 million mentioned in your letter. In other words, my approach has not been to find cuts amounting to the lower figure but to cut back those programmes which I thought could be cut back to the maximum extent possible. This has not been carried through without a great deal of thought, pain and grief.

I have tried to be rigorous on this, assuming other colleagues will be too, despite the damaging effects on unemployment in the short term. The effect on unemployment was a main consideration I had in mind, but it is not possible to cut expenditure on the Department of Employment's vote without producing an effect on unemployment. The cuts imply, therefore, extra expenditure on social security benefits and staff.



CONFIDENTIAL



If you want more detail of what is implied in the various cuts perhaps your officials could get in touch with mine.

I am sending copies of this letter to the recipients of yours.

Yours  
Truly  
Yours

## CONFIDENTIAL

DE GROUPSavings in 1979-80

	£m
TOPS	24
Direct Training Services (an increase in charging)	1
Industrial Training Boards:	
- operating costs	1½
- grants	7
STEP	42
YOP	25
Community Industry	1
Employment Services (various reductions)	6½
MSC Marketing	2
Employment Development Scheme	10
Small Firms Employment Subsidy	29
Temporary Short-Time Working Scheme	18
Short-time Working Scheme in Textiles, Clothing and Footwear	5
	<hr/>
	172
	<hr/>

CONFIDENTIAL



## DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon John Biffen MP  
 Chief Secretary to the Treasury  
 Treasury Chambers  
 Parliament Street  
 London SW1P 3AG

24 May 1979

mys

Dear John.

## PUBLIC EXPENDITURE 1979-80

This is my response to your letter of 21 May to Michael Heseltine. You told me when we met yesterday that your figure of £60m for me included the arts and libraries as well as education and science; and our officials are in touch with the Chancellor of the Duchy's about his contribution.

Meanwhile my proposals for saving £58m at 1979 Survey prices (compared with Cmnd 7439 revalued) on education in England and Wales and universities and science in Great Britain are:-

	£m	
i. Abandon pilot schemes for 16-18 grants	10	10
ii. Miscellaneous savings on education	11	11
iii. Reduction in Science Budget	4	5
iv. Raise charge for school meals from 25p to 35p in September 1979	22	22
v. Recurrent grant to universities (including Open University) and voluntary colleges	6	9
vi. Educational building	5	14
Total	58	

Further details are given in the Annex. I have avoided as far as possible cuts in capital expenditure, as you request, and, with the school meals charge, have concentrated on an item which will do the least damage to the education service and bring substantially larger savings in subsequent years. Even so, taken with the effect

CONFIDENTIAL



CONFIDENTIAL

on local authorities of the reduction in the RSG cash limit, there will be serious consequences for the education service and research.

I am sending copies of this letter to the Prime Minister, the other members of the Cabinet, the Minister of Transport and Sir John Hunt.

*Yours ever*

*Mark*

MARK CARLISLE

CONFIDENTIAL

ANNEX

i. 16-18 grants. No provision is required following the fall of the last Government's Education Bill.

ii. Miscellaneous savings on education

a. Latest forecasts suggest reduced capital requirement compared with Estimates figure for university medical schools, which is already below Cmd 7439 figure.

Saving £3m →

b. Latest forecasts suggest reduced requirement compared with Cmd 7439 for mandatory awards to higher education students (because of reduced numbers).

Saving £7m →

c. Provision for Advanced Further Education Councils and regional teacher training committees not needed: reduced requirement for capital grants for voluntary youth and community projects.

Saving £1m →

iii. Science. The impact of cash limits may be partly offset by lower international subscriptions resulting from the strength of sterling. This further reduction of £4m will have to bear on expenditure not yet committed and will thus seriously set back important and promising initiatives made possible by the increases agreed last year.

iv. School meals. The savings shown are for two terms only. They are additional to those resulting from the increase of 5p planned by the last Government. The total increase of 10p is the same as that made in 1977. It will bring the annual cost of the charge for each child to about 1.8 per cent of average earnings and the subsidy to about 44 per cent of the cost of the service (compared with 1.9 per cent and 37 per cent after the increase from 8.75p to 12p in 1971). The increased charge will add about 0.25 per cent to the retail price index. IN

v. Universities etc. The operation of cash limits (even as adjusted to cover the 9 per cent pay increase for university teachers and technicians) will be equivalent to a cut of 3-4 per cent in volume. The further reductions proposed (£5m for the conventional universities, £0.5m for the Open University and £0.5m for the direct grant voluntary colleges of higher education) will represent a further cut of 1-1½ per cent. Since the level of student admissions is now committed for 1979-80 and few if any economies can be made in staffing, the effect of the cash limit squeeze on

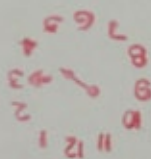
CONFIDENTIAL

the universities will have to be met from their uncommitted reserves. These are unevenly distributed and in some cases grave difficulties are inevitable. An extra 1 per cent cut would make these difficulties both general and greater, and would be likely to damage the quality and responsiveness of university education.

vi. Educational building. A cut of £5m in capital expenditure will involve a much bigger reduction in the volume of work started. The details need further consideration; but, as an example, the cut might be achieved in England by halving the nursery starts programme of some £6m; reducing the starts programme for substandard schools from £34m to £30m; and reducing the further education starts programme from £45m to £35m (as well as the deferment of a single large project for the Royal College of Art). The Welsh Office would provide a matching contribution yielding a saving of expenditure of £0.4m.

CONFIDENTIAL





24 MAY 1979

CONFIDENTIAL



Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

24 May 1979

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
SW1P 3AG

PUBLIC EXPENDITURE SAVINGS

Thank you for sending me a copy of your letter of 21 May to Michael Heseltine in which you indicated that you looked to the Department of Industry to find savings totalling £215 million in 1979-80 (i.e. £225m minus the £10m which you proposed in C(79)4 should be found from the SDA and WDA programmes). This is £150 million more than in your earlier proposals.

I am of course anxious to do everything possible to help you to achieve the much larger target for total savings in 1979-80 which you have now set. I must however make the point that my Department's programmes are being asked to find a disproportionate share of the total. I understand that you are seeking a reduction of about 3% in total expenditure (excluding defence and law and order). A 3% reduction in this Department's programmes would produce only about £60 million.

So in my view the much larger cuts I shall be suggesting in this letter should only be made if all our other colleagues can also meet in full the revised targets you have set them, so clearing the way for the really substantial direct tax cuts that are needed to give industry new impetus and incentive.

If I am to save as much as £150 million more in 1979-80, I must find the largest part from the Regional Development Grants scheme. Since grants are paid some time in arrears the only way in which a large saving can be made in the short term is to impose a moratorium on payments. Our predecessors did this in 77/78 and the strong objections that were then expressed still apply. In particular, a four month moratorium will deprive industry of an inflow of £130 million on which they will have been relying in their cash flow forecasts and it will be only a postponement of Government expenditure rather than a real cut. Nevertheless I can see no other way of finding immediate savings of anything approaching this scale. A moratorium will not be seen as the last word on changes in the Regional Aid package and it will be important to reach early conclusions on the future shape of that policy.

/In ...



CONFIDENTIAL

2

In C(79)4 you asked me to find savings of £50 million from the provision for the NEB and future industrial support taken together. In the light of the decision we have now taken on the Wheal Jane project I can agree to increase this figure to £55 million.

My other proposals all concern the nationalised industries which I sponsor. I am prepared to impose small cuts of £5 million each in the cash limits for the Post Office and British Aerospace. I am satisfied that this should not cause any serious damage to the operations of either Corporation and that the Boards concerned would acquiesce if it were clear that this was their contribution to a widespread programme of economies. In the case of British Steel the RDG moratorium would in itself require cash limit for 1979-80 to be increased by about £15 million. But it should, in my view, be possible for the Corporation to take other measures to offset this and to produce a net reduction in their cash limit of £15 million. It is probable that these measures will include disposal of some of the Corporation's ancillary interests including overseas subsidiaries, but these are not I think disposals which will have so far been taken into account in your forecasts and I believe that they could be made in such a way as to ensure that they did not interfere with other sales you already have in mind.

Thus, to sum up, my proposals for meeting your target of £215 million are as follows:

	£m
Future industrial Support/NEB	55
RDG (4 month moratorium)	145
British Aerospace	5
Post Office	5
British Steel	15
	<hr/>
	225

This is slightly more than you asked me to find but I am sure that you will not object.

I am sending copies of this letter to the recipients of yours.

*Cur.*  
*Kerr*



24 MAY 1979



CONFIDENTIAL



2

10 DOWNING STREET

*From the Principal Private Secretary*

23 May 1979

Review of Expenditure Programmes  
During Period in Opposition

The Prime Minister has read the note by the Chief Secretary (C(79) 10) which was circulated yesterday. The Prime Minister does not think it appropriate for the note which Mr. Biffen circulated to be discussed in Cabinet.

I am copying this letter to Tony Battishill (Treasury) and to Sir John Hunt.

K. R. STOWE

A. C. Pirie, Esq.,  
H. M. Treasury.

M

CONFIDENTIAL

DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877



*From the Secretary of State*

John Biffen Esq MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
SW1P 3AG

R.

23. May 1979

*Dear John.*

PUBLIC EXPENDITURE SAVINGS 1979/80

Thank you for sending me a copy of your letter of 21 May to Michael Heseltine in which you indicated that you were looking to the Department of Trade to contribute £5 million towards the overall target for public expenditure cuts in the present year.

As you suggest, abolition of the Price Commission should produce the larger part of this sum. A little will depend on the precise date for the formal dissolution of the Commission and on the redundancy terms agreed for contract staff, but at present I expect that there will be a saving of rather more than £3 million in 1979/80. In addition, the decision we have already announced to end support for local price surveys will save<sup>e</sup> a further £0.2 million.

I have also decided to discontinue the support which the previous government gave to Consumer Advice Centres since these are in my view a costly and ineffective way of helping the consumer. There are however strong arguments in favour of giving some months notice before putting this decision into operation, in particular to allow time for the Citizens Advice Bureaux to make the necessary arrangements to meet the extra demand which will fall on them. Nevertheless, if I make an early announcement that no support to the Centres will be provided after the end of 1979/80, there is bound to be a gradual winding-down of the Centres' activities during the rest of this year and I expect as a consequence to save another £0.5 million.

1  
CONFIDENTIAL



CONFIDENTIAL



*From the Secretary of State*

It will be more difficult for me to find the remaining £1 million you are seeking, because my Department's budget is relatively small and has to cover a considerable number of different programmes, of which some cannot be cut in the short-term and others reflect policies which I need rather more time to review. I am, however, prepared to cut £0.5 million from the present provision for support for the film industry in 1979/80 in advance of the outcome of the review of policy which I have set in hand; and I am satisfied that the remaining amount could be found by requiring economies to be made on the programmes for export promotion and support for tourism.

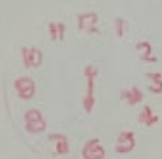
I hope you will regard this as an acceptable response to your request. I am copying this letter to the recipients to yours.

*Yours ever*  
*John*

JOHN NOTT

CONFIDENTIAL

23 MAY 1979



CONFIDENTIAL

Prime Minister

MR. LANKESTER

(This suggests even bigger  
option cuts than we discussed)

For Cabinet

Review of Expenditure Programmes

12  
25/5

The Chief Secretary's proposals in C(79)11 effectively set guidelines for public expenditure decisions during the lifetime of the present Government. The Prime Minister may therefore like to have some CPRS comments.

2. The Government's objective is to bring expenditure back to the outturn of 1977-78. To achieve this by, say, 1982-83 would require a reduction of about £10b in the previous Government's plans for that year set out in Cmnd 7439. The method proposed is to identify savings of up to 17½ per cent (or the reductions identified in Opposition - set out in C(79)10 - if these are greater) except for Defence, Law and Order and Health.

3. In our view the paper does not adequately bring out the implications of this approach.

4. We have made the following assumptions:

- (i) The Defence programme will grow by 3 per cent a year throughout the period in line with our NATO commitment.
- (ii) The Law and Order programme, which allows for a small increase over the period, will be unchanged.
- (iii) The Health and Personal Social Services programme will be held at the current level. This implies a significant reduction on the previous Government's plans. It is, however, compatible with the Manifesto which said that "it is not our intention to reduce spending in the Health Service".
- (iv) Other Public Services (mainly administrative costs of tax and rate collection) will be unchanged. Significant cuts in this programme seem unlikely during the period. But even if they could be achieved, the overall outlook would be not very different.

CONFIDENTIAL



CONFIDENTIAL

- 2 -

- (v) For all other programmes savings will be identified fully in line with the Chief Secretary's proposals.

5. We estimate that on these assumptions Ministers will be presented with a range of options amounting to not very much more than £10b in 1982-83. But this will not present them with a realistic choice. In particular:

- (i) There is little, if anything, in the Cmnd 7439 plans to allow for more than price-indexation of social security benefits, including Child Benefit. In other words, no real improvements are built into the figures. This may be all right in itself. But the Chief Secretary's formula assumes that existing provision for this programme will be reduced by 17½ per cent in 1982-83. If this is unrealistic, roughly £2-2½b of the £10b target is at risk.
- (ii) The Chief Secretary's formula also assumes that savings of 17½ per cent will be made in Education, other Environmental Services, and other local authority expenditure. But the Government does not have control over the bulk of this expenditure and there is no certainty that local authorities will follow the Government's guidelines. Local authority current expenditure is now over £13b.

6. In our view, therefore, if Ministers are to have genuine options from which to choose savings amounting to £10b in 1982-83, a more rigorous formula will be required to allow for programmes in which maximum cuts could not be enforced. As a minimum, we would suggest that the options would need to be 7½ per cent in 1980-81, 15 per cent in 1981-82 and 25 per cent in 1982-83.

(signed) Sir Kenneth Berrill

23 May 1979

CONFIDENTIAL

CONFIDENTIAL

CABINET OFFICE
QC 02148
23 MAY 1979
FILE INSTRUCTIONS
FILE No. ....

Sir Kenneth Berrill

Review of Expenditure Programmes:  
C(79)10 and 11

Having done some rough calculations on the basis proposed by the Chief Secretary in C(79)11, I think it is quite clear that the options which spending Ministers are being asked to identify in PESC will not provide the Cabinet with a realistic choice from which they could achieve their objective of reducing expenditure to the level of 1977-78 over the next 3-4 years. You may, therefore, feel that it would be appropriate to put another note to Mr Stowe on the lines of the attached draft, which I think is self-explanatory.

*GSD*  
G S DOWNEY

23 May 1979

Copy to:

Mr Crawley  
Mr Le Cheminant  
Mr Mountfield

*cc Mr Vile*  
~~Mr Stowe~~  
*Sir Kenneth Berrill did not have a chance to look at this but I think he would have wished you to have it tonight, had he been here.*

*GSD*  
*23/5*

CONFIDENTIAL

P-M-  
CONFIDENTIAL

~~Draft Minute from: Sir K Berrill~~

~~to: Mr Stowe~~

Review of Expenditure Programmes

The Chief Secretary's proposals in C(79)11 effectively set guidelines for public expenditure decisions during the lifetime of the present Government. The Prime Minister may therefore like to have some CPRS comments.

2. The Government's objective is to bring expenditure back to the out-turn of 1977-78. To achieve this by, say, 1982-83 would require a reduction of about £10bn in the previous Government's plans for that year set out in Cmnd 7439. The method proposed is to identify savings of up to 17½% (or the reductions identified in Opposition - set out in C(79)10 - if these are greater) except for Defence, Law and Order, and Health.

3. In our view the paper does not adequately bring out the implications of this approach.

4. We have made the following assumptions:-

- (i) The Defence programme will grow by 3% a year throughout the period in line with our NATO commitment.
- (ii) The Law and Order programme, which allows for a small increase over the period, will be unchanged.
- (iii) The Health and Personal Social Services programme will be held at the current level. This implies a significant reduction on the previous Government's plans. It is, however, compatible with the Manifesto which said that "it is not our intention to reduce spending in the Health Service."
- (iv) Other Public Services (mainly administrative costs of tax and rate collection) will be unchanged.. Significant cuts in this programme seem unlikely during the period. But even if they could be achieved, the overall outlook would be not very different.
- (v) For all other programmes savings will be identified fully in line with the Chief Secretary's proposals.

5. We estimate that on these assumptions Ministers will be presented with a range of options amounting to not very much more than £10bn in 1982-83. But this will not present them with a realistic choice.

CONFIDENTIAL



CONFIDENTIAL

In particular:-

- (i) There is little, if anything, in the Cmdnd 7439 plans to allow for more than price-indexation of social security benefits, including Child Benefit. In other words, no real improvements are built into the figures. This may be all right in itself. But the Chief Secretary's formula assumes that existing provision for this programme will be reduced by  $17\frac{1}{2}\%$  in 1982-83. If this is unrealistic, roughly £2-2½bn of the £10bn target is at risk.
- (ii) The Chief Secretary's formula also assumes that savings of  $17\frac{1}{2}\%$  will be made in Education, Other Environmental Services, and Other Local Authority expenditure. But the Government does not have control over the bulk of this expenditure and there is no certainty that Local Authorities will follow the Government's guidelines. Local Authority current expenditure is now over £13bn.
6. In our view, therefore, if Ministers are to have genuine options from which to choose savings amounting to £10bn in 1982-83, a more rigorous formula will be required to allow for programmes in which maximum cuts could not be enforced. As a minimum, we would suggest that the options would need to be  $7\frac{1}{2}\%$  in 1980-81, 15% in 1981-82 and 25% in 1982-83.

Sj1.

k- B -

CONFIDENTIAL

23 MAY 1979

23 MAY 1979

11 12 1 2 3 4 5 6 7 8 9 10

11 12 1 2 3 4 5 6 7 8 9 10

CONFIDENTIAL

Ref. A09620

PRIME MINISTER

Review of Expenditure Programmes

(C(79) 10 and 11)

BACKGROUND

You saw and approved the Chief Secretary's main paper (C(79) 11), subject to the inclusion of a more ambitious target than that which he first proposed. The other paper (C(79) 11) about the expenditure cuts discussed in opposition is tabled mainly as background.

2. The arithmetic in the main paper aims at reducing public expenditure to the level of the 1977-78 outturn. I attach a chart which shows that this is a convenient target, because it represents the lowest outturn of recent years. But the 1977-78 outturn was the result of a very large shortfall, partly related to the fact that 1977-78 was the first year of the 'cash limits' system and partly reflecting the negotiations with the IMF. It therefore constitutes a difficult target to reach. Moreover, exemption of two very large blocks (Defence and law and order) and the partial exemption of health, means that the other programmes have to take a correspondingly larger proportion of the total cuts. This reinforces the need for a wide range of options to be prepared, because clearly the Cabinet, when it takes the public expenditure survey in the late summer, is going to face some very difficult decisions. Meanwhile, you will want to stress that this is not a meeting for decisions on where the cuts will fall (the Chief Secretary's minute of today is relevant): the whole object is to ensure that there is a wide range of choice later in the year.

HANDLING

2. I suggest you start yourself on those lines. There should be no need for extensive discussion, but you will want to watch the following points:-

- (a) The size of the options. You have already decided on this, calling for a range of cuts of  $7\frac{1}{2}$  per cent next year,  $12\frac{1}{2}$  per cent in 1981-82 and  $17\frac{1}{2}$  per cent in 1982-83. No one need quibble at producing options on this

But see  
Ken Benoit's  
note at Flag C.



CONFIDENTIAL

scale, even though they may add up to more than will be needed. You might also - and this is a point not in the Chief Secretary's paper - urge that Ministers make it their personal business to produce realistic options, and not to come up with a list of items which it would be unthinkable to cut, in the hope of thus escaping scot-free. You could add that if the cuts proposed in opposition proved, on closer examination, not to be feasible, it is up to the Ministers concerned to produce alternatives. Past experience suggests the need for close political involvement in the preparation of the costed options, even though the detailed work at this stage is done bilaterally between Departmental officials and those of the Treasury.

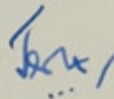
- (b) Exemptions. You will want to limit exemptions to those already set out in the paper and resist any suggestion that the list should be extended. The chart illustrates how thorough those two big exemptions increase the need for reductions in other programmes.
- (c) A moratorium on fresh commitments. Paragraph 11 of the Chief Secretary's paper asks for a clear decision not to pile up any further commitments pending completion of the Survey. An exception may have to be made for the Social Security uprating - see my separate brief on this. Otherwise you will want to record a very clear Cabinet decision that there should be no further pre-emption of the decisions which were to be taken in the later summer.
- (d) Local authorities. As the Chief Secretary suggests (paragraph 12) you will want to call Mr. Heseltine to speak on this point. But there should be no difficulty in getting agreement in principle on the line proposed. You may want to ask Mr. Heseltine and Mr. Biffen to keep you informed of the progress of talks with the local authorities. There will have to be parallel talks in Scotland and Wales.
- (e) Nationalised industries. Again there should be no difficulty in agreeing to Commission a separate parallel report on nationalised industries. The control total here is their borrowing, rather than (as under the previous Conservative Government) their capital expenditure. This allows for consideration of reduction in the level of service and of price increases as a further option, as well as straight cuts in investment.

CONFIDENTIAL

- (f) Sale of assets. Work is already in hand. But you might ask that at least an interim report should be available to Cabinet at the same time as the Public Expenditure Survey comes forward.
- (g) Timing. The Treasury aim to bring the whole thing back to Cabinet before the end of July. You can decide then whether to take final decisions; or whether as has been customary recently to reach a broad political view of priorities and commission further work to be completed during the summer, leading to final decisions in the autumn. In one sense there will be no immediate hurry, since the Budget will by then be out of the way. But I suspect that you will want to maintain the momentum and to reach final decisions which can be announced, say, before the Party Conference.

Conclusions

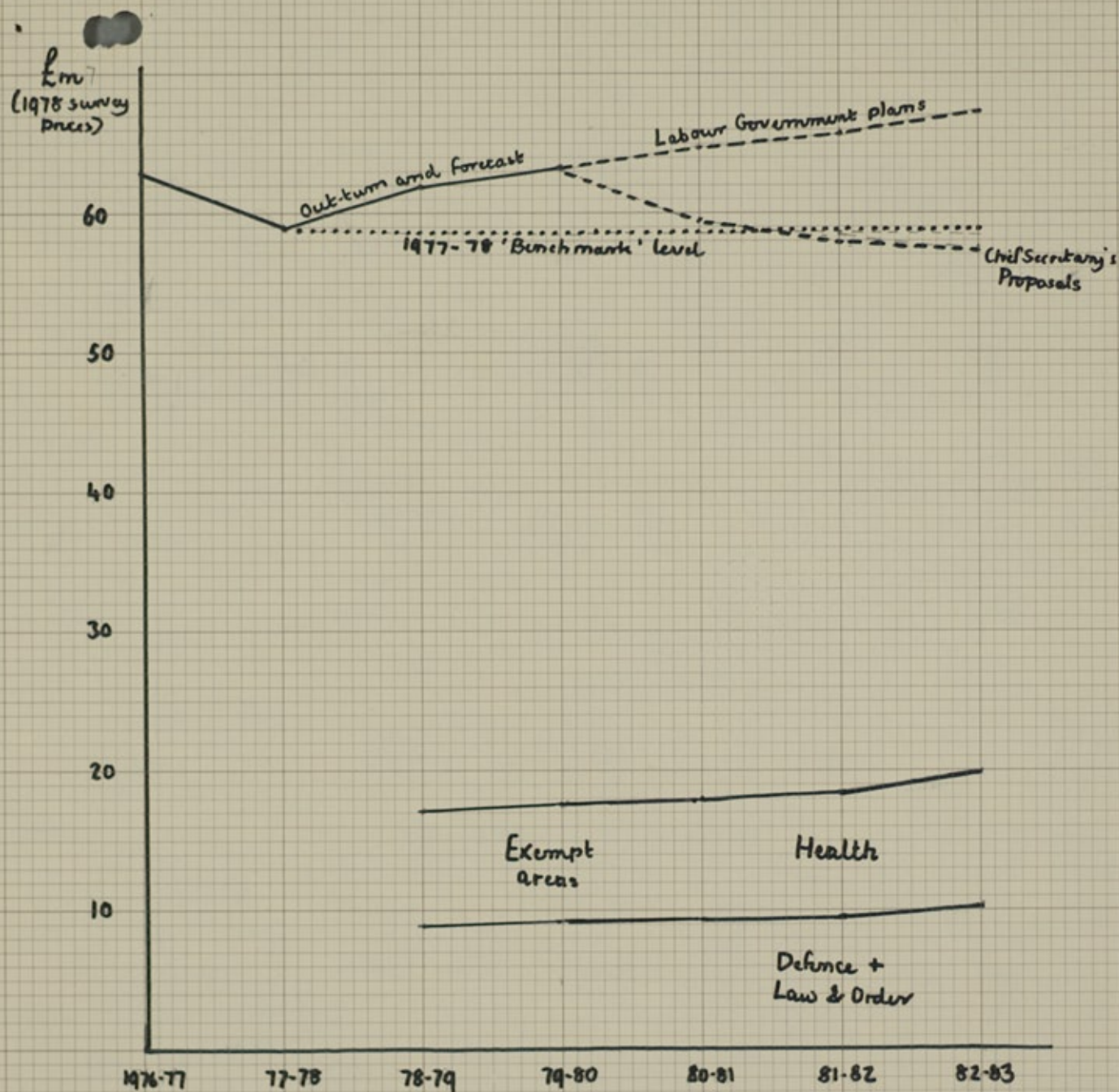
3. Subject to the discussion, you should be able to record complete endorsement of the proposals in the Chief Secretary's paper, with any additions you may want to make yourself about the need for political commitment to the exercise.



(John Hunt)

23rd May, 1979





The top line shows the planned totals set out in Cmd. 7439

The dotted line shows the 'target' level reached in 1977-78

The broken line shows the level which would be reached if all the Chief Secretary's 'options' could be secured.

The bottom two lines indicate how far the exemptions limit the scope for cuts.





CONFIDENTIAL

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

23 May 1979

*John Biffen*

PUBLIC EXPENDITURE 1979/80

Thank you for your letter of 21 May.

*B. 24/5*

I am content to find reductions in expenditure amounting to £450m as you propose, above the cash limit savings. I understand that £20m of this reduction will be found by the Welsh Office as it relates also to their programmes.

The £430m therefore will be found as follows:-

Community Land	£50m
Urban Programme	£7m
Water authorities (England)	£55m
PSA	£25m
	<hr/>
	£137m

The remaining £313m will be found from the Housing Programme, which will find the £140m necessary cash limit savings. My officials will be in touch with yours to spell out the precise details.

In the time available it has not been possible to make precise judgements but if the expected savings do not materialise in one or more of my programmes to match the reductions sought, I shall ensure that compensating savings are made elsewhere.

I am copying this letter to the Prime Minister, to other members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

*you even*  
*all 1*  
MICHAEL HESELTINE

The Rt Hon John Biffen MP

24 MAY 1979



CONFIDENTIAL



PRIME MINISTER

REVIEW OF EXPENDITURE PROGRAMMES (C(79) 10 & 11)

1. As I do not wish to distract Cabinet discussion tomorrow from the essentials, I thought it right to let you know in advance of my apprehensions concerning the projected public expenditure cuts in so far as they affect Northern Ireland.

2. It goes without saying that I am totally committed to our philosophy in this matter, and in particular to the crucial need for substantial and early reduction in public expenditure to make room for our other requirements. But I would like to emphasise from the start that:-

- (a) The Cabinet should not accept as sacrosanct the Northern Ireland figures in C(79)10. These arithmetical pro-rata calculations were never discussed at shadow ministerial level.
- (b) For Northern Ireland, law and order (which is to be excepted from the options exercise) is a dominant factor. All the Northern Ireland programmes have a critical effect on unemployment levels in the Province (which are twice the UK average). High unemployment has obvious security implications.

3. I hope therefore that the Cabinet will recognise that these special Northern Ireland dimensions should be taken fully into account in the options exercise proposed in C(79) 11 and in the Ministerial decisions on the detailed cuts to be made.

4. I am copying this minute to the Chancellor of the Exchequer and the Chief Secretary, Treasury and to Sir John Hunt.

*Humphrey Atkins*

H A

23 May 1979

RE

CONFIDENTIAL





Prime Minister

R

23/5

PRIME MINISTER

## REVIEW OF EXPENDITURE PROGRAMMES

Flag B

I have seen your Private Secretary's letter of 21 May containing your suggestion that the options requested in my proposed paper to Cabinet concerning the medium term review of expenditure programmes should be sufficient over the Survey period to bring public expenditure back to the 1977-78 level, with a further margin to allow Ministers some area of choice.

2. I have amended the paper in accordance with your wishes, and am now circulating both it and the companion paper.

3. The percentage in my original draft was a minimum. This identification of options by departments is in any case only the first stage of the process. I am sure that we shall need to add to them. I did not propose to ask initially for such large mandatory options as you envisage on the tactical ground that the request may provoke a substantive argument in Cabinet about the extent to which acceptable, or practicable, reductions of this order can be identified by some of the departments concerned. I hope we can avoid argument of substance at this preliminary stage, not only because in the next week or two we all want to concentrate on the quick cuts for the Budget, but also because the substantive discussion ought to be related to a factual base, which the Survey now being commissioned will provide.

4. May I suggest therefore that when we take the paper at Cabinet, you discourage argument at this stage about the applicability of the figures to different departments and programmes. Ministers are

not being asked now to commit themselves now but to identify options for substantive discussion later. We must resist pressure for exceptions to the study of options, apart from those already proposed concerning defence, law and order, and to some extent health. We must watch also that these exceptions are not interpreted so generously that they shift too much of the burden of cuts onto other programmes and change the pattern of expenditure more than we intended.

5. I am copying this minute to Sir John Hunt.

WJB

JOHN BIFFEN  
23rd May 1979

25 MAY 1979





CONFIDENTIAL

Econ P21



Minister of  
Transport

Department of Transport  
2 Marsham Street London SW1P 3EB  
Telephone 01-212 3434

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

2 PPS  
23 May 1979

12 275

John Biffen

You copied me your letter of 21 May to Michael Heseltine about reductions in 1979-80. I am prepared to accept the increased reduction you propose for my programme.

I will let you know a little later how I would propose to divide the figure between British Rail and roads.

I am copying this letter to the Prime Minister, to other members of the Cabinet, and to Sir John Hunt.

Yours  
Norman

NORMAN FOWLER

CONFIDENTIAL

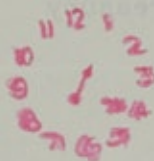
CONFIDENTIAL

Department of Transport  
2 Marsham Street London SW1P 3SF  
Telephone 01-534 3111



Minister of Transport

23 MAY 1979



23 May 1979

The Rt Hon John Biffen MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

You replied to my letter of 21 May to Michael Heseltine about reductions in 1979-80. I am prepared to accept the increased reduction you propose for my programme. I will let you know a little later how I would propose to divide the figure between British Rail and roads. I am copying this letter to the Prime Minister, to other members of the Cabinet, and to Sir John West.

NORMAN BOWLER

CONFIDENTIAL

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

23 May 1979

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London SW1P 3EB

*MBM*

*12*

*2375*

*Dear Michael,*

#### PUBLIC EXPENDITURE

You wrote to Geoffrey Howe on 18 May suggesting that the public expenditure cuts in 1979-80 might be achieved by a fixed percentage reduction in all programmes.

The policy on cash limits agreed by Cabinet, including the cut in the rate support grant, will produce a generalised squeeze on the areas concerned of the sort you propose. But I do not think that we can take this general approach too far. As was pointed out in the Cabinet discussion, and as Mark Carlisle has repeated in a subsequent letter, we have to take account of the different circumstances affecting the various programmes.

First, we have to have regard to the Manifesto commitments, notably on defence and law and order. Second, the practicability of cuts differs between programmes. For example, the demand-determined programmes such as social security offer little scope for cuts, particularly in the short-term.

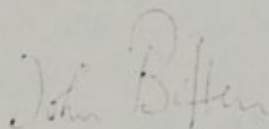
The allocation which I proposed in my letter of 21 May attempts to take account of the factors I have mentioned above. I hope you will accept it. The proposed cuts are proportionately largest for the industrial and employment programmes, followed by the housing programme: this is not out of line with the distribution which the work we did in Opposition would lead us to expect.



CONFIDENTIAL

Your letter also raised the question of the distribution of the cuts between central and local governments. This will depend on how Ministers decide to allocate cuts within their areas of responsibility. However, setting aside defence, law and order and social security for the reasons I have given and on the basis of my own suggestions about the areas in which the savings might be achieved, I estimate that the allocation in my letter of 21 May is likely to represent around 3 per cent of planned programmes for both central and local government.

I am copying this letter to other members of the Cabinet and to Sir John Hunt.

A handwritten signature in cursive script, appearing to read "John Biffen".

JOHN BIFFEN

11/21  
2 3 4 5 6 7 8 9 10

23 MAY 1979

CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

21 May 1979

Review of Public Expenditure Programmes  
1980/81 to 1983/84

The Prime Minister has considered the Chief Secretary's minute of 21 May and the two draft papers accompanying it which he intends to circulate for Cabinet on Thursday.

The Prime Minister has commented on the options formula set out in paragraph 6 of the main paper. She has asked that the percentage figure should be at least large enough to show total public expenditure savings which would get public expenditure back to the 1977/78 level. I understand that this would mean substituting the figure of 15% for the figure of 5% in the draft.

But the figure of 15% would only achieve the 1977/78 objective if all the options put forward by Ministers were accepted. The Prime Minister thinks that, in order to give Ministers some choices to look at, it would be wise to have a somewhat higher figure; and she has herself suggested that it should be 17½%.

It would be helpful if the paper could spell out the basis on which the revised formula has been calculated.

Subject to the above revisions, the Prime Minister is content for the two papers to be circulated to Cabinet.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

I. P. LANKESTER

A.C. Pirie, Esq.,  
H.M. Treasury.

CONFIDENTIAL



cc: Mr. Stowe  
Mr. Wolfson  
Mr. Hoskyn

PRIME MINISTER

Public Expenditure

Attached are two papers which the Chief Secretary wishes to circulate for Thursday's Cabinet.

There are three points on the main paper (Flag A) which I think you may want to consider:

i. There is no discussion of what should be the overall level of public expenditure cuts, and no decision is asked for on what should be the cuts objective. There is merely a reference in paragraph 4 to the "broad objective stated in Opposition of bringing expenditure back to the 1977/78 level". Mr. Biffen, in his covering note, implies that it will not be possible to take a firm view of the total level of cuts until he has considered the options for individual programmes. There is certainly something in this approach. On the other hand, it might concentrate the minds of spending Ministers if Cabinet were to come to a firm view right away that public expenditure in 1982/83 is to be cut by some minimum figure.

ii. The formula in paragraph 6 for the putting forward of cuts options is not accompanied by any estimate of what this would produce if all the options were accepted. The Treasury tell me that it would in fact fall £2 billion short of meeting the objective of getting public expenditure back to 1977/78 levels. If we are to take the latter as our minimum objective, it seems to me that the formula is totally useless. It must surely at least produce enough to achieve

/that

that objective? The Treasury tell me that in order to reach that objective, the formula would have to read as follows:

"The options for each service should amount in each year to not less than the amount of the cuts identified in Opposition, or 15% of the relevant programme (if that is greater)".

The reason why there is such a big jump from 5% to 15% in the formula to achieve only £2 billion in further reductions is that defence, law and order are exempted, and health largely so. This would be in line with Manifesto commitments; but I wonder whether health should be exempted in the options exercise.

iii. The revised formula which I have given in (ii) above would allow public expenditure to be brought back to 1977/78 levels only if all the options were accepted. It might be better for Departments to put forward options which in aggregate would more than meet the objective; and then Ministers would at least have some choices to make.

PM said we  
~~But~~ or  
can't reduce  
the health spend

PM said  
go to  
17/2/79.

12

21 May 1979





PRIME MINISTER

*M. S.*

## REVIEW OF PUBLIC EXPENDITURE PROGRAMMES 1980-81 TO 1983-84

The first phase of our operation to cut public expenditure is now in hand, that is, the quick cuts for the current year 1979-80. The second phase is to go for more substantial cuts in future years.

2. This will conveniently be done in the context of the regular public expenditure survey, which has already started and which would be reported in the normal way in a few weeks time.
3. The action required now is to confirm that the survey is to go forward and to give some further guidelines for the preparatory work by officials on which our Cabinet discussions will in due course be based.
4. For this purpose I propose, if you agree, to circulate the attached two papers for Cabinet next Thursday, 24 May. They are, I hope, self explanatory. They do not require extensive discussion at this stage, but it will be helpful to circulate them to our colleagues and to record a collective decision to go forward on these lines; and a further reminder at Cabinet from you of the central importance of this operation would also be helpful.
5. When the factual and analytical material is reported, I will make my proposals for cuts. But I want at this stage to circulate the second paper to remind of the proposals developed when we were in opposition, as a first indication of the scale on which all concerned need to be thinking.





10734112002

21 MAY 1959

CONFIDENTIAL

6. I hope that you will agree that these papers can be taken by Cabinet next Thursday, so that the work goes forward without delay.

7. I am copying this minute and the two papers to Sir John Hunt.

W. J. B.

21 May 1979

CONFIDENTIAL

C(79)

21 May 1979

REVIEW OF EXPENDITURE PROGRAMMES

Memorandum by Chief Secretary, Treasury

Cabinet have already discussed expenditure cuts in 1979-80. We must next turn to the much more substantial cuts needed in the expenditure plans we inherited for later years in order to carry through our strategy of tax cuts, of monetary discipline, and of curbing waste.

2. The regular annual public expenditure survey can provide the framework for our decisions. This will come to Cabinet after the Budget. That will be the time for substantive discussions.

3. We need however to give instructions to officials now to provide the factual and analytical material which we shall need. I propose that we ask officials to report by the end of June on the following:

a) A description of the inherited programmes: objectives, amounts allocated under the previous plans, and what those allocations can be expected to achieve. In many cases we shall be changing the programmes, but we need the initial factual base.

b) Where those programmes can be cut. I ask my colleagues to instruct their departments to identify as options the widest possible range of reductions in expenditure which are realistic and feasible.

4. Much thought was given to this when we were in Opposition. I am circulating a separate paper summarising the outcome of those discussions (C(79) ). The cuts then agreed would not get us to the broad objective stated in Opposition of bringing expenditure back to the 1977-78 level. We need to go further.

5. The options identified under 3(b) should therefore include the items in mind when we were in Opposition but should not be limited to those.



6. To ensure that all services are properly scrutinised, I propose that the options for each service should amount in each year to not less than the amount of the cuts identified in Opposition, or 5 per cent of the relevant programme (if that is greater). Defence and law and order should be exceptions. Here we envisaged increases but the departments concerned should still be asked to effect the maximum economy in the use of resources before formulating proposals for new money. In health, where we said we did not intend to reduce spending, the maximum cuts should be identified within the Manifesto commitment.
7. For 1983-84, the year now being brought into the Survey for the first time, options identified should not be less than those for the previous year.
8. The volume savings resulting from our cash limits policy and other savings this year should be carried forward as a permanent contribution to the reductions we want. In parallel with the rest of the expenditure survey, the Civil Service Department will be separately examining the further savings needed in Civil Service departmental administration. As a general principle, we should be looking for cuts in current expenditure and not putting a disproportionate burden on capital.
9. We shall need a note of any unavoidable additional requirements. But these will make our task harder. They must be kept to a minimum, and generally limited to areas where we have a definite commitment. Even there any additions must be offset as far as possible by economies and eradication of waste. If net additions are considered inescapable, their timing must be related to resources and to what savings are being achieved elsewhere.
10. When officials have completed reports assembling the material over the whole field, I will bring to Cabinet, for discussion of substance, considered proposals based on but not necessarily limited to the options identified by officials.
11. Meanwhile we should avoid premature commitment to particular levels of expenditure beyond this year for individual services until we have surveyed the whole field and taken co-ordinated decisions.

Local authorities

12. Our approach to local authority spending should be on the same lines as for central government. The local authorities will expect to be consulted, and we do not want to cause unnecessary friction by ignoring them. The Secretary of State for the Environment will no doubt want to outline our general approach to the Consultative Council. The committees on individual programmes should then be asked to consider the scope for reductions on the lines proposed, and to report by the end of June.

13. The amount of detail given to these committees as to cuts we have in mind will need care. There will be some risk of leaks and misrepresentation. But we can make clear that these are options, not yet Ministerial decisions. We cannot allow the consultative machinery to block our own consideration of the full range of possibilities. But the best way to deal with the local authorities is to tell them our overall targets for reductions which concern them, and ask them to consider how best to achieve these.

Nationalised Industries

14. The nationalised industries will be the subject of a separate interdepartmental report based on the investment programmes and financing estimates recently submitted by the industries, including appropriate options for the individual industries. Here again the options need to be as wide as possible. The report should be available for Ministers to consider when we consider public expenditure generally.

Sale of assets

15. There should be a separate report on the scope for selling assets or shares, whether in the nationalised industries or elsewhere. The Financial Secretary has initiated work on some specific possibilities, but all departments should consider what they can contribute. The economic and monetary effects will vary.

16. Sales of assets are not a substitute for cuts in continuing programmes.

Conclusion

17. I invite the Cabinet to agree:-

- 1) We need to get the maximum possible cuts in expenditure programmes as a crucial element in our strategy;
- 2) Officials should be instructed to pursue the first stage of the public expenditure survey as indicated in this paper, and to report by the end of June;
- 3) The local authority aspect should be handled on the lines of paragraphs 12-13 above.

W.J.B.

Treasury Chambers  
Parliament Street  
London SW1

21 May 1979



CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

C(79)

21 May 1979

CABINET

---

REVIEW OF EXPENDITURE PROGRAMMES  
DURING PERIOD IN OPPOSITION

Note by the Chief Secretary, Treasury

---

Attached to this note is a list of reductions in expenditure for the years 1980-81 to 1982-83 which we discussed in Opposition.

2. For most of the large programmes (health, social security, housing and "other" local authority expenditure) the reductions shown reflect discussions earlier this year. For others reductions agreed in 1978 were broadly updated by Conservative Research Department in the light of the previous Government's last public expenditure White Paper (Cmnd 7439), published in January 1979.

3. The reductions shown are from the totals for each programme (including Scotland and Wales) in Cmnd 7439, and are at 1978 Survey prices, since this is the price basis on which they are recorded.

W.J.B.

Treasury Chambers  
Parliament Street  
London SW1

21 May 1979

# SUMMARY OF EXPENDITURE CHANGES

	(£million, 1978 Survey prices)			
	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	% cut from white paper levels
Overseas Aid and other overseas services	-57	-96	-130	6%
Agriculture, Fisheries, Food and Forestry	-40	-46	-46	6%
Trade	-2	-3	-3	3%
Industry	-210	-345	-523	39%
Energy	-12	-12	-22	9%
Employment	-425	-500	-565	38%
Roads and Transport	-210	-310	-375	15%
Health	-71	-100	-100	1%
Social Security	-2	-142	-282	2%
PSA	-130	-191	-252	excluding defence 11%
Housing	-1,163	-1,607	-2,096	38%
Education	-250	-400	-592	9%
Other LA	-494	-624	-754	excluding Administration 11%
Northern Ireland	-80	-120	-155	8%
	<u>-3146</u>	<u>-4496</u>	<u>-5895</u>	

In addition, once-for-all savings through sales of assets or issues of shares were envisaged for action as soon as possible, as follows (all figures in 1978 Survey prices):-

National Enterprise Board	(£50 million);
National Freight Corporation	(£40 million);
British National Oil Corporation	(£300 million);
British Airways	(£40 million);
British Gas	(£600 million).

(The discussions on British Gas were not completed before the Election.)

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Overseas Aid and other overseas services</u>				
Overseas Aid	-50	-75	-100	
Overseas representation, information and external relations	- 7	-21	- 30	
Total	-57	-96	-130	
<u>Agriculture, Fisheries, Food and Forestry</u>				
Administration	-26	-26	- 26	
Forestry	- 9	-10	-10	
ADAS charges	- 5	-10	- 10	
Total	-40	-46	- 46	
<u>Trade</u>				
Promotion of tourism	- 2	- 3	- 3	



£ million, 1978 Survey prices

Programme	Changes proposed on Cmd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Industry</u>				
Regional aid	-55	-110	-220	
SDA and WDA	-35	- 40	- 40	
General industrial R & D	-15	- 20	- 25	
NEB	-55	-110	-160	
Selective assistance	-30	- 30	- 28	
Future industrial support	-20	- 35	- 50	
Total	-210	-345	-523	
<u>Energy</u>				
Research (mainly nuclear)	- 12	- 12	- 22	
<u>Employment</u>	-425	-500	-565	
				End short-time-working scheme; review charges; review Health and Safety Commission and Executive; cut waste in Manpower Services Commission

£ million, 1978 Survey prices.

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Roads and Transport</u>				
Motorways	-30	-30	-30	
Local road maintenance	-20	-40	-45	
Subsidies and concessionary fares	-160	-240	-300	British Rail, bus, ferry, underground
Total	-210	-310	-375	
<u>Health</u>				
Prescription charges	- 55	- 55	- 55	Assuming prescription charges to be raised to 60p
Pay beds	- 16	- 30	- 30	Restoration of pay beds
Abolish Area Health Authorities	-	- 15	- 15	
Total	- 71	-100	-100	

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Social Security</u>				
Uprating	-100	-250	-400	Indexing long-term benefits to prices rather than to earnings
Unemployment benefit	-27	-27	-27	Increase the waiting period from 3 to 5 days
Sickness benefit (administration)	-25	-25	-25	Administrative saving from requiring employers to pay the first 4-6 weeks of sickness benefit
Offset by:-				
Christmas bonus	+100	+100	+100	
Disabled	+30	+30	+30	
Earnings rule	+20	+30	+40	Gradual abolition
Total	- 2	-142	-282	
<u>PSA</u> (including work done for all Departments)	-130	-191	-252	

A



Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Housing</u>				
Rent subsidies	-427	-712	-997	
Option Mortgages	-48	-48	-48	
Sale of homes net of associated lending	-118	-123	-175	
Housebuilding	-570	-724	-876	
Total	-1163	-1607	-2096	
<u>Education</u>				
Current expenditure on:-				
Primary schools			-180	)Expenditure per pupil to stay at present level, plus a further reduction in auxiliary staff
Secondary schools			-289	
Meals			- 90	
Transport			- 80	
Schools Council			- 3	
Assisted places scheme			+ 50	
Total	-250	-400	-592	Figures agreed for final year only

£ million, 1978 Survey prices

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Other LA expenditure</u>				
LA administration	-300	-400	-500	
Local charges	- 20	- 20	- 20	
Urban programme	- 80	-100	-120	
Sales of land and other assets	- 30	- 40	- 50	
Community Land Act	- 64	- 64	- 64	
Total	-494	-624	-754	
<u>Northern Ireland</u>				
Total	- 80	-120	-155	Never discussed at shadow Ministerial level - broad equivalent of above GB figures according to usual percentage of comparable programmes.

9

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

D A Edmonds Esq  
Private Secretary to the Secretary  
of State  
Department for the Environment  
2 Marsham Street  
London SW1P 3EB

21 May 1979

*Dear Private Secretary,*

PUBLIC EXPENDITURE 1979/80

I regret that a word was omitted from the sixth paragraph of the Chief Secretary's letter of 21 May to your Secretary of State. The second sentence of that paragraph should read as follows:-

"I recognise the limitations on cutting current expenditure in 1979/80 but such reductions are to be preferred to capital expenditure and, in general, to increases in charges".

I am copying this letter to Tim Lankester (No 10), to Private Secretaries to other members of the Cabinet and to the Minister of Transport, and to Martin Vile.

*Yours sincerely,  
Alistair Pirie*

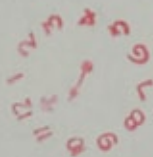
A C PIRIE  
Private Secretary

*Tim,*  
*I amended the original  
before putting to PM.  
Guthrie. 22/5.*

*R*



22 MAY 1979



cc Mr Whitson  
Mr Hoskyns  
Mr Pyke

CONFIDENTIAL



Prime Minister

To note - the Treasury's  
first shot at the  
public expenditure  
cuts agreed in

Treasury Chambers, Parliament Street, SW1P 3AG

Cabinet last  
week.

21 May 1979

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London SW1

PL

21/5

Dear Michael,

amb.

The Memorandum which I circulated to Cabinet on the scope for cuts in 1979/80 - C(79)4) - proposed reductions of £750-850 million (the proposals in the Annex plus proportionate cuts in the relevant services in Scotland and Northern Ireland). We agreed at Cabinet that the aim should be to find extra savings of £500-600 million and that I should formulate targets for reduction by each Department.

--- I attach an allocation. As pointed out in the Cabinet discussion we cannot tackle this by blanket percentage reductions: the need is to ensure that every Minister makes the maximum savings possible within his own programme. I have therefore started from the proposals in my Memorandum and in scaling them up I have taken account of our priorities and of what is likely to be practicable in the remainder of 1979-80. I indicate in the attachment some areas for reductions which I have had in mind but it will of course be acceptable if the Ministers concerned prefer to make equivalent or larger savings in other ways.

I hope that, in the light of Thursday's Cabinet decisions, you and our other colleagues will accept these reductions and, in consultation as necessary with the Secretaries of State for Scotland and Wales on the programmes covering Great Britain as a whole, let me know in broad terms how you propose to implement them in your respective areas of responsibility.

The measures proposed should be additional to those resulting from our agreed cash limits policy this year and, in the case of the nationalised industries and other bodies, to the proceeds of sales which are being discussed separately with the Ministers concerned. Similarly, the measures should be additional to the reductions in local authority current expenditure which we are seeking to get by reducing the cash limit on the Rate Support Grant.

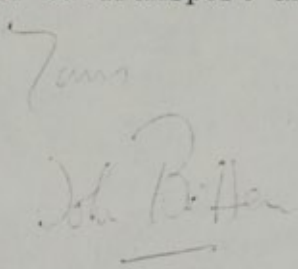
CONFIDENTIAL

I should be grateful to hear from you and the other colleagues concerned by 24 May so that I can report back to Cabinet in the following week.

There are two further points to which I draw your attention. I recognise the limitations on cutting <sup>current</sup> expenditure in 1979-80 but such reductions are to be preferred to capital expenditure and, in general, to increases in charges. Second, we must avoid choosing reductions in 1979-80 of a kind which will increase our problems in reducing expenditure in 1980-81 or later years. The importance of achieving sufficient reductions in the figures we have inherited for those years will be quite as great as for the current year.

If you or any other colleagues would like to discuss the means by which the reductions should be achieved, I would gladly arrange that.

I am copying this letter to the Prime Minister, to other members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

  
JOHN BIFFEN

PS. I will be replying separately to your letter to Geoffrey Howe of 18 May.



## CONFIDENTIAL

## PROPOSED REDUCTIONS IN EXPENDITURE 1979-80

	£ million in 1979 Survey prices
Secretary of State for the Environment	450
Very substantial reductions appear feasible through a combination of measures on the housing programme, plus halting further land purchases under the Community Land Scheme.	
Secretary of State for Industry	225
Action on NEB, regional support and the SDA and WDA as proposed in C(79)4: further action appears feasible on nationalised industries and/or assistance to industry.	
Secretary of State for Employment	160
Restriction of special employment measures as proposed in C(79)4 plus further reduction in MSC expenditure.	
Secretary of State for Energy	200
Restraint on BNOC and energy research plus further action on nationalised industries finance, mainly through pricing policies.	
Secretary of State for Education	60
Large proportion of programme is local authority current expenditure to be tackled through reduction in RSG cash limit, but savings should be possible on lines proposed in C(79)4 or by action on capital allocations or grants.	
Secretary of State for Social Services	80
Mainly prescription charges.	
Foreign and Commonwealth Secretary	50
Mainly aid.	
Minister of Transport	25
British Rail fares and possibly road construction	

£ million in 1979  
Survey prices

Secretary of State for Trade	5
Principally abolition of Price Commission	
Secretary of State for Scotland	75
Proportionate share of reductions in English programmes, plus parallel action on energy prices to that proposed in England.	
Secretary of State for Northern Ireland	35
Proportionate share of reductions in GB programmes	
	<hr/>
	1365

The reductions allocated to Scotland and Northern Ireland are calculated on the usual population proportion basis and assume:-

- (a) the amounts shown against Industry, Employment, Energy (apart from nationalised industries), Trade and Transport (apart from roads) cover Great Britain;
- (b) the remaining amounts (apart from the FCO) cover England and Wales only.

2.1 MAY 1979





CONFIDENTIAL



## DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

T Lankester Esq  
10 Downing Street  
LONDON SW1

21 May 1979

MBM

R2215

Dear Tim

My Secretary of State has seen Martin Hall's letter of 18 May to you about the announcement of public expenditure cuts by the Chancellor tomorrow and your reply of 21 May; and also Mr Heseltine's letter of the same date to the Chancellor about public expenditure.

Mr Carlisle is glad to see that the Prime Minister has decided against specifying the offset to the RSG cash limit in tomorrow's statement, for he was about to recommend this to her for the reasons that she has advanced. This line is reinforced by the fact that a settlement has this afternoon been concluded with the primary and secondary school teachers. Whatever figure is first announced, should therefore cover this settlement and not be left indeterminate for the future. Against this background it is clearly essential that there should be no specific reference to teachers in the Chancellor's statement tomorrow. It must be made clear that teachers are being treated in exactly the same way as all other groups.

On the distribution of the cuts in public expenditure in 1979-80, Mr Carlisle prefers the approach which he understands the Chief Secretary has in mind following Thursday's Cabinet, ie to set each Minister a target that takes full account of individual circumstances and the Government's priorities rather than to seek to impose an across the board percentage reduction.

CONFIDENTIAL

CONFIDENTIAL

I am sending copies of this letter to the Private Secretaries to the Lord President, the Secretaries of State for the Environment and Scotland, the Chief Secretary and to Martin Vile.

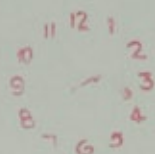
*Yours*

*P J Hunter*

P J HUNTER  
Private Secretary

CONFIDENTIAL

22 MAY 1979







10 DOWNING STREET

From the Private Secretary

21 May 1979

Don Martin.

ANNOUNCEMENT OF PUBLIC EXPENDITURE CUTS

The Prime Minister has seen your letter of 18 May in which you indicate that the Chancellor proposes to include in his speech tomorrow during the Debate on the Address a passage on public expenditure.

The Prime Minister agrees that the Chancellor should make some general remarks about the Government's approach to public expenditure, and that he should also announce the Government's intentions on cash limits in relation to central Government expenditure. However, she thinks that it would be unwise to announce that the RSG cash limit is to be reduced by at least £300 million before allowing any offset to the teachers' pay settlement. Her view is that if this figure is announced now, the amount of offset attaching in due course to the teacher's pay settlement will become known; and she thinks it would be best to avoid this.

I am sending a copy of this letter to the Private Secretaries to the Lord President, the Secretaries of State for the Environment, Education and Scotland, and to Martin Vile (Cabinet Office).

Don Martin.

Tim Lister.

Martin Hall, Esq.,  
HM Treasury.

CONFIDENTIAL

Prime Minister

de la lettre  
Mr. Dyer



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

I think this is  
probably right, even  
though we may have  
a teachers' settlement  
on Monday (see my  
separate note)  
Flag A  
Agree?

18 May, 1979

Des Tin

12  
18/5

#### ANNOUNCEMENT OF PUBLIC EXPENDITURE CUTS

Flag #13

The Chancellor wanted the Prime Minister to be aware of his most recent thinking on the presentation of some of the Cabinet's decisions on reductions in public expenditure, following discussions he has had last night and this morning with the Secretaries of State for Education and for the Environment. You will already have received from Mr. Carlisle's Private Secretary the text agreed between the Chancellor and the Secretary of State covering the Government's broad approach on RSG and pay settlements. There are however severe limitations on the progress likely to be made in the teachers pay negotiations in the absence of any clear statement of the Government's intentions regarding RSG. Furthermore, it will be difficult, and not at all useful, to try to sustain the position where the Lord President will have revealed to the Civil Service Staff Side the position of central government pay-related cash limits, whilst the Government will have made only qualitative statements about reductions in RSG.

The Chancellor therefore proposes, subject of course to the Prime Minister's views, to include in his speech during the Debate on the Address on Tuesday 22 May a passage on the following lines:

- (i) Some general remarks about the Government's approach to public expenditure.
- ✓ (ii) The Government's intention not to increase cash limits to take account of prices increases larger than originally provided for, and to increase the wage-related elements of central Government cash limits by 3 per cent less than would be needed to cover the Civil Service pay settlement in full.
- (iii) The intention to reduce RSG cash limit for 1979/80 by at least £300 million before allowing for any offset to the teachers pay settlement

Think this is  
unwise. It will  
result in increasing  
the amount allocated  
to teachers pay.  
mis.

CONFIDENTIAL



The Chancellor would say that the Government will also be making some specific expenditure cuts but he would give no details; that is for the Budget statement.

The Chancellor is not worried by this minor pre-emption of his Budget statement. In any event, it is virtually certain that details of these decisions will leak out after the Lord President has seen the Civil Service Staff Side, and Mr Heseltine has spoken to the local authority organisations. The Chancellor would present the reduction in RSG as the necessary consequence of two factors; the need for the local authority sector to carry a share of the Government's general reductions in public expenditure, and the Government's decision to to offset fully the level of pay settlements in this sector.

I am copying this letter to the Private Secretaries to the Lord President, the Secretaries of State for the Environment, Education and Scotland, and to Martin Vile.

*Yours wv,*

*Mt*

(MARTIN HALL)

*ms*





18 MAY 1979



CONFIDENTIAL

2  
2 MARSHAM STREET  
LONDON SW1P 3EB

My ref:

Your ref:

18 May 1979

Prime Minister

L. Belfry

To note

18/5

PUBLIC EXPENDITURE

I wish to reinforce my request to you at Cabinet and subsequently on Thursday.

We agreed, of course, at Cabinet yesterday, to the need to seek public expenditure savings substantially larger than those originally proposed and John Biffen is to report back to Cabinet on 31 May. I would be grateful if you could as a matter of urgency propose a target guideline for public expenditure reductions.

I would hope you could state this in the form of a fixed percentage reduction in all programmes. It would then be for each of our colleagues to demonstrate why any programme should be exempt. Some obviously will be but even here compensating reductions may be found elsewhere in Departments.

I find it very difficult to see how one can know without such guidelines either what scale of retrenchment is expected, or the target of public expenditure reductions required to meet your taxation reduction targets, or to know that the agony is being shared fairly throughout national and local government.

I am copying this to the Prime Minister and Cabinet colleagues, and to the Secretary to the Cabinet.

yes  
Mike  
MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe MP



18 May 1961





MINISTRY OF AGRICULTURE  
FISHERIES AND FOOD

As requested.

WITH COMPLIMENTS

WHITEHALL PLACE,  
LONDON. SW1A 2HH

8/21/5



cc: Mr Kuyk  
Mr Davies  
Mr EJG Smith  
Mr Grant - Action  
Mr Jupe  
Miss Lepper  
Mr Wilson

Treasury Chambers, Parliament Street, SW1P 3AG

17 May 1979

Minister of Agriculture  
Ministry of Agriculture  
Fisheries and Food  
Whitehall Place  
LONDON  
SW1

R  
1/6

In the proposals put forward by Treasury Ministers for cuts in public expenditure (C(79)4) we did not seek a major contribution from your department. We do, however, ask you to consider in this context what policy changes you could make to cover two items for which you are responsible. In each case expenditure in 1979-80 is expected to exceed existing provision and would otherwise give rise to a claim on the Contingency Reserve.

The more important item is expenditure on the Thames Barrier which is expected to exceed this year's provision of £14m. The other expenditure is on hill sheep allowances where the excess is £0.3m.

I hope you can find offsetting savings to cover these items.

Expenditure on the Thames Barrier is also expected to exceed existing provision in 1980-81 to 1982-83. We can, however, consider how to deal with this in the context of the Public Expenditure Survey.

I am sending a copy of this letter to Michael Heseltine.

NIGEL LAWSON

Mr. Wilson  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones  
Mr. J. P. Jones



UNITED STATES DEPARTMENT OF THE INTERIOR

17th May 1903

51  
50  
50

RECEIVED  
17th May 1903

*[Handwritten signature]*

The following is a list of the names of the persons who have been appointed to the various positions in the Department of the Interior, and who have been sworn in as such, and who are now in the service of the Department.

The following is a list of the names of the persons who have been appointed to the various positions in the Department of the Interior, and who have been sworn in as such, and who are now in the service of the Department.

The following is a list of the names of the persons who have been appointed to the various positions in the Department of the Interior, and who have been sworn in as such, and who are now in the service of the Department.

The following is a list of the names of the persons who have been appointed to the various positions in the Department of the Interior, and who have been sworn in as such, and who are now in the service of the Department.



51  
50  
50



SECRET

NOTE FOR THE RECORD

cc. Master set 2  
Budget: Econ Pol

The Prime Minister held a meeting with Treasury Ministers and senior Treasury officials at 1630 today. Attached is a list of those who were present.

The Prime Minister said that she was dissatisfied with the two papers - C(79)4 and 5 - which the Treasury had put forward for Cabinet on public expenditure. The Treasury approach, as set out in these papers, was not nearly tough enough. The Budget arithmetic would require substantially greater cuts than the Treasury had put forward if the twin objectives of getting the PSBR down and substantially reducing income tax without raising indirect taxes unduly were to be met. In her view, the Chancellor should be aiming to reduce the PSBR to £7.5 billion in 1979/80 - rather less than the £8 billion which he was apparently thinking of. As for indirect taxes, she was extremely perturbed at the prospect of having to increase VAT to 15%. This would mean a sudden jump in the RPI of at least 3%. The result could be catastrophic for the next pay round, and she would far rather find the necessary savings for the direct cuts by a smaller increase in indirect taxes and larger public expenditure cuts. Within the cuts proposed by the Treasury, too much involved increases in charges - which would also show up on the RPI. The Treasury's method of trying to obtain cuts also seemed unsatisfactory: instead of proposing cuts in specific items, which individual Ministers would be bound to argue against, it would have been better to have proposed overall amounts by which Departments would have to find cuts - leaving it to them to find cuts in particular items. The Prime Ministers said that she was sure that there was enormous waste in most departments. Although the proposed squeeze on cash limits would get rid of some of this, the broader approach to the cutting exercise which she would have preferred would have forced departments to look further at the waste problem.

/The Prime Minister

SECRET

SECRET

-2-

The Prime Minister went on to say that she thought the sale of assets could provide a significant contribution to getting the PSBR down - though it would only find favour with the markets if the rest of the Budget package was right. It would be necessary to press ahead with early legislation to achieve the desired sales. If it was not possible to provide for this in the Finance Bill, then consideration should be given to preparing an Omnibus Bill covering different types of assets which the Government intended to sell off.

More generally, the Prime Minister said that it was essential to get the overall strategy right from the start. This must involve large public expenditure cuts this year leading on to more substantial reductions in later years; a lower growth in the money supply (she would favour a new target for M3 in the range of 7 to 10% rather than 7 to 11% which the Chancellor was presently considering); and lower interest rates.

The following conclusions were reached on the conclusions in C(79)4, and it was agreed that the Prime Minister, the Chancellor and the Chief Secretary would try to get agreement in Cabinet on these lines:-

- (a) On i, if Ministers failed to agree the cuts proposed for their Departments in the annex, they should undertake to find cuts from within their programmes of at least equal amounts - and these should be positively identified.
- (b) The RSG should be reduced by £300m., not £200m.
- (c) On iii, the aim should be to raise at least £1,000m from selling assets.

/(d)

SECRET



SECRET

-3-

- (d) Conclusions iv and v on the Contingency Reserves should be accepted, but it should be made clearer what these meant - i.e. the Contingency Reserve will be cut, it will then be held, and the reduced figure will only be drawn against with the authority of Cabinet.
- (e) Ministers should be asked to find additional savings of £400m in 1979/80.

Likewise, the following conclusions were reached on C(79)5:-

- (a) Ministers should endorse conclusion i. - i.e. the published cash limits should not be adjusted to cover higher price increases. (Sir Anthony Rawlinson had said earlier that if VAT were not increased to 15%, then there might well be a case for reducing the published cash limits.)
- (b) On ii, there should be no automatic adjustment of the cash limits of the RSG to cover the Government share of local authority settlements. However, if the £300m<sup>cut</sup> in the RSG noted above were achieved, there would be a stronger case for upward adjustment on account of pay settlements (the Prime Minister made it clear that she was still not convinced that the Government should agree to increase the RSG to cover its share of the teachers' settlement).
- (c) Conclusion iii on the adjustment of the cash limit for universities and the National Health Service should be accepted.

/(d)

SECRET



SECRET

-4-

- (d) On iv, fringe bodies would have to be treated very strictly - and this meant at least following the cuts in staff costs which the Prime Minister proposed for the Civil Service.
- (e) The conclusion on the nationalised industries should be accepted.

Other Points

The Prime Minister said that she was not convinced there was so little scope for cutting the aid programme for 1979/80. She did not believe that so much was contractually committed as the Treasury paper implied. She asked that a paper should be prepared spelling out precisely the UK's existing aid commitments (*differentiating between earmarking and contractual commitments*).

The Prime Minister said that the paper by the Secretary of State for Employment on pay - <sup>c</sup>~~see~~ (79)6 - should not be taken in Cabinet tomorrow. The paper was thoroughly deficient on content, and it would be quite wrong for Cabinet to take it without an accompanying paper by the Treasury who were in the lead on pay. She suggested that the Treasury produce a paper which should then be taken - along with Mr. Prior's paper - in E Committee.

16 May 1979

cc Sir John Hunt  
Mr. Stowe  
Mr. Wolfson  
Mr. Ryder  
Mr. Hoskyns  
Mr. Cartledge

12.  
SECRET

SECRET

Prime Minister

Chancellor of the Exchequer

Chief Secretary

Financial Secretary

Minister of State (Mr. Rees)

Sir Douglas Wass

Sir Anthony Rawlinson

Sir Lawrence Airey

Mr. Ken Couzens

Sir Fred Atkinson

Sir John Hunt

Mr. Ken Stowe

Mr. David Wolfson

Mr. Tim Lankester

SECRET

*cf Civil Service*  
*May 79*

SECRET

Ref. A09570

PRIME MINISTER

Public Expenditure 1979-80: Cash Limits 1979-80 and  
Civil Service Manpower

*See Civil Service May 79* - The two Treasury papers - Public Expenditure: Scope for Cuts (C(79) 4) and Cash Limits (C(79) 5) - and the CSD paper on Civil Service Manpower (C(79) 7) represent essential building blocks for the Chancellor's Budget. For good order you will need to take them separately (and I am letting you have a brief on each) but they hang together and in some respects overlap. I do not know how far the Chancellor will be willing (or indeed at this stage able) to expose the broad arithmetic of his Budget. But it would no doubt help him, and focus the minds of Cabinet, if you felt able to give them a collective scene-setting introduction. This might take the following form:-

- (a) We have a dreadful inheritance. The previous Government budgeted for a 2 per cent increase in public expenditure this year in real terms and grossly underestimated, in their public expenditure plans, the prices they would have to pay for goods and the pay they would have to allow their employees. The built-in assumption for the price of goods was of an increase of  $8\frac{1}{2}$  per cent over last year - the RPI is already over 10 per cent up on a year ago and rising. Similarly they assumed that the earnings of their own employees would increase some 7 per cent over the year. The outcome is likely to be two or three times as much as this.
- (b) Moreover the last Government gave a good deal of currency to a public sector borrowing requirement this year of around  $\pounds 8\frac{1}{2}$  billion. Without action to increase the net yield of taxes and/or to cut public expenditure the outturn is likely to be a good deal higher than this. Thus the Chancellor will need to make up a good deal of ground simply to return to the previous Government's PSBR target on which confidence depends. The scope for cutting direct taxation therefore turns critically on making

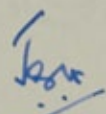


SECRET

bigger savings in public expenditure or bigger increases in indirect taxation than those needed to restore the last Government's PSBR objective, let alone to improve on it.

- (c) But our economic strategy depends critically on making a significant start in the reduction of direct taxation in this Budget. The Chancellor will therefore require all the help he can get from his colleagues in making immediate cuts in public expenditure. To the extent that these cuts are not forthcoming either indirect taxes will have to be increased further - with consequent upward pressure on the RPI - or the Government's ambitions for cuts in direct taxation will have to be restrained and our new strategy will be hamstrung before it starts.

2. If you felt like opening the discussion on these lines you could then invite the Chancellor to add any general comments. Thereafter you might take your colleagues successively through the three papers in the order: 1 public expenditure; 2 cash limits; 3 Civil Service manpower.

  
(John Hunt)

16th May, 1979

CONFIDENTIAL

PRIME MINISTER

Public Expenditure: Scope for Cuts  
(C(79) 4)

BACKGROUND

This paper by the Chief Secretary represents the first step in a longer term programme of cuts in public expenditure. Further proposals covering the arrangements for reviewing expenditure for 1980-83 will be before the Cabinet next week. And a full-scale review will take place after the Budget with a report back to Cabinet in the summer. The paper makes a mixture of proposals, some of which are for immediate decision and others for further discussion with spending Departments. Bilateral discussions are planned for next week and the Chief Secretary would then intend to bring his specific proposals for decision to Cabinet. Given the Budget timetable the most convenient date for a meeting of the Cabinet for this purpose is likely to be 31st May.

2. In addition to running through his own suggestions the Chief Secretary will put considerable emphasis on his proposal that Ministers in charge of spending Departments should consider urgently whether they can offer any further savings this year. He does not say how much he wants in further cuts but his present suggestions appear modest and of course it is by no means certain that Cabinet will adopt all of them. You may therefore feel that it would be worthwhile putting spending Ministers on their mettle by asking that all their suggestions for additional savings should be forwarded to the Chief Secretary by, say, Monday of next week with copies to you for information.

HANDLING

3. If you adopt my suggestion in the covering brief that you, and possibly the Chancellor, should make a scene-setting introduction to the three expenditure papers, you could probably tackle this paper by moving straight



CONFIDENTIAL

to the conclusions in paragraph 16 without further preliminary. The following check-list may be helpful:-

16(i) "The proposals listed in the Annex should be discussed with Ministers concerned, after which I should report back to Cabinet with my recommendations": You will want to establish at the outset that the specific proposals in the Annex are not a substitute for any squeeze arising from the operation of cash limits. They stand on their own. This said you will then want to run through the items in the Annex as follows:-

Annex, paragraph 1(a) Housing capital: You will want the views particularly of the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Wales and the Secretary of State for Northern Ireland. Unless they object in principle bilateral talks with the Treasury can go ahead after the meeting. The scope for savings is considerable.

Annex, paragraph 1(b) Local Authority Rents: The same Ministers are involved and may wish to speak. The Cabinet too may care to express a view on whether it prefers an increased rent guideline or a cut in the subsidy on "new capital costs element". The latter has the political merit of leaving specific decisions to local authorities.

Annex, paragraph 2(a) Prescription Charges: The Secretary of State for Social Services will wish to speak. The issue is highly charged politically and you may want to check on what, if anything, was said during the election campaign.

Annex, paragraph 2(b) Miscellaneous Health Charges: The Secretary of State for Social Services and the Chief Secretary should be asked what they have in mind - and perhaps to say why ophthalmic charges are to be excluded?



CONFIDENTIAL

Annex, paragraph 3(a) School Meal Charges: The schools meal service is very expensive - upwards of £400 million a year - and meals are heavily subsidised. Provided that the poorest children can be protected this proposal may be generally acceptable. You may also find it illuminative to ask about the current cost of providing subsidised or free meals to school teachers and other school helpers and to enquire into the justification for the present practice. Looking further ahead it could well prove that the school meals service is worth a close examination in terms of justification and value for money. It costs more than twice as much as the provision of books.

Annex, paragraph 3(b) Awards to 16-18 year olds: It is to be doubted whether any of your colleagues will wish to revive this proposal.

Annex, paragraph 4(a) Special Employment Measures: I understand the savings shown to be gross in that they do not take account of the increased Unemployment Benefit that would have to be paid if the Special Employment Measures were reduced or cut back. Cabinet will need an idea of the net savings.

Annex, paragraph 4(b) The MSC Programme: The same gross/net problem arises.

Annex, paragraph 5(a) The NEB: The Cabinet can be expected to look on the figure of savings here with some scepticism. However we understand that £50 million represents the uncommitted margin in the NEB's accounts. It implies a total moratorium on new investment and as such may be unrealistically high.

Annex, paragraph 5(b) Regional Support: Given that regional support is now running well in excess of £1 billion a year a £15 million saving looks very small. You will certainly want to ask what arrangements are being made to put in hand the

CONFIDENTIAL

"full review" referred to and when it is expected to be available. Even allowing for the need for a review colleagues may well question whether £15 million is all that can be expected this year. (The Department will argue that the time needed to process claims means that cuts in, say, Regional Development Grant would not show up as lower expenditure until next year.)

Annex, paragraph 5(c) Scottish and Welsh Development Agencies:

Again, £10 million looks small. Is it the best that can be done?

Annex, paragraph 6 Community Land Scheme: No problem.

Annex, paragraph 7 Aid: £20 million may be all, as the paper says, which can be found this year given existing commitments but a lot of attention will need to be concentrated on this area in the post-Budget expenditure review.

Annex, paragraph 8 British Rail Fares: This is the only suggestion in the Annex for raising nationalised industry prices above the level needed to keep within their cash limits. You will want to ask what prospects exist in other nationalised industries, e.g. gas and electricity, for a similar operation.

Annex, paragraph 9(a) BNOC: Colleagues will no doubt find this specific proposal acceptable. But as with nationalised industry prices under the previous item, the BNOC proposal is the only reference to nationalised industry capital spending. You will want to ask nationalised industry sponsor Ministers what opportunities may be open to them.

Annex, paragraph 9(b) Energy Research: Given the importance of developing our energy supplies, it looks a little odd to single out energy research for a moratorium on new contracts. Is this sensible in itself? And what scope exists for other savings in research expenditure by Government Departments as a whole?



CONFIDENTIAL

16(ii) "A reduction in the Rate Support Grant to Local Authorities of £200 million should be made on the lines proposed in paragraphs 7-9":

This proposal links across to the Cash Limits paper (C(79) 5, paragraph 16(ii)). The essence of the proposal is that the Government should give a blanket RSG cover for all local authority pay settlements affecting public expenditure this year and then make a single and specific deduction of £200 million (England and Wales) and £25 million (Scotland). This is a relatively simple and tidy procedure and avoids the complication of detailed negotiation on RSG for each and every pay settlement in the local authority field. Some of your colleagues may regret it for just this reason. On the other hand its simplicity has many attractions. The Chief Secretary might be asked to explain his proposal and the 'territorial' and education Ministers to comment. You might then seek to determine whether the Cabinet:-

- (a) is prepared to adopt the recommended course;
- (b) considers £225 million as an adequate offset. (It may be wholly out of scale - in the sense of being too small - in comparison with the savings being sought from central Government. The Chief Secretary could be asked to re-examine the number with this consideration in mind.)

16(iii) "There should be a detailed review of the scope for selling assets (paragraph 10) with the intention of raising some £750 to £1000 million in the current year": Strictly speaking the sale of assets is not equivalent in its monetary effects to a cut in public expenditure. But there is unlikely to be any other way in which the Budget arithmetic can be made to balance and it is unlikely that the monetary theorists or the markets will jib. To make the Budget figures come out right, sales must be for cash, not on extended credit terms.



CONFIDENTIAL

16(iv) "We should take a decision on the cut in the Contingency Reserve in the light of what we decide on the relevant Social Security proposals": The Social Security proposals concerned are not yet to hand and it may be that a final decision on the Contingency Reserve will have to be deferred until the Cabinet meeting on 31st May. There is no doubt that a cut in the reserve can represent a meaningful cut in public expenditure but only if later spending decisions can be held within the reduced total. The credibility of a cut in the reserve is therefore a question of outsiders' judgments on the Government's strength of purpose. The Chancellor can probably get away with it this year but the Government will need to win its spurs if a repeat performance is to succeed next year.

16(v) "The Contingency Reserve should be used as an operational instrument to ensure that any decisions to add to expenditure are contained within the planned total as proposed in paragraph 12": Paragraph 12 - with its proposal that major claims on the reserve, or other claims which Treasury Ministers are not themselves prepared to accept should be referred to the Cabinet for a decision reflects hard experience. It is a necessary part of the process of maintaining discipline on public expenditure and endorsement at this stage by the Cabinet, clearly recorded in the minutes, would be helpful in the future.

16(vi) "Ministers in charge of spending Departments should consider urgently whether they can offer any further savings in 1979-80": I have touched on this point earlier in this brief. The underlying reality is that spending Ministers are the best placed to know where their expenditures can be cut. But of course they all tend to operate their own private Contingency Reserve. You are more likely to get sensible offers from them at this early stage of the life of the Government than you will later on when they have become more identified with their Department and its clients. A strong push now could be rewarding.

CONFIDENTIAL

CONCLUSIONS

4. You will want to record specific conclusions on each of the individual recommendations in paragraph 16 of C(79) 4, together with a general steer on each of the separate items in the Annex to that paper. You will in addition wish to invite each of the Departmental Ministers concerned with the expenditures in the Annex to undertake urgent bilateral discussions with the Chief Secretary, Treasury, and to invite all Ministers to put proposals for further savings to the Chief Secretary by next Monday with their proposals copied to you for information.

*JH*

John Hunt

16th May 1979



CONFIDENTIAL

Ref. A09566

PRIME MINISTER

---

Cash Limits

(C(79) 5)

BACKGROUND

Cash limits are the keystone of your structure for controlling public expenditure but the limits you have inherited are outdated and based on self-evidently false assumptions about prices and pay movements. The Chancellor obviously needs new cash limits on which to base his Budget. And, self-evidently, to be effective those limits must be credible. In addition, therefore, to obtaining the decisions of your colleagues on the specific proposals in the Chief Secretary's paper you will want to ensure that Departmental Ministers are committed to, and fully accept, the impact of the decisions on their own programmes and are prepared to live with the consequences. It would be fatal for Ministers to take brave decisions now, only to run away from them later. This does not mean that there can be no flexibility later: no Government can afford to tie its hands absolutely for 12 months ahead. It does mean that Ministers with foreseeable problems had better identify them now because hereafter only the very strongest arguments can hope to prevail in making claims on what, on the Chancellor's proposals, will be a relatively small contingency fund.

HANDLING

2. You will want to ask the Chief Secretary, Treasury, to introduce his paper. Thereafter you may find it convenient to work through the specific conclusions in paragraph 16 of C(79) 5 which, for convenience, are set out, with comments, below:-

- (i) "We should not adjust the published cash limits to cover higher price increases": The Chief Secretary himself qualifies this conclusion in paragraph 4 of his paper where he suggests that for expenditure other than on pay "it should be possible to absorb a squeeze up to 4 or 5 per cent". The implication is that if prices go up by more than 12 or 13 per cent cash limits can be reopened. This qualification is worth recording in the minutes. On the specific proposal your colleagues will need to indicate:-



# CONFIDENTIAL

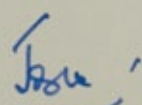
- 35 930 Mo.1  
1:3. paper.
- (a) Whether they are prepared to absorb a 4-5 per cent squeeze, if necessary, on their budgets (preferably on a "speak now or forever hold your peace" basis).
  - (b) Whether there are any specific exceptions which need to be noted for later consideration. The Ministry of Defence, among others, is likely to want to put up a marker here.
  - (c) Whether they are prepared to accept that this potential squeeze on their spending is quite separate and distinct from the specific cuts discussed on the previous paper (without clarity there could be endless arguments later).
- (ii) "We should be prepared to adjust the cash limits on the RSG to cover the Government's share of local authority settlements, noting that I am bringing forward in the context of the Budget a proposal for economies in local authority current expenditure and for cutting back proposed increase in the RSG accordingly": This particular proposal is important not least in the context of teachers' pay - and later of the pay settlement for local authority "white-collar workers". It has the merit of avoiding the RSG complications which would arise if the Government adopted a variety of different stances on individual local authority pay settlements this year as to the amount it was prepared to cover by RSG. In other words it greatly simplifies the RSG operation. On the other hand it would remove the possibility, to which some of your colleagues attached importance in the discussion on teachers' pay last Monday, of imposing direct cuts on the education budget as a counterpart to the teachers settlement.
- (iii) "We should adjust the cash limit on universities and the National Health Service on the basis notified to them by the previous Government": It is to be doubted whether any of your colleagues will seek to challenge this conclusion.
- (iv) "The cash limits on fringe bodies should be treated in the same way as those on Civil Service manpower, on which the Lord President is circulating proposals": Again no particular problems are likely to arise.

# CONFIDENTIAL

- (v) "We should tell the nationalised industries that we expect them to observe the published cash limits on their external financing requirements and will support them in taking the necessary action including price increases": It is here that the Chief Secretary's proposals may be criticised as a generalisation. The circumstances of individual nationalised industries vary very widely and, for some of them, their financing requirements in the coming year are very uncertain. Thus there are at least three nationalised industries - coal, steel and ship-building - where powerful arguments may be advanced in the course of the year for additional public finance based on longer-term calculations of the national interest, i.e. the need to preserve capacity through a slump in demand, or on calculation of the social and political acceptability of abrupt programmes of closures and reduced employment. Depending on how colleagues react it may be necessary to put up a marker here. At the same time some of your colleagues may object to the Chief Secretary's proposal that the nationalised industries should have carte blanche for price increases. These colleagues will argue that savings should come through increased efficiency. They may well be right but the complexity of the problems involved, and crude operational necessity, may mean that the Chief Secretary's course should be followed at least for the coming year.

## CONCLUSIONS

3. The conclusions reached by Cabinet on these issues will be of considerable operational importance for Departments and you will need to record as clear a statement of the Cabinet's view on each as is possible in the light of discussion.

  
JOHN HUNT

16th May, 1979



CHIEF SECRETARY

cc. / Chancellor of the Exchequer  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir D Wass  
Sir A Rawlinson  
Sir L Airey  
Sir F Atkinson  
Mr Couzens  
Mr Bailey  
Mr Anson  
Mr Butler  
Miss Brown  
Mr Unwin  
Mr Ridley  
GECS

# PROPOSALS ON PUBLIC EXPENDITURE

You asked for an aide-memoire for your meeting this afternoon with the Prime Minister setting out the figures on the proposals in your Cabinet paper on cuts and on cash limits.

2. In total the proposals add up as follows:

	£m (at 1979 survey prices)	
Cash limits squeeze of 4-5% on non-pay expenditure		
- central government (including higher VAT)	450	
- local authority capital expenditure	150	600
Cash limits squeeze on pay		
- 2½-4½ on civil service and fringe bodies	75-140	
- health service	25	100-165
Cut in rate support grant		200
Cuts in programmes (as in Annex to Cabinet paper plus £60m for Scotland and N. Ireland)		800
Cut in contingency reserve		300 →
Disposals		750-1000
TOTAL		2750-3065

TOTAL

J.A.I.

15/6

15/6



Some other figures:

a) Total planned public expenditure 1979-80 in Cmd 7439 at 1979 survey prices	£72,500m
Cuts as %	4%
b) Planned increase in total public expenditure 1978-79 to 1979-80	£ 1,400m
c) Non-pay element of central government cash limit (excluding RSG)	£11,300m
Squeeze as %	4%
d) Local authority capital expenditure covered by cash limits	£ 4,700m
Squeeze as %	3%
e) RSG cash limit, England and Wales, adjustment for higher pay	£ 8,000m
Cut as %	2½%
f) Cost of pay settlements on top of existing provision in cash limits	
- central government (including armed forces and assumed comparability awards)	£ 850m
- RSG	£ 300m
g) Pay bill	
- central government	£11,000m
Cut as % (after exceptions for armed forces, NHS staff in support of patients, and university teachers)	1-1½%
- local authorities	£10,000m
£200m cut as %	2%

SAR

S A ROBSON  
16 May 1979

CONFIDENTIAL

Top copy  
on Policy  
Econ Pol: May 79  
Strategy.

Ref. A09536

PRIME MINISTER

---

Pay and Cash Limits

In my introductory brief on this subject, I suggested that you might want to have a general discussion in Cabinet, for which purpose we could produce an "annotated agenda" for you to circulate to your colleagues. You agreed to this suggestion. We have therefore prepared the attached draft, which you may care to consider. If you approve this, or any amended version you prefer, it might then serve as the basis for a general discussion in Cabinet next week to precede discussion on related subjects (e.g. cash limits in 1979-80, the Standing Commission) which your colleagues will be bringing forward for decision. It may also be a useful background to subsequent discussion in the relevant Committees on particular cases.

JOHN HUNT

JOHN HUNT

11th May, 1979

CONFIDENTIAL

PAY AND CASH LIMITS

Memorandum by the Prime Minister

We face a series of decisions over the coming months on pay and related cash limit problems. It may help if we first have a more general discussion. This note is intended to focus such a discussion, not as a vehicle for decisions about individual cases.

The Private Sector

2. We aim to leave this to the companies and workers concerned. As the Manifesto put it, 'no one should or can protect them from the results of the agreements they make'. But:

- a. the attitude of both sides and particularly of management, will be influenced by our monetary policy and in the short term by the state of company liquidity (which is not particularly tight at present). We cannot yet forecast how companies will act in the next wage round. It will depend on the general situation at the time as well as on the circumstances of individual employers. But we can generate a climate through our policies and actions and through informed public debate. The case for enlightened self-interest in pay matters should not go by default. In this connection we will need to carry forward our Manifesto proposal for "more open and informed discussion of the Government's economic objectives". I return to this below.
- b. Our policy depends on 'striking a fair balance between the rights and duties of the trade union movement'. We are committed to three immediate changes in trade union law, after discussions with the unions. If this is to affect the 1979-80 pay round, the legislation must be introduced this summer. Can this be done? Are there other aspects of trade union reform which we should be considering on a contingent basis?



CONFIDENTIAL

c. We must withstand demands for Government funding from companies which run into difficulty by granting excessive pay increases. How best can we make this clear in advance - if possible before the first case hits us? And do we need a working definition of 'excessive'?

The Public Sector

3. Our policy is for pay bargaining in the public corporations to "be governed by what each can afford" and in central and local government to "take place within the limits of what the tax payer and rate payer can afford". However in our first year of office:-

a. We have inherited cash limits (set out in Cmnd 7515) which make insufficient allowance for the promises our predecessors made but which we have to honour. Frequently these promises relate to the 'catching-up' of pay in the public sector which follows inevitably from three years of rigid pay restraint. To this extent they represent a temporary rather than a permanent problem. Do we accept that we must act within the limits of the possible this year and consider each case on its merits and subject to our prior commitments?

b. The most important of these commitments relate to the armed forces and police where we have already taken our decisions which require expenditure going beyond the provision made by our predecessors.

c. During the election campaign we deliberately exempted certain parts of the public sector (eg the National Health Service) from major cuts. We must nevertheless seek vigorously for sensible economies.

4. Within this general framework we will need to consider several different categories of public sector cases:-

CONFIDENTIAL

a. Nationalised industries: The circumstances of individual public corporations vary widely and different considerations and issues arise on each. Thus the "public utility" corporations (electricity, water, gas and the Post Office) are able, within limits, to set their prices at whatever level is necessary to achieve profitability. Are we prepared to leave them this freedom? If so, what steps are open to us to impose other disciplines which will provide the necessary incentives for efficient operation? Then there are industries such as British Rail where it is unrealistic to expect their charges ever to cover their costs. Obviously cash limits impose a useful discipline but our decisions on BR financing will effectively set the limit of pay increases they can grant or the volume of services they can provide. The problem of unprofitable railways which nevertheless provide an essential service (eg for the London commuters) is common throughout the world. How far are we prepared to leave decisions of this kind to the Railway Board alone? The heavy basic industries, such as steel and shipbuilding, form yet another group. They face, in common with their overseas competitors, very depressed markets and are inevitably passing through an expensive phase of contraction. Here, too, we will need to strike the right balance between the long term and the short. Next, in a category of its own, comes the National Coal Board, which ought to be profitable - the rising price of oil benefits it as much as OPEC - and whose product is of considerable long-term importance to our energy supplies and the balance of payments, but which appears to be heading for serious deficits. Do we ask them to take the whole strain on prices, investment and pit closures? Or do we seek some intermediate position knowing that this will inevitably draw us into the industries' management decisions? Finally there are the mainly manufacturing public industries ranging from British Aerospace to British Leyland where our basic cash limits doctrine can probably be applied without very great difficulty. Ministers concerned must investigate the situation in the industries and corporations for which they are responsible. Our basic aim should be to minimise the outflow of central Government funds to the nationalised industries and, where appropriate, to maximise the inflow.



CONFIDENTIAL

b. Local Government: The last Government made various promises about pay and Rate Support Grant which will take expenditure this year beyond the published levels. We cannot go back on these and we have added our own promises on police pay. But many local authorities seem to have budgeted for quite large cash balances, and we should not accept that any further pay settlements should automatically attract RSG support. If necessary they can draw their balances down, or trim their services: and they must be made to take responsibility for the consequences of their decisions. Looking ahead, we may well want to trim the level of RSG support we offer for next and subsequent years in order to encourage the authorities to exercise restraint in their expenditure. We will also need to consider what other means are available to us to promote economy and efficiency in local government services, some of which are extravagant and wasteful.

c. The National Health Service: The Government finances virtually the whole cost of the NHS. The Health Authorities were told by the last Government that their cash limit would be increased to finance this year's pay settlements for nurses, NHS ancillaries and ambulancemen (and some other related groups): and we confirmed in the election campaign that it was not our intention to look for major cuts in NHS services. We need nevertheless to find ways of improving the cost-effectiveness of the NHS where we are likely shortly to face even bigger wage bills following the Report of the Doctors and Dentists Review Body.

d. Central Government: The main settlement for the non-industrial Civil Service, based on pay research, was reached just before the election. The existing cash limit covers only about one-third of the cost. A research-based settlement for the industrial Civil Service is due in July; it is likely to put further pressure on cash limits. Other settlements to come - for the Prison Officers and the TSRB grades - are likely to be of less significance in cash terms. None of us is fully satisfied with the operation of pay research, and we will need



to look at it again. But detailed improvements in the pay determination mechanism are not enough. We will need substantial savings to offset at least part of the cost. Of course the 'catching-up' element in present pay settlements poses a once for all problem this year of exceptional magnitude. Once we are back to a cycle of annual settlements the scale of our task will be reduced. Nevertheless, it is clear that we need a sustained and continuing effort to cut out waste, find more cost-effective means of carrying out our policies and a strong operation of priorities in Government expenditure. Departmental Ministers must give this effort the impetus it needs.

5. Comparability: We inherited a growing system for determining pay in the public services on the basis of comparability. For the non-industrial Civil Service the system has its origins in the Priestley Royal Commission of 1953-1955 and has evolved into a structured arrangement with the Pay Research Unit (PRU) to provide data; a Pay Research Unit Board (of which Sir Derek Rayner is Deputy Chairman) to provide independent supervision of the PRU's activities; and complex pay agreements between the Civil Service unions and management governing the pay negotiations which are based on the PRU evidence. Do colleagues agree that, whatever view we take on the subsequent spread of comparability beyond the non-industrial Civil Service, we should not overturn this structure: and that our efforts must be concentrated on improving it on the lines set out in our Manifesto?

6. Similarly would it be counter-productive to seek to change the three Review Bodies (Armed Forces, Doctors and Dentists and Top Salaries) which have existed for some time and which have gained a wide measure of acceptance? In the longer term we may need to consider some rationalisation but it is of great value to have authoritative and independent means for determining salaries in these areas - including of course the salaries of MPs and Ministers.

CONFIDENTIAL

7. Extending the comparability system through the Standing Commission on Pay Comparability is however a different matter. It can of course be argued that comparability provides a useful tool for determining the proper 'rate for the job' in the public services (not the trading corporations) and applying it by a means which minimises the possibility of industrial disputes. And clearly there are a number of groups - nurses for example - where independent assessment of pay is necessary and an experienced Standing Commission may have advantages for this purpose over ad hoc inquiries. The danger however is that like will not be compared with like and that a system, apparently fair, will in fact become an engine for inflation. We will need to consider our attitude to the Standing Commission separately on the basis of a paper which the Chancellor of the Exchequer is circulating.

8. The Bargaining Climate: Our counter-inflation policy rests heavily on the restoration of firm monetary policies, including cash limits, and on a new approach to trade union power. But we want to encourage responsible collective bargaining, and our Manifesto therefore provides for 'open and informed discussion of the Government's economic objectives ... so that there is wider understanding of the consequences of unrealistic bargaining and industrial action'. This will require a resumed dialogue with both sides of industry as well as in Parliament and more widely. In the case of the unions should we seek to hold them to the target they accepted jointly with the last Government of reducing inflation below 5 per cent by 1982? Or do we have a different approach?

Conclusion

9. We do not want to run an interventionist pay policy but we have general responsibilities for the health of the economy and specific responsibilities in the public sector. The main lines of our policies are already clear. We must now work to apply them in detail so as to achieve our common objective. I hope that the general discussion we are to have in Cabinet will help us all in this task.



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

PUBLIC EXPENDITURE

You know, of course, of the importance we attach to the need for effective action on the public expenditure front. I make no apology, therefore, for this early report on the seriousness of the situation.

2. To reduce the overall plans for public expenditure which we inherited from the previous Government is a critical element in our economic strategy, not just for the medium term but also for the present year. In the Budget on which I am now working we want to make a substantial move to reduce the burden of direct tax, and yet to maintain strict monetary control and to keep within tolerable bounds the burden to be carried by indirect tax.

3. We can get some help from disposal of assets, which I am having examined urgently, but there is no doubt that we must make some quick cuts in public expenditure. We inherited plans for an increase in public expenditure over last year of well over 2 per cent in real terms and substantially more in cash terms.

4. The Chief Secretary is circulating for Cabinet next Thursday papers with proposals for specific expenditure cuts in the current year and about cash limits. I hope that our colleagues, mindful of the general strategy on which we are all agreed, may in some cases be able to volunteer some further suggestions beyond those proposed by the Chief Secretary. But in the present year the

CONFIDENTIAL





scope is limited by the extent to which expenditure is already committed and by the fact that in many areas large cuts require a major review of policies and in some cases legislation.

---

5. My immediate concern is to prevent decisions which we are making, or may be contemplating, going in the opposite direction and thus making our problem worse. I am sure that it was right on merits to put up the pay of the Armed Forces and the police in line with our Manifesto commitment, but the extra cost in 1979-80 is around £300 million.

6. In other respects too the provision left by our predecessors in the Estimates for 1979-80 was inadequate. The Civil Service pay settlement will cost about an extra £300 million this year. The Lord President is examining how far this can be offset by economies, but a net increase in cost is still likely. In the NHS and the local authorities, the initial settlements are already substantial, and the comparability arrangements pose a further threat of unknown size. For example, in the National Health Service, if comparability for the nurses and ancillaries were to indicate an extra 10 per cent, of which half would be paid from August 1979, the cost of pay settlements this year could involve another £300 million.

7. Then there is social security. We shall need to decide shortly the final basis of this year's uprating; but the gross additional cost in this financial year of an uprating limited to the figures mentioned during the Election cannot be less than around £600 million.

8. It is essential that we should not aggravate the problem further by large additional increases even in those programmes to which we attach priority, for example of the kind envisaged in the Defence Secretary's minute of 9th May, on which I am minuting you separately. Everywhere the presumption must be that any new

CONFIDENTIAL



demands should be met by greater economy and efficiency, and by offsetting savings rather than by the provision of further money.

9. I am copying this minute to members of the Cabinet and to Sir John Hunt.

*Am. Bateson*

*Principal Private Secretary.*

GEOFFREY HOWE

11<sup>th</sup> May, 1979

(Approved by the Chancellor of the  
Exchequer and signed in his absence)

11 MAY 1979





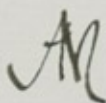
*Pm has seen.*

PRIME MINISTER

PUBLIC EXPENDITURE

I attach a note which I have prepared about the Public Expenditure Survey, which is of interest both to you and the Chancellor. It is, I suppose, a matter on which it would ideally have been appropriate for him to approach you directly. But given the pressure of events, it seemed to me wiser to let you have early sight of the idea.

I am also submitting the note to the Chancellor himself and to the Chief Secretary.

A handwritten signature in dark ink, appearing to be 'AR' or 'AdR', written in a cursive style.

ADAM RIDLEY

10 May 1979

## PUBLIC EXPENDITURE - DECISIONS MADE IN OPPOSITION

In our policy work in Opposition, we completed what were, in effect, several "shadow" Public Expenditure Surveys. The last full shadow survey was in 1978. By the time the election was called, we had completed two discussions with two Shadow Departments - Environment and Social Services. - We had also updated the 1978 decisions in line with the 1979 Public Expenditure White Paper for all other departments. Knowing that the records of these decisions would be of great importance in Government, we have been careful to bring them together systematically with a view to their possible use by the Treasury. All Ministerial Dossiers supplied by the Research Department to incoming Ministers should contain the documentation dealing with their departments. The question now arises as to how this material and the decisions embodied in it should best be used. There are two distinct exercises in which they could play a part.

The first is the search for economies in 1979/80. Because of the timing of the election, the Budget and expenditure decisions (which have to be made in a financial year that has already begun), the significance of decisions made before the election on economies in "year one" is somewhat uncertain. Some may be technically impossible (at least in full); others may require legislation which is not feasible; others still may not be politically desirable. Nonetheless, there are some useful agreed proposals on which early action could be taken, in time to provide some revenue for the Chancellor's first Budget.

The second use for this material would be in the Public Expenditure Survey which will be launched shortly. Although longer-term public expenditure plans will not be particularly a matter for Ministerial attention in the few weeks up to the Budget, the normal timetable requires a considerable amount of advance preparation at official level. The more thorough and comprehensive that work is, the easier the subsequent decisions will be. In this preliminary stage, the Treasury and departments are involved in what is essentially a factual enquiry. As I understand it, departments are asked to revalue "present policies" and to roll them forward a year; and to suggest the policy changes they would like to make if their expenditure plans were to be increased or decreased at the margin by some fairly small amount (eg plus or minus 2½%).



If the standard procedure were followed this year, it would, of course, provide no way in which decisions about expenditure made in Opposition could be incorporated in the Survey. Since the economies that have already been agreed are very substantial, particularly by years two and three, it would seem imprudent to abandon all this work and to start afresh.

The question therefore arises as to whether the first, factual stage of PESC could be modified to incorporate Opposition plans. Preliminary contacts with the Treasury suggest that there might, for example, be a way of doing it on the following lines. Departments could be asked three questions:

- (a) what are their estimates of the expenditure involved over the next five years in "present policies";
- (b) what are their estimates of the changes in expenditure implied by decisions made in Opposition; and if those decisions are unacceptable, what policy changes would they now suggest which would be better ways of raising the same revenue; and
- (c) what policy changes would they wish to make, over and above those agreed in Opposition, if they were to have to make further economies up to, say X% by the final year of the Survey.

If it were possible for the PESC exercise to provide Ministers with the answers to these three questions after the Budget, there might then be a firmer basis on which to make long run decisions about expenditure in the longer term. The chances of securing substantial longer run economies would be far greater.

It must, once again, be stressed that the procedure outlined above is only an illustration of one possible way ahead. But should the general principle be accepted, one thing is clear. The Prime Minister's support for the principles of the exercise would be vital. In particular, her explicit endorsement of the need to stick by past decisions [(b) above] would be essential when any Treasury proposals for the handling of PESC come before Cabinet, as they are likely to do in the near future.

*AR*

ADAM RIDLEY

10 May 1979



MR LANKESTER

I attach a note prepared by George Cardona comparing the proposals for public expenditure economies in 1979/80 put forward by the Treasury with those which were identified recently in Opposition as being possible this year.

This is not something to which the Prime Minister needs to turn her attention urgently, but she may find it of some interest in a day or two's time.

AR

ADAM RIDLEY

8 May 1979

## PUBLIC EXPENDITURE

### Reductions in 1979-80

1. This note comments on the options for reductions in 1979-80 prepared by the Treasury, and compares them with the reductions agreed on in Opposition. It is a preliminary "dirty look".
2. The Treasury's options for savings in 1979-80 (by means of policy changes rather than squeezes through cash limits) are almost all cuts in capital expenditure and increases in charges. This repeats the pattern of expenditure reductions under Labour and is something we have decided to avoid as far as we possibly can. The Treasury may be quite right in thinking that no cuts in current spending beyond those suggested by themselves are possible in the current financial year. But it would be helpful to have a documented argument against such cuts.
3. In some areas we assumed that it might be possible to make reductions in 1979-80 by reducing the cash limit on the RSG and the increase orders, in order to make local authorities cut current expenditure, or perhaps run down reserves so that they would be more susceptible to such pressure in subsequent years. It would be helpful to obtain the Treasury's view on this specific point.
4. The expenditure programmes for which the Treasury have prepared reductions are considered below. The programmes for which we plan reductions, but the Treasury do not, are listed next. Sales of assets are discussed last. Figures for Treasury cuts are in 1979 Survey prices; ours are in 1978 Survey prices. All savings are in 1979-80.

#### Health Services

5. Treasury cut: £35 million (increasing prescription charge from 20p to 50p)

We agreed: (i) Increase prescription charges to 60p.  
(ii) Restoring pay-beds might raise some small amount in 1979-80. (£5 million?).

/ Housing

### Housing

6. Treasury cuts:

- (i) Increase local authority rents: £25 million.
- (ii) Cut local authority housing capital spending by £300 million.

We agreed:

- (i) Increase local authority rents enough to save £142 million.
- (ii) We expected revenue of some £70 million from selling council homes. The Treasury appear to be sceptical about savings from this measure.

### Education

7. Treasury cuts:

- (i) Increase school meal charge by 10 pence (£20-25 million).
- (ii) Defer some building (£20 million).
- (iii) Savings on scheme for awards to 16-18s (£10 million).

We agreed: A reduction of £74 million, spread over meal charges and current expenditure in general.

### Local Authorities

8. Treasury cut: £10 million by increased charges (other than rents, meals, etc.)

We agreed the same figure.

### Employment services

9. Treasury cuts:

- (i) Early termination of 1979-80 temporary employment measures (£50-100 million).
- (ii) Restrict MSC special employment programmes (£25 million).

We agreed on these changes, but estimated greater savings.

/ Nationalised Industries



### Nationalised Industries

10. Treasury cut: Restrict BNOC's new commitments (£40 million).

We assumed (but did not discuss with the Industry team):

- (i) A reduction of £150 million in support for British Steel.
- (ii) A reduction of £30 million in support for British Shipbuilders.
- (iii) A far more radical approach to BNOC (see section below on Sale of Assets).

### Industrial Support

11. Treasury cuts: Stop NEB new acquisitions (£50 million).

We agreed:

- (i) A smaller saving on NEB; there may be problems of definition here.
- (ii) A cut of £20 million in Selective Assistance.
- (iii) £15 million off regional aid.
- (iv) £35 million off the SDA and WDA.

### Other Environmental Services

12. Treasury cut: £30-40 million by stopping operations of Community Land Act.

We agreed the same.

13. Our further reductions are listed below.

### Overseas Aid and Other Overseas Services

14. Aid: £20 million.

Overseas representation: £2 million.

Other external relations: £1 million.

### Agriculture, Fisheries, Forestry

15. Administrative costs: £10 million.

Forestry: £5 million (cutting purchases by Forestry Commission).

### Trade

16. Promotion of tourism: £1 million.

/ Transport

Transport

17. Motorway construction: £20 million.  
Subsidies (rail, bus, ferry, underground): £80 million.  
Concessionary fares: £5 million.

Northern Ireland

	<u>£ million</u>
18. Trade, industry and employment	15
Roads	2
Housing	30
Law and order	- 3 (An increase)
Education	5
Civil Service	<u>1</u>
Total:	<u>50</u>

Energy

19. Research: £6 million off.

Sales of Assets

20. The Treasury assume that only the following could easily be disposed of in 1979-80:

	<u>(£m)</u>
BP shares	500
BNOC assets	100
NEB holdings	100
Covent Garden Market Authority	14 (office block)
Suez Canal shares	<u>20-25</u>
about	<u>700-750</u>

They also offer the possibility of sales in British Airways, Cable and Wireless, British Airports Authority and British Aerospace.

21. We had assumed that the following could probably be sold in 1979-80:

/ (£m)

	(£m)
British Airways (49%)	100-150
NEB assets	40
National Freight	40
British Gas (say 50%)	600
BNOC (50%)	300
	<hr/>
	about 1,080-1,130
	<hr/>

We had envisaged a single Act empowering either the relevant Secretaries of State, or a new agency, to arrange rapid sales of shares. There may nevertheless be very good reasons why these sales could not take place in 1979-80, in which case we should wish to take up the Treasury's options.

22. BNOC presents special problems. The UK needs to retain adequate control of oil extracted from its continental shelf. There should be an assessment of the possibility of splitting BNOC into a concern that explores for, and extracts, oil (which concern could be sold in whole or in part) and a second concern that would retain the right to purchase oil.

#### Contingency reserve

23. The Treasury assume £300 m. could be cut from the Contingency reserve. This is in line with what we had assumed.

#### Cash limits

24. The squeeze on the volume of expenditure as a result of not increasing limits to cover higher price increases than those forecast will amount to between £200 m-350 m. in the case of Central Government, and local authority capital, expenditure. Higher than expected pay increases will also cause some squeeze in the volume of expenditure, but no clear estimate seems ready. We may presumably wish to squeeze even more than this by means of cash limits, but it would be useful to be given some idea of what such a squeeze might imply in practical terms.

/ 25. Some



25. Some increases in cash limits will of course be required, to offset the squeeze on defence and police. It appears that up to £380 m. will be required to offset the squeeze on defence. We may wish to go even further and allow for a volume increase in 1979-80. No estimate for the effect of the squeeze on law and order seems ready yet.

#### Conclusion

26. We should certainly wish to save as much as possible in 1979-80. This means preserving as many as possible of the cuts we agreed in Opposition (of which a more detailed account is available) and adding any additional savings the Treasury have suggested.

# END

Filmed at the National  
Archives (TNA) in London

February 2010