

A06096

PRIME MINISTERPublic Expenditure  
(C(81)57)

## BACKGROUND

The Home Secretary's paper (C(81)57) reports on progress in the public expenditure discussions both in his MISC 62 Group and elsewhere since the Cabinet considered this subject on 20 October (CC(81)53rd Conclusions, Minute 5). He puts on one side two expenditure issues which are being discussed separately (regional development grants and defence), reports on the agreed programmes and identifies the remaining disagreed programmes - housing and other environmental services.

## 2. The purpose of the meeting is:

i. to settle the housing and other environmental services programmes;

ii. to secure Cabinet endorsement for the agreed programmes and the overall public expenditure totals which result from them;

iii. to ensure that the Cabinet has no objection to certain specific proposals agreed by the Chief Secretary and the relevant spending Minister and listed at (a) to (g) in para 4 of the Home Secretary's paper.

(NB on one of these proposals concerning supplementary benefit for 16 year olds the Secretary of State for Employment disagrees with the timing.)

3. An agreement has been reached on regional development grants on which the Chief Secretary will be able to report orally. We understand that legislation is proposed which would reduce the amount of grant payable on very large projects and save £50 million a year starting in 1983/84, net of any consequential increase in selective assistance. Some savings might accrue in 1982/83 from these proposals; in addition it has been provisionally agreed that up to £30 million should be saved in that year by administrative means, although the Secretary of State for Industry is to consider how far this can be done. The timing of the legislation will need to be discussed with the Lord President and Chief Whip.

4. I hope that it will prove possible to report an agreement on defence. If it is not, there will be available an addendum to the Home Secretary's paper, setting out the issues as they emerged from MISC 62, on the basis of which the Cabinet can discuss the matter.

#### MAIN ISSUES

##### Overall expenditure position

5. The Home Secretary's paper makes it clear (para 3) that, even without any further concessions by the Treasury, the planned public expenditure totals will be significantly higher than those proposed by the Chief Secretary in C(81) 51 - by £1.2 billion in 1982/83, £2.2 billion in 1983/84 and £1.1 billion in 1984/85. Acceptance of the Secretary of State for the Environment's proposals on his two disagreed programmes would add another £0.5 billion or more a year. The decisions already reached are bound to have some adverse effect on the PSBR and on fiscal policy. Ministers recognised however that there were political constraints

and in some cases specific commitments which limited the scope for reductions in expenditure. The agreements made have taken account of these conflicting considerations. You will want to discourage any general re-opening of settlements reached, while allowing some discussion of those proposals listed in para 4 of the Home Secretary's paper.

Secretary of State for the Environment's programmes

General

6. The Cabinet has to decide on the expenditure totals for housing (Annex B(i) of C(81)57) and other environmental services (Annex B(ii)). The Secretary of State for the Environment will make the following general points (which are drawn from the draft paper attached to his Private Secretary's letter of 23 November):

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- a. The construction industry has already suffered heavily from Government cut-backs in capital expenditure.
  - Unemployment in the industry is now 25 per cent; the number of trainees entering the industry is falling sharply; without more work the industry will not be in a position to respond quickly to an upturn in the economy.
- b. Housing capital has been cut by 45 per cent in real terms from 1979-80 to 1981-82.
  - This is at a time when net households are rising by 150,000 a year and when home improvement is falling sharply, as is provision for the needy and the elderly.
- c. Investment in the water industry has fallen by 54 per cent in seven years.
  - Renewals and replacements are essential.

There may be a good deal of sympathy for the general argument that this capital expenditure should not be cut. The counter argument is that while the cuts are not desirable they have been made necessary by the failure to cut current expenditure, not least in the housing and local authority area.

### Housing

7. The figures in Annex B(i) are for England only; the decisions for the three other countries will be calculated by formula with reference to those for England. The main details given are for 1982/83. It will probably be necessary to settle the figures for the two later years out of Cabinet and on the basis of some agreed method for carrying forward the 1982/83 figures.

8. It seems unlikely that the Chief Secretary will be able to sustain his case for cutting the Cmnd 8175 total of £3,869 million by £93 million. If this is right, the discussion will focus on the extent to which the Secretary of State for the Environment's additional bid of £292 million should be allowed. The main questions are likely to be:

a. Whether the local authorities could reasonably be expected to contain their management and maintenance expenditure without the necessity of a further £67 million for this purpose.

- If not, the choice is between allowing additional subsidies of that amount and seeking offsetting capital cuts.

b. Whether the bid for preserving capital expenditure should be disallowed on the grounds that local authorities can spend the proceeds from council house sales on new investment, so that the more they sell the more they have to spend on investment in the year without exceeding

public expenditure totals.

c. Whether, as the Chief Secretary may suggest, council house rents should be higher than £2.50 (each 10p more yields £15 million).

- Cabinet may well be reluctant, however, to re-open the decision on £2.50 which, though provisional, was taken after a good deal of discussion.

d. Depending on discussion of the above possibilities, whether some of all of the remaining bid should be refused in the interests of the public expenditure totals as a whole.

9. The Secretary of State for the Environment may also refer to a proposal which he has put to the Chief Secretary that unspent capital receipts in 1981-82 should be carried forward to finance housing and other capital investment in 1982-83. The Chief Secretary has refused to agree to this: he will not accept end-year flexibility for one programme alone; he regards these receipts, which reduce public expenditure this year, as being offset several times over by overspending on current expenditure.

#### Other environmental services

10. MISC 62 recommended cuts in capital expenditure by regional water authorities and by local authorities on environmental services totalling £110 million in 1982/83 and £150 million in the two following years. Such cuts would be practicable without legislation and the breaking of commitments. At his meeting with you, the most that the Secretary of State was willing to offer was cuts of £80 million in 1982/83 and £100 million in each of the two following years. Unless the cuts endorsed by MISC 62 are approved in full other Ministers might well be tempted to re-open the very painful cuts

which they have accepted. The Secretary of State for the Environment's case will be all the weaker if concessions have been made to him on the housing programme.

11. The Secretary of State for the Environment may refer to proposals which he has put to Treasury Ministers for the introduction of private sector finance into the water industry which, if it went ahead, could reduce the public expenditure figures in the later years. Treasury Ministers are willing to look at this but they are not yet persuaded that the full risks would be borne by the private sector so that the costs could legitimately be taken out of the Public Sector Borrowing Requirement. The fact that his idea is under discussion should not be accepted as a reason for abating the cuts now being asked of the Secretary of State. Any benefits which might flow, if the scheme turns out to be workable, should be seen as a much needed bonus which will help to reduce pressure on the later years.

#### Supplementary benefit for 16 year olds

12. This may be the most difficult of the agreed proposals listed in para 4 of the Home Secretary's paper. The problem is that E Committee agreed on 2 November (E(81)31st Meeting, Item 3) to withdraw supplementary benefits from 16 year olds from September 1985 as part of the Employment Secretary's training package. There was to be a trade-off between the new training scheme available to 16 year olds from that date (a major improvement on the existing Youth Opportunities Programme (YOP)) and the lower allowances which would then be available to 16 year olds (ie for those not on training, child benefit for their parents; for those on training, a sum equivalent to child benefit plus £8). MISC 62 took the view that there was a case on merits for withdrawing supplementary benefit from 16 year olds who might more

appropriately be regarded as dependent on their parents to whom child benefit would then be paid. They therefore agreed to make the change from November 1982, (nearly one year earlier) thus providing savings of £12 million in 1982/83, £35 million in 1983/84 and £40 million in 1984/85.

15. The Chief Secretary subsequently pointed out that this would produce an odd result. Between November 1982 and September 1983 YOP trainees would receive some £25 a week - a much greater margin over other 16 year olds than would be the case under the post September 1983 scheme or under the pre November 1982 arrangement. He therefore proposed to reduce the YOP allowance to the level of the new training allowance.

Flag C 14. In his letter of 23 November the Employment Secretary has argued strongly and persuasively against both these modifications of the earlier decision by E Committee. The withdrawal of supplementary benefit for 16 year olds is much easier to present and defend if it is combined with the introduction of the new training scheme in September 1983. The Cabinet may well therefore conclude that they should confirm the earlier E decision and reject the proposal in para 4c of C(81)57. The expenditure savings would be deferred for about a year ie no savings in 1982/83 (as against £12 million), £12 million in 1983/84 (as against £35 million), and £35 million in 1984/85 (as against £40m).

#### Other agreed proposals

15. It is hoped that there will be no dissent from the other agreed proposals in para 4 of the Home Secretary's paper. On student grants, the Secretary of State for Education and Science will no doubt say that he was originally prepared to go further; likewise the Secretary of State for Social Services on prescription charges. On the proposed road traffic accident levy, it should

be acknowledged that H Committee has twice considered and twice rejected schemes of this kind; the new proposal is said to avoid the problem of "no fault liability" but the content and timing of the legislation will clearly need careful examination.

## ANNOUNCEMENT

16. If, as the Treasury hopes, all outstanding issues are resolved at this meeting, the Chancellor will probably want to make an announcement early next week. We understand that present Treasury thinking is that this would take the following form:

- a. a general oral statement to the House, referring to the main changes, and giving a broad indication of the result of the planning total, but for 1982-83 only;
- b. an accompanying text circulated in Hansard setting out the totals proposed for each programme, and probably also the EFLs for each nationalised industry, again confined to 1982-83;
- c. a short press notice covering that material, together with Notes for Editors: last year those Notes for Editors included a short passage on each programme.

## HANDLING

17. Subject to your talk on tactics this evening, you will probably want to ask the Home Secretary to open the discussion by introducing his paper, to ask for reports from the Chief Secretary, Treasury on regional development grants and (if agreement has been reached) on defence, and then call on the Chancellor of the Exchequer for comment on the overall expenditure position.



18. Unless there is a need for a discussion on defence, the next stage would be to call on the Secretary of State for the Environment and then the Chief Secretary to present their cases on the housing and other environmental services programmes. The Secretaries of State for Scotland and Wales are likely to wish to contribute.

19. There will then need to be a discussion on supplementary benefit for 16 year olds with contributions from the Secretary of State for Social Services, the Chief Secretary and the Secretary of State for Employment.

20. Finally, after dealing with any other disputed points, you will wish to call on the Chancellor of the Exchequer to outline his thinking about the form and timing of an announcement.

#### CONCLUSION

21. You will wish to record conclusions on the following:

- i. the expenditure totals for housing, and other environmental services, and, if not agreed before the meeting, for defence;
- ii. whether supplementary benefit for 16 year olds should be withdrawn from September 1985 as agreed earlier by the Committee or from November 1982 as envisaged in the Home Secretary's paper;
- iii. confirmation of the expenditure totals for all the agreed programmes, subject to any modifications made by the Cabinet;
- iv. the form and timing of an announcement.

25 November 1981

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ROBERT ARMSTRONG

*J. Wignall*  
Approved by S. R. Amshy &  
signed on his behalf