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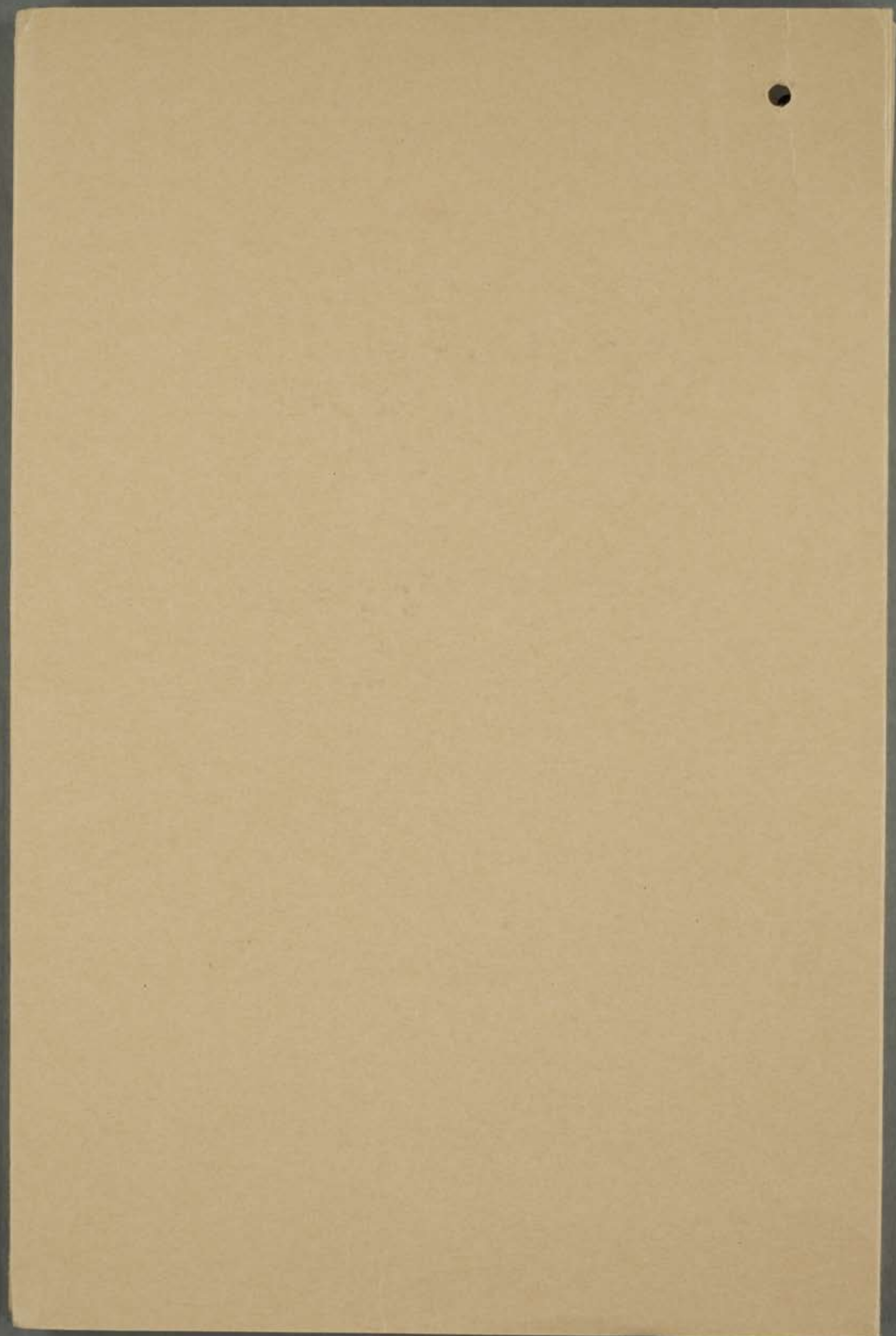
ECONOMIC POLICY

(Public Spending)

(Part 2)

5B
830

PREM 19/19



PART 3 begins:-

Ld. Pres to Pm 17/7/79

PART 2 ends:-

Hunt to Pm A09982 16/7/79

Cabinet / Cabinet Committee Documents

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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

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Plan for

Ref. A09982

PRIME MINISTER

1980-81 Cash Limits and Pay

(E(79) 23)

BACKGROUND

✓ This is the paper which you commissioned at the last E Committee discussion on pay - E(79) 4th Meeting on 9th July. You will remember that the discussion at the previous meeting concentrated on the difference between "Option A" and "Option B". The first involved, crudely, setting cash limits in advance and using them to influence pay negotiations. The second involved blurring cash limits, or adjusting them after the event, so that they followed rather than preceded pay negotiations. The second course did not exclude a search for offsetting savings, but meant that it could not be deployed in advance.

2. The paper is unsatisfactory in two respects. It does not provide the detailed examples for which the Committee asked, and it does not deal with the parallel and important question of nationalised industries (despite, if I may say so, a clear indication from the Cabinet Office that this was what Ministers would need). However, the whole operation has been very rushed, and internal differences within the Treasury, and between Treasury and other Ministers, has contributed to the delay. It is now very important that Ministers should give reasonably clear instructions, so that work can proceed during the summer on preparation of cash limits, notably because the RSG negotiations will be under way early in September. You will not, on present plans, have time for another discussion on pay in this Committee or in Cabinet before the Recess.

HANDLING

3. You will want to call on the Chancellor to introduce his paper, and then seek comments briefly from the Lord President, the Secretary of State for Industry (whose minute to you of 11th July is highly relevant), the Secretary of State for Education and Science, the Secretary of State for Social Services, the Secretary of State for the Environment and any other Ministers, including the Secretary of State for Employment, who may want to join in a general

Plan A

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discussion. But the Committee has already had its "Second Reading" debate of this problem, and you may want to keep such comments brief and return to these specific issues quickly. The paper is a difficult one to discuss, because it is divided both horizontally - between the different problems involved - and vertically - between the different services. I think the horizontal classification is the easier one on which to structure discussion. In that case, it falls into four parts:

A. Pay and Price Assumptions (paragraphs 4-10)

As the Committee recognised before, the main problem is how to avoid establishing an informal "norm", whose existence will rapidly become known to the unions. The problem is even more acute in the public services, which are all broadly similar, than in the nationalised industries, where there are differences in market conditions. The paper tries to deal with the argument that cash limits will derive from the Government's monetary objectives: but the argument is circular, as those objectives themselves are derived from a view of the future rate of inflation in the public sector next year, as the paper shows. Most of that is already predetermined, by existing commitments to bring in "comparability" awards by staging. The rest is an attempt to forecast the likely updating necessary - for example, in the Civil Service Pay Research settlement next April. And the choice for Ministers, crudely, is whether to accept the best forecast that can be made now of that update, or whether to seek to influence it. (This ties up with the separate paper on pay research.) I do not think that Ministers can take a final view on this until they see some costed examples, with the elements for existing commitments and for estimated "update" shown separately, which is why this paper is so unsatisfactory. It will therefore be important to ensure that the further paper which the Chancellor promises to bring forward in the autumn should deal with this in detail. At that stage, the choice will be between setting cash limits which overshoot the expected outturn, so as to avoid putting too much strain on the cash limits system, or cash limits which fall a little short of the

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expected outturn, so as to put pressure on the negotiators. It will be possible to blur the issues in other ways too - discussed below - but this will be the most difficult single decision.

B. Timing (paragraphs 11-15)

Another way of blurring the decision - i.e. operating cash limits flexibly - is to defer the setting of cash limits until a point one or two months into the pay round. The paper suggests leaving it till the New Year. (Past practice has involved leaving cash limits until February or March.)

Once again, the problem is that this course puts insufficient pressure on negotiators. For this purpose, the key negotiations are probably those for the local authority manuals and the NHS ancillaries and ambulancemen, both of which have a settlement date of November or December. In practice, negotiations often drag on a bit beyond this, but the negotiators need a clear lead from an earlier stage. Paragraphs 24-27 suggest that the cash limits for the Civil Service could be left even later, until preliminary results on pay research for the very large group of non-industrials who settle in April were available. But this too puts very little pressure on union negotiators. The RSG cannot be deferred in this way unless a different formula, like the proposed taper referred to under D below, is introduced.

C. Adapting the Coverage of Cash Limits (paragraphs 16-18)

The overriding principle has been, so far as possible, that cash limits should coincide with blocks of managerial or Ministerial responsibility. In this way the "programme manager" can shift resources around within his empire. But for most services, there are separate cash limits for pay: this partly reflects traditional Parliamentary requirements (now that cash limits are aligned with Parliamentary votes) and partly the separate controls exercised by the Treasury and the CSD. There is a lot to be said for amalgamating these: the Secretary of State for Defence, for example, already has in practice power to "vire" between one heading and another so that the defence budget is for practical purposes as a single cash limit. (Even then, he complains that the squeeze on his

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budget, and the relative flexibility of his manpower, is such that the whole strain falls on hardware: but he probably exaggerates this.) The alternative (canvassed in paragraph 27) is to create a single horizontal cash limit for all Civil Service manpower: this reflects the realities of the negotiating system, whereby CSD negotiate on behalf of all Departments, but it separates cash limits from Ministerial responsibility for individual programmes. If the CSD were responsible for administering a single cash limit block, and then squeezed it to make room for "excessive" central pay settlements, there would be endless rows with individual spending Ministers about the way in which their individual bits of the central cash block should be trimmed to fit the new total. On balance, the present system seems best.

D. Offsets

This is the most important and the weakest part of the paper. The whole point of the "Option A" approach is to set cash limits in advance, and then to seek offsets for any pay settlement which exceeds the provision made. Only in this way can pressure be applied in the course of negotiations: vague and unspecified threats, such as Ministers have had to use this year, are much less satisfactory. But to be credible, these offsets have got to be worked out in advance and deployed during the negotiations. That in turn means that they probably have to be agreed by Ministers in advance: it is no use coming back to the Cabinet and complaining, after the event, that there is no prospect of squeezing (say) the social security cash block to accommodate the extra cost of the settlement for Civil Service clerical staff, a very high proportion of whom work in social security offices. Thus, the "manpower contingency plans" referred to in paragraph 28 would need to be worked out and approved beforehand. The alternatives, of recourse to a very small contingency reserve already under strain, or of cuts in other non-pay bits of public expenditure, are equally implausible unless worked out in advance and deployed in negotiations. (This is the line which the Secretary of State for Industry has consistently been taking, and has a lot of force.) If that fails, and if the Government is determined

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not to increase net borrowing, then the only alternative is further taxation. If this indeed were the solution, there would be a lot to be said for tying specific tax increases to specific pay settlements: for example, the National Health element of the insurance stamp could be increased to cover the cost of NHS pay settlement. Or an increase in indirect taxes or even in VAT could be quite specifically related to the next Civil Service pay settlement. This would serve to demonstrate the last Government's maxim that "one man's pay rise is another man's price rise". Another device, suggested in paragraphs 33 and 34, could be to introduce a "tapering" RSG formula. This proposal, new in its present form, has a lot of appeal, and comes close to your own view that it may be necessary to take powers directly to control rates. It thus has applications in other areas in the immediate problem of pay. It would therefore be useful for the Committee to have a detailed scheme worked out when it returns to this question: the scheme could also be brought into play when Cabinet returns to the public expenditure discussions in the autumn.

4. The paper says nothing about nationalised industries, and I think you will need to take that as a separate item of the agenda. I am submitting a separate brief accordingly.

5. Whatever the decision, you will want to recall the Manifesto commitment "in consultation with the unions, we will reconcile these [i.e. pay research etc.] with the cash limits used to control public expenditure" (page 12). In context, this went much wider than central government, and included local government, health and education. You will want to return to this question, and decide how to handle this commitment, at the next discussion of pay. If there is to be time for consultation, this will have to be fairly soon after the summer holidays.

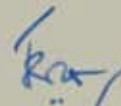
CONCLUSIONS

6. I think you might aim to record three conclusions from this discussion, which will be sufficient to hold the position during the summer months:

- (i) To endorse Option A of the Chancellor's earlier paper E(79) 15, with some of the modifications described in the present paper E(79) 23.

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- (ii) To invite the Chancellor to produce proposals for cash limits for central government, NHS, and, in consultation with the Secretary of State for the Environment, local authority RSG, for the Committee's consideration in September.
- (iii) To invite the Sub-Committee on Economic Affairs (E(EA)), in considering pay settlements in the remainder of the 1978-79 pay round, to seek off-setting savings wherever this is necessary to avoid exceeding the present cash limits, but to apply this policy flexibly and not specifically to seek offsetting savings in 1980-81 until the Committee has resumed its discussion in September.



JOHN HUNT

16th July, 1979



12

Treasury Chambers, Parliament Street, SW1P 3AG

17/5

Rt Hon David Howell MP
Secretary of State
Department of Energy
Thames House South
Millbank
London SW1P 4QJ

16 July 1979

Dear David!

NPC CONTRACT FOR CDFR DESIGN AND PROJECT ENGINEERING

Thank you for your letter of 5 July seeking approval for a 2 year extension to the end of the next financial year for the contracts for design and project engineering work on the fast reactor which the UK Atomic Energy Authority places with the Nuclear Power Company on behalf of your Department.

I am grateful to you for consulting me before entering into this expenditure commitment. I see the arguments that it is unsatisfactory to carry forward an advanced technology of this kind on such a short term basis and I accept that a 2 year contract is the best way to ensure value for money and to maintain the momentum of the research team. I also note from your letter your undertaking that the sums of money required for the contract (£4.8m in the remainder of 1979-80 and £7.7m in 1980-81) can be found from within the nuclear vote and within cash limits and would not be affected by option cuts.

However your reference to option cuts must, I think, have been written before you saw my Cabinet paper on "Public Expenditure, 1980-81 to 1983-84" (C(79)26) in which I have had to suggest a further general cut of 3 per cent on the majority of programmes, including yours, in addition to the options originally suggested. I therefore think that I need your further assurance that you could in fact achieve this higher level of cuts, if Cabinet agrees to it, even if the contract was extended to the end of the next financial year. Provided that you can assure me that you could achieve the cuts for your Department proposed in Annex A to my paper, I am prepared to agree to the extension to the end of 1980-81.

I am sending a copy of this letter to the Prime Minister and to Sir John Hunt.

John Biffen

JOHN BIFFEN



17 JUL 1973

Exempt from expenditure
SECRET

*Top Copy Economic Policy: May 79,
Pay Comparability + the future of
the Standing Commission*

12.

c.c. Mr. Whitmore
Mr. Wolfson
Miss Porter

NOTE FOR THE RECORD

Mr. Prior called on the Prime Minister at 1630 hours this afternoon, and made the following points:-

(i) Reappointment of Mr. Jim Mortimer as Chairman of ACAS.

Mr. Prior said that he had been unable to secure from Mr. Mortimer the letter on the future terms of reference for ACAS which he and the Prime Minister had hoped for; nonetheless, he still thought that Mr. Mortimer should be reappointed. The important point was that Mr. Mortimer accepted that ACAS should lose its "statutory recognition" function; and this was set out in a letter which Mr. Mortimer had sent him. The Prime Minister said she would like to see this letter before agreeing to the reappointment.

- (ii) Clegg. Mr. Prior reported that he had seen the Clegg Commission's recommendations on the first 5 references. These showed increases of less than 2% for the lowest grades, which was very encouraging; the overall increase (over and above the 9%) came to 12% because very large increases were recommended for higher grades. The Commission had not been able to make recommendations on over-manning - which the Prime Minister said was unfortunate. (Mr. Prior said that these figures were extremely sensitive, and should not be used.)

/ (iii)

(iii) Public sector industrial relations and management.

Mr. Prior said that he was becoming increasingly worried about the weakness of management in the public services, particularly in the Civil Service. Senior managers had not been supported by Ministers over the past 5 years, and there was considerable evidence of "infiltration". If the Prime Minister agreed, he would like to discuss the matter with Lord Soames. The Prime Minister assented

- (iv) Public expenditure. Mr. Prior said that he was very worried that the Treasury were aiming for excessive public expenditure cuts. In his view, the Treasury forecasts for the PSBR were too pessimistic. Other leading forecasters - particularly Mr. Bryan Reading's group - were forecasting a lower PSBR figure for 1980/81. It would be disastrous for industry if public expenditure was cut too much. The Prime Minister pointed out that the forecasters could be wrong in a downward direction as easily as in an upward direction, and she was sure the outside forecasts had been fully taken into account by the Chancellor. In any case, she did not accept the premise that public expenditure cuts would damage industry: industry would only recover if resources were freed from the public sector to the private sector.

12.

16 July, 1979.

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fu ✓
Erin Bl
c Cabinet etc
T Peter Mountford

10 DOWNING STREET

From the Private Secretary

12 July 1979

Dear Mr,

Cabinet agreed this morning that a small committee of Ministers should be established to discuss the major spending programmes with relevant Departmental Ministers with a view to reporting back to Cabinet next Thursday. The Prime Minister has directed that the committee should consist of the Chancellor of the Exchequer, the Chief Secretary, the Lord President and the Secretary of State for Trade. The committee will be serviced by the Cabinet Office.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, including the Minister of Transport, and to Sir John Hunt.

Yours etc.

Tim Lasker.

J.A. Chilcot, Esq.,
Home Office.

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State for Social Services
Department of Health and Social Security
Alexander Fleming House
Elephant & Castle
London SE1

11
12 July 1979

Dear Patrick,

D 1/7

PUBLIC EXPENDITURE PRESENTATION - TREATMENT OF CHILD BENEFIT

Many thanks for your letter of 3 July.

I am glad you are able to agree with me that we should treat child benefit, gross, as part of public expenditure. So far as your points of substance go, I would agree that while the statutory responsibility for reviewing child benefit rests with you, this is a matter with which we are associated, not only because of the factors relating to family support and the like to which you refer but also, more generally, because of the large sums of money involved. I can also agree with you that it is right that decisions on child benefit should be taken in the spring (along with decisions on the other main benefits) so that they can be taken into account in the Budget judgement, rather than taken in the normal round of public expenditure discussions. This means, as you say, that if our public expenditure plans are to reflect the possibility that over time there may be changes in the rate of child benefit this must be allowed for in our assessment of the size of the Contingency Reserve, rather than as a bid against Programme 12 in the normal PESC round.

As you will have seen from my paper for Cabinet on Thursday, I am in fact recommending that we do not accept your additional bid for 1980/81 for an uprating of child benefit in November 1980, but in my consideration of the size of the Contingency Reserve for that year I have taken into account the possibility that we may want to give such an uprating. It seems to me that this approach is wholly in line with what you say in your letter.

All in all, I do not think there is anything between us in this matter now.

I am copying this letter to the Prime Minister, Humphrey Atkins and Sir John Hunt.

John Biffen
JOHN BIFFEN

1971 JUL 10 PM 10



PRIME MINISTER

PAY INCREASES AND PUBLIC EXPENDITURE

I will ask John Hunt
for advice on this; you
might glance through as
further background to
public expenditure Cabinet,
though it does not bear
directly on the decisions which

I am increasingly concerned about soaring public expenditure on ^{it} ^{or} ^{asking} ^{for} ¹² ¹⁷ ¹⁷
pay. The Chancellor of the Exchequer's paper on "Public
Expenditure: the Economic Background" (C(79)27) has shown that
earnings in the public sector in 1980/81 are likely to be as
much as 18½% higher than in 1979/80 - largely as a result of
comparability awards - and that increases in pay are likely to
add enormously to the projected total of public expenditure. This
development leads me to think that we need to reconsider some
of the decisions we have taken in our attempts to restrain the
impact of pay increases on our public expenditure plans.

We have taken a series of decisions which we intended would impose
some discipline on pay negotiations in the public sector and
prevent the full cost of pay settlements feeding through into
public expenditure. These decisions have been largely ineffectual:

- a) we decided to reduce manpower expenditure in the civil
service by 3% in the current year but to allow cash
limits to be increased by the full amount of any pay
settlements that might be reached. The pay of non-
industrial civil servants has increased by 25%, the pay
of industrial civil servants seems set to increase by
about the same percentage (not all in this financial year)
and London Weighting may go up by between 18% and 48%,
but compensating economies are limited to the 3% figure,
which is out of all proportion to the expenditure
involved;



- b we have reduced our expenditure on the Rate Support Grant by £300 million in England and Wales and by £35 million in Scotland but, although we have said the size of the cuts will be reviewed in the light of pay settlements, we are apparently committed to meeting a large percentage of the cost of any award which the Clegg Commission may give to the local authority manuals and the local authorities themselves are making a string of expensive settlements for which we are committed to pay the lion's share;
- c we have (quite rightly in my view) increased cash limits to meet the cost of the pay settlements for the armed forces and the police but we have not considered whether manpower is deployed to best effect in either area and our decisions are being prayed in aid as a justification for other groups loosely connected with law and order to receive increases unmatched by offsetting economies;
- d we decided to reduce Health Service cash limits by £24 million but, although we have said this figure will be reviewed in the light of pay settlements, our action seems to have done nothing to stop proposals for pay increases being put forward without consideration being given to offsetting economies; and
- e we have not considered the expenditure implications of pay settlements in those few areas which are not cash



limited and the idea seems to be abroad that, if an item of expenditure is not subject to a cash limit, there is no objection to it being increased to accommodate pay increases.

Part of the problem may have arisen because, of necessity, we took decisions in haste before the budget. Another part of the problem may stem from a belief that we are in a transitional period between the old and the new ways and that all will be well when we introduce our new disciplines in the next financial year. The fact of the matter is that public expenditure on pay is soaring without real restraint, while the decisions on phased pay increases which have been taken, and which we are shortly about to take, have expenditure implications for the 1980/81 financial year and beyond. Although few major settlements are due before the end of the calendar year, the new pay round starts in August and will affect public expenditure in 1980/81. In my view it is critically important to ensure that from this moment on, all concerned with public sector pay negotiations understand that:

- a pay increases involve increases in public expenditure;
- b increases in public expenditure limit our scope for reducing the PSER and taxation; and
- c public expenditure should not ^{be} increased while there is realistic scope for offsetting the cost of pay settlements through manpower reductions or increased productivity.

I have attempted to deal with some of the symptoms of the problem by instructing the Secretaries to E(EA) that they should not

/circulate ...



circulate papers which do not identify the cost of proposed pay settlements, the effect on cash limits (if any), the scope for offsetting action to keep expenditure within cash limits (including price increases and reductions in manpower), and, where economies are not practicable, the cost of proposed pay increases in terms of tax or rate increases. The responses of my colleagues have varied but that is a matter I can pursue in E(EA) Committee. There are it seems more serious underlying problems which need discussion either in E Committee or Cabinet.

I suggest that we should consider the following points:

- a the desirability of reopening Cabinet's decision that this year's cash limits on Civil Service pay-related items should be reduced by only 3% before being increased to take account of pay increases to establish whether we can substitute a significantly larger percentage reduction in particular areas to offset the costs of particular settlements, for example the industrial civil service;
- b the need to review those few areas of public expenditure which involve pay costs but which are not cash limited to establish the scope for manpower economies to offset the cost of pay increases and to identify any changes which may be required in practices and procedures (or in legislation) to make it possible to achieve such economies;

/c ...



- c the need to review the decisions that the health authorities and the universities should bear only the first £24 million and 2% respectively of the cost of pay settlements over the provision in their respective cash limits to ascertain whether there is scope for further economies to offset the cost of pay settlements in the current financial year;
- d the need to bring home to the local authorities that any excessive settlements for their APTC grades and for other groups will be met by a further reduction in the Rate Support Grant over and above the £335 million we have cut so far;
- e the need to identify the extent to which decisions we have taken on Clegg awards etc. (and the decisions we are about to take on the industrial Civil Service) have committed us to extra expenditure next year and the nature of the economies needed next year to offset these costs;
- f the desirability of amending the Rate Support Grant arrangements for the next financial year so as to ensure that our contribution to local authority pay settlements is a fixed sum of money rather than a percentage of whatever extra expenditure the local authorities choose to commit themselves to;
- g the scope for dealing separately with local authority expenditures on pay and on bought in goods and services /and ...



and for fixing separate limits on our RSG contributions to each so as to force local authorities to consider offsetting pay increases by cuts in manpower rather than in services; and

- h the desirability of some reform in the Whitehall Committee machinery to ensure that those concerned with the administration of cash limits comment directly on proposals for pay increases and the scope for offsetting economies before papers are submitted to Departmental Ministers or to E(EA) Committee.

I realise that these proposals will not be popular with all our colleagues but something needs to be done if we are to achieve our overall objectives. Apart from point (h) which is a matter for you alone, I suggest that we need a discussion in E Committee which could recommend that Cabinet should reopen its decision on points (a) to (d) and that papers should be prepared on points (e) to (g) for discussion in E(EA) Committee.

I am copying this minute to members of E Committee and to Sir John Hunt.

KJ.

K J

11 July 1979



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

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

Secretary of State for Industry

The Rt Hon Lord Carrington KCMG MC 11 July 1979
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SW 1

Jan Perin

R 11

PUBLIC EXPENDITURE CUTS : THE AID PROGRAMME

I am grateful to John Nott for copying to me his letter of 3 July on apportioning the cut in the aid programme for 1979/80 and on the longer term re-orientation of the aid programme.

These are matters with significant industrial implications and I hope my Department can be fully consulted in the decision-making process.

Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Trade and Neil Marten.

Jan Kerr

11 JUL 1979



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Ref. A09948

PRIME MINISTER

9
Pam. L. H. H.

At Flag C is a
minute from Sir L.
Joseph which has just
come in.

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11/7

Public Expenditure to 1983-84

(C(79) 25, 26, 27, 28 and 29)

1. This is inevitably a very long brief. But you will find that paragraphs 15-16 (pages 6-15) deal with individual programmes and can be read during the meeting as you go along.

BACKGROUND

2. You have already seen and discussed with the Chancellor and the Chief Secretary the two main papers. You decided (Mr. Lankester's letter of 6th July) to authorise their circulation, with the higher target (£6.5 billion) for 1980-81 suggested by the Chief Secretary.

3. The paper on nationalised industries is an essential part of the whole: the proposed cuts in that area add up to £350 million. If those cuts cannot be found, even larger savings would be needed on other programmes. It is therefore essential to take the two papers at the same meeting. But the nationalised industries paper will have had a preliminary run at E(EA) on Wednesday afternoon.

4. You have also agreed that the Secretary of State for Education should be allowed to circulate his own paper C(79) 29: this has not, so far, provoked similar counter-papers from other spending Ministers.

Flag A
5. Finally, the Secretary of State for the Environment has minuted you (10th July) reporting discussions in the Local Authority Consultative Council. These discussions point to the need for a general Government statement on public expenditure in 1980-81 before the Recess, so as to put the cuts in local authority spending into context. This is going to be difficult. Such a statement should obviously be made to the House, and not by way of Press release during the Recess. Yet we are assuming the need for a number of bilateral discussions after this week's meeting, returning to public expenditure 1980-81 at Cabinet on 26th July. (The remaining years will have to be left till the autumn). This is almost too late for a statement before the House rises. I return to this point below.

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HANDLING

6. It is very difficult to see how to structure this discussion: the four papers hang together, and there is a great deal of detailed material. But I think it will be best to start with the macro-economic background. I suggest, therefore, that you introduce discussion by making these points:

- (i) You will take the Chancellor's paper (C(79) 27) first, but you want only a short discussion, since the Government's Budget strategy was agreed so recently.
- (ii) The Chief Secretary is looking for decisions only on 1980-81 before the Recess, and Cabinet will need to return to the later years afterwards. Nevertheless, decisions on 1980-81 cannot be taken in isolation, and their longer term consequences will be borne in mind as the meeting proceeds. So will the need for legislation, given the congested programme for the remainder of the Session.
- (iii) Cabinet should recognise that cuts of £6.5 billion in 1980-81, severe though they sound, are about the minimum necessary to avoid an increase next year in the real burden of taxation (paragraph 12 of the Chancellor's paper). Admittedly there are wide margins of error in the PSBR calculations which underly this figure. But cuts of this order are also needed to be on course for the target of reducing public expenditure to 1977-78 levels by 1982-83.
- (iv) You hope to get agreement both on the target total, and on as many individual cuts as possible, at this meeting. You recognise that this will not be easy, and that some problems may be left over for bilateral discussion. In that case, Cabinet will have to return to 1980-81 before the Recess.
- (v) However this leaves the problem of timing. The Secretary of State for the Environment has suggested a general statement before the House rises. You will recognise that there is a good case for this. But it may not be practicable. The Cabinet should spend a few minutes at the end of this morning's meeting considering the options for an announcement (see paragraph 17 below).

SECRET

7.(a) The Economic Background

You could then call on the Chancellor to introduce his paper. Although it is true that Cabinet decided the Budget strategy only six weeks ago, some Ministers may argue that the climate has changed: you will recall that the Secretary of State for Trade said this at E(DL) last week. Your own view remains, I believe, that the Government should stick to its PSBR target for this year, and to a lower target for next year, to leave room for further tax cuts. But some Ministers are becoming alarmed at the consequences of this policy (for example, Mr. Prior's remarks about interest rates at E on Monday) and you may want to give them a brief opportunity to voice these worries. The immediate situation is worse, and the long haul rather longer, than Ministers believed immediately after the Election. Some may be tempted, therefore, to adopt a more gradual approach. I think you could bring this issue to a head yourself, by asking the Chancellor to say what would actually happen to GDP, to employment, to the money supply, and to interest rates, if a higher public expenditure total were allowed next year than the Chief Secretary suggests - for example, if the cuts were limited to £5 or £5.5 billion. The answer may well reassure the doubters in the Cabinet that a more gradual approach would not really help the Government's objectives. (We have arranged that the Treasury will give the Chancellor some quantified material to deal with this question.)

8.(b) The target for 1980-81

At this point, you could call on the Chief Secretary to introduce his paper C(79) 26 (to which the Survey Report on 'the scope for reduction', C(79) 25, is relevant background). The main problem is the choice of the target - the point you discussed with the Chancellor and the Chief Secretary. The cuts identified by officials add up to only £5.5 billion. To get £6.5 billion will require two things:

- (i) A lower-base line for the Defence Budget, from which to calculate the NATO 3 per cent growth rate.
- (ii) For the rest, an overall 3 per cent cut on top of everything specific listed in the paper.

SECRET

The first of these has been made more difficult by your subsequent agreement with the Secretary of State for Defence to increase his cash limit on account of the Budget increases in VAT, etc. This has the effect of increasing the base-line by some £200 million in 1979-80, and therefore reduces the room for manoeuvre in 1980-81 by some £300 million. I believe the Chief Secretary may try to persuade you to reverse this position. If you are unwilling to do so, a possible compromise would be to regard the bulge in 1979-80 as a temporary departure from the trend line, but to calculate the 3 per cent growth thereafter on the pre-Budget total. This involves, however, a volume squeeze on Defence expenditure in 1980-81 and later years, which the Secretary of State for Defence believes will be obvious to NATO. If this is not acceptable then - in the absence of any more specific cuts - the 3 per cent across the board reductions in other programmes will have to be increased to around 4 per cent. The 3 per cent must already be getting somewhere near the end of what can be achieved by general squeezes, without policy changes: it comes on top of the 3 per cent already so hardly-won this year. However, Sir Derek Rayner's studies should be bearing their first fruit by 1980-81, and this may help with the general cuts. This does suggest, however, that when E Committee returns next week to the question of cash limits for 1980-81, it will have to exercise the need for 'realistic' limits: the scope for further volume cuts in many programmes to finance pay increases larger than has been forecast, will be extremely difficult.

9. The presentation in the Chief Secretary's paper makes the problem a lot bigger than it really is, at least for some Departments. This is because the figures are compared with the plans inherited from the previous Administration. But they do not allow for the changes made in the Budget. If one compares the Chief Secretary's proposals for 1980-81 with what is actually being spent this year, the position looks much more manageable, at least for some programmes. The contrast is particularly marked in the case of housing - much less so for education and transport, though this is partly because these were not much affected by the Budget (see Annex provided by the CPRS). However, over the next three years, the expenditure will need to fall by nearly £3.5 billion from the levels agreed for 1979-80, if the target of getting public expenditure back to

not so; he
has accepted,
albeit
unwillingly
(see separate
note in
box)
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1977-78 levels by 1982-83 is to be reached - i.e. by £1 billion to £1½ billion a year. The Chief Secretary's proposals, if accepted in full, would give us well over £1½ million towards that, even though they require savings of £6.5 billion from the inherited plans. But this simply gives him a bit of extra room for manoeuvre if Cabinet cannot endorse all his proposals.

10.(c) Programmes

At this point, you could turn to the Annex to the Chief Secretary's paper, and to the PESC Report on 'the scope for reduction' circulated with C(79) 25. There really is no alternative to flogging through the whole list at Annex B, Department by Department. It may help, however, to put the proposed cuts listed in Annex B in the context of the expenditure proposed. You will find that the PESC Report does this, in a little table at the head of each chapter (for example, that for the Defence programme on page 16) but I give the key figures below.

11. One of the main problems will be that the Chief Secretary's list contains no fat to allow Cabinet a choice (though departmental Ministers have some freedom within the total cuts for their Departments). You might like to emphasise that, if Cabinet jibs at particular cuts and if the Departmental Minister has no alternatives to offer volunteers for extra cuts will be needed at this meeting. Thereafter I suggest your tactics should be to try to 'tick off' each suggested Departmental batch of cuts as a whole: only if a Minister demurs should you go down to the level of the individual items. You need not give any Minister (except perhaps the Secretary of State for Education, because he has circulated his own paper) an opportunity for an extended argument: so far as possible, you might aim to remit any item which cannot be agreed to the spending Minister and the Chief Secretary to pursue bilaterally. Cabinet discussion will be useful only to the extent that it gives a 'steer' to these bilaterals, either by suggesting to a spending Minister that he is asking too much, or to the Chief Secretary that he is pressing his luck too far.

12. You might also emphasise, as you have done on previous occasions, that the choice of cuts is illustrative. If any Minister feels that he can achieve the same total in some different way, it is open to him to suggest this to the Chief Secretary. But it is important that his alternative should be a viable one; for

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example, the Secretary of State for the Environment had £70 million 'up his sleeve' at E(DL) the other day, which the Committee were disposed to accept: on investigation, it proved illusory, as he will have to report when E(DL) returns to this subject. This is the sort of thing you will want to avoid happening at Cabinet.

← 13. One final complication is the present state of the legislative programme.

The Treasury believe that only one of the proposed cuts requires new major legislation for which there is no provision in the authorised programme. (This is the Education package; and even then, as suggested below, a bit of 'tacking' may be possible.) But several of the proposals, not separately identified in the list, require additional clauses to be tacked on to programme Bills, thus taking up more Parliamentary time. I think you should give the Leader of the House a chance to comment on this early in the proceedings.

← 14. One further problem concerns the interaction of this exercise with the quite separate exercise on Civil Service manpower which the Lord President is due to bring to Cabinet in September. (It is a pity that Treasury and CSD Ministers were not able to agree on compatible timetables.) The result is that the Chief Secretary's proposals assumes cuts in manpower which Cabinet has not yet decided. (There is £150 million taken into account in paragraph 13 of the Chief Secretary's paper: taken together with £350 million from nationalised industries it makes up the £0.5 billion mentioned there. The rest is hidden away in the 3 per cent overall cuts, the bulk of which would in many cases fall on manpower.) If approved, these cuts effectively pre-empt later decisions on manpower. This may not matter much. CSD tell us that their options, when worked out, are likely to go even further than the Chief Secretary's proposals. But it would be unwise to count on this for any further savings. They will in practice be swept up in the general 3 per cent (or 4 per cent) reductions proposed by the Chief Secretary.

15. On the individual programmes, the following points arise:

- (a) Defence (Proposed cut £300 million on a baseline of £8,177: additional bid of £88 million - no legislation needed).

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Paragraph 8 above deals with the problem here.

- (b) FCC(ODA) (Cuts of £132 million on a baseline of £955 million; and compared to a likely outturn of £847 million in 1979-80: additional bid £2 million. No legislation needed).

The only argument here is whether the ODA programme should be squeezed to accommodate the 'first window' of the common fund, or whether this should be accommodated instead within the Department of Trade programme. This is not just an accounting problem: the Department which has to find the expenditure has to squeeze its other commitments proportionately.

- (c) FCO (Other) (Cut of £28 million on baseline of £308 million; and compared also to £308 million in 1979-80. No legislation needed). Any real fight here will be over the level of overseas representation. Few other Ministers will be interested: a clear case for bilaterals.

- (d) EEC Budget (A net addition of £236 million on a baseline of £858 million; the 1979-80 outturn is likely to be £800 million. No legislation). There is no point in discussing this item: it depends entirely on our success in the negotiations about the Budget.

- (e) Agriculture (A cut of £43 million net on a programme of £1,007 million; £1,036 million in 1979-80. No legislation. Some Brussels difficulties).

The main argument here will be whether the MAFF programmes should be squeezed further to accommodate the extra cost of the Thames barrier and of the Defence food stockpile - neither of which is directly relevant to their Departmental objectives. Mr. Walker registered this point at the original Cabinet discussion, but no decision was taken then. (He thinks, wrongly, that he was given exemption).

- (f) Forestry Commission (A cut of £5 million on a baseline of £62 million; and compared to £64 million in 1979-80. No legislation for this modified option - legislation needed for the original £10 million bid). The Secretary of State for Scotland will want a word. But this could be remitted for bilaterals.

Mr Walker has written to you (Flag B) asking that this be charged to the Contingency reserve for 1979/80. The Chief Secretary has said "no".

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- (g) Industry (Proposed cuts £187 million on a baseline of £1,182 million; and a likely outturn of £1,004 million in 1979-80: secondary legislation already in hand). These cuts are already reduced from the original bid shown in the report, to take account of E Committee decisions on Regional Policy last week. (They are otherwise broadly agreed with the Secretary of State: but his NEB proposals, which were discussed in E(EA) on Wednesday, may eat into these savings.
- (h) Trade (Cut of £20 million on baseline of £199 million; and compared to £191 million in 1979-80. No serious problems.
- (i) ECGD (An add-back of £170 million net, on a programme of -£36 million; and an outturn of -£178 million in 1979-80. The recalculation compared with the White Paper figures, in a demand-responsive programme. The option of additional foreign currency financing is being pursued to the maximum extent: the option of increasing sterling financing runs counter to monetary policy. Neither would help in the short term.
- (j) Employment (Cut of £513 million on programme of £1,648 million; compared to £1,096 million in 1979-80). Apart from the cuts already decided, and the abolition of the short-time working scheme, most of this is manpower: and will come up again when the Lord President's paper surfaces in September. It depends on discussions with the MSC. The Secretary of State himself is reasonably content. Remit for bilaterals? The real issue here is whether the Chief Secretary can safely take credit for these savings at this stage.
- (k) Energy (Saving of £24 million on programme of £319 million; compared to £309 million in 1979-80). This is the dog that did not bark in the night. The real energy problem is on coal: for convenience, the whole of the support for the coal industry has been counted in with the nationalised industry financing programmes, which come later in the meeting. No real problems expected over the rest: remit for bilaterals if necessary. But you will want to note that this involves

i.e. grants +
loans
i.e.

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foregoing additional bids for Nuclear R & D for £17 million and in the Gas Centrifuge of £15 million which in present circumstances may be shortsighted.

- (l) Transport (Cut of £305 million on a programme of £2,671 million; compared to £1,675 million in 1979-80): legislation needed only on the VED point). This looks straight forward and need be remitted for bilateral only if Mr. Fowler presses hard.
- (m) DOE (Housing) (Cuts of £1,264 million on programme of £5,266 million; 1979-80 outturn £4,592 million. This is much the biggest chunk of the Chief Secretary's proposed savings, and one of the most difficult.) You might like to read chapter 7 of the Report by Officials (pages 48-51). The really difficult problem is the speed of rent increases next year. If Mr. Heseltine will not commit himself, remit for bilaterals - which should include Mr. Younger and Mr. Edwards. Housing policy in all three countries must march together.
- (n) DOE (PSA) (Cut of £54 million on programme of £386 million; and compared to £343 million in 1979-80). Some extra savings may follow from the Review of the Dispersal Programme (being considered by E next week) and of Disposals of Surplus land. The savings listed here assume that the Dispersal programme would be largely stopped.
- (o) DOE (Others) (A cut of £285 million on a programme of £2,726 million; and compared to a likely outturn in 1979-80 of £2,529 million). Part of the cost falls on the water authorities: and another option, not explored here, is to put up their prices, treating them more like nationalised industries. There is a strong case for this, provided that they are not allowed to pass on all increases automatically to customers. There should be no problem over Community land. But the cuts seem the best course available: agree if possible on the spot, and remit for bilaterals (to include Scotland and Wales) if pressed.

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- (p) Home Office (A largely exempt area: a net add-back of £10 million on a programme of £2,126 million: £2,085 in 1979-80.) One proposed saving (£2 million on the abolition of the Equal Opportunities Commission) is disproportionately expensive in legislative time, however desirable on other grounds. You might question whether the Treasury has not been unduly lenient to the fire service, where there is a great deal of overmanning and suspected inefficiency. It largely escapes cuts, and is not part of the 'law and order' programme as such.
- (q) Lord Chancellor's Department. Mainly demand related: a cut of £4 million on a programme of £154 million; £141 million in 1979-80: the Lord Chancellor may however resist this.
- (r) Education and Science (Cut of £860 million on a programme of £8,395 million; and compared to £8,258 million in 1979-80). This is the other main problem area, and you will want to let Mr. Carlisle speak to his paper C(79) 29 in which he proposes cuts of £250 million against the £860 million in the Chief Secretary's paper. One reason for this is his fear that otherwise education will suffer double cuts - by central Government and then by local authorities who impose their own priorities. This seems unlikely given the strong pressures to which local authorities will be subjected by the education lobbies. The politics are obviously very difficult. So too is the difficulty for Cabinet in knowing how far the list of cuts in the Chief Secretary's paper represents a sensible balancing of damage at the margins e.g. would a bigger cut in school meals provision be preferable to say the introduction of fees for 16-18 year olds? It may be that the only sensible course is for Cabinet to set a target for cuts and ask the Secretary of State for Education and the Chief Secretary to come forward with options from which Cabinet can choose. In any event legislation is likely to be needed. The easiest course might be to add it to the Education Bill due to be considered by Home Affairs Committee this week, though this would probably involve some delay. The present Bill is due for introduction in November.

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- (s) Arts and Libraries (Cuts of £33 million on programme of £371 million; and compared to £364 million in 1979-80.) Mr. St. John Stevas' expenditure has now been segregated into a separate programme, and he is free to choose where to make his own cuts. (Last time, he objected strongly to being unilaterally cut back by Mr. Carlisle.) But, although he has relatively little room for manoeuvre, he will have to take his share of the general misery.
- (t) DHSS (Health) (Cut of £85 million on programme of £6,671 million; and compared to £6,478 million in 1979-80). This again is largely exempt area: of the proposals here, the most difficult is the increase in the prescription charge. A Cabinet steer would be useful: minor points could be remitted for bilaterals.
- (u) DHSS (Personal Social Services) (Cuts of £118 million on a programme of £1,184 million; and compared to £1,147 million in 1979-80). The unspecified 'other' cuts reduced the levels of expenditure below that necessary to meet demographic growth - i.e. employ a cut in the real level of services.
- (v) DHSS (Social Security) (Cut of £253 million net on programme of £19,477 million; and compared with a likely outturn of £19,056 million in 1979-80.) Paragraph 22 of his paper explains that the Chief Secretary has reduced his original bids (involving cuts in the real level of pensions) to a more realistic level. His suggestion involves deferring the more dramatic savings until the autumn, so that they would work through 1981-82 and later years. He also suggests deferring a decision on the November 1980 Child Benefit up-rating which would remain as a potential claim on the Contingency Reserve. With these changes, there is a chance that his proposals would be accepted by the Secretary of State for Social Services.
- (w) HMSO (Cut of £10 million on baseline of £100 million; and £99 million in 1979-80.) No-one is likely to fight for this programme. But it means extracting from every Minister a promise that he will not

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make unnecessary demands on HMSO. There is a lot to be said for putting HMSO on to a repayment basis, and this is already under study.

- (x) CSD (Civil Superannuation) No change. It is assumed that the inflation-proof pension arrangements cannot be tackled in the present timescale: even if they were, there would be a compensating addition to the wage bill so that the short term effect would be small or negative.
- (y) COI (Cut of £3 million on programme of £28 million; £32 million in 1979-80). The same points apply here as for HMSO. But the possibility of moving to a repayment basis is not under study: perhaps it should be?
- (z) Scotland, Wales and Northern Ireland. These are, for Scotland and Wales, pro rata cuts, or changes broadly in line with what is proposed for English Departments. Both Secretaries of State will no doubt complain that they should be shielded in some degree. But the major decisions having been taken (notably on Regional Policy) you may wish to insist that they should take their share. Northern Ireland is slightly different: the Secretary of State has circulated separate papers to OD about policy in Northern Ireland generally, stressing the inter-relation between economics/social, political and security problems. It is not yet clear whether he will argue for preferential treatment in public expenditure terms on this score.

16. At this point, I am afraid you must turn to the nationalised industry paper (C(79) 29). I doubt if you need a separate introduction from the Chief Secretary, but the Secretary of State for Industry will have presided over preliminary discussion in E(EA) and may want to report this briefly. There are eleven options listed in Table 3 on page 6 of the paper. I think you should work through these for 1980-81.

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- (i) Coal. There has been a preliminary discussion in E(EA) of the Secretary of State for Energy's proposals on coal, and he will be bringing a further paper to E next week. The £55 million will be hard to achieve. The Chief Secretary suggests, illustratively, that the cut might fall on investment. Some Ministers felt this was short-sighted in the present energy situation, and would also make it more difficult to get union agreement to closures. The alternative is to tackle prices. E(EA) did not discuss the scope for further increases. There must be doubt whether NCB is really pricing up to the limit set by the recent OPEC oil price increase.
- (ii) BNOC. Irrespective of what is done about disposals, cuts could be made here which would not damage existing commitments; they would mainly come from dropping provision for new farm-ins.
- (iii) Gas. There are two alternative options suggested here. The difficulty lies, as with all these major energy industries, in pricing. There is no doubt that gas could stand a steep increase in prices, and that if necessary their profits could be creamed off by a special tax. The question is whether Ministers can stand the political impact on the RPI. You were reluctant to face this in the current year, coming on top of the Budget changes. Is it any more palatable in 1980-81? The sums involved are very large, and potentially less painful than some of the other economies to be sought. E(EA) felt strongly that some increase in gas prices was now justified, and the Secretary of State for Energy did not dissent; they did not decide between course a. and b.
- (iv) Electricity. These figures assume that electricity will move to economic prices over the period. This could be accelerated. However, the suggestion here is that the industry should be asked for unspecified savings of £50 million: it would then be for the industry to decide whether to carry any of this on prices. But the industry would face large increases in its coal costs, and very probably on its oil costs as well. Anything more on top of this might be difficult to defend.

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- (v) Scottish Electricity Board. These will follow from what is decided above. The Scottish Minister at E(EA) reserved his position on this: remit for bilateral discussion, unless the Secretary of State can be persuaded at Cabinet.
- (vi) Transport Industries. All agreed at E(EA). Miscellaneous savings of £20 million are assumed: the additional effect on prices is negligible, but the underlying assumption is already one of quite large price increases this year and next. The scope for changes in NBC and NFC, pending any disposals, is relatively small. BTDB is similarly small. BWB has been listed under this heading, although technically it is the responsibility of the Secretary of State for the Environment.
- (vii) Airways. A cut of £40 million here, again in anticipation of any disposals, means reducing expenditure on aircraft - in practice, deferring six Tristars. The Secretary of State for Trade was not present at E(EA).
- (viii) Airports. This should be relatively straightforward: it involves increasing charges to airlines.
- (ix) Post Office. The proposal here would add, if Ministers agreed, the preferred option, to the next round of tariff increases and/or savings on current account. But since the paper was prepared the Post Office have reported very large additional requirements. These are being studied urgently: remit for bilateral discussion.
- (x) Steel and Shipbuilders. British Shipbuilders' plans were considered in E(EA) on Wednesday. Of the total savings of £105 million in 1980-81, £25 million would come from shipbuilders and the remainder from steel. The savings on shipbuilders should be attainable. Steel depends more on the progress made towards viability, and in particular on non-interference in the closure programme.
- (xi) British Aerospace. This will be a difficult decision - to cancel the BA 146. However, the market for the aircraft is small, especially if it is confined to a civil version and it was always the most speculative of the BAe's ventures. E(EA) merely noted this possibility, and the Secretary of State will want to consider the proposal. For bilateral

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discussion, as with the main programmes, you may be able to secure agreement to some of these on the spot: others will have to be remitted for bilateral discussion.

17. At this stage, you will have covered the whole ground, apart from the disposal programme (E(DL), under the Chancellor, will be looking at next year's plans next week). The Chief Secretary's paper assumes that a further £0.5 billion would be found from this source: discussion in E(DL) last week will have shown you that this will be difficult but, provided the airways deal goes through, should not be impossible.

18. You may also want to look sideways at the size of the Contingency Reserve, which it is proposed to cut from £1,540 million to £750 million. Given that one main claimant on this will be the November 1980 up-rating of Child Benefit, this is an extremely narrow margin to me, at this very early stage before the year begins. Are Ministers content to sail so close to the wind?

19. You will then want to return to the question of timetable. You will now have commissioned a series of bilateral discussions, and the Chief Secretary will have his work cut out to complete these before Cabinet on 26th July. You may want at this stage to consider whether there is enough common ground to justify the drafting of a statement, in fairly general terms, about the Government's proposals for cutting public expenditure, which would serve as a background to the announcement which the Secretary of State for the Environment wants to make about local authorities' spending. If this can be done, then you might invite the Chief Secretary to circulate the draft, early next week, to which the Cabinet would if necessary return very briefly on 19th July (noting the Secretary of State for Defence will not be there that day). It can then take this remaining substantive decision on 26th July. This will allow a statement to be made on, say, Monday, 23rd July, comfortably before the House rises.

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20. If you accept this suggestion, you may want the Chief Secretary to consider presentation. There are probably two points to make in any statement:-

- (i) The main impact of public expenditure cuts is bound to be negative. They have to be seen in the context of a long programme, extending over and beyond the life of this Parliament, with very clear and positive economic objectives: growth, enterprise, etc.
- (ii) One reason why the cuts seem so severe in the short term is that they fall on programmes which were planned to expand much faster than the growth of resources would allow. The cuts are therefore economically necessary, and are not the result of doctrinaire policies randomly applied.

21. There is one other minor point, in paragraphs 25 and 26 of the Chief Secretary's paper, about a proposed study of end-year flexibility. This is not strictly related to the present discussion, but the suggestion for a study, without any commitment, and on the conditions laid down by the Chief Secretary, should be reasonably safe. But you might like to ask who is pressing for this study (it is of course those who expect to be able to spend more than they otherwise would); and what the effects on confidence would be of an apparent loosening of cash control.

CONCLUSIONS

22. I think you might be able to record conclusions in the following form:-

- (i) To note the Chancellor's analysis of the economic prospects, and the need to seek substantial reductions in public expenditure accordingly.
- (ii) To endorse the target of £6.5 billion [or any modified figures] proposed by the Chief Secretary for 1980-81.
- (iii) To note that £0.5 million of this will be found by way of ^odispersals, and to invite the Chancellor of the Exchequer and E(DL) to agree a programme which will achieve this target.
- (iv) To agree as many as possible of the specific cuts proposed by the Chief Secretary. (I shall be keeping a list as we go along).

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- (v) To invite the Chief Secretary to pursue, with the spending Ministers concerned, those proposals on which it is not possible to reach agreement at the meeting.
- (vi) To invite the Ministers concerned to make policy proposals as necessary to the relevant committees, for giving legislative effect to the Cabinet decisions, by adding clauses to Bills in the present programme - noting that this may in some cases require additional Parliamentary time.
- (vii) To invite the Chief Secretary to circulate the text of a possible general statement about the Government's approach to public expenditure, in the light of the decisions so far taken by the Cabinet, which could be discussed by Cabinet on 19th July and made before the Recess, as background to an announcement about local authorities expenditure.
- (viii) To invite the Secretary of State for the Environment to circulate the text of a parallel statement about local authority expenditure.
- (ix) To invite the Chief Secretary to make arrangements for a review of end-year flexibility on lines suggested in paragraphs 25 and 26 of his paper.
- (x) Agree to meet again on [? 26th July] to consider the Chief Secretary's report on his bilateral discussions with spending Ministers and to take substantive decisions for the remainder of 1980-81 programmes then.
- (xi) Agree to resume its discussion of public expenditure in later years in the autumn.


John Hunt

11th July, 1979

SECRET

ANNEXCHIEF SECRETARY'S 1980/81 EXPENDITURE PROPOSALS

| | (a) Change from Cmnd 7439 | (b) Change from 1979/80 after Budget cuts | (c) % change from Cmnd 7439 | (d) % change from 1979 80 after Budget cuts |
|------------------------------------|---------------------------------|--|--------------------------------------|---|
| Defence | -300* | -150 | - 3.7 | - 1.9 |
| PCO (ODA) | -132 | - 24 | -13.8 | - 2.8 |
| PCO (other) | - 28 | - 28 | - 9.1 | - 9.1 |
| EEC Budget | +236 | +294 | +27.5 | +36.8 |
| MAFF etc | - 43 | - 72 | - 4.3 | - 7.0 |
| Forestry | - 5 | - 7 | - 8.1 | -10.9 |
| Industry | -187 | - 9 | -15.8 | - 0.9 |
| Trade | - 20 | - 12 | -10.1 | - 6.3 |
| ECGD | +170 | +312 | ± | ± |
| Employment | -513 | + 39 | -31.1 | + 3.6 |
| Energy | - 24 | - 14 | - 7.5 | - 4.5 |
| Transport | -305 | -309 | -11.4 | -11.6 |
| DOE (housing) | -1,264 | -590 | -24.0 | -12.8 |
| DOE (PSA) | - 54 | - 11 | -14.0 | - 3.2 |
| DOE (other) | -285 | - 88 | -10.5 | - 3.5 |
| Home Office | + 10 | + 51 | + 0.5 | + 2.4 |
| Lord Chancellor | - 4 | + 9 | - 2.6 | + 6.4 |
| Education and Science | -860 | -723 | -10.2 | - 8.8 |
| Arts and Libraries | - 33 | - 26 | - 8.9 | - 7.1 |
| DHSS (Health) | - 85 | +108 | - 1.3 | + 1.7 |
| DHSS (Personal social services) | -118 | - 81 | -10.0 | - 7.1 |
| DHSS (social security) | -253 | +168 | - 1.3 | + 0.9 |
| HMSO | - 10 | - 9 | -10.0 | - 9.1 |
| USD (civil superannuation) | - | + 29 | - | + 6.7 |
| COI | - 3 | - 7 | -10.7 | -21.9 |
| Scottish Office (excluding DAFS) | -410 | -264 | -10.6 | - 7.1 |
| Welsh Office (excluding WOAD) | -130 | - 51 | -11.0 | - 4.6 |
| Northern Ireland | -160 | -142 | - 7.9 | - 7.1 |
| TOTAL | -4,810 | -1,607 | - 6.7 | - 2.3 |

NOTES: Col.(a) gives the reductions (additions) to 80/81 figures in Cmnd.7439 revalued (as in Annex A to C(79)26).
 Col.(b) shows these reductions (additions) for 80/81 as compared with 1979/80 figures in Cmnd 7439 revalued, after adjustment for changes made by previous Government and for Budget cuts.
 Col.(c) shows (a) as a percentage of Cmnd 7439 (revalued) 80/81 totals
 Col.(d) shows (b) as a percentage of Cmnd 7439 (revalued) 79/80 totals after adjustment for changes by previous Government and Budget cuts.

* This figure takes no account of any concessions the Prime Minister may have granted for 1979/80

± meaningful percentage changes cannot be derived

cc Local Govt
(Relation between
Govt

cc Mr. Wilson

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Prime Minister

To note - background
for Thursday's Cabinet.

PRIME MINISTER

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10/7

In considering the Chief Secretary's proposals for public expenditure reductions in C(79)25 you and colleagues will wish to be aware of the views of the local authority Associations as put to me at the Consultative Council on Local Government Finance on 9 July, and of the views of the local government trade unions which were put to me at my meeting with the TUC Local Government Committee on 10 July.

Four main points emerged from these consultations. First, the local authorities emphasise the point that in order to achieve substantial reductions of expenditure in 1980/81 they must have early notice so that they can plan ahead sensibly. I am sure that this point is right and that we ought to aim to let them know our decisions for 1980/81 before the end of July. It would also be helpful to let them know the position for the later years as soon as possible.

Secondly, the local authorities stress the point that reductions of any substantial order will require major reductions in standards of services. They also claimed it was essential for central government to review the present statutory requirements which had been placed on local authorities. They have given us a lengthy shopping list of requirements that might be relaxed in this way. I hope colleagues will agree that we can take precedent of our about-to-be concluded controls exercise to mount a similar review of statutory duties, and to report back so that the necessary legislative changes can be made in this autumn's session.

Thirdly, the local authorities, and even more so the trade unions, are naturally very concerned about the employment consequences of reductions of the order we have been discussing. It is difficult to quantify precisely at this stage, but we have estimated that the 73% reduction across the local authority field could mean a loss of 150,000 jobs in local government (from the present total of 2.1 million). Natural wastage will not be sufficient to produce all of this, and imposed redundancies will cause severe disruption of services, and will also be expensive in 1980/81 in terms of redundancy payments.

Finally, the local authorities and the trade unions question the feasibility of actually achieving reductions of this order by 1980/81. They point out that it takes time to reduce staff numbers even with compulsory redundancies, that the legislative changes needed may not be in force by the beginning of 1980, and that there will be fierce opposition to service reductions by the public and trade unions.

In spite of all these difficulties the local authority Association leaders assured us that local government as a whole would do its best to co-operate with the government in bringing about the necessary expenditure reductions as soon as they know what the target is. I believe that their co-operation in this way will be of great importance in carrying through the necessary reductions, and that we must continue to consult them closely as the exercise proceeds.

CONFIDENTIAL



My meeting with the union leaders took place this morning. Officials who have had experience of this sort of meeting tell me that by past precedents this was reasonably cordial and conciliatory. The union leaders have asked for a continuing programme of consultations, to which I have agreed. It will, of course, be largely for Ministerial colleagues to implement this in detail.

I am copying this to all Members of Cabinet, the Minister for Transport, and to Sir John Hunt.

nm/ff

MH

10 July 1979

CONFIDENTIAL



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mh

MH

10 July 1979

Ref.A09924

PRIME MINISTERCash Limits for 1980-81 and Public Sector Pay
(E(79) 15)BACKGROUND

1. I have set out the main issues in my brief on the first item.
2. There is however one specific problem. It concerns the interpretation of decisions already taken about pay and cash limits during the current financial year and the present wage round. There has been confusion about this in successive discussions in E(EA). The Secretary of State for Industry, as Chairman, has commissioned a paper on the background, which I hope will circulate to E(EA) before this meeting. His underlying worry seems to be that the present system puts no discipline on negotiators to seek offsetting savings for 'excessive' pay settlements (ie those higher than the rate allowed for in the previous Government's cash limits). He is particularly concerned about the way in which staged settlements are piling up large commitments for 1980-81, for which cash limits have not yet been set, so that it is not possible to use cash limits to enforce offsetting savings at the time the settlements are made. The Treasury/CSD line has been that these are matters best - and indeed can only be - considered when Cabinet has taken its decision on the volume of public expenditure in 1980-81 (which it is due to start on 12 July) and when this Committee has considered the right approach to cash limits in that year. He is likely to mention this problem. If he does, the right response, I suggest, is to invite him to reconsider the matter in E(EA) once he has a clear lead from this Committee about 1980-81.

3. For 1980-81, the choice posed in this paper is a clear one:

Option A: to fix cash limits in advance, to reflect an a priori view of 'what the Government can afford' in money as well as volume terms, implying some view about the appropriate level of wage settlements. This means using cash limits to enforce discipline in pay negotiations and being willing to accept in advance that if actual pay settlements go above the assumed levels, offsetting cuts in services will be found by one means or another.

Option B: to set cash limits to reflect decisions on volume and on price changes only; leaving them to be adjusted for pay in the light of the outcome of wage settlements, but with the option of imposing a further volume squeeze if the pay settlements prove excessive.

HANDLING

4. You might call the Chancellor of the Exchequer (or, if he prefers, the Chief Secretary) to introduce the paper, and then seek comments from the Lord President, the Secretary of State for Industry (both as Chairman of the E(EA), and as a large 'nationalised industry' Minister); the Social Services Secretary; the Environment Secretary; and any others who wish to comment. You might leave the Secretary of State for Employment to the end.

5. There is a clear choice for the Committee between Course A and Course B, and not much room for blurring at the edges.

6. Course A comes closer to the sense of the Party Manifesto and the line you and the Chancellor have taken in public statements so far. It means that cash limits would be used to buttress restraint on pay settlements in the public sector. But it risks the breakdown of the cash limits system if pay settlements run very far ahead of expectations. This could mean throwing the baby out with the bath water by risking discrediting the whole cash limit system if the 'volume' savings required to balance the books proved politically unacceptable. Individual sponsoring and employing Ministers will also see difficulties in Course A, because of the threat of automatic volume squeezes which it implies. They can be expected to shy away from the uncertainties for their policies which Course A implies. If Course A is followed cash limits will need to be realistic.


7. Course B means relying on the private sector (within the constraints of fiscal and monetary policy) to discipline itself and establish a going rate. The public sector would then follow suit. However it leaves open the possibility of a volume squeeze if things get out of hand. In this it is very close to the line taken so far in this round by both Governments. This gets the Government out of the firing line for a bit, but the open-ended threat of volume cuts 'in due course' may sound like bluff and be ignored by the unions. The discipline is less automatic although the Government's response is more flexible.

8. It is difficult to argue the choice between these courses in abstract. If the Committee is to have a further discussion on pay (and the limited time available makes this almost inevitable) it might be worth calling for some costed examples of how Option A would work out in practice for a couple of central Government Departments; for the Rate Support Grant; for the key nationalised industries - as suggested in my brief on the next item; and for the NHS. This would illustrate the difficulties of applying this policy to concrete situations - eg the next Local Authority manual workers settlement, the Clegg Commission report on nurses, or the findings of next year's PRU. If Cabinet reaches firm decisions on the level of public expenditure 1980-81 on Thursday, those figures could be used as a basic example. If not, then illustrative figures could be used.

CONCLUSIONS

9. If you accept this suggestion, then the conclusion might simply be a remit to the Chancellor of the Exchequer, in consultation with the Lord President, the Secretary of State for the Environment, the Secretary of State for Industry and the Secretary of State for Social Services, to produce a paper about how Option A might work on varying assumptions about the gap between the level of pay incorporated in cash limits and actual pay outturns taking into account the decisions on the volume of public expenditure which the Cabinet will be taking later this month.

10. If however the Committee rules out Option A, then all that is needed is a decision in principle in favour of Option B, together with a request to the Chancellor to circulate at the appropriate time the form of words with which he would accompany the announcement of Cash Limits for 1980-81, so that other Ministers can see the terms of the implied threat.


JOHN HUNT

6 July 1979

SECRET



5
file 48
Economic
Policy

10 DOWNING STREET

From the Private Secretary

6 July 1979

The Chancellor of the Exchequer sent the Prime Minister a minute yesterday enclosing a paper on "Public Expenditure: The Economic Background" and a paper by the Chief Secretary on "Public Expenditure, 1980-81 to 1983-84". The Prime Minister is content for these papers to be circulated to Cabinet, and she has asked that the Chief Secretary's paper should aim for cuts of £6½ b. in 1980-81 - which is the Chancellor's and the Chief Secretary's preferred option also.

I am sending a copy of this letter to Sir John Hunt.

I. P. LANKESTER

SECRET

A. M. W. Battishill, Esq.,
H.M. Treasury.

FRB

SECRET



Prime Minister

4

- i) The Chancellor wants to circulate the accompanying paper tomorrow (Friday)

Are you content?

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

*Cover note
not*

- ii) He wants your guidance on whether to go for £5½ bn or £6½ bn cuts in 1980/81. He prefers £6½ bn in order to avoid tax increases and an increasing ratio of public expenditure to GDP. (See para 15)

PUBLIC EXPENDITURE SURVEY

.....
.....
We are due to discuss at Cabinet on 12th July the report on options for reducing expenditure which officials were asked to prepare on 24th May. I attach (at flag A) a draft paper by me on the economic background and (at flag B) a draft paper by the Chief Secretary putting forward proposals for reductions in expenditure. To give colleagues time to consider these papers, we ought to circulate them in final form before the weekend.

2. The Cabinet asked officials to prepare options for reductions in each Department's share of each programme of 7½ per cent in 1980-81 rising to 17½ per cent in 1982-83, or the cuts agreed in Opposition when these were larger. We excepted defence, law and order, and expenditure on the National Health Service (but we did not rule out increases in charges).

3. The medium-term outlook for the economy described in my paper suggests that we will need reductions of this order if we are to get close to achieving our objectives for taxation, money supply and the PSBR. But not surprisingly, some of the options present substantial difficulty, especially the large cuts necessary in later years to get spending back to the 1977-78 level by 1982-83. Particularly difficult are the cuts required in the social security programme which on present plans would be nearly £4000 million higher in 1982-83 than in 1977-78. To achieve those cuts would involve substantial reductions in the real levels of benefit. If the social security reductions

/cannot be

SECRET



cannot be fully achieved, a large burden of adjustment is thrown onto other programmes, some of which would have to be brought well below their 1977-78 level.

4. Clear also is the need for success in negotiating reductions in our net contribution to the EEC budget, which otherwise looks like being over £600 million higher in 1982-83 than in 1977-78.

5. We need, and without loss can take, more time to consider these reductions in the later years of the period. The Chief Secretary's paper therefore concentrates on the decisions required for 1980-81. Operationally we need early decisions on 1980-81 so that we can give notice, especially to the local authorities, of the large reductions required. We should return to the later years in the autumn.

6. As at present drafted, the Chief Secretary's paper contains proposals designed to cut the plans for 1980-81 in last Government's White Paper by £5-5½ billion at Survey prices, as follows:-

| | £ billion |
|--|-----------|
| Net reduction in Departments' programmes | 3½ |
| Reduction in contingency reserve | ½ |
| Reduction in nationalised industries' financing requirements and further savings from Civil Service review | ½ |
| Sales of assets | ½ |
| | <hr/> 5½ |

7. Cuts of this order would reduce the planning total to about £½ billion below what (following the Budget cuts) we are now expecting for 1979-80. It would thus maintain progress towards our longer-term aim for public expenditure.

/8. But



8. But it will not be easy. Cuts of this size are larger than we envisaged when in Opposition. Many will be highly contentious. Some involve legislation. There are cost of living increases, including rents and nationalised industry prices. They will reduce the standard of many public services, and involve difficulties over redundancies (including closures in the loss-making nationalised industries), and opposition from many of the local authorities who will have to contribute a large part of the reductions.

9. To obtain the figures indicated the Chief Secretary has had to take credit for virtually all the options for reductions which Departments put forward, omitting only some of those on the social security programme and other programmes which it seemed quite unrealistic to envisage achieving by next year. He has ruled out all additional bids except those which appear unavoidable, such as the consequences of the social security uprating decisions we announced in the Budget and the increase in our contribution to the EEC budget: if we are successful in negotiating a reduction in our contribution to the 1980 budget, it will involve a refund in the following year and will not significantly affect our expenditure until 1981-82.

10. However, cuts of this order, difficult though they are, may not be enough to carry through our tax strategy. The calculations of the economic prospects for 1980-81 described in my paper suggest that larger cuts in public expenditure are necessary to avoid the prospect of having to increase the real burden of taxation in next year's Budget if the proportion of the PSBR to GDP is to be reduced. The prospects for output are so depressed in the short term by the outlook for world trade, UK productivity and competitiveness, and the need to reduce inflation, that even after cuts of £5½ billion public expenditure would probably grow slightly as a proportion of GDP.

/11. The



11. The economic projections are subject to a wide margin of error, but they indicate that in order to avoid the prospect of increasing the tax burden next year, we ought to aim at public expenditure cuts of about £6½ billion.

12. The projections which give this result include assumptions about what Clegg will recommend. At this stage this can only be an assumption, but on the basis that the Clegg recommendations will provide for a measure of catching up for public services where pay has fallen behind, the guess is that public service earnings in 1980-81 may grow by 18½ per cent compared with 14 per cent for the private sector. If the Clegg recommendations turn out less than assumed, or if we could revise the amounts or phasing, this would help our problems on expenditure; but whatever the recommendations, the Government are in large measure committed to accepting them.

13. The Chief Secretary has therefore considered what could be done to find another £1 billion in order to make the target for total cuts in 1980-81 £6½ billion. It could be done by adding the following to what is proposed in the present draft paper. The 3 per cent growth in defence next year would start from the volume of expenditure in 1979-80 as now reduced by the VAT and other price increases; this would preserve the principle of 3 per cent annual growth but reduce by £300-350 million the previously published plans for defence in 1980-81. One or two options in the social security programme, which have been left aside as unrealistic, would be pursued, such as trimming back the earnings-related supplement. The remainder would be found by asking the Ministers responsible for the remaining programmes (other than the demand-determined programmes, and health, and law and order) to make a further 3 per cent cut on top of those already proposed in the paper.

/14. This,

S E C R E T



14. This, if fully implemented, would achieve cuts of £6½ million. But colleagues who already doubt whether the options in the Chief Secretary's present draft paper are feasible would raise even greater opposition to going further. This applies especially to Mark Carlisle, who would somehow have to get the local education authorities and the universities to cut a further £200 million from their expenditure on top of the £630 million already proposed.

15. So the Chief Secretary and I would be grateful for your guidance. Should the proposals in the Chief Secretary's paper be limited to those already there, which would get the total below the present estimate for the current year and use almost all the options offered to Departments; or should we go also for the additional £1 billion? The Chief Secretary's and my inclination is to go for the more ambitious target.

16. If you would like a word about this, we are of course at your service.

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

(G.H.)

5 July, 1979

S E C R E T

-5 JUL 1979



PUBLIC EXPENDITURE: THE ECONOMIC BACKGROUND

Memorandum by the Chancellor of the Exchequer

This paper sets out the economic background against which we must consider our future public expenditure plans.

2. It is now clear that the early 1970s saw a major turning point in the development of the world economy, with a dramatic fall in the ability of economies to grow at a satisfactory rate without excessive inflation. The heightened risk of inflation and the problems of energy supply impose severe constraints on growth over the next five years. For most of this period, it is true, this country should be self-sufficient in energy. We cannot, however, escape the deflationary effects of the energy shortage on the world economy. And we will have to contend with the deep-seated domestic problems of low productivity growth, poor trading performance and strong pressures for higher real wages.

3. The economy is currently in a weak condition. Inflation has acquired a considerable momentum and (quite apart from the once-for-all effects of indirect tax increases) is accelerating. Our external competitiveness has worsened seriously in the past three years. The current account is weak, despite North Sea oil. Industrial output and profitability are low. Money supply has been growing at, or above, the top of the old target range of 8-12 per cent, necessitating increased interest rates. The full effects of many of these developments have yet to be felt. If the next five years are to improve on the poor performance of the last five, there is an urgent need to bring about major improvements in inflation, productivity and competitiveness. This has to be done in a world environment that, to say the least, is unlikely to be favourable.

4. Governments themselves cannot regenerate industry. But they can create the conditions in which the market economy can function more effectively. The Budget was the first step in this process. The major objective in this year's public expenditure decisions must be to ensure that this strategy can be continued by leaving sufficient room both for progressively reducing the growth of money supply and for making further real tax cuts. This means that we will need to be very tough in our expenditure decisions.

Inflation and Growth

5. Our first priority must be to bring down the rate of inflation. Without this, all our other objectives for the economy will remain unfulfilled. To this end it is essential to hold to the guidelines we have set for money supply, and, over time, progressively to reduce them. And we must do this without driving interest rates higher or severely restricting credit to the private sector. This means that we must reduce the public sector's deficit, at the very least as a proportion of GDP.

6. These policies will entail accepting a loss of output and employment in the short-term. How severe these losses will be, and how long they will last, will depend partly on how quickly our policies change the climate of expectations in which price and pay decisions are made. There is no past evidence here on which we can draw. Obviously, the more resolute we show ourselves in pursuing our policies, the more quickly will the public build these policies into their expectations. But it would be unrealistic to expect very quick responses. Though there is good reason for hoping that GDP and employment will be rising in the last two years of the Survey period, we cannot look for much growth over the period as a whole.

7. The Treasury's latest projections, which are broadly in line with the underlying assessments made by outside forecasters, indicate a fall in output and a steep rise in unemployment in the early part of the period, with a recovery in the later part as inflation moderates. These projections assume a growth in world trade at about half the pace recorded in the decade to 1973. This itself could be optimistic, particularly for the years immediately ahead. The projections also assume that public expenditure is cut on the scale envisaged in the Chief Secretary's earlier paper (C(79)11), with an adjustment to social security spending to allow for higher levels of unemployment than the initial assumptions shown in Annex C of C(79)[]; and that tax allowances, bands and specific duties are fully indexed. The growth of money supply is assumed to be progressively reduced, to 7 per cent in 1983. On these assumptions the projections show the economy eventually moving on

to what should be a sound and sustainable growth path. The speed at which this takes place will depend on how quickly our policies lead to a change climate of expectations. But the intervening period is bound to be a very difficult one, in which we will have little room for manoeuvre.

8. The poor prospects for growth over the next three years or so reflect the combination of a number of adverse developments.

- World trade is depressed, and is likely to remain so for some considerable time. The latest oil price increases seem certain further to curtail world growth.
- Productivity in UK industry is extremely low. On the latest evidence it looks as though the estimates of productivity growth included in the last Government's public expenditure White paper, though substantially lower than earlier estimates, were not low enough. Our tax reductions, and other measures to restore incentives, should in time help to improve productivity. But in the next few years these beneficial effects are likely to be more than offset by the impact of falling output and investment. Excluding North Sea oil, we cannot count on output per head rising at more than half the 2½ per cent averaged in the year 1964-74.
- The trading performance of our manufacturing sector is poor, and its cost competitiveness has been seriously weakened by increases in pay far in excess of productivity. In the short run this loss of competitiveness has been increased by the appreciation of the exchange rate.

- The need to reduce inflation will entail tight fiscal and monetary policies that will reduce the pressure of demand.

In time, the adverse factors should be overcome; but it seems clear that the next three years are going to be a very difficult time.

Prospects for the PSBR and Taxes

9. These poor prospects for growth together with the likelihood of differentially high pay increases in the public services in the next two years as a result of comparability awards mean that substantial reductions in the volume of public expenditure will be necessary if the PSBR is to be contained. Increased pay is a particularly important element in 1980-81: it is assumed in the projections, on the basis of existing commitments and a judgement on the likely outcome of the Clegg reviews, that earnings in the public services will be 18½ per cent higher in that year than in 1979-80 (implying an increase of £4½ billion in the public service pay bill). Earnings in the private sector are assumed to be about 14 per cent higher and retail prices about 13½ per cent higher. These assumptions for earnings are of course highly uncertain, but given the commitment to honour comparability awards it would be imprudent to count upon a significantly more favourable outcome for the public services. Increases in pay and prices thus add enormously to the projected total of expenditure at current prices in that year.

10. The table below summarises the Treasury's projections of the PSBR (on the fiscal assumptions noted above of full indexation of taxes and public expenditure cuts on the scale envisaged in C(11)79).

SECRET

Public Sector Accounts

(£ billion at current prices)

| | <u>1979-80</u> | <u>1980-81</u> |
|-------------------------------------|----------------|----------------|
| General government receipts | 76.2 | 87.7 |
| General government expenditure | 85.1 | 97.0 |
| Public Sector Borrowing requirement | 8.3 | 9.2 |
| PSBR as % of GDP at market prices | 4.4% | 4.2% |

11. For later years, the margins of uncertainty are of course enormous, but the projections suggest that the PSBR would remain around its 1980-81 proportion of GDP in the following year (implying a rise to about £10 billion in current prices) and would decline quite sharply in the final year of the Survey.

12. The implication of these projections is that the levels of public expenditure implied in C(79)11, which would involve cuts from the inherited plans of about £6½ billion in 1980-81 (at 1979 Survey prices), would leave no room for real tax cuts in the 1980 and 1981 Budgets.

13. Progress towards our objective of reducing the basic income tax rate to 25p would require further cuts in public expenditure (or a further switch to indirect taxes, which would put up prices). The size of the additional cut would depend partly on its composition, but if the cut were wholly on goods and services, as a rough rule of thumb every 1p off the standard rate in 1980-81 would entail a cut of £0.7 billion in expenditure at 1979 Survey Prices.

[14. The cuts proposed for 1980-81 in the Chief Secretary's paper fall some way short of those envisaged in C(79)11 and thus mean that we risk having to make real increases in taxation in next year's Budget. If we did not achieve even these cuts we could face an extremely difficult situation as the Budget approaches - having to choose between raising taxes substantially and abandoning our strategy for reducing the PSBR and money

supply growth: that would of course be fatal to our chances of getting inflation under control, and there is no other way.]

Conclusion

15. We face a very difficult economic prospect over the next few years. There is little hope of any significant growth of the economy until inflation has been substantially brought down. To this end, it is vital to hold to our policies of containing the PSBR and reducing the growth of money supply and to establish a firm conviction that we intend to do so. [Even with expenditure cuts of the order implied in the Chief Secretary's paper there is a very real risk that this would entail raising taxes in the next Budget.]

8

PUBLIC EXPENDITURE, 1980-81 TO 1983-84
Memorandum by the Chief Secretary, Treasury

We took and announced in the Budget our public expenditure decisions for the current year 1979-80. We must now come to grips with decisions on the public expenditure plans for 1980-81 and subsequent years.

2. Our general approach is clear: we are going to make large reductions in the public expenditure plans which we inherited. This is essential to our strategy generally, and especially to our key aim of reducing direct taxation and overcoming inflation.

3. Factual material is in the two survey reports by officials, "The Inherited Plans" and "The Scope for Reductions": the former is available to colleagues in their Departments, the latter is circulated separately as C(79) . Also relevant are the review of nationalised industries' investment and financing (C(79)), and two other papers which will be coming forward in due course: the Lord President's report on further action to reduce the size of the civil service, and the Financial Secretary's report on disposals of assets.

Decisions to be taken

4. I propose that initially we concentrate on 1980-81. This paper is concerned only with that year.

5. The full Survey covers public expenditure plans for all years up to 1983-84. We must certainly address ourselves to the problems of these later years, and I will bring forward proposals to that end after the holidays; but it is more urgent to come to decisions now about 1980-81. This we should aim to do before the summer holidays, not only to facilitate orderly preparations for the Rate Support Grant negotiation in November, and for the Parliamentary Estimates and fixing of cash limits, but because successful

implementation of cuts on the scale at which we must aim will be aided by early notice to those concerned, especially local authorities.

6. The decisions we take now about plans for 1980-81 will be subject to such modification as may later be required by the operation of cash limits. Our cash limits policy we shall be discussing separately. If our financial objectives, and the development of pay and prices, do not allow as much cash for public expenditure programmes as the planning decisions now under discussion would imply, the plans will have to be modified accordingly.

Publication

7. The established procedure is that the results of the annual Survey are published about the turn of the year in a public expenditure White Paper covering all the years of the Survey. I propose however that we postpone for the moment decisions on the timing and form of the White Paper. Let us settle the substance first.

8. However, if the relevant decisions about 1980-81 are to be communicated to local authorities and others, it will be for consideration whether a statement of all the main changes proposed for 1980-81 should be made public quite soon, in advance of the White Paper, so that proposals becoming public concerning individual programmes can be seen in the context of a general policy for next year.

Objective for 1980-81

9. In 1980-81 we must at least maintain the trend we have set in 1979-80 and stay on course for bringing expenditure back to the 1977-78 level by 1982-83. In the current year the decisions we have taken should ensure that public expenditure outturn is no higher than in 1978-79. We must achieve some reduction in that level in 1980-81.

10. Table 1 of the report "The Scope for Reductions" shows that, if no cuts were made, expenditure in 1980-81 would total around £74½ billion, ^{25 billion} more than the expected outturn in 1979-80.

11. Accordingly we must aim at reductions of not less than £5½ billion in the inherited plans /for 1980-81, including sales of assets. The Chancellor of the Exchequer's paper indicates that even with a reduction of this size we may not be able to avoid substantial increases in the burden of taxation in the next Budget.

Proposals for action

12. Taking account both of the evident difficulties of some of the options and of such additional bids as look unavoidable, I propose that each Department should be asked to make for 1980-81 the net changes from the plans in Cmnd 7439 listed in Annex A.

13. If any of my colleagues can offer more, that would be welcome. Subject to that, these reductions would amount to about £3½ billion. In addition, I propose to cut the contingency reserve, which stands in the inherited plans at £1540 million, by some £½ billion. Options are being put forward in the nationalised industries' financing and investment review (C(79)) totalling some £0.35 billion and savings from the Lord President's review of the civil service might produce some £0.15 billion (beyond the savings included in this memorandum). So these proposals would give total reductions of the order of £5 billion, leaving £½ billion to be made up by further sales of assets.

14. It is for each Minister to decide how he makes up his total of cuts, but I list for illustration in Annex B the options and additional bids which I have had in mind in arriving at the figures I suggest. The brief references in Annex B are elaborated in the main paper on options (C(79)).

Defence

15. We are committed to some increase in defence spending. The baseline figure for 1980-81 already provides for a 3% growth path and would enable us to meet the NATO target in that year without further addition. We cannot afford to repeat in 1980-81 the exceptional £100 million increase given this year.

Law and Order

16. Some increases are necessary in the police, prison and probation services, but we must keep these to a minimum, and find all possible offsetting savings.

EEC Budget

17. Our contribution to the EEC Budget is expected to rise in 1980-81 to £1.1bn, over £600 million higher than in 1977-78. This underlines the importance of negotiating a reduction in our contribution. In 1980-81, our contribution looks like being some £240 million higher than so far provided for, and since any reduction we negotiate in our contribution to the 1980 Budget would not significantly affect expenditure until 1981-82 there appears to be no way of avoiding this.

Health

18. Consistently with the Manifesto commitment not to reduce spending on the National Health Service, we should keep gross spending at its present level but reduce net spending - the charge against public expenditure- by increased charges and possibly other sources of revenue. We cannot afford at present to devote any part of this additional income to increasing the rate of gross spending above that planned by our predecessors. In spending on Personal Social Services, which is not covered by the Manifesto commitment, some gross cuts may be possible.

Housing

19. We need the large cuts here on which we agreed in Opposition. Annex B proposes reductions accordingly. I suggest that we must take the necessary steps to ensure that rents rise faster than earnings in 1980-81, hold the level of new housebuilding approvals to the 50,000 likely to be achieved this year, and postpone inessential increases in spending on council house improvements and local authority mortgage lending.

Local authorities

20. The reductions required in local authority programmes in 1980-81 imply a cut in the inherited plans of 5% on current expenditure and 27% on capital. They will be difficult to secure, particularly on current expenditure, where the Government

has no direct control. The Consultative Council will discuss expenditure reductions in 1980-81 on 9 July and their views can be reported to Cabinet. We shall need to inform the local authorities as soon as possible of our decisions on 1980-81, to give them time to revise their plans.

21. I have suggested we should not reach decisions yet concerning the later years. However, the strategy for 1979-80 and 1980-81 plainly implies rising reductions after 1980-81. My colleagues responsible for local authority expenditure will wish to consider whether to consult further with the local authorities about the later years, though this should not hold up the decisions about 1980-81.

Social Security

22. Social security represents a quarter of public expenditure and, notwithstanding our move to prices-only upratings, is still growing because of demographic changes and the New Pensions Scheme. The full amounts included in the options would require real reductions in the level of pensions and other benefits and possibly, under some scenarios, money reductions too. This would be very difficult. I suggest we should determine now to make the much more modest (though still not easy) level of savings included in Annex A. We should then in the autumn examine the possibilities of larger savings in later years, though the obstacles in the way of finding these are only too apparent. On the other hand, I suggest also that we defer until next April a decision on a November 1980 uprating of child benefit, which is one of the biggest single bids; I have however taken account of the possibility that we may decide on this in considering the size of the Contingency Reserve.

Implications for programmes

23. Cabinet will recognise that for most programmes, and in particular housing, education, social security, aid and transport, the effect of the cuts proposed will be a substantial reduction in the planned level of services. In a number of areas there will be political problems in defending the necessary cuts. But I do not see any easier options nor do I believe that a different distribution could significantly lessen the criticisms. We need

all these cuts - the Chancellor's paper suggests we need more - if we are to maintain progress towards our fiscal and monetary objectives.

Legislative requirements

24. Some of the options would require additional legislation in the current session. I have drawn attention to these in Annex B. I recognise the difficulty of this but I suggest that we press forward with the necessary measures, to ensure that the intended savings do not slip into a later year.

End-year flexibility

25. The Ministry of Defence and other spending Departments have suggested arrangements for carrying forward limited amounts of unspent allocations from one year to the next. There are managerial advantages in such an arrangement, but in present circumstances I think that it would have to be subject to three conditions. First, provision for expenditure likely to be carried forward must not add to the public expenditure planning total. Second, it should be limited to expenditure where there is a strong managerial case for carry-over, principally capital expenditure. Third, the scheme should not imply relaxation in the strict observance of cash limits.

26. If Cabinet agree that such a scheme should be explored subject to the three conditions above, I will bring forward proposals which, I suggest, might be discussed in a smaller group of Ministers.

Conclusion

27. I propose that we:-

(i) agree to the aim of achieving a net reduction in the planning total for 1980-81 of not less than £5½ billion;

(ii) agree that, accordingly, there should be net reductions and additions to Departments' shares of programmes in 1980-81 as shown in Annex A, and that I should discuss with the Ministers concerned any difficulties they see in achieving these figures;

- (iii) agree that I should come back to Cabinet in the autumn with proposals for the years 1981-82 to 1983-84;
- (iv) agree that we should explore a scheme which would allow limited carry-over of unspent allocations from year to year, subject to the three conditions in paragraph 25 above.

£m 1979 Survey prices

| <u>Department</u> | <u>Additions (+) and reductions (-) to Cmnd 7439 revalued, 1980-81</u> |
|---------------------------------|--|
| Defence | - |
| FCO (ODA) | -1074 |
| FCO (other) | -23 |
| EEC Budget | +236 |
| MAFF/IBAP/DAFS/WOAD | -43 |
| Forestry Commission | -5 |
| Industry | -157 |
| Trade | -15 |
| ECGD | +170 |
| Employment | -478 |
| Energy | -19* |
| Transport | -235 |
| DOE (housing) | -1144 |
| DOE (PSA) | -44 |
| DOE (other) | -210 |
| Home Office | +10 |
| Lord Chancellor's Department | -4 |
| Education and Science | -630 |
| Arts and Libraries | -28 |
| DHSS (health) | -85 |
| DHSS (personal social services) | -88 |
| DHSS (social security) | -203 |
| HMSO | -7 |
| CSD (civil superannuation) | - |
| COI | -2 |
| Scottish Office (excl. DAFS) | -335 |
| Welsh Office (excl. WOAD) | -110 |
| Northern Ireland | -128 |
| | <hr/> |
| | -3684 |
| | <hr/> |

* NCB assistance will be subject of Nationalised Industries' Financing and Investment Review.

/ Assumes aid programme will carry cost of first "window". If not, correspondingly larger cut and transfer to D/Trade.

| <u>Department</u> | <u>£m 1979 Survey prices Additions (+) and Reductions (-) to Cmnd 7439 revalued, 1980-81</u> |
|---------------------------------------|--|
| Defence | - |
| FCO (ODA) | |
| overseas aid | -107 |
| overseas aid administration | -1 |
| other external relations - pensions | +1 |
| | <hr/> -107 |
| FCO (other) | |
| overseas representation | -8 |
| BBC | -4 |
| British Council | -10 |
| other external relations | -1 |
| | <hr/> -23 |
| EEC Budget | |
| programme 2.7 | +236 |
| MAFF/IBAP/DAFS/WOAD | |
| CAP (revaluation change) | -30 |
| MAFF/DAFS/WOAD reduced requirements | -15 |
| beef premium | -2 |
| end sheep and potato price guarantees | -9 |
| MLC administration | -2 |
| capital grants and guidance premiums | -20 |
| R & D, ADAS etc | -4 |
| salaries | -2 |
| other minor options | -2 |
| restructure fishing industry | +3 |
| sea fisheries | +3 |
| Thames barrier | +37 |
| | <hr/> -43 |
| Forestry Commission | |
| land purchases, new planting, etc | -5 |

Industry

| | |
|--|------------------|
| reductions already agreed | -35 |
| estimating changes | +24 |
| RDG | -133 |
| regional selective assistance | -1 |
| R & D | -7 |
| selective assistance for individual industries | -5 |
| | <hr/> -157 <hr/> |

Trade

| | |
|-------------------------------------|-----------------|
| tourism | -2 |
| export promotion | -2 |
| trade regulation | -9 |
| local authority consumer protection | -3 |
| central and miscellaneous | -1 |
| local authority loan sanction | -1 |
| shipping | +3 |
| | <hr/> -15 <hr/> |

ECGD

| | |
|-----------------------|------------------|
| 70% foreign financing | -4 |
| estimating changes | +174 |
| | <hr/> +170 <hr/> |

Employment

| | |
|------------------------|------------------|
| reduced requirements | -61 |
| effect of Budget cuts | -159 |
| short-time working | -207 |
| staff - DEM, HSC, ACAS | -1 |
| MSC | -50 |
| | <hr/> -478 <hr/> |

Energy

| | |
|--|-----------------|
| changes already made | -4 |
| OSIRG (or alternative if this is not possible) | -3 |
| non-nuclear R & D and energy conservation | -5 |
| nuclear R & D | -7 |
| | <hr/> -19 <hr/> |

NCB assistance will be subject of Nationalised Industries' Financing and Investment Review

SECRET

3

Transport

| | |
|---------------------------------|-----|
| motorways and trunk roads | -20 |
| local capital | -56 |
| local maintenance and car parks | -5 |
| local administration | -8 |
| local subsidies | -43 |
| local concessionary fares | -17 |
| BR and NFC pensions | -73 |
| BR other grants | -6 |
| freight facilities grant | -3 |
| new bus grant | -3 |
| R & D | -1 |
| ports | -2 |
| DVLC, assuming VED abolished* | -4 |
| assistance to PLA | +6 |

-235

DOE (housing)

| | |
|---|------|
| council house sales | -40 |
| municipalisation | -130 |
| land acquisition-hold at 1978-79 level | -120 |
| local authority new housebuilding | -445 |
| l.a. housing subsidies-net estimating changes | -1 |

| | |
|---|------|
| reductions for realism in option mortgage subsidy, private sector improvement grants, and first-time purchasers' scheme | -130 |
| rent increases £1 faster than earnings | -200 |
| 12% reduction in housing association/new towns expenditure | -83 |
| extra rent allowances for changes in fair rents | +5 |

-1144

DOE (PSA)

| | |
|---|-----------------|
| running costs | -9 |
| major new works - dispersal (assuming all uncommitted dispersal expenditure cancelled) | -26 |
| major new works - other | -7 |
| administration | -2 |
| | <hr/> -44 <hr/> |

DOE (other)

| | |
|--|------------------|
| Regional Water Authorities | -38 |
| British Waterways Board | -2 |
| local environmental services - current | -18 |
| local environmental services - capital | -20 |
| New Towns | -4 |
| administration and research | -7 |
| Community Land | -57 |
| urban programme | -60 |
| Development Commission | -1 |
| Parliamentary building | -1 |
| miscellaneous | -2 |
| | <hr/> -210 <hr/> |

Home Office

| | |
|--|-----------------|
| consequences of 1979-80 squeeze | -4 |
| ethnic minorities | -5 |
| other community services | -1 |
| abolition of Equal Opportunities Commission* | -2 |
| magistrates' courts - running expenses, net of increased fees and fines | +1 |
| prisons staff | +7 |
| probation manpower | +3 |
| police manpower | +6 |
| central and civilian support | +3 |
| immigration control | +1 |
| computers | +1 |
| | <hr/> +10 <hr/> |

Lord Chancellor's Department

| | |
|--------------------------|-----------------|
| PSA building | -5 |
| legal aid, other current | - $\frac{1}{2}$ |
| verbatim reporting | +1 |
| additional judges | + $\frac{1}{2}$ |

 -4

Education and Science

| | |
|--|------|
| under fives* | -70 |
| school transport* | -40 |
| school meals and milk* | -70 |
| reduce school standards | -100 |
| school building | -30 |
| higher education current | -50 |
| non-advanced further education current | -20 |
| higher and FE building | -10 |
| overseas students fees | -65 |
| 16-18s awards | -10 |
| parental contributions to student grants | -20 |
| Youth Service | -5 |
| adult education | -15 |
| inspection and administration | -15 |
| Research Councils | -20 |
| Tuition fees for 16-18s* | -90 |

 -630

Arts and Libraries

| | |
|---------------------------------------|-----|
| British Library building and services | -6 |
| Arts Council | -3 |
| museums and galleries current | -2 |
| local libraries | -15 |
| local museums | -2 |

 -28

DHSS (health)

| | |
|--|-----|
| prescription etc charges increase | |
| announced in Budget | -46 |
| reduced requirements general medical etc | -2 |
| prescription charge to 70p | -32 |
| welfare milk | -3 |
| road casualties, full or increased recovery of costs | -2 |

 -85

| | |
|---|-------------|
| DHSS (personal social services) | |
| effects of 1979-80 measures | -10 |
| further reductions | -78 |
| | <u>-88</u> |
| DHSS (social security) | |
| estimating reductions | -329 |
| changes announced 13 June | +332 |
| continued effects of 1979-80 | |
| cash limits squeeze | -8 |
| prices only uprating | -84 |
| increased fraud investigation etc | -20 |
| child dependency allowances | -10 |
| raise women's pension age* | -30 |
| freeze earnings limit for pensioners' wives | -8 |
| abolish maternity grant* | -13 |
| abolish death grant* | -13 |
| extend waiting days for unemployment benefit* | -10 |
| abolish preferences in maintenance benefits* | -10 |
| | <u>-203</u> |
| HMSO | |
| reduced services | -7 |
| CSD (civil superannuation only) | - |
| COI | |
| publicity | -2 |
| Scotland (excl. DAFS) | |
| "comparable" programmes | -312 |
| trade, industry etc | -23 |
| | <u>-335</u> |

S E C R E T

- 7 -

| | |
|------------------------------|-------|
| Wales (excl. WOAD) | |
| industry etc | -12½ |
| housing | -57 |
| roads and transport | -13 |
| other environmental services | -15 |
| education | -2½ |
| health | -5 |
| personal social services | -5 |
| | <hr/> |
| | -110 |
| | <hr/> |
| Northern Ireland | -128 |
| | |
| | <hr/> |
| GRAND TOTAL | -3684 |
| | <hr/> |

*Primary legislation required in current session, and not already planned (or could not be included in legislation already planned).

S E C R E T

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

5 July 1979

Dear Sir,

1979-80 CASH LIMITS: THE 3 PER CENT
CUT IN CIVIL SERVICE STAFF

The Prime Minister was grateful for the Lord President's minute of 29 June on the above subject, and is glad to note that agreement has now been reached which will produce an overall saving in staff costs of 2½ per cent.

I am sending copies of this letter to the Private Secretaries to the members of Cabinet, including the Minister of Transport, and to Martin Vile (Cabinet Office).

Mr. [unclear]

Jim Buckley, Esq.,
Lord President's Office.

T. [unclear]

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

12
97

Rt Hon John Biffen MP
Chief Secretary of the Treasury
HM Treasury
Parliament Street
London
SW1P 3AG

5 July 1979

De Jan

NPC CONTRACT FOR CDFR DESIGN AND PROJECT ENGINEERING

You will recall that we decided in Cabinet on 24 May that no further long-term commitments should be entered into before Ministers had taken final decisions on long-term public expenditure plans.

This decision has raised a problem in connection with a contract for design and project engineering work on the fast reactor which the UK Atomic Energy Authority (UKAEA) places with the Nuclear Power Company (NPC) on behalf of my Department.

This contract has been run for the last four years on the basis of a series of three or six-monthly extensions, each made as an interim measure pending decisions on fast reactor policy generally.

The NPC, supported by the UKAEA, the Generating Boards and the Nuclear Installations Inspectorate, have strongly advised that it is unsatisfactory to carry forward an advanced technology of this kind on such a short-term basis. NPC are finding it increasingly difficult to hold their design team together or to establish efficient working relationships with their sub-contractors, and have asked for a contract until March 1981 to enable them to work with greater continuity on the possibilities for international collaboration, on testing and proving reactor components, on the safety case for a CDFR and on other key features of fast reactor design which would be important at a public inquiry.

The sums of money required for the contract (£4.8 m. in the remainder of 1979/80 and £7.7 m. in 1980/81) can be found from within the nuclear Vote and within cash limits and would not be affected by option cuts. The contract is not a new commitment, having been in existence since 1975, and would be terminable at three months' notice in the light of Government decisions on the fast reactor. The consent of both my Department and the Treasury would be required to any expansion of the design team above its present level and to any financial commitment beyond March 1981.

Against this background and given the importance of nuclear power in our energy policy, I believe there is a strong case for agreeing the extension to the end of the next financial year, as proposed, and seek your agreement to my doing so.

I am copying this letter to the Prime Minister and to Sir John Hunt.

D A R HOWELL

h. m.
Davis
7



26 JUL 1978



26 JUL 1978



From the Secretary of State

The Rt Hon Lord Carrington, KCMG, MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London, SW1

1. Mr. Carrington pa
2. pa.

217
3. July 1979

Dear Peter.

PUBLIC EXPENDITURE CUTS: THE AID PROGRAMME

I see from your letter of 26 June that you are intending to discuss with Neil Marten on your return from Tokyo how best to apportion the £50 million cut in the aid programme for 1979/80. As Geoffrey Howe suggested in his letter of 13 June this is a matter of some considerable interest to me too, and I look forward, as he does, to seeing what you have in mind before any final decisions are taken. I appreciate that the scope for a reorientation of the aid programme to give more emphasis to our commercial and industrial objectives may be fairly limited in respect of 1979/80, but it will be important to signal the direction in which we are moving.

Meanwhile I would like to make one particular comment on the table of commitments which Neil Marten's Private Secretary sent to Number 10 with his letter of 30 May. This shows the whole of the ATCP commitment as pledges. However, I understand that £7 million has already been disbursed and several agreements relating to a further £17 million of offers accepted by recipients have been signed. These amounts (£24 million) should therefore be regarded as falling in the 'contractual' category, leaving only £12 million of ATCP money for 1979/80 in the "pledges" category.



From the Secretary of State

Whatever the outcome for 1979/80 I also hope that there will be an early opportunity to discuss the longer term and more fundamental reorientation of our aid policies, which I am sure that you and Neil Marten are already working on. It is not going to be easy to get the balance right between development, political/strategic and commercial/industrial objectives, but I think that several of us would have a contribution to make.

Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Secretary of State for Industry and Neil Marten.

Yours ever
John

JOHN NOTT

23 JUL 1979

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



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

3 July 1979

Dear John,

PUBLIC EXPENDITURE PRESENTATION - TREATMENT OF CHILD BENEFIT

I am grateful to you for following up in your letter of 25 June the question that has been raised about the treatment for public expenditure purposes of child benefit.

As you know both Geoffrey Howe and I signed the amendment to the Early Day Motion No 420 in July 1977 which expressed the view that it would be right "to ensure that increases in child benefit are treated in the same way as tax cuts" in connection with the switch from CTAs to benefits. It seems to me in the light of this that we must still be looking at what we do with child benefits at the same time as we consider the level of tax allowances.

However, it is not the form, but the substance, with which I am concerned. I understand the argument that now that Family Allowances and Child Tax Allowances have been fully merged to form Child Benefit with no residual tax allowance, one should cease looking back and saying that some part of what is being paid as a benefit should be "counted" as a tax allowance. But to accept this as "the form" without regard to the substance could be to lose sight of important factors. It is a fact that if the cost of the child tax allowances in their last full year (1976-1977) had been updated in line with other personal tax allowances, the existing level would, I understand, 'cost' something like £1.9 billion a year (or two-thirds of the total cost of child benefit) none of which would be regarded as public expenditure.

What concerns me is that we should achieve a recognition that, (unless and until we move towards a full tax-credit scheme, when the whole question how we should handle the ensuing provision for public expenditure purposes will arise) two factors should be fully recognised in everyone's thinking:-

- a. There is now only one way of helping families with children, instead of two: Child Benefit replaces both Child Tax Allowances and Family Allowances, and

- b. consequently, it is essential that each year as part of the Budget strategy, Treasury Ministers should, in consultation with the Secretary of State for Social Services, consider what is to be done with the rate of child benefit.

I know that the statutory responsibility for reviewing the benefit rests with me, and proposals for its increase will formally appear as bids for additional expenditure on my programme. This is why I have instructed officials to include in the PESC Options Paper, which we shall be discussing in Cabinet on 12 July, a firm bid for uprating child benefit in line with prices in November 1980. Nonetheless, in my view, this is very much a responsibility which you share with me, namely for determining the appropriate level of family support in the context of the levels of family taxation. Child Benefit is now the only instrument not only for ensuring 'horizontal' equity between taxpaying families with and without children, but also for narrowing the "Why Work" disincentive for families with children on Social Security benefit.

You will recall that at our meeting with the Chancellor when the question of calls on the Contingency Reserve for this year were discussed, I made the point that I did not want to insist on price protection for child benefit being written into the law. This was because it seemed to me essential that Treasury Ministers have a degree of flexibility here in deciding the frequency and extent of upratings - how and when to maintain the value of the benefit, given that over a period its real value must at the very least be seen to be maintained. This must follow from its hybrid nature and the fact that in large part it replaces the child tax allowance.

The real difficulty is that the form in which the Public Expenditure Programme is currently presented does not readily accommodate this approach. But it must be the realities that we concentrate on, and not the forms.

Clearly we cannot allow the level of child support to drift steadily downwards over the years; and yet at the same time perhaps we ought not specifically to provide for increases in the benefit at pre-determined intervals since, as I have said above, it is for the Chancellor as much as for me to settle what ought to be done each year in the light of the prevailing economic circumstances. However, as it is certainly not unforeseen that we need to put up child benefit periodically at least to keep pace with prices, I regard it as essential that the Contingency Reserve should, in the absence of specific provision for upratings in my programme, be set for the years ahead at a level which takes account of this factor.

I shall be very glad to have your comments on what I have said since I certainly hope that we can resolve this issue between us and not need to bother our colleagues. If you think a meeting is necessary then I should, of course, be only too happy to come over.

I am copying this letter to the Prime Minister and to Sir John Hunt; and letting Humphrey Atkins have a copy of the correspondence in view of the way the Northern Ireland child benefit scheme follows our own.

Your ever
Patrice



3 JUL 1979

CONFIDENTIAL



Prime Minister

2

To note - a
good outcome.

PRIME MINISTER

[Handwritten signature] IL 2/7

1979-80 CASH LIMITS: THE 3% CUT IN CIVIL SERVICE STAFF

We agreed at Cabinet on 14 June that we should come as close as possible to the 3% target for savings this year in Civil Service staff costs, and that I should agree and publish cash limits for the Department of Health & Social Security and Department of Employment in consultation with Patrick Jenkin, Jim Prior and John Biffen with this end in view.

2. I am glad to report that we have now reached agreement. The revised cash limits were published in a White Paper issued last Tuesday. Limited exemptions from the cut have been allowed for the DHSS and the Department of Employment in order to maintain essential benefit paying operations and these, together with the exemption for prisons outstation staff and some other small exceptions mainly in the field of law and order, produce an overall saving of 2½%.

3. Given all the difficulties of making cuts in the short term, I believe that this is as satisfactory an outcome as could be expected. I know this has not been an easy operation for certain of our colleagues and I am grateful for the efforts they have made and for the understanding which they have shown.

4. I am copying this note to Cabinet colleagues and to Sir John Hunt.

[Handwritten signature]

SOAMES

29 June 1979





Edm Bl
✓
3

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

29 June 1979

Dear John.

Thank you for your letter of 26 June.

I think that my letter of 18 June fully set out the "particular problems of the education service" in meeting the options which Cabinet set.

In the circumstances I agree with you that no purpose would be achieved by a formal meeting.

I am copying this letter to the Prime Minister, Michael Heseltine, George Younger, Nicholas Edwards and Humphrey Atkins.

Yours ever

Mark

MARK CARLISLE

29 JUN 1979





Economic Policy
Foreign and Commonwealth Office

London SW1A 2AH

26 June 1979

Jean Geoffrey

Public Expenditure Cuts: The Aid Programme

Thank you for your letter of 13 June about forward aid commitments.

As regards this year's commitments I intend to discuss with Neil Marten after my return from Tokyo the implications of the £50 million cut we have agreed and how best it can be apportioned having regard to contractual agreements and firm pledges of aid.

I shall certainly take account of the points you have made when we come to look at particular programmes. I shall be in touch with you later on.

Copies of this letter go to the Prime Minister, the Secretary of State for Trade and to Neil Marten.

J
Pd

(CARRINGTON)

The Rt Hon Sir Geoffrey Howe QC MP



26 JUN 1979



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Mark Carlisle MP
Secretary of State
Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

TC
27/1
26th June 1979

Dear Mark,

PUBLIC EXPENDITURE SURVEY - OPTIONS FOR REDUCTIONS 1980-84

Thank you for your letter of 18 June.

As you say we shall be discussing all the options in Cabinet in July. This will be in the rather wider context than you mention of our commitment to reduce the size of the public sector - avoiding certain specified areas.

I note what you say about the education programme and I acknowledge the practical problems you will have to face in making the necessary reductions. But your problems will have to be weighed with, and against, those of others across the whole field before it can be decided exactly how far we are to go with the options on a formula basis. Inevitably education will be asked to make a substantial contribution. I am glad therefore that you confirm your willingness to play your full part in the operation.

Having said that, if you think it would be useful to tell me about the particular problems of the education service, I shall be glad to listen.

I am sending copies of this letter to the Prime Minister, Michael Heseltine, George Younger, Nicholas Edwards and Humphrey Atkins.

John Biffen

JOHN BIFFEN



26 JUN 1979



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
 Secretary of State
 Department of Health & Social Security
 Alexander Fleming House
 Elephant & Castle
 London SE1 6BY

25th June 1979

Dear Patrick

PUBLIC EXPENDITURE PRESENTATION - TREATMENT OF CHILD BENEFIT

At the meeting you had with the Chancellor on 17 May about social security uprating the question was raised as to the treatment for public expenditure purposes of child benefit; and at a later date the matter came up briefly in Cabinet as part of a discussion of wider aspects of public expenditure presentation. I am writing to you now on the child benefit point.

As I understand it, what you had in mind was that either the full costs of the benefit, or perhaps improvements in the benefit beyond the present £4 per week, should be regarded as a form of tax foregone or tax credit, rather than as public expenditure. This idea would flow from the concept that child benefit is the direct successor to child tax allowance, and that had child tax allowance continued its costs would not have scored against public expenditure.

I have considered this, and I must say that I do not think that the argument is tenable. To start with, while the introduction of child benefit was clearly associated with the abolition of child tax allowance, the two are by no means the same. Child benefit (which is a great deal more costly than was child tax allowance) subsumes the former family allowance system as well as child tax allowances. More fundamentally, child benefit is payable also to non-tax-payers, and is designedly of a different nature from child tax allowance; indeed the change was designed and executed (and supported on both sides of the House) so that there should in fact be a different distribution of family support. Thus the substitution arguments are not strong.

Child benefit is fundamentally different from child tax allowance in another, perhaps obvious, respect also. That is, it is a cash transfer from the public to the private sector; it is voted by Parliament as public expenditure and is so treated in the national accounts. While there can be a blurring at the edges in some respects as between public expenditure and "tax expenditures",

it seems to me that the very nature of child benefit makes it classically part of public expenditure. And of course, however the definition goes, it adds to the PSBR.

I can see that during the change-over period there was a case for showing tax revenue from reduction in child tax allowance as an offset to public expenditure programmes in White Papers published during that period, in order to avoid a misleading growth of expenditure. But the change-over is now complete, and that argument does not apply for the future figures. For the reasons I set out above I think there is no doubt that we must now include the gross cost of child benefit in public expenditure totals.

I am sending copies of this letter to the Prime Minister and to Sir John Hunt.

A handwritten signature in cursive script, appearing to read 'John Biffen', is written above the printed name.

JOHN BIFFEN



26 JUN 1979



Treasury Chambers, Parliament Street, SW1P 3AG

John Chilcot Esq
PS/Home Secretary
Home Department
50 Queen Anne's Gate
London SW1H 9AT

25 June 1979

R. 20/1

Dear John,

CASH LIMITS 1979/80

As promised in my letter of 21 June I attach a final draft of the revised cash limits for 1979/80, now to be presented to Parliament as a typescript Command Paper at 2.30pm tomorrow, 26 June, and available to Members from 3.30pm.

These cash limits represent the maximum to be spent by each department on the services covered. The Chief Secretary asks, in view of the likely pressures on the cash limits this year, that his colleagues will monitor closely the progress of spending within the cash blocks for which they are responsible, and take in good time any action necessary to ensure that the limits are observed.

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

*Yours sincerely,
A C Pirie*

A C PIRIE
Private Secretary

CASH LIMITS

1979-80

Presented to Parliament by the Chief Secretary to
the Treasury by Command of Her Majesty

June 1979

To be published by HM Stationery Office as Cmnd 7604

CASH LIMITS 1979-80

1. Revisions are necessary to the cash limits for 1979-80 published in the previous Government's White Paper "Cash Limits 1979-80" (Cmd 7515) to reflect the specific cuts in public expenditure announced in the Budget Statement and the general policy on cash limits and pay announced on May 22 by the Chancellor of the Exchequer and the Minister of State, Civil Service Department. Revised figures are set out in this White Paper. The proposed limits take account of pay awards reached by June 5 and include provision for certain payments deferred from 1978-79 to 1979-80 as a result of Civil Service industrial action.

2. Supplementary Estimates for additional provision within the proposed cash limits will be presented to Parliament in due course. Where the cash limits are significantly less than the Estimates presented by the previous Government, revised Estimates will be presented. Revised cash limits on the external financing requirements of nationalised industries were published in Table 13 of the Financial Statement and Budget Report.

CASH LIMITS 1979-80

Central Government Assimilated Blocks

Table 1

| Class and Vote No.(1) | Accounting Department | Description of Expenditure | Cash Limit in Cmnd 7545 (£000) | Revised Cash Limit (£000) |
|--------------------------|---|--|-----------------------------------|------------------------------|
| I 1(1) | Ministry of Defence | Pay etc of armed forces and civilians, stores, supplies and miscellaneous services | 3,536,241 | 3,824,434 |
| I 2(2) | Ministry of Defence | Defence procurement | 3,636,632 | 3,736,344 |
| I 4(2) | Department of the Environment (Property Services Agency) | Defence accommodation services | 509,100 | 519,500 |
| I 5(2) | Ministry of Defence | Defence dockyard services | 323,027 | 333,734 |
| II 1* | Foreign and Commonwealth Office | Overseas representation : diplomatic and consular services | 143,881 | 149,646 |
| II 2 | Department of the Environment (Property Services Agency) | Overseas representation : accommodation services | 31,661 | 31,661 |
| II 3 | Foreign and Commonwealth Office | British Broadcasting Corporation : external services | 43,199 | 44,301 |
| II 4 | Foreign and Commonwealth Office | British Council | 28,350 | 29,070 |
| II 5 | Foreign and Commonwealth Office | Foreign and Commonwealth services | 20,479 | 20,505 |
| II 8 | Cabinet Office | Secret service | 36,000 | 40,000 |
| II 10 | Ministry of Overseas Development | Overseas aid | 863,900 | 804,300 |
| II 11* | Ministry of Overseas Development | Overseas aid administration | 14,120 | 15,175 |
| III 5 | Ministry of Agriculture, Fisheries and Food | Other agricultural and food services | 58,144 | 62,084 |
| III 7* | Intervention Board for Agricultural Produce | Central administration | 8,298 | 8,621 |

| <u>Class and Vote No. (1)</u> | <u>Accounting Department</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Cmnd 7515 (£000)</u> | <u>Revised Cash Limit (£000)</u> |
|-----------------------------------|---|---|---|--------------------------------------|
| III 8 | Ministry of Agriculture, Fisheries and Food | Support for the fishing industry | 16,704 | 17,234 |
| III 9 | Forestry Commission | Forestry | 41,901 | 47,428 |
| III 10* | Ministry of Agriculture, Fisheries and Food | Departmental administration | 94,088 | 101,366 |
| IV 2 | Department of Industry | Miscellaneous support services | 30,080 | 30,080 |
| IV 4 | Department of Trade | Pay, general administrative expenses, export promotion and trade cooperation, tourism, regulation of trading practices and other support services | 78,782 | 80,248 |
| IV 7 | Department of Industry | Scientific and technological assistance | 136,749 | 137,817 |
| IV 8 | Department of Energy | Industrial support | 54,127 | 53,055 |
| IV 9 | Department of Energy | Scientific and technological assistance, nuclear energy | 144,084 | 148,801 |
| IV 11* | Export Credits Guarantee Department | Central services | 12,566 | 13,721 |
| IV 13(4) | Department of Prices and Consumer Protection | Pay, general administrative expenses and consumer protection | 23,905 | 20,671 |
| IV 14* | Friendly Societies Registry | Pay and general administrative expenses | 616 | 688 |
| IV 15* | Office of Fair Trading | Pay and general administrative expenses | 2,431 | 2,633 |

| Class and (1) Vote Number | Accounting Department | Description of Expenditure | Cash Limit in Cmnd 7515 (£000) | Revised Cash Limit (£000) |
|------------------------------|-------------------------------|--|-----------------------------------|------------------------------|
| IV 16 | Department of Employment | Labour market services | 157,536 | 111,834 |
| IV 18 | Department of Employment | Advisory, Conciliation and Arbitration Service | 11,325 | 11,807 |
| IV 19 | Department of Employment | Manpower Services Commission | 586,690 | 534,888 ⁽³⁾ |
| IV 22 | Department of Employment | Departmental administration | 67,849 | 74,442 |
| IV 23 | Department of Industry | Central and miscellaneous services | 32,807 | 35,862 |
| IV 24 | Department of Energy | Administration and miscellaneous services | 8,328 | 9,270 |
| IV 25 | Department of Employment | Health and Safety Commission | 53,516 | 55,757 |
| VI 3(5) | Department of Transport | Roads, England | 459,489 | 450,542 |
| VI 4(5) | Department of Transport | Transport services | 90,864 | 89,808 |
| VI 6 | Department of Trade | Shipping and civil aviation services | 49,518 | 53,861 |
| VI 7(5) | Department of Transport | Central and miscellaneous services | 27,654 | 30,979 |
| VIII 4 | Department of the Environment | Central environmental services etc | 68,575 | 69,099 |
| VIII 6 | Department of the Environment | Royal palaces, royal parks, historic buildings and ancient monuments | 47,067 | 47,400 |
| VIII 7(2) | Department of the Environment | Central administration and environmental research | 96,868 | 101,735 |
| IX 1 | Lord Chancellor's Department | Administration of justice : England and Wales | 29,420 | 33,884 |

| <u>Class and Vote No. (1)</u> | <u>Accounting Department</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Gmnd 7575</u> (£000) | <u>Revised Cash Limit</u> (£000) |
|-----------------------------------|--|---|--|-------------------------------------|
| IX 13 | Treasury Solicitor | Pay and general administrative expenses | 5,552 | 6,019 |
| X 4 | Department of Education and Science | Universities etc | 831,069 | 841,677 |
| X 6 | Department of Education and Science | Educational services | 73,027 | 75,728 |
| X 9 | Department of Education and Science | Libraries, England | 29,960 | 32,405 |
| X 11 | Department of Education and Science | Central administration services | 20,941 | 22,809 |
| X 12 | Department of Education and Science | Agricultural Research Council | 28,926 | 29,501 |
| X 13 | Department of Education and Science | Medical Research Council | 54,913 | 56,603 |
| X 14 | Department of Education and Science | Natural Environment Research Council | 35,459 | 36,605 |
| X 15 | Department of Education and Science | Science Research Council | 176,712 | 175,593 |
| X 16 | Department of Education and Science | Social Science Research Council | 17,819 | 16,515 |
| X 17 | Trustees of the British Museum (Natural History) | British Museum (Natural History) | 5,324 | 5,835 |
| X 18 | Department of Education and Science | Other science etc | 2,868 | 2,953 |
| X 19 | Trustees of the British Museum | British Museum | 7,722 | 8,237 |

| <u>Class and Vote No. (1)</u> | <u>Accounting Department</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Cmnd 7515 (£000)</u> | <u>Revised Cash Lim (£000)</u> |
|-----------------------------------|--|---|---|------------------------------------|
| X 20 | Department of Education and Science | Science Museum | 4,009 | 4,501 |
| X 21 | Department of Education and Science | Victoria and Albert Museum | 6,539 | 6,994 |
| X 22 | Trustees of the Imperial War Museum | Imperial War Museum | 2,531 | 2,694 |
| X 23 | Trustees of the National Gallery | National Gallery | 4,401 | 4,487 |
| X 24 | Trustees of the National Maritime Museum | National Maritime Museum | 2,678 | 2,784 |
| X 25 | Trustees of the National Portrait Gallery | National Portrait Gallery | 1,180 | 1,228 |
| X 26 | Trustees of the Tate Gallery | Tate Gallery | 3,466 | 3,596 |
| X 27 | Trustees of the Wallace Collection | Wallace Collection | 431 | 469 |
| X 30 | Department of Education and Science | Arts Council and other grants | 71,020 | 77,782 |
| XI 1 | Department of Health and Social Security | Health and personal social services, England | 4,953,585 | 5,097,716 |
| XII 4* | Department of Health and Social Security | Administration and miscellaneous expenses | 325,564 | 357,164 |
| XIII 3* | Privy Council Office | Pay and general administrative expenses | 338 | 363 |
| XIII 4* | Treasury | Pay and general administrative expenses | 13,766 | 14,599 |

| Class and Vote no. (1) | Accounting Department | Description of Expenditure | Cash Limit in Cand 7515 (£000) | Revised Cash Limit (£000) |
|---------------------------|---|--|-----------------------------------|------------------------------|
| XIII 5* | Customs and Excise | Pay, general administrative expenses and capital expenditure | 180,461 | 190,804 |
| XIII 6* | Board of Inland Revenue | Pay and general administrative expenses | 413,820 | 439,508 |
| XIII 7*(5) | Department of Transport | Driver and vehicle licensing | 48,332 | 49,313 |
| XIII 9* | Exchequer and Audit Department | Pay and general administrative expenses | 4,686 | 5,216 |
| XIII 10* | National Debt Office | Pay and general administrative expenses | 1 | 1 |
| XIII 11* | Public Works Loan Commission | Pay and general administrative expenses | 1 | 1 |
| XIII 12* | Department for National Savings | Pay and general administrative expenses | 39,496 | 40,909 |
| XIII 15 | Civil Service Department | Central management of the Civil Service | 24,692 | 26,131 |
| XIII 16* | Public Record Office | Pay and general administrative expenses | 1,987 | 2,198 |
| XIII 18* | Office of Population Census and Surveys | Pay and general administrative expenses | 11,447 | 12,271 |
| XIII 20* | Land Registry | Pay and general administrative expenses | 32,073 | 33,551 |
| XIII 22* | Charity Commission | Pay and general administrative expenses | 2,079 | 2,279 |
| XIII 23* | Ordnance Survey | Pay, general administrative expenses and capital expenditure | 13,225 | 14,349 |
| XIII 24* | Cabinet Office | Pay and general administrative expenses | 5,014 | 5,333 |

| Class and Vote No. (1) | Accounting Department | Description of Expenditure | Cash Limit in Cmd 7515 (£000) | Revised Cash Limit (£000) |
|---------------------------|--|---|----------------------------------|------------------------------|
| XIII 28* | Parliamentary Commissioner and Health Service Commissioners | Pay and general administrative expenses | 864 | 941 |
| XIII 29 | Public Trustee | Pay and general administrative expenses | 1 | 1 |
| XIV 1(2) | Department of the Environment (Property Services Agency) | Office and general accommodation services | 402,381 | 380,000 |
| XIV 2*(2) | Department of the Environment (Property Services Agency) | Administration and miscellaneous services | 173,071 | 180,800 |
| XIV 3 | Stationery Office | Stationery and printing | 106,394 | 106,819 |
| XIV 4 | Civil Service Department | Computers and telecommunications | 57,907 | 58,277 |
| XIV 5 | Central Office of Information | Publicity and departmental administration | 35,617 | 36,314 |
| XIV 8* | Government Actuary's Department | Pay and general administrative expenses | 341 | 381 |
| XIV 9 | Civil Service Department | Civil Service catering services | 1,134 | 1,175 |
| XIV 10* | Paymaster General's Office | Pay and general administrative expenses | 5,263 | 5,487 |
| XV 2 | Northern Ireland Office | Law, order and protective services | 230,704 | 238,430 |
| XV 3* | Northern Ireland Court Service | Administration of justice : Northern Ireland | 3,565 | 3,779 |
| XV 4* | Northern Ireland Office | Central and miscellaneous services | 3,997 | 4,187 |

| <u>Class and Vote No (1)</u> | <u>Accounting Department</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Cmd 7515 (£000)</u> | <u>Revised Cash Limit (£000)</u> |
|----------------------------------|-------------------------------|--|--|--------------------------------------|
| XVII 1 | Department of the Environment | Rate support grant and supplementary grants to local authorities | 7,731,300 | 7,556,300 ¹⁶⁾ |
| XVII 10* | Crown Estate Office | Pay and administrative expenses | 851 | 925 |
| XVII 14(5) | Department of Transport | Transport supplementary grants : England and Wales | 347,500 | 348,800 (7) |

Notes on Table 1

- (1) Central responsibility for expenditure control is exercised by the Treasury and the Civil Service Department, depending on the expenditure concerned. The blocks controlled by the Civil Service Department are indicated by an asterisk.
- (2) The whole of Class I, Votes 1, 2, 4 and 5, together with Class 1, Vote 3 which is not subject to cash limits, and elements of Class VIII, Vote 7 and Class XIV. Votes 1 and 2 will continue to be managed as a block budget.
- (3) This amount is net of contributions from the Scottish and Welsh Offices and payments from the National Insurance Fund. The gross grant-in-aid of £632,238,000 is regarded as the overall cash limit for the Manpower Services Commission.
- (4) The functions of the Department of Prices and Consumer Protection have been transferred to the Department of Trade, who will be responsible for the Vote.
- (5) These Votes do not include central government grants for British Rail passenger services, which in the calendar year 1979 are subject to a cash ceiling of £497 million for which provision is made in Class VI, Vote 5.
- (6) Subhead A1 of this Vote (£17 million) comprises sums remaining available within the cash limit for rate support grants for 1978-79.
- (7) This Vote includes £0.4 million remaining available within the cash limit for transport supplementary grants for 1978-79

CASH LIMITS 1979-80

Table 2

Other Central Government Blocks

| <u>Department</u> | <u>Block Number</u> | <u>(1) Description of Expenditure</u> | <u>Cash Limit in Cmnd 7515</u> (£000) | <u>Revised Cash Limit</u> (£000) |
|--|---------------------|---|--|-------------------------------------|
| Bank of England | BOE1 | Financial management | 64,500 | 64,500 |
| Home Office | HO1* | Pay and general administrative expenses | 287,562 | 307,767 |
| | HO2 | Law, order and protective services | 153,908 | 153,908 |
| SCOTLAND | | | | |
| Scottish Office | SO1* | Pay and general administrative expenses (2) | 56,403 | 59,514 |
| | SO2 | Rate support grant for local authorities in Scotland | 1,156,400 | 1,137,500 |
| Department of Agriculture and Fisheries for Scotland | DAFS1 | Agricultural services and fisheries support | 37,018 | 37,870 |
| Scottish Courts Administration | SCA1* | Pay and general administrative expenses | 4,610 | 4,881 |
| Scottish Development Department | SDD1 | Motorways, trunk roads and other environmental services | 96,654 | 93,250 |
| Scottish Economic Planning Department | SEPD1 | Regional and industrial development | 95,174 | 80,019 |
| | SEPD2 | Manpower Services Commission | 65,990 | 60,199 |
| Scottish Education Department | SED1 | Education, libraries and arts | 59,280 | 59,514 |
| | SED2 | Social work | 8,922 | 8,922 |
| National Library of Scotland | SED3 | National Library of Scotland | 1,398 | 1,471 |
| National Galleries of Scotland | SED4 | National Galleries of Scotland | 1,490 | 1,540 |

| <u>Department</u> | <u>Block Number</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Cmnd 7515</u> (£000) | <u>Revised Cash Limit</u> (£000) |
|--|---------------------|--|--|-------------------------------------|
| National Museum of Antiquities of Scotland | SED5 | National Museum of Antiquities of Scotland | 520 | 555 |
| Scottish Home and Health Department | SHHD1 | Health | 781,851 | 813,744 |
| | SHHD2* | Law, order and protective services (central support and other services) | 31,841 | 34,045 |
| Department of the Registers of Scotland | DRS1* | Pay and general administrative expenses | 1 | 1 |
| Registrar General's Office Scotland | EGO(S)1* | Pay and general administrative expenses | 1,602 | 1,723 |
| Scottish Record Office | SRO1* | Pay and general administrative expenses | 533 | 750 |
| Queen's and Lord Treasurer's Remembrancer | QLTR1* | Pay and general administrative | 4,506 | 4,912 |
| WALES | | | | |
| Welsh Office | WO1* | Pay and general administrative | 17,914 | 19,013 |
| | WO2 | Health and personal social services, roads, education, libraries, arts, other environmental services and agriculture | 431,558 | 443,210 |
| | WO3 | Regional and industrial development | 53,604 | 53,915 |
| | WO4 | Manpower Services Commission | 38,403 | 34,928 |

| <u>Department</u> | <u>Block Number</u> | <u>Description of Expenditure</u> | <u>Cash Limit in Cmnd 7515</u> (£000) | <u>Revised Cash Limit</u> (£000) |
|------------------------------|---------------------|--|--|-------------------------------------|
| NORTHERN IRELAND | | | | |
| Northern Ireland Departments | NID1 | Services analogous to GB services covered by cash limits | 1,297,200 | 1,319,100 |

Notes on Table 2

- (1) Central responsibility for expenditure control is exercised by the Treasury and the Civil Service Department, depending on the nature of the expenditure concerned. The blocks controlled by the Civil Service Department are indicated by an asterisk.
- (2) SO1 covers the pay and general administrative expenses of the Scottish Office, Department of Agriculture and Fisheries for Scotland, Scottish Development Department, Scottish Education Department (part), Scottish Economic Planning Department and Scottish Home and Health Department (part).

CASH LIMITS 1979-80

Table 3 Capital Blocks for Local Authorities and Certain Other Bodies(1)

| Department | Block Number | Description of Block | Cash Limit in Cmnd 7515 (£ million) | Revised Cash Limit (£ million) |
|-------------------------------------|--------------|--|--|-----------------------------------|
| Department of Education and Science | DES/LA1 | Value of building projects started in 1979-80 under the aegis of the Department of Education and Science, local authorities, other public bodies and the universities, for schools, further education and teacher training and higher education (England) and for universities (Great Britain) | 234.6 | 234.6 |
| Department of Employment | DEM/LA1 | Capital expenditure on employment services | 2.8 | 2.8 |
| Department of the Environment | DOE/LA1 | Borrowing allocations made for capital expenditure within the locally determined sector in England and Wales | 100.0 | 100.0 |
| | DOE/LA2 | Capital expenditure by local authorities and new towns on new housebuilding, land, improvements, acquisition of existing dwellings, lending (gross to private persons for house purchase and improvement, improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by the local authorities and other housing investment (other than that included in DOE/LA1) | 3,035.2 | 2,758.2 |
| | DOE/LA3 | Value of housing associations projects approved by the Housing Corporation | 526.5 | 526.5 |
| | DOE/LA4 | Capital expenditure on reclamation of derelict land and coast protection work | 32.1 | 32.1 |

| <u>Department</u> | <u>Block Number</u> | <u>Description</u> | <u>Cash Limit in Cmnd 7515</u> (£ million) | <u>Revised Cash Limit</u> (£ million) |
|--|---------------------|--|---|--|
| Department of the Environment | DOE/LA5 | Gross expenditure on the community land scheme | 75.5 | 22.3 |
| | DOE/LA6 | Urban Programme : expenditure by local authorities | 186.9 | 173.5 |
| | DOE/NT1 | New towns' industrial and commercial investment | 57.6 | 37.6 |
| Department of the Environment and Welsh Office | RWA 1 | External financing requirements of the regional water authorities in England and Wales | 420.0 | 354.0 |
| Department of Health and Social Security | DRSS/LA1 | Value of capital projects for personal social services approved by the Department of Health and Social Security | 57.4 | 57.4 |
| Home Office | HO/LA1 | Capital expenditure on police courts and probation | 20.6 | 20.6 |
| Department of Transport | DTP/LA1 | Key sector loan sanctions for capital expenditure on roads and other transport in England and Wales | 126.6 | 126.6 |
| SCOTLAND | | | | |
| Scottish Office | SO/LA1 | Capital expenditure by local authorities on roads and transport, water and sewerage, general services, urban programme, police and social work, school buildings, further education and teacher training | 354.1 | 342.0 |

| <u>Department</u> | <u>Block Number</u> | <u>Description of Block</u> | <u>Cash Limit in Cmd 7515</u> (£ million) | <u>Revised Cash Limit</u> (£ million) |
|-------------------|---------------------|---|--|--|
| Scottish Office | SO/LA2 | Capital expenditure by local authorities, new towns, and the Scottish Special Housing Association on new housebuilding, land, improvements, acquisition of existing dwellings, lending (gross) to private persons for home purchase and improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by local authorities, other housing investment and new towns industrial and commercial investment | 392.2 | 374.6 |
| | | Value of housing associations' projects approved by the Housing Corporation | 76.6 | 76.6 |
| | | Gross expenditure on the community land scheme | 6.4 | 2.7 |
| | | Capital expenditure by local authorities on new housebuilding, land and improvements, acquisition of existing dwellings, lending (gross) to private persons for house purchase and improvement grants to the private sector, slum clearance, finance for housing associations for projects approved by the Housing Corporation and by local authorities, and other housing investment (other than that included in DOE/LA1): capital expenditure by new towns on new housebuilding, land and improvements, acquisition of existing dwellings roads and industrial and commercial investment; capital receipts from sales of land and dwellings and associated gross lending | 166.2 | 155.0(2) |
| WALES | | | | |
| Welsh Office | WO/LA1 | | | |

| <u>Department</u> | <u>Block Number</u> | <u>Description of Block</u> | <u>Cash Limit in Cmd 7515</u> (£ million) | <u>Revised Cash Limit</u> (£ million) |
|-------------------|---------------------|---|--|--|
| Welsh Office | WO/LA2 | Value of building projects started in 1979-80 under the aegis of the Welsh Office and local authorities in Wales for schools, further education and teacher training, and higher education. | 17.2 | 17.2 |
| | WO/LA3 | Value of capital projects for personal social services approved by the Welsh Office | 2.6 | 2.6 |
| | WO/CL1 | Gross expenditure on the community land scheme | 10.5 | 9.5 |

Notes on Table 3

- (1) The other bodies referred to include water authorities, new towns, the Land Authority for Wales, the Housing Corporation, the Scottish Special Housing Association and certain educational bodies; these are indicated in the description of the blocks.
- (2) The scope of this block has been revised compared with that described in Cmd 7515 to include capital receipts from sales of land and dwellings and associated gross lending



26 JUN 1979



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

25 June 1979

Dear John

*R
27/1*

PUBLIC EXPENDITURE SURVEY-
OPTIONS FOR REDUCTIONS 1980-84

I have seen a copy of Mark Carlisle's letter to you of 18 June. If you do arrange a discussion, as suggested by Mark, I would, of course, wish to be involved. But I am bound to say that I personally do not see a need for discussion before Cabinet. We all have problems. That's what the exercise will reveal.

I am copying this to the recipients of Mark's.

*Yours
Michael Heseltine*

MICHAEL HESELTINE

The Rt Hon John Biffen MP



27 JUN 1979



Chancellor of the Exchequer
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir D Wass
COGPEC

Treasury Chambers, Parliament Street, SW1P 3AG

John Chilcot Esq
Private Secretary to the
Home Secretary
Home Office
50 Queen Anne's Gate
London SW1H 9AT

21st June 1979

Dear John

R 15/6

Following the Chancellor of the Exchequer's Budget statement it is necessary to announce revised cash limits to take account of the specific public expenditure cuts, the effect of pay settlements, and the payments deferred from 1978-79. The Chief Secretary hopes to make this announcement on Tuesday 26 June, so that the adjusted cash limits are available to Members in advance of the Second Reading of the Finance Bill. A draft of the announcement is attached. It is cast at present in terms of an answer to a written Parliamentary Question but since delays affecting the production of Hansard may prevent its becoming available to Members quickly in that form, it may as an alternative be presented as a Command paper in typescript.

Officials concerned in your and other Departments will wish to be aware of the announcement and will wish to brief their Department's Information Division to deal with questions relating to the revised cash limits on the Department's expenditure. I should be grateful if you would ensure that the officials concerned are alerted in good time to prepare the necessary briefing.

The revised cash limits have been prepared in cooperation with departments. Most of them are now agreed but there may be a few further revisions and I will circulate the figures in final form in advance of the announcement.

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

*Yours sincerely,
A C Pirie*

A C PIRIE
(Private Secretary)

DRAFT QUESTION

To ask Mr Chancellor of the Exchequer, what changes to cash limits he proposes in the light of his Budget Statement.

DRAFT ANSWER

A full list of the revised limits is set out below, replacing that published in the previous Government's White Paper (Cmd 7515). These reflect the specific cuts in public expenditure announced in the Budget Statement and the general policy on cash limits and pay announced on May 22 by the Chancellor of the Exchequer and the Minister of State, Civil Service Department. The proposed limits take account of pay awards reached by June 5 and include provision for certain payments deferred from 1978-79 to 1979-80 as a result of Civil Service industrial action.

Supplementary Estimates for additional provision within the proposed cash limits will be presented to Parliament in due course. Where the cash limits are significantly less than the Estimates presented by the previous Government, revised Estimates will be presented. Revised cash limits on the external financing requirements of nationalised industries were published in Table 13 of the Final Statement and Budget Report.



26 JUN 1979



cc Local Govt
Controls file

Treasury Chambers, Parliament Street, SW1P 3AG

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

25th June 1979

R. M. L.

Dear Michael,

PUBLIC EXPENDITURE INFORMATION

At Cabinet on 24 May I was asked to look into certain aspects of public expenditure presentation and information and to report back after the Budget. You expressed some concern about the standard of information available to you on expenditure and in particular on under and overspending in certain programmes in the local authority field.

I imagine that you will have taken action already to satisfy yourself about the availability of detailed figures on the progress of spending on the programmes of your department. But I would welcome any views you might have about how the aggregate figures of spending by local authorities might be kept more up-to-date and otherwise made more relevant to our decisions about public expenditure.

My Department's main interest is of course in the aggregate figures for local authority capital and current expenditure by public expenditure programmes and the financing figures used in economic analysis and for the PSBR and also in discussion about the Rate Support Grant. For these purposes basic sources of data are the capital payments and revenue expenditure returns, the revenue and capital outturn returns and the borrowing enquiries all of which we use after they have been processed and aggregated by your Department, which compiles the statistics from returns submitted by individual authorities. I am advised that while there are still some inconsistencies and gaps in the data, and while it is often later than one would like, it is broadly speaking of the right kind and has been much improved in recent years. The inhibition which stems from central government's unwillingness to appear to be interfering in matters which are within local discretion has applied particularly in relation to current expenditure - and there is room for improvement here.

A wide range of judgements about prospects can legitimately be made from the data submitted by local authorities on what has actually been spent. In the housing field, for example, the judgement may be affected by such factors as the extent to which a shortfall on approvals represents a permanent decline in investment; the extent to which such a decline could be reversed by government action; and the extent to which leads and lags or variations in unit costs affect the spend implied by a given level of approvals. And then again, although lead times on new house-building make forecasting reasonably easy, local authorities have extensive discretion to switch expenditure into areas with much shorter lead times such as improvements and mortgage lending and a judgement is also required on the extent to which this is possible.

The shortfall of "at least £230 million" in capital expenditure for 1978-79 forecast in Cmnd 7439 explicitly reflected the judgement of housing departments that the rate of spending might increase in the second part of the year. Likewise, the housing investment allocations issued to local authorities for 1979-80 reflected a similarly explicit judgement by housing departments that the 1978-79 figures represented a trough.

Another area where it has also been necessary to make difficult judgements has been expenditure on Other Environmental Services. Paragraph 8 of Cmnd 7439 stated that "in 1977-78 their (ie local authorities) spending exceeded the planned level by £177 million and in 1978-79 first estimates suggest that the overspend will be of a similar order". We now know that this statement was broadly correct and are in the position of having to make similar judgements about the prospect for overspending this year. On this we are very dependent on your Department for advice, although obviously the Treasury can also draw its own conclusions from the trend in past years and from such information as is available on the outturn for the current year. If any enquiries you may have made suggest possible ways in which a more reliable and precise judgement might be found, it would of course be very interesting to know of them.

I am sending copies of this letter to the Prime Minister and to Sir John Hunt.

7-8
John Biffen
JOHN BIFFEN



26 JUN 1979

CONFIDENTIAL



From
Per.
F-41/B

10 DOWNING STREET

From the Private Secretary

21 June 1979

PUBLIC EXPENDITURE

The Prime Minister has considered your Secretary of State's minute of 19 June and the Chief Secretary's minute of 20 June on the above subject, along with their letters of 18 June and 15 June respectively.

The Prime Minister is clear that, on the basis of the Cabinet decision of 24 May, your Department must put forward options for reductions in its main expenditure programmes amounting to either the Opposition cuts or the percentages agreed by Cabinet whichever are the greater; she has asked that your Secretary of State should proceed on the basis of the Chief Secretary's letter of 15 June.

I am sending a copy of this letter to Alistair Pirie (Chief Secretary's Office, H.M. Treasury) and to Martin Vile (Cabinet Office).

D. A. Edmonds, Esq.,
Department of the Environment.

L.P. LANKESTER

DB

CONFIDENTIAL

CONFIDENTIAL

MR. LANKESTER

*I support the Chief Secretary's view
Public Expenditure*

*Prime Minister 1
Agree that Mr Heseltine
must put forward the
full options - i.e. the opposition
cuts or the percentage
cuts whichever are the
greater? (Cabinet minutes
were quite clear on
this.)*

Flag A

Mr. Heseltine's minute to the Prime Minister of 19th June is the latest instalment in an argument he has been having with the Chief Secretary about the Cabinet decision of 24th May. *TL 20/6*

2. The Chief Secretary's original proposal, in C(79) 11, was that Ministers should produce 'costed options' either on the lines of cuts discussed in Opposition (listed in C(79) 10) or on a percentage basis set out in his paper, whichever was the higher.

3. At Cabinet on 24th May, Mr. Heseltine argued that some of the cuts identified in Opposition had been ill-informed. The percentage cuts proposed by the Chief Secretary would be more far-reaching, and he was in favour of a search for the widest possible options. He sought flexibility to choose between the Opposition cuts or the percentage cuts. The Prime Minister agreed. In doing so, I am sure that she thought Mr. Heseltine was arguing for a wider, rather than a narrower, range of options to be identified and costed.

4. There followed a sharp exchange of views (Mr. Biffen's letter of 15th June and Mr. Heseltine's reply of 18th June) in which Mr. Heseltine argued for the right to put forward cuts which amounted to the lower of the Chief Secretary's percentages or the 'Opposition List'. The Chief Secretary, understandably, objected.


5. Mr. Heseltine now admits that he was wrong when he told Cabinet that the Opposition cuts were smaller than the percentage cuts. But he still wants special treatment for his Department. He is, in effect, asking for exemption from the 'equality of misery' ~~as~~ ordained by Cabinet.

6. It is going to be very difficult indeed to find acceptable public expenditure reductions on the scale wanted. It is essential therefore that the Cabinet should have the widest possible range of choice. Accordingly I think the Prime Minister should support the Chief Secretary against

*Flag B
Flag C
Mr Biffen has
mentioned yet
again (Flag D)*

CONFIDENTIAL

Mr. Heseltine. If she agrees, then I think you might write (in her absence in Strasbourg) to Mr. Heseltine's Private Secretary, saying that she supports the Chief Secretary when he says (in his letter of 15th June) that for each of the main DOE public expenditure programmes, where the Opposition cuts amount to more than the percentages agreed by Cabinet, it is the former total which determines the size of the options for reductions to be identified. Within these overall totals, Mr. Heseltine is of course free to suggest alternatives to the cuts identified in Opposition, provided that they yield at least as much by way of savings.


(John Hunt)

20th June 1979

... of the ...
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720 JUN 1979

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PRIME MINISTER

PUBLIC EXPENDITURE

Michael Heseltine has sent me a copy of his minute of 19 June.

2. I cannot accept that for the Department of Environment programmes, the opposition cuts should be disregarded because of the "equal agony" principle. That is not what Cabinet agreed. The Cabinet agreed that a "wide range of options should be deployed when Ministers took final decisions on long-term public expenditure plans later in the summer". For the Department of the Environment this means that we need options to be identified on the basis agreed by Cabinet and set out in my letter of 15 June. I hope you will agree that this should now be done as a matter of urgency.

3. I am copying this to Michael Heseltine and Sir John Hunt.

W. J. B.

JOHN BIFFEN
20th June 1979

CONFIDENTIAL



20 JUN 1970

CONFIDENTIAL



PRIME MINISTER

PUBLIC EXPENDITURE

You have seen copies of John Biffen's letter to me of 15 June and my reply of 18 June.

I have consistently argued that the only sensible way to consider options was on an "equal agony" principle between each Department. On that basis my Department has contributed its full share of public expenditure cuts so far.

In Cabinet when the decision to adopt the scale of 7½%, 12½% and 17½% was taken and minuted I argued that Departments should be free to find their own preferences within those targets and should not be tied to the opposition cuts figures. However, I did also say that the effect on my Department of the scale figures would be more severe than the opposition cuts and that the argument was therefore a sterile one.

We have reworked the figures and it now appears that the opposition cuts would take the cuts in Department of the Environment expenditure considerably beyond what the rest of the Government is considering. I'm sorry about this error but in pointing it out to you I remain of the view that my Department should continue to conduct its public expenditure review along the lines established for Government at large which is in line with the scale referred to earlier in this letter.

I am copying this to John Biffen and Sir John Hunt.

mfH

MH

19 June 1979

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179 JUN 1979

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CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

18 June 1979

De la

Thank you for your letter of 15 June.

I agree with your view that there is a difference between us.

R
W

Your original paper suggested an either or basis. At Cabinet I raised this matter specifically, pointing out that the overall reductions on a percentage basis were substantially more harsh on my Department than the "opposition" cuts, and requesting therefore that I be allowed to follow the 7½%, 12½% and 17½% options.

The Prime Minister quite clearly said at Cabinet that each Minister must decide his own priorities within these targets and the minutes recorded the conclusion that we should "identify options on the scale proposed in the Chief Secretary's paper".

I instructed my officials to proceed on this basis and I would not wish to pursue any other course.

I am copying this to the Prime Minister and to Sir John Hunt.

yes
all

MICHAEL HESELTINE

118 JUL 10 1979



Eca Pol



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

From the Minister

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

2/19/79

5 June 1979

Dear Nigel

Thank you for your letter of 5 June about the possible sale of the Market Towers office block. As you say, discussions have been going on between our two departments at official level on this matter. A sale would be opposed by the Covent Garden Market Authority, and there are various other complications to be resolved (some of which might involve expenditure before we can realise the proceeds from the sale). Nevertheless I hope that these can be satisfactorily settled, so that a sale could contribute to our public expenditure policies. I have therefore instructed my officials to press on with their consideration of the details of the sale of this office block, including the implications of the best timing. I shall write to you again as soon as matters are clearer.

I want to make it clear that in agreeing to make this sale I am in no way conceding that it is right for me to be asked to find either savings or disposals to offset the additional expenditure on the Thames Barrier. The Barrier accounts for a very large proportion of my Department's total expenditure. Its annual cost cannot be cut back without extending the period during which London will be at risk of a flood which could cause loss of life and damage running into billions. But it has nothing whatever to do with agriculture, fisheries or food, and it is absolutely wrong that these industries should be asked to make disproportionate sacrifices to pay for the cost of protecting London. In my view expenditure on the Barrier should be regarded as analogous to defence expenditure - the risk it defends London from is quite as immediate as the risk of war - and should therefore be exempt from the current or future savings exercises.

The sale of Market Towers will however make it possible for us to give hill sheep producers on higher land the increased aid they desperately need to cope with their heavy losses and much higher costs this year because of the hard winter, while still effecting a large net saving to public funds. We shall be considering with

/you separately the ...

you separately the precise amount of the extra help.

I am sending copies of this letter to the Prime Minister and Michael Heseltine.

A handwritten signature in dark ink, consisting of a large, stylized 'P' followed by 'Walker' in a cursive script. There is a small '15' written above the 'Walker' part of the signature.

PETER WALKER



Treasury Chambers, Parliament Street, SW1P 3AG

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

15th June 1979

To note: The
Treasury seem to be
having difficulties
in getting DoE
to produce the
full "option"
cuts.

PUBLIC EXPENDITURE SURVEY

I understand there is some difference of view between our departments on the identification of options for reductions for our review of public expenditure over the Survey period, and that you are proposing to identify options on your programmes amounting only to the percentages for each year proposed in my paper to Cabinet (C(79)11) and not on the scale discussed in Opposition where these are greater.

I am clear that the Cabinet agreed to the proposal for options set out in paragraph 6 of my paper. This was that for each of the remaining programmes (ie. apart from defence, law and order and health), each department should produce options amounting to its share of the cuts identified in Opposition, or (if greater) 7½% of its programmes in 1980-81, as in Cmnd 7439 (or in some cases its share of programmes), 12½% in 1981-82 and 17½% in 1982-83. This means that for each of your main PES programmes where the Opposition cuts amount to more than the percentages agreed by Cabinet, it is the former total which determines the size of the options for reductions to be identified.

I recognise of course your wish to decide priorities in your Department as a whole; but if you take the view that the full amount of the options cannot be found in one or part of your programmes, the corollary is that additional options need to be found in other areas within your responsibility so as to deliver the overall level of options which Cabinet agreed. If this is not done, then we shall find that the options which have been identified are inadequate to meet our broad objective of bringing the total of public expenditure back to the 1977-78 level over the lifetime of the present Parliament, while permitting us a limited degree of choice and some modest increase in programmes

CONFIDENTIAL

to which we are giving priority. This would defeat the object of the exercise and would be unfair to other colleagues who are proceeding on the basis proposed in my paper. I have therefore to ask you to arrange for options to be identified on the basis I have outlined. In the circumstances, I appreciate you may not be able to make the original deadline of the end of this week, but I should be grateful if you could arrange for your officials to let my department have the necessary material very early next week.

I am sending a copy of this letter to the Prime Minister and to Sir John Hunt.



JOHN BIFFEN



15 JUN 1979



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EP

12

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

13 June 1979

R 1871

Dear Michael,

Thank you for copying to me your letters of 7 and 12 June to John Biffen about public expenditure 1980-81.

I agree that we must sound out the local authority Associations as quickly as possible about reductions in public expenditure in 1980-81 of the scale which the Cabinet will be considering. It is important that we do not give the Associations the impression that we have decided where cuts should fall before consulting them. I therefore fully support your suggestion that we seek their views initially on a reduction of 7½% in all services.

I take it that the intention would be for the discussions on the later years to go ahead in the next few weeks. We shall be in increasing difficulty if the issues concerning these years are left unresolved much longer than that, especially in the case of long lead programmes.

I broadly agree the terms of the statement you propose to make at the meeting with the Chairmen of the local authority Associations today, but would prefer not to see the inclusion of examples of items which can be excluded from consideration. Apart from law and order I think we need to take the broadest possible soundings of where reductions might be found. I certainly do not see the logic of safeguarding expenditure on books if I am to look at prospects of saving 7½% across the whole range of local transport expenditure including for example spending on old people's concessionary fares.

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

Yours truly
Norman

NORMAN FOWLER

11 12 1 2 3 4 5 6 7 8 9 10
11 3 JUN 1979

PRIME MINISTER

1979/80 CASH LIMITS : CIVIL SERVICE WAGES AND SALARIES

I am disturbed that some colleagues seem anxious to reopen the decision that we reached on 17 May about ways that Departments might meet the target savings called for by the Lord President in staff costs. I fear we may be in danger of subordinating reality to presentation.

It might be helpful if I were to remind colleagues of the points I made on the basis of which it was recognised that economies in some areas, and Social Security administration was quoted as an example, might actually prevent the realisation of much bigger savings, which led you in your summing up to say that the Chief Secretary would be approached about alternative ways of securing equivalent savings.

In our election manifesto we said that:

"The rules about the unemployed accepting available jobs will be reinforced and we shall act more vigorously against fraud and abuse."

We cannot carry out this undertaking and cut the local office staffs.

I drew a clear distinction between staff in the local social security offices and most of the rest of my Department. (There is, I understand, no dispute that the special hospitals like Rampton must be excluded from the cuts.) In the local offices, the urgent need is to strengthen the defences against fraud and abuse. There are four areas of work where an increased investment of staff should produce significant benefit savings.

a. Unemployment Review Officers. In 1977 UROs called 136,270 cases for interview, of whom 57,841 (42 per cent) ceased to draw benefit shortly before or after interview. (This was an 11 months period; a 12 month period could reasonably have produced 60,000 ceasing to draw benefit.) For each URO man-year 200 cases went off the books,

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of whom 150 would not otherwise have done so. Assuming average benefit figures (for 1978) this produces savings of a sum of the order of £100,000 per URO man-year. This is a cost benefit ratio of about 20 to 1.

b. Liable Relative Officers. Benefits are not quite so great, but the average savings achieved by staff on this work are about £34,000 a head - a cost benefit ratio of 6 to 1.

c. There are two types of Fraud Officers. Our calculations suggest that the estimated benefit saving per man-year amounts to about £23,000 for local office fraud officers. (A cost benefit ratio of $4\frac{1}{2}$ to 1) And about £43,000 for the more skilled special investigators (a cost benefit ratio of over 8 to 1).

As a result of the decision to increase benefits, the savings in the latter part of the year will be even larger. I am assured that we are some way off from the point at which diminishing returns may set in and our predecessors said so in public. On the contrary, all the evidence suggests that when the word gets round that we are being a good deal tougher in these areas than our predecessors, the deterrent effect could well spread wider.

It is in these circumstances that colleagues appeared to accept my point that, since we are looking for cash savings, it would be better to deploy more staff to secure these savings than to risk the loss of benefit (or fail to make any savings) by trying to cut back staff in the local offices by 3 per cent.

I might also remind colleagues that, recognising the difficulties that this might create for colleagues, I have undertaken to cut the rest of my Departmental staff totalling around 25,000, not by 3 per cent, but by 4 per cent. This includes not only all DHSS Headquarters and the social security Central Offices at Newcastle and North Fylde, but also such sensitive areas as the Artificial Limb and Appliance Centres.

In these circumstances I hope very much that colleagues will feel able to adhere to the decision that they took. So far as the presentation problem is concerned, it does seem to me that it should be possible for the Lord President to take

credit for the additional benefit savings which can be achieved by the more sensible deployment of staff which my proposals envisage. I cannot believe that it would redound to our credit if it became known (for instance through the Staff Side in my Department, whom I have consulted on the Lord President's exercise) that we were foregoing large-scale continuing savings which could over the next two or three years amount to substantially more than the cost of deploying the additional 1000 people to combat fraud and abuse, for which I am asking.

I am copying this minute to all Cabinet Colleagues, Norman Fowler, Michael Jopling and Sir John Hunt. In view of the Cabinet's consideration of the issue tomorrow, I attach a copy of my earlier letter to John Biffen.

PJ

13 June 1979



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

13 June, 1979

Le Pde

MBM
1. Mr. Carrington
2. Mr. Nott
14/6

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14/6

PUBLIC EXPENDITURE CUTS: THE AID PROGRAMME

I have been looking with interest at the table of aid commitments which Neil Marten's Private Secretary sent to No.10 with his letter of 30th May.

We shall of course be considering future plans for the Aid Programme, as for other programmes, in the course of this year's public expenditure survey; and I look forward to receiving your ideas, which John Nott will also no doubt wish to consider, as to the distribution of the £50 million cut we have just agreed, and the allocation of the reduced aid programme between the recipients summarised in the attachment to the ODA letter. But several thoughts struck me in looking at the table of commitments which I think it would be useful to mention now.

The first concerns the high level of forward commitment which the ODA have undertaken. I understand that the aid programme for 1978-79 is likely to prove to have been overspent by a small margin. This is unfortunate, and I imagine that you and Neil Marten will be taking steps to see to it that there will be no repetition. I very much hope that you will at the same time take action to ensure that the aid programme is far less heavily committed at the beginning of future years than it is at present. We must preserve greater room for manoeuvre.

My second suggestion is about the areas in which to look for specific reductions in implementing the £50 million cut. India has already been mentioned as a likely target for reductions and I assume that you will be looking hard at future plans for aid to that country.

/I hope you will

The Rt. Hon. the Lord Carrington, KCMG, MC.



I hope you will also look at what are described as "functional technical co-operation activities". I suspect that, on examination, a number of these activities will prove to be ones which we would not wish to continue supporting in any event. Clearly this will need to be looked at thoroughly before conclusions can be reached, but examples which have come to my notice are the so-called "development education" programme and Government support for the politically dubious Institute of Development Studies.

We need to reconstitute an adequate margin for contingencies during the remainder of 1979-80. We have already within the past month had to provide for special aid for Uganda and Turkey; and there will no doubt be some other such compelling contingencies to be faced in coming months. I believe therefore that other parts of the programme should be cut back far enough to allow this.

If you agree, I am content to leave our officials to pursue these points and to report back to us in due course. I am sending copies of this letter to the Prime Minister, the Secretary of State for Trade and to Neil Marten.

A handwritten signature in dark ink, appearing to be "Geoffrey Howe", with a horizontal line underneath.

(GEOFFREY HOWE)



14 JUN 1979

CONFIDENTIAL

PRIME MINISTER *Sw*

1979-80 Cash Limits: Civil Service Wages and Salaries

BACKGROUND

— You have asked (Mr. Lankester's letter of 12th June), that this subject, raised in correspondence, should be discussed at Cabinet this Thursday. There has been no time to prepare a further paper. The relevant correspondence starts with the Secretary of State for Social Service's letter of 30th May; the other items are listed on the Agenda.

— 2. The history of this case begins at Cabinet on 17th May. Summing that up you said 'that the temporary ban on recruitment would be the first step towards securing economies of at least 3 per cent in Government expenditure on wage-related items. If any Minister found it impossible to achieve this, it was open to him to suggest to the Chief Secretary, Treasury, alternative ways of securing equivalent savings, but these would have to be in addition to any savings he was required to make as part of the general review of public expenditure discussed under Item 4 [i.e. the Budget savings in public expenditure]'. The reservation was included at the request of the Secretary of State for Social Services, who later deployed his case in his letter to the Chief Secretary of 30th May.

3. At first sight, this is an argument about means and ends. The real objective is to secure lasting economies in public expenditure. Cuts in Civil Service manpower are a means to this end, although useful in themselves as reducing the weight of bureaucracy. But it seems self-defeating to forego larger cash savings for the sake of achieving staff cuts.

4. However, the arguments are more complex. In the first place, the dispute concerns only the present financial year. DHSS were asked to make a saving of £12.5 million (3 per cent of staff costs). Mr. Jenkin proposes a 4 per cent cut in Headquarters and Regional offices, but not in local offices, worth 1,400 staff, but not in local offices. He proposes to switch about 1,000

CONFIDENTIAL

of these 1,400 staff to local offices to tighten up on fraud. This is a net figure; there would be some gross recruitment, offset by some wastage, and he would therefore need a dispensation from the recruitment ban. Treasury and CSD believe that it would be possible to secure even bigger manpower savings, while still finding the necessary 1,000 staff for the anti-fraud operation.

5. More seriously, other Departments are trying to climb on the bandwagon. The Department of Employment, whose work is very closely related to that of DHSS, reckon they could make similar savings if given similar exemptions. There is however grave doubt whether they could do it in the present financial year; unlike DHSS, their preparations are apparently not complete. The two Revenue Departments, in a very different field, could likewise secure big savings by anti-avoidance work at the price of some increase in staff, but again probably in a longer timescale. The Chancellor of the Exchequer takes the view that these should be foregone in the interests of getting the staff cuts this year. I understand that this is also your own view. It is relevant that, without the DHSS and Department of Employment staff savings, the overall savings would come down from 3 per cent to about 2.6 per cent.

HANDLING

6. I suggest that you ask the Lord President to speak first and to state the problem, on the lines of his minute of 11th June. This proposes a possible compromise. You might then see whatever the Secretary of State for Social Services is prepared to accept; and then ask the Secretary of State for Employment to comment. Finally you might bring in the Chancellor of the Exchequer (or, if he prefers, the Chief Secretary). There should be no need for any other Minister to join in the discussion.

7. There are I think only three possible outcomes:-

- (a) Agreement to maintain the 3 per cent target all round, thus reversing the original decision of Cabinet on 17th May.
- (b) Agreement to exempt DHSS and the Department of Employment from the 3 per cent cut on their local offices, but to insist that they find their 3 per cent savings at Headquarters and Regional offices, and

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start the anti-fraud operation as quickly as possible; this means bringing the overall saving down to 2.6 per cent approximately, and it would then be necessary to decide whether other Departments should be told to make good the deficiency (it would mean raising their target to about 3.2 per cent) but you would ask the Lord President to specify the exact figure needed.

- (c) A decision to let DHSS and Department of Employment to find their savings by means of anti-fraud operations, exempting them from the 3 per cent cuts overall.

8. If the decision is to choose (a), then you might ask that the possibilities of the anti-fraud operation should nevertheless be explored urgently, but in the context of the longer-term public expenditure and manpower savings exercises which will be coming back to Cabinet in September and in July respectively. DHSS might then argue that if the opportunity is missed this year, it will be very much more difficult to secure union co-operation next year in a climate of even heavier manpower cuts. There is some force in this argument, but I do not think you need let it stand in the way of a decision in favour of (a) if you feel it is important to maintain the overall 3 per cent target.

CONCLUSIONS

9. You should be able to sum up in favour of one of the three alternatives listed immediately above.

John
pp

John Hunt

13th June 1979

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 Michael Heseltine MP
Secretary of State for the Environment
2 Marsham Street
LONDON SW1P 3EB

12 June 1979

Lee. Richard.

PUBLIC EXPENDITURE 1980-81 AND FUTURE YEARS: CONSULTATION WITH
LOCAL AUTHORITIES

Thank you for sending me a copy of your letter of to-day to
John Biffen.

I am content with your draft statement except on two points:-

- i. Surely we want to get across the thought towards the end of the 4th paragraph of your letter of 7 June to John Biffen. This could be done by inserting the following sentences after the words "PESC level" in the 1st paragraph of your draft:- "I very much hope that the local authority officials on the expenditure groups will indicate how, if the reductions are to be achieved service by service, they think they might be made. Of course our official will comment on figures and so on but they will not themselves initiate proposals."
- ii. As you indicate in your letter, I would prefer the examples in the 2nd paragraph of the statement to be omitted. This is because we do not want to give the local authorities the impression that we have made up our mind about priorities between and within services. This would irritate the local authorities, who, as you say in the previous sentence, will have the primary responsibility for making decisions. I would like to see the last two sentences of the draft run "But the Government may want to see some areas within some services protected to a greater or lesser extent; and when it comes to taking final decisions on the total of local authority expenditure they will have in mind the consequences of this. Moreover, in the law and order services they will not expect these new options to be considered."

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I am sending copies of this letter to the Prime Minister, the Home Secretary, the Chief Secretary, the Secretaries of State for Scotland, Wales, Social Services and Employment and the Minister of Transport.

Yours ever
Mark

MARK CARLISLE

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

12 June 1979

1979/80 Cash Limits : Civil Service Wages and Salaries

The Prime Minister has considered the Lord President's minute of 8 June and Mr. Prior's minute of the same date on the above subject, and has decided that she would like this issue to be considered in Cabinet this Thursday.

I am sending copies of this letter to Private Secretaries to members of the Cabinet including the Minister of Transport, and to Sir John Hunt.

T. P. LANKESTER

Jim Buckley, Esq.,
Lord President's Office.



PRIME MINISTER

You decided that this issue
should go back to Cabinet.
I think the Chancellor's
view - that the earlier
decision on DHSS be
reversed - is in line

1979-80 CASH LIMITS: CIVIL SERVICE WAGES AND SALARIES with you.

I have seen copies of the Lord President's minutes of 8 and 11 June
to you, and Jim Prior's of 8 June. I have also seen Patrick Jenkin's
letter of 30 May to John Biffen. 12/6

2. As a starting point, I am in no doubt that we must concentrate
at this juncture on cutting the size and cost of the Civil Service,
and - apart from the very special exemptions we originally agreed,
(eg prisons and Rampton) - we must consider all proposals on staffing
levels against the criterion of whether they make this target more
or less difficult to attain.

3. We decided at the end of our discussion in Cabinet of Civil
Service staff cuts to make a concession to the DHSS in respect of
staff whose work is likely to cut down abuse of the benefit system.
I wholly agree with Patrick Jenkin that we must tighten up on fraud -
as I hope I made clear in my Budget Speech. But I am forced to
conclude that such a concession to DHSS would jeopardise the 3% overall
target, and am now convinced that we should reverse our earlier
decision to grant it, which we took without full consideration of the
wider implications.

4. Like Jim Prior, I am responsible for 2 Departments, Customs and
Excise and Inland Revenue, whose activities in preventing fraud etc,
and consequently increasing revenue, are at least as significant as
DHSS's. Neither Department has sought, nor is it my intention to
press for, any modification in the 3% cut, even though it is arguable
that, because of the nature of their activities, such cuts may well
lead to an adverse effect on the revenue and the PSBR which is greater
than the amount saved. But it would seem to me perverse, even if it



were practicable, that these Departments should have to make an additional saving from 3% to 3.6%, or some intermediate figure, simply to make way for the concession to DHSS.

5. The conclusion I draw is that DHSS must step up their efforts to tighten up on fraud etc by redeploying staff after making the full across the board cuts, and that we should consequently reverse our earlier Cabinet decision.

6. I am sending copies of this minute to Cabinet colleagues and to Sir John Hunt.

A handwritten signature in black ink, appearing to be 'G. Howe'.

GEOFFREY HOWE
12 June 1979

7-2 JUN 1961





CONFIDENTIAL

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

12 June 1979

PUBLIC EXPENDITURE 1980/81 AND FUTURE YEARS: CONSULTATION WITH LOCAL AUTHORITIES

Nigel Lawson's letter of 11 June gave Treasury agreement, subject to the views of colleagues, to the proposals I made for handling immediate consultations with the local authority Associations.

Colleagues appear to be in broad agreement with those proposals, and, given the timetable to which we have to work, I have sought to avoid a meeting. Mark Carlisle, Patrick Jenkin and I, however, have discussed the possibility of an opening statement at the meeting with the Associations tomorrow. I attach a draft which has been discussed by officials this morning.

The following points are outstanding:

- (i) Mark Carlisle would like a reference to a 5% option.
I can see no possible objection to this;
- (ii) Patrick Jenkin would like to see some specific examples of areas in which we would not seek the full 7½%.
There are some examples, as you will see, in the draft statement. The purpose, of course, is to give to local government a clear statement that in some areas it would not be sensible to impose an across the board reduction. I take the view that such a list would not do any damage. Mark Carlisle on balance would prefer the examples to be excluded but if it is decided to retain them is content with those given.

This statement is important but I hope that we will not agonise too much over the details. The authorities will be interested in the overall level of reductions and this is the area on which public interest will be concentrated. Whatever examples we might give, we will still be faced by enormous lobbying from the various pressure groups.

I am copying this letter to the recipients of my letter of 7 June. As the statement would be made at the meeting scheduled for 2.45 tomorrow I should be grateful for your comments and for those of colleagues by 10.00am tomorrow at the latest.


MICHAEL HESELTINE

The Rt Hon John Biffen MP

LOCAL AUTHORITY EXPENDITURE: DRAFT STATEMENT

The reductions we are seeking in public expenditure must, of course, principally be found in 1980/81 and future years. We are, therefore, within central government, reconsidering the different levels of public expenditure which should be examined in the course of the annual PESC exercise. The Cabinet will want to look at the results of this exercise in July. We want to associate the local authorities, as has been done in the past, with the exercise, but because of the very tight timetable I think it would be best if we concentrated together on 1980/81 although continuing and increasing reductions of expenditure will be necessary in later years. However, decisions for 1980/81 are urgent and will affect what can be done in future years. I propose therefore that the expenditure groups be asked to add to the options of maintaining expenditure in 1980/81 at the present PESC level and 2½% below it, which they are already considering, two further options at 5% and 7% below present PESC level. We will then consider the results of these reports at the meeting in July - which will have to be brought forward. I will then consider with you the action to be taken on future years.

I want to emphasise that we are asking to have options studied; we have not yet taken decisions about the levels of total expenditure in 1980/81 nor where we would like to see reductions in expenditure concentrated. Indeed in the local authority field it will be primarily for local authorities themselves to decide, within their overall budgets, how the reductions should be made. But the Government will, of course, wish to see some areas within services protected - eg [residential assistance for the elderly] [provision of books] [provision for public health requirements] when it comes to taking final decisions, they will have in mind the consequences of not being able to make full reductions in those areas. Moreover in the law and order services they will not expect these new options to be pursued.



2 JUN 1989



QUEEN ANNE'S GATE
LONDON SW19 9AT

11 June 1979

R

PUBLIC EXPENDITURE 1980/81 AND FUTURE YEARS:
CONSULTATION WITH LOCAL AUTHORITIES

I agree with the proposal in your letter of 7th June to John Biffen.

I think that in telling the Chairman of the Associations of this exercise, you should emphasize - as you mentioned in your initial discussions with them, and at last Monday's Consultative Council - that the law and order services are exempt.

I am copying this letter to the recipients of yours.

WW

The Rt. Hon. Michael Heseltine, M.P.

12/10/2011



CONFIDENTIAL



PRIME MINISTER

1979/80 CASH LIMITS: CIVIL SERVICE WAGES AND SALARIES

I have seen the Secretary of State for Employment's minute to you of 8 June.

2. If it is really intolerable to limit the substitution of "fraud effort" for staff savings to DHSS, I see only one alternative if we are to get anywhere near the 3% reduction in cash limits we have announced. That is to permit DHSS to maintain the present strengths of their local offices but not to reinforce them this year by an extra 1000 people (£5m) as is now proposed.

3. Copies to Cabinet colleagues including the Minister of Transport, and Sir John Hunt.

S.

SOAMES
// June 1979



11 JUN 1979



2
PB

Treasury Chambers, Parliament Street, SW1P 3AG

11 June 1979

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

Ben Michael

12/6

PUBLIC EXPENDITURE 1980-81 AND FUTURE YEARS: CONSULTATION WITH
LOCAL AUTHORITIES

Thank you for your letter of 7 June to the Chief Secretary making proposals for consultations with the local authority associations on options for reductions in expenditure, in the light of the Cabinet's discussion on 24 May.

The Cabinet conclusions envisage that there should be some input from the local authorities to inform the review of public expenditure plans on which we shall be embarking shortly, and I agree that the best way of organising this would be to concentrate for the moment on the 7½ per cent option for 1980-81, while making it quite clear that this is the first stage of a phased programme of retrenchment in public expenditure which will require larger reductions in later years. This does not of course alter the requirement for departments to identify options for the level of reductions agreed by Cabinet on their programmes, including the local authority component, for all years of the Survey period. No doubt we can consider how best to consult the associations on the prospects for the later years of the Survey when we discuss the implications of the options which have been identified internally.

The timetable for these consultations is now very tight, and it is desirable that the expenditure groups should begin work on the 7½ per cent option as soon as possible, so that we can take into account their views and, if possible, those of the Consultative Council. I agree therefore that, subject to any comments from our colleagues, you should inform the Chairmen of the Associations how we intend to proceed immediately after the Budget, as you propose.

I am copying this letter to the recipients of yours.

Nigel Lawson

NIGEL LAWSON

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

14 JUN 1968



with compliments

MINISTER OF STATE

CIVIL SERVICE DEPARTMENT
Whitehall, London SW1A 2AZ
Tel 01-839 7733 Ext



Minister of State

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Thru

8 June 1979

ECONOMIES IN THE USE OF HMSO SUPPLIES AND SERVICES

If HMSO is to meet the essential requirements of Parliament and the Government for its services in 1979-80, it will be vital for the utmost economy in demand to be introduced immediately. I am convinced that only by the personal involvement of Ministerial colleagues is this likely to be secured on the necessary scale.

Our predecessors contracted the 1979-80 Estimate/Cash Limit for Stationery and Printing to provide no more in volume terms than the 1978-79 demand plus an allowance for prospective price increases which will now clearly be exceeded. Cabinet has however decided that price increases above those already allowed for must be absorbed within existing cash limits. Any increase in the rate of VAT affecting HMSO services will, of course, worsen the position.

Given our present general policy regarding cash limits, if the work of Parliament is to continue in traditional manner and if a number of the policies which the Government may wish to pursue are not to be frustrated, we shall have to reduce immediately the current level of demand on HMSO and restrict requirements to those which are absolutely essential. The alternative could well be a situation in which a Minister would be unable to proceed with an important item of the Government's business simply through a lack of the essential HMSO supply, for example, printed material.

In these circumstances, I would be grateful if you could take a personal interest in this matter. Officials in the CSD and HMSO are already in touch with yours in this connection and I have asked the Controller of the Stationery Office to keep me directly involved. May I look to you for your help?

I am writing similarly to all Ministers in charge of Departments.

PAUL CHANNON

FBI JUN 1979

67-111-10000



PRIME MINISTER

*Agree Lord Soames
second count 1. cut
as in para 1. n.*

1979-80 CASH LIMITS: CIVIL SERVICE WAGES AND SALARIES

TL & J

When I mentioned in Cabinet the other day that I was worried about our prospects of achieving the 3% cut in civil service staff costs in 1979-80, your view was that the important thing was to save the money, and that whether the saving was in manpower or in other expenditure mattered less. We are however publicly committed to the target figure of a 3% reduction in the pay component in cash limits, as compared with the figure of at least 2% which the last Government was known to be planning. When we decided on 3%, I felt that it was the least we should go for though the most we would get, and I believe that you shared that view.

2. Our conclusion in Cabinet on 17 May provided that if any Minister found it impossible to achieve 3% in his department, he could suggest to the Chief Secretary alternative ways of finding the money. As these claims began to come in, and others were rumoured, I started to worry about what this was all going to amount to, and I told Willie Whitelaw and our other colleagues in my letter of 30 May that we should have to review the aggregate before taking final decisions, and that I might have to ask colleagues to think again. For any figure appreciably less than 3% would expose us to charges of failing to deliver and of a poor and unconvincing start to our campaign to reduce the size of the Civil Service.

3. The claims I have now received confirm my worst fears. We have throughout taken the view that we should have to exempt the staff in prisons and places like Rampton. The cost of that, together with one or two other very small exemptions in the field of law and order, reduces the 3% to 2.8% - a figure which we could perhaps just about live with. The real trouble arises with the arrangement which we have agreed for the social security staff in DHSS, and the likely repercussions of that arrangement on other departments which also employ sizeable staffs on the reduction of fraud and abuse in benefits or taxes: the Department of Employment, the Inland Revenue and the Customs and Excise.

4. The arrangement for DHSS will of itself reduce the figure of 2.8% to 2.5%. Jim Prior has however said that he would feel bound to press for a similar arrangement in the Department of Employment, and I understand that strong pressures for the same treatment would arise in the Inland Revenue and the Customs, where the diversion of possible staff savings into work on fraud and evasion would also produce monetary gains much greater than the staff cost. My officials estimate that if those departments made savings which were proportionately no greater than those proposed for DHSS, the saving in the cash limits would come down to 2%.

Prime Minister

*Mr Prior and the Chancellor
won't like this. Will you
agree Lord Soames' proposal,
or do you want to
discuss in Cabinet?*

CONFIDENTIAL

5. On the assumption that we stand by the arrangement we have made for DHSS, only two courses of action seem to be open to us. The first is to accept the reduction of the 3% figure to something much nearer 2%; to my mind that is out of the question as even the Labour Government were committed to that. The second is to refuse to allow the DHSS arrangement to be carried through into any other department, and to ask our other colleagues to make good the gap between 2.5% and 3% by finding additional savings in their departments; the figure they would each have to find on this basis would be 3.6%, and I am encouraged to think that this should not be impossible by the offers to find more made by Michael Heseltine, John Nott and Norman Fowler when we discussed this in Cabinet. If Patrick Jenkin's efforts on fraud and abuse in DHSS for this year prove as profitable as he expects, we can of course extend such action into the other departments for next year. This seems to me to be the only practicable course because if we allowed the carry-through into Employment, Revenue and Customs, and asked our other colleagues to make good the bigger gap between 2% and 3%, the figure they would have to find on this basis would be in the region of 4.6%, and I do not think that this is possible. I recommend this second course accordingly.

6. Copies of this minute go to all Cabinet colleagues including the Minister of Transport and Sir John Hunt.

Loames

SOAMES
8 June 1979

4b.

Employment

Fraud abuse

↓

3.62

58 JUN 1979



CONFIDENTIAL

Prime Minister

PRIME MINISTER

1979/80 CASH LIMITS: CIVIL SERVICE WAGES AND SALARIES

I have seen the Lord President's minute of 8 June proposing that the DHSS should be allowed in large part to substitute reduction of fraud and abuse in benefits for staff cuts.

Fraud.
I have 20,000 staff paying out benefit as agents of DHSS. I can divert staff onto fraud detection so as to make, on the same assumptions as were made by DHSS, benefit savings of £3.9m in a full year and £1.3m in 1979/80. This secures the equivalent of most of my 3% staff cut and I can make shift to secure the rest.

I should be in an intolerable position if the Lord President's proposal is accepted for the DHSS but not for my Department doing the same operation as their agents.

I am copying this minute to all Cabinet colleagues including the Minister of Transport and to Sir John Hunt.

laufair

J P

8 June 1979

Approved by the
Secretary of State for
Employment and signed his
absence

*And I have already
commented before
this was announced
can the L.P. send
it - quite with
Mr. Pinner. Very
have to return
in the 9/6
reduced for -
see N.E. & M.S.C.
and*

*The Lord President's minute
is with your earlier papers.*

Duty Clerk.



3 Prime Minister

~~Prime Minister~~You approved this
minute in draft.

PRIME MINISTER

OT.

R
7/6

CASH LIMITS 1979-80

now
rearranged
for
Tuesday
morning

On June 11 the Chancellor will be outlining his budget to Cabinet. There is one matter I would like to draw to my colleagues' attention in advance as it directly affects their departmental responsibilities.

2. Cabinet have already decided that cash limits should not be increased to accommodate higher prices. Geoffrey Howe announced this in the debate on the Address on May 22 and this policy has been taken into account in the Budget arithmetic.

3. The latest forecasts taking account of the proposed Budget measures now show a squeeze on local authorities' capital expenditure in line with my earlier figures, but for central government up to 2 percentage points more, ie a squeeze of up to 6 - 7% rather than the 4 - 5% expected earlier and mentioned in my paper C(79)5, on which Cabinet took their decision.

4. Despite the difficulties, I do not believe we should change what is now our announced policy. But I wish my colleagues to recognise its implications.

5. I am copying this to other Members of Cabinet, to the Minister of Transport, and to Sir John Hunt. To avoid speculation about the contents of the budget I ask that this minute be given only the most strictly limited (and recorded) circulation in departments.

WJB

JOHN BIFFEN
7th June 1979

7 JUN 1979





2
2 MARSHAM STREET
LONDON SW1P 3EB

Prime Minister

CONFIDENTIAL

To note

My ref:

Your ref:

7 June 1979

ANT
R
7/6
Dear Chief Secretary

PUBLIC EXPENDITURE 1980/81 AND FUTURE YEARS: CONSULTATION WITH LOCAL AUTHORITIES

I have been considering how we should consult with the local authorities in light of the decisions of Cabinet (CC(79)3rd minute 5).

If we are to have any hope of achieving the sort of reductions we have in mind on local authority expenditure in 1980/81 we must tell them in July. This means we must consult with them and come to decisions before then. This is a very tight timetable. It will not be met if we and they are also considering the options for later years, which are of course far more drastic.

So I think we ought to consult with them only about 1980/81 at this stage; at the same time, of course, telling them that we shall be looking for continuing and increasing reductions in later years which we will be discussing with them later.

I also think we ought to change the emphasis of the consultations. In the past - and indeed in the present consultations which are still based on the guidelines set by the last Government - both central and local Government have put forward proposals for meeting the figures in the individual services and in some cases central Government officials have indicated the policy preferences of their Ministers. In considering the new options I think central Government officials should not put forward suggestions themselves but press the local authorities to say how, if the reductions were to be achieved service by service, they hope to make them. Of course they could react to the figures and requirements but they would not initiate proposals.

Finally, I think we should emphasise that we are building on the existing exercise. The expenditure groups are already considering the consequences of expenditure for individual services in 1980/81 of the existing PESC line and 2½% below it. They would be asked to consider the consequences of a third expenditure level - 7½% below.

If you and others agree with this line I would call in the Chairmen of the Associations next week (immediately after the budget I suggest, when I could also talk to them about the expenditure cuts and RSG); officials would then prepare reports for a meeting of the Consultative Council (which will have to be brought forward) followed by discussion in Cabinet and decisions announced before the summer recess.

If you, or any others, see difficulties in this course perhaps we could have a very early meeting.

Copies to the Prime Minister, Secretaries of State for Scotland, Wales, Education, Health, Employment, Home Affairs and to the Minister of Transport.

Yours sincerely

Dittblum

MICHAEL HESELTINE

(approved by the Secretary of State
and signed in his absence)

The Rt Hon John Biffen MP



17 JUN 1954



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

7th June 1979

Dear George,

Thank you for your letter of 24 May addressed to Geoffrey Howe about the economic outlook for Scotland. It falls to me to reply, since the specific points you make concern public expenditure. But of course we have both noted your general comments, which we are glad to have.

I do not need to enlarge on the central importance to our strategy of major cuts in public expenditure. We are all agreed on that. It is inevitable, and right, that the programmes which concern you should make a substantial contribution.

But of course it is right to take account of the considerations you mention. I understand from my officials that this has been done in framing the spending reductions devised by Jim Prior for this year. The small firms employment subsidy will continue to be available to manufacturing industry in development and special development areas, and the special temporary employment programme will now be confined to these areas. Thus the main impact of the savings on employment and training and schemes will be on parts of Britain where unemployment is lowest.

I note that you will be discussing regional policy with Keith Joseph in the near future. But I am bound to say that I am sure we need to look for major reductions in the large amounts of money disbursed under this heading too.

I was glad to hear that you now intend a further saving on the Scottish Development Agency this year, in addition to that proposed in C(79)4. This is certainly helpful.

1./ I am sending copies of this letter to the Prime Minister, and the Secretaries of State for Industry, Employment, Environment, Wales and Northern Ireland.

John Biffen
JOHN BIFFEN

-7 JUN 1979





2 MARSHAM STREET
LONDON SW1P 3ER

My ref:

Your ref:

6 June 1979

R
6/6

PSA CONTRACTS

It was agreed by Cabinet on Thursday that I will ensure that PSA do not let contracts for major new construction or maintenance projects without the express agreement of the Departmental Minister for whom the work is to be done on PSA Votes.

We are faced with a need to lay down a timetable for the introduction of the new procedures.

New Building and Major Maintenance Projects over £250,000

From today the written approval of Departmental Ministers will be obtained before tenders are sought, where the estimated sum is in excess of £250,000. As an interim measure, where tenders have already been invited, Ministers' approval will be sought before contracts are entered into.

Minor Works and Maintenance

The continuing programmes of maintenance and minor works can best be examined in the context of PES and annual estimates/cash limits; but I shall seek confirmation that these programmes are carried out within guidelines approved by Ministers concerned.

I am asking my officials to draw up a draft outline for the code within which we shall work for each Department. I hope that each colleague concerned will be able to agree such a code with me so that the new regime can operate from 1 July.

I am copying this letter to the Prime Minister, to Cabinet colleagues, the Minister of Transport, Sir John Hunt and Sir Ian Bancroft.

Yours
Michael Heseltine

MICHAEL HESELTINE

The Rt Hon Sir Geoffrey Howe MP

- 6 JUN 1979





10 DOWNING STREET

From the Private Secretary

6 June 1979

Dear Minister.

PUBLIC EXPENDITURE REDUCTIONS 1979/80

The Prime Minister was grateful for the Chief Secretary's minute of 4 June on the above subject. She has noted the allocation of the £60 million of total savings that have finally been agreed between the Chief Secretary, the Secretary of State for Education, and the Chancellor of the Duchy of Lancaster.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, including the Minister of Transport, and to Martin Vile (Cabinet Office).

Yours faithfully,

Tim Laker.

Alistair Pirie, Esq.,
Chief Secretary's Office.

KRD



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Francis Pym MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

5th June 1979

DEFENCE CASH LIMITS 1979-80

Now that Cabinet has confirmed our agreed allocation of an additional £100 million to the Defence Budget this year, I ought to put on record that we were also in agreement on the points mentioned in paragraph 3 of your minute of 30 May to the Prime Minister. I attach importance to your decision not to seek any addition to your cash limits on account of improvements in forces conditions of service, TAVR bounties or possible pay increases for MOD Police; your agreement to work within the cash limit and civilian pay guidelines agreed for all departments; and your commitment to find the savings necessary in order to do so. It would be useful if your officials could keep mine in touch with progress on the economy drive.

The Ministry of Defence are of course being consulted about the announcement of the £100 million in the Budget package.

I am copying this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Lord President, and Sir John Hunt.

JOHN BIFFEN

6 JUN 1979





Leon Pol.

Treasury Chambers, Parliament Street, SW1P 3AG

5 June 1979

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

MBM
RHS

Thank you for your letter of 31 May.

Michael Heseltine may want to comment on your view that he should be responsible for the Thames Barrier but unless he shares it and is able to offer a savings in 1979/80 to offset the additional spending of £14 million the problem of this excess remains.

If you do not feel able to make an expenditure saving to cover this then I should, somewhat reluctantly, be prepared to regard the proceeds from the sale of assets as an alternative offset. I am considering the argument you have advanced for delaying the sale of the BSC shares but there remains the possibility of the sale of the Market Towers office block. I did not refer to this specifically in the correspondence about the sale of assets because I understood that discussions on its disposal were already taking place at official level. I do not think you could regard disposing of this as an unreasonable contribution to meeting the problem of public expenditure in 1979/80 and hope that you can confirm that you are prepared to do so.

I am sending copies of this letter to the Prime Minister and Michael Heseltine.

NIGEL LAWSON



- 5 JUN 1979



10 DOWNING STREET

From the Private Secretary

5 June 1979

Cash Limits 1979/80

The Prime Minister has considered the Chief Secretary's minute of 4 June concerning cash limits in 1979/80 and she agrees that there should be no easement of the cash limits policy as already decided and announced on account of the higher RPI in the post-Budget forecast. She also agrees that Ministerial colleagues should be warned of the extra volume squeeze which this will imply, though she has noted that the Chief Secretary's minute which he proposes to send to colleagues will need to have the most strictly limited circulation within Departments.

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

T. P. LANKESTER

KLB

A.C. Pirie, Esq.,
HM Treasury.

BUDGET SECRET

CONFIDENTIAL



Prime Minister

2

PRIME MINISTER

PUBLIC EXPENDITURE REDUCTIONS 1979-80

These are the finally agreed figures for the Education and Arts cuts. The National Land Fund (which replenishes the Revenue for pictures etc. accepted in lieu of tax) is confirmed by Treasury, but is effectively Arts. So Mr St Ives has just about met his share. TL

At the Cabinet meeting on 31 May, the Secretary of State for Education and Science together with the Chancellor of the Duchy were asked to find savings of £22 million in the education, arts and science budget, to make good the loss of revenue from increased school meal charges, and to agree the savings urgently with me (CC(79)4th Conclusions, Item 5).

The three of us have now discussed this matter and have agreed that compensating savings could be obtained by further reductions in the grants to universities and colleges, in the building programmes, in the science budget, in expenditure on the arts and libraries, together with a contribution from the National Land Fund and by an increase in fees for overseas students (though not for home students).

In consequence the total savings of £60 million that are required on programme 10 in 1979-80 will be distributed as follows:-

| | £ million |
|---|-----------|
| Abandon pilot schemes for 16-18's mandatory grants | 10 |
| Reduce educational building programmes | 14 |
| Reduce science budget | 5 |
| Reduce grants to universities and colleges | 9 |
| Raise fees for overseas students (only) by 20 per cent | 6½ |
| Miscellaneous (mainly student awards and medical schools) | 11 |
| Savings on arts and libraries | 3 |
| Reduction in expenditure by <u>National Land Fund</u> | 1½ |
| Total | 60 |

I am sending copies of this minute to all members of the Cabinet, to the Minister of Transport and to Sir John Hunt.

WJB

[Signature]

4 June 1979



- 5 JUN 1979



PRIME MINISTER

CASH LIMITS 1979-80

On 17 May Cabinet agreed that cash limits for 1979-80 should not be increased to accommodate higher prices, and Geoffrey Howe announced this policy in the debate on the Address on 22 May. The Cabinet discussion was based on my paper C(79)5, in which I said that it should be possible to absorb a squeeze of up to 4-5% on expenditure other than pay, and concluded against increasing the cash limits "provided the post-Budget forecasts do not indicate a larger squeeze than this".

2. The latest forecasts reflecting our current Budget proposals now show the squeeze on local authority capital expenditure covered by cash limits to be in line with my earlier figures but the squeeze on central government expenditure comes out some 2 percentage points higher, ie up to 6 - 7% rather than 4 - 5%.

3. I do not propose any easement on this account of our cash limits policy as decided and announced. The additional squeeze will be difficult for spending Ministers, but in my view should be practicable. We need it for the Budget. It pushes expenditure in the direction we want. It should contribute to stimulating efficiency and driving out waste.

4. But it is tougher than our colleagues are yet expecting, and in view of the qualification in C(79)5 I think it would be right to inform them of what has now emerged as the implication of their decisions on May 17, especially as its successful implementation depends on their personal co-operation. I think they would have ground for complaint if they were only informed orally at the Budget Cabinet on 11 June, and given no chance first to consult in their departments about any special problems for them.

... 5. I therefore suggest that I might circulate the attached minute on 7 June. But I seek your approval first, because to do this will mean circulating more widely than we otherwise should in advance of the Budget material from which implications can be inferred about the content of the Budget as to VAT. Nevertheless I believe that we should take this risk in order to avoid the bad feeling that might otherwise be generated among our colleagues.

6. I am sending a copy of this to Sir John Hunt.

W. J. B.

JOHN BIFFEN
4th June 1979

DRAFT MINUTE TO PRIME MINISTER

Copies to other Members of Cabinet and Sir John Hunt.

Cash Limits 1979-80

On June 11 the Chancellor will be outlining his budget to Cabinet. There is one matter I would like to draw to my colleagues' attention in advance as it directly affects their departmental responsibilities.

2. Cabinet have already decided that cash limits should not be increased to accommodate higher prices. Geoffrey Howe announced this in the debate on the Address on May 22 and this policy has been taken into account in the Budget arithmetic.
3. The latest forecasts taking account of the proposed Budget measures now show a squeeze on local authorities' capital expenditure in line with my earlier figures, but for central government up to 2 percentage points more, ie a squeeze of up to 6 - 7% rather than the 4 - 5% expected earlier and mentioned in my paper C(79)5, on which Cabinet took their decision.
4. Despite the difficulties, I do not believe we should change what is now our announced policy. But I wish my colleagues to recognise its implications.
5. I am copying this to other Members of Cabinet, to the Minister of Transport, and to Sir John Hunt. To avoid speculation about the contents of the budget I ask that this minute be given only the most strictly limited (and recorded) circulation in departments.



1-4 JUN 1979

Prime Minister

Econ P.S.

NBPM p.a.

You asked Mr Carlisle to
reconsider the break-down of the
£22 m cut which he needs to
find to offset the decision
on school meal charges. His
proposals, agreed with the Chief
Secretary, are as follows -

| | Previous allocation | New allocation |
|---------------------|---------------------|----------------|
| Arts | 3 | 3 |
| Student fees | 6 | 6 |
| capital expenditure | 13 | 9 |
| Science | - | 1 |
| Universities | - | 3 |
| | <hr/> | <hr/> |
| | 22 | 22 |

DES confirm that the £6 m for
student fees is a net figure - ie.
increased awards have been netted off.
Oversus students will pay more than
half the total.

At 10 a.m. Mr St John Stevens
had still not agreed his £3 m for
the Arts.

12

1/6



8 ST. JAMES'S SQUARE LONDON SW1Y 4JB

Telephone Direct Line 01-214 1625

Switchboard 01-214 6000

12166

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

1 June 1979

Dear Chief Secretary

I have seen Patrick Jenkin's letter to you of 30 May proposing that instead of making 3% staff cuts in the DHSS local office network, equivalent savings in benefit payments should be secured by more activities to prevent fraud and abuse.

This is just to say that precisely the same considerations apply to my own local office network - ie the unemployment benefit offices. I have the same problems in making a staff cut there and similar opportunities to make savings on benefit payments. I should be in an impossible position with the staff unions if DHSS offices did not have a staff cut and I were attempting to make one.

So this is simply to say that if you were to approve Patrick's proposals, I would need approval for a similar plan on my side and would have to ask to be credited with the savings of benefit payments even though as a matter of book-keeping they would be savings on the DHSS Vote.

I am having all this further examined and costed, and wish you to regard this letter as being a holding exercise pending further investigation.

I am copying this letter to the Prime Minister and also to Christopher Soames, Patrick Jenkin and Sir John Hunt.

Yours sincerely
Cairns

(Approved by James Prior
and signed in his
absence)

96121
601

61 JUN 1979



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman St John Stevas MP
Chancellor of the Duchy of Lancaster
Cabinet Office
Whitehall
London SW1A 2AS

1st June 1979

MBM

4/6

Dear Chancellor,

PUBLIC EXPENDITURE 1979-80

Thank you for sending me a copy of your letter of 30 May to Mark Carlisle.

I fully appreciate that the request for reductions in expenditure on the Arts reached you both late in the day and in an unfortunate manner, and I regret this.

At our meeting yesterday afternoon I offered to find £1½ million from the National Land Fund as an increased contribution towards the required savings, provided you would find the rest of the £5 million I need. I was naturally very sorry you were not able to agree to this but I am glad to learn that you have since agreed to find one-half of the missing £1 million, and that Mark Carlisle will find the other half, which rounds off this exercise so far as DES and your Department are concerned. I well appreciate that it will be difficult and painful for you to find your £3 million, but virtually every other Minister is facing the same situation, and clearly your Department must take its proper share of the burden caused by exercises such as this.

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

Yours sincerely,
John Biffen

P.P. JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]

E4 JUN 1979





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 3HE

Prime Minister

2

This is the revised list of cuts agreed between Mr Carlisle and Mr Biffen. They encompass the £22m needed

1 June 1979

To offset the decision on school meals, except that the arts contribution still has to be settled.

Dear John,

Have heard from N. M. G. on 5/6

PUBLIC EXPENDITURE 1979-80

At our meeting yesterday, I reported to you my proposals for cuts of £55m in expenditure on education and science this year for which you had asked. They were as follows:

| | £m | (list put to Cabinet) |
|--------------------------|----|-----------------------|
| Universities (recurrent) | 9 | 6 |
| Science | 5 | 4 |
| EMA pilot schemes | 10 | 10 |
| Miscellaneous education | 11 | 11 |
| Capital expenditure | 14 | 13.8 |
| Student fees | 6 | 6 |
| Total | 55 | 55 |

In my letter of 29 May I said that this last saving could be made through an increase of 20% in fees for all students. As my officials have already told yours, this proves on closer study of the figures to be an underestimate. In fact a 20% increase for overseas students, which would still leave the subsidy for them at well over 50%, would yield £6.5m this year. This is the course I recommend and in the circumstances, if it would help, I am prepared to offer the extra £0.5m towards the savings you required from the arts.

CONFIDENTIAL

I am copying this letter to the Prime Minister, George Younger, Nicholas Edwards, Norman St John-Stevas, and because of my proposals for overseas students, Ian Gilmour.

Yours ever

Mark

MARK CARLISLE

CONFIDENTIAL



- 1 JUN 1979

PART 2 begins:-

S/S DES to GST 1/6/79

PART 1 ends:-

M/s MAFF to Fin Sec Tny 3/5

END

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February 2010