

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

C(80) 3

COPY NO

82

21 January 1980

CABINET

---

PUBLIC EXPENDITURE

Memorandum by the Chancellor of the Exchequer and the  
Chief Secretary, Treasury

---

1. On 13 December 1979 (CC(79) 25th Conclusions, Minute 6) the Cabinet agreed on the need to make further reductions in public expenditure of the order of £1 billion in 1980-81 and £2 billion in each subsequent year up to 1983-84 (in Survey prices) in addition to the reductions from previous plans agreed in the autumn. In recent weeks public expectations have mounted that the reductions to be announced will be substantial, and the implications for economic strategy are discussed in a companion paper (C(80) 4).
2. The Prime Minister asked all Ministers to re-examine their programmes with the object of finding further savings and Treasury proposals were made to the relevant Ministers for reductions in some of the major programmes. The savings so far agreed with the Ministers concerned are listed at Annex A. They amount to about £500 million in 1980-81, £1,350 million in 1981-82, and £1,450 million in each of the two subsequent years (all figures in this paper are at 1979 Survey prices). The bulk of the agreed savings come from the large programmes and the Treasury proposals: with a few exceptions, savings have not been offered elsewhere.
3. Some of the agreed savings involve controversial developments of policy: these are summarised in the right-hand column of Annex A. The Ministers concerned are prepared to accept them, but we draw them specifically to the Cabinet's attention.
4. The savings in Annex A are not sufficient. It is now urgent to reach conclusions on larger savings so that the figures for 1980-81 can be settled for announcement and so that the White Paper covering the full period can be published in March.

## ISSUE FOR DECISION: CHILD BENEFIT

5. There is one specific issue on which we have not been able to reach agreement with the Secretary of State for Social Services and which the Cabinet are asked to decide now. It concerns child benefit and supplementary benefit children's rates. On child benefit we propose an uprating next November from £4 to £4.50 per week, and a premium of £1 per week for fourth and subsequent children. To avoid adding to the "why work?" problem, we propose a correspondingly lower uprating of supplementary benefit children's rates, which would avoid narrowing the differential between in-work and out-of-work income. The Secretary of State for Social Services proposes an uprating of £1 in child benefit to £5 per week, which would be close to price protection, and full price protection of supplementary benefit children's rates. The saving from our proposal compared with the Secretary of State's is:-

	1980-81	1981-82	1982-83	1983-84
Child benefit	85	210	215	225
Supplementary benefit	10	25	25	25
Consequential expenditure for Northern Ireland	$\frac{3}{98}$	$\frac{6}{241}$	$\frac{7}{247}$	$\frac{7}{257}$

A note at Annex C sets out the considerations in more detail.

## POINTS TO NOTE

## EUROPEAN COMMUNITY

6. The savings so far discussed do not include a reduction in our contribution to the European Community. We need to take account of the probability of such a reduction in our view of the public sector borrowing requirement but it would be unwise to publish expenditure plans implying a specific degree of success in advance of the negotiations.

## CASH LIMITS

7. In addition to the specific savings identified in this paper, there will be a further reduction in the volume of expenditure in 1980-81 if the provision for cost increases in cash limits is less than the actual increases. We should announce our intention to apply such a squeeze if pay and price increases exceed the provision made in cash limits and this will reinforce the other action we are taking to press for greater efficiency. Since a squeeze will only arise if inflation exceeds our published forecast, there are difficulties about putting a figure on the consequent saving in expenditure at least until there is a new economic forecast. This will need to be considered in the Budget.

**SECRET**

**LOCAL AUTHORITY MANPOWER**

8. The Secretary of State for the Environment has proposed, as an alternative to reductions in housing on top of those in Annex A so far agreed, that local authorities in England and Wales should be asked to make an additional saving from 1981-82 representing a further cumulative 1 per cent annual reduction in their current expenditure (mainly manpower) in all services. The Secretary of State for the Environment suggested that, if such savings, additional to the other agreed reductions, could be achieved on all the programmes, the savings produced would be:-

	1980-81	1981-82	1982-83	1983-84
£ million 1979 Survey prices	-	120	240	360

There would be further proportionate savings in Scotland and Northern Ireland.

9. However, colleagues have already agreed to reductions in total local authority current expenditure (England and Wales - excluding housing) as follows:-

	1978-79	1980-81	1981-82	1982-83	1983-84
£ million 1979 Survey prices	12,279	12,014	11,816	11,698	11,598
% change on 1978-79		-2.2	-3.8	-4.7	-5.5

Programme details, and estimates of manpower implications, are being circulated separately. This shows that substantial manpower savings will be required for all the main local authority programmes, except the police and the personal social services. Central Government has no direct means of securing reductions in local authority manpower. To achieve these further savings, colleagues responsible for local authority programmes would need to consider whether further reductions related to manpower could realistically be secured, whether through increased efficiency or further policy changes. To the extent that such further cuts cannot be counted on, we shall need to look for further real reductions, and in particular to look for further savings on the housing programme beyond those referred to in paragraph 11 below.

**CIVIL SERVICE AND OTHER MANPOWER COSTS**

10. Whether or not the Secretary of State for the Environment's proposal in paragraph 8 is adopted, it is necessary to consider what more to do about manpower costs in the Civil Service, health service, universities and other groups. The most appropriate instrument for securing early economies in this context is a renewed general squeeze through cash limits, which act more directly on these groups than on the local authorities. We and the Minister of State, Civil Service Department, expect such a squeeze to occur through the

1980-81 cash limits. These reductions can then be carried forward to the later years. On top of the reductions in Civil Service manpower of 20,000 (2 $\frac{3}{4}$  per cent) in 1979-80 and a further 39,000 (5 per cent) announced by the Lord President of the Council on 6 December following the "options" exercise carried out last year, the squeeze on the Health Service and universities resulting from this year's cash limits and the Clegg reports, and on Quangos through the Pliatzky Report, this amounts to a significant programme of reductions in public service manpower.

#### HOUSING

11. The Secretary of State for the Environment would prefer not to be bound by a final decision now on the method by which he should achieve the savings to which he has agreed for the years after 1980-81. The savings in 1980-81 will be achieved by 60p a week on rents from October (additional to the £1.50 a week from April already announced) plus reduced funds for insulation and cuts to reflect the further decline in new housebuilding approvals. However, colleagues will want to be aware of the broad methods of achieving the savings in later years. These could include a similar annual level of cash rent increases and of new housebuilding together with a reduction in the Housing Corporation programme. Alternatives could be produced by higher (or lower) rent increases and correspondingly lower (or higher) cuts in capital.

#### DEFENCE

12. It is an important question what scope there is for a contribution from specific savings on the defence budget. This is being discussed separately with the Secretary of State for Defence.

#### EDUCATION

13. The reductions shown in Annex A have been agreed in bilateral discussion between Treasury Ministers and the Secretary of State for Education and Science and represent the largest reductions which the Secretary of State feels able to make in addition to the cuts agreed in the autumn. However, it is right to report to Cabinet that the group of other Ministers who took part in discussion of the environment and social security cuts - the Home Secretary, the Secretary of State for Industry and the Secretary of State for Employment - as well as the Secretaries of State for the Environment and for Social Services consider that there is scope for further savings in the education programme from improving efficiency in the main area of primary and secondary education.

#### EMPLOYMENT

14. Any addition to the employment programmes on account of the special employment measures discussed in the Secretary of State for the ~~Environment's~~ <sup>Employment's</sup> paper would be an offset to the reductions in this paper. We have to

recommend that there should be no addition to the Secretary of State's programme after deduction of the agreed savings in Annex A.

#### RESULTING FIGURES

15. Annex B summarises the broad expenditure totals which would emerge on the assumption that the Cabinet adopt our proposals in paragraph 5 and the Secretary of State for the Environment's proposal on local authority manpower or alternative reductions of similar amount. Subject to further refinement by Departments, these would be the figures to be published in the further public expenditure White Paper scheduled for March.

#### CONCLUSION

16. We invite the Cabinet:-

- i. To agree the savings listed in Annex A.
- ii. To decide the outstanding issues on child benefit and supplementary benefit children's rates in paragraph 5.
- iii. To note the points in paragraphs 6-15, and that we hope to report back to Cabinet, in the light of our discussion of this paper, with a view to reaching final decisions on outstanding issues on 31 January.

G H  
J B

Treasury Chambers

21 January 1980

<u>Reductions agreed</u>	<u>80-81</u>	<u>81-82</u>	<u>82-83</u>	<u>83-84</u>	<u>Main measures involved</u>
DHSS - Social security					
Reductions agreed:	110	505	415	415	Abolition of ERS from 1 January 1981 (controversial because of the contributory nature of this benefit); uprating of unemployment, sickness, invalidity, maternity and injury benefits and widow's allowance by 10% less than required by full price protection; and uprating of short-term supplementary benefit by the lower of earnings or prices. Allows for costs of offsetting claims for supplementary benefit requiring extra 1500 staff (cannot be found from present complement).
Reductions originally proposed by Treasury Ministers	(290)	(970)	(910)	(910)	
DHSS - Health					
Agreed:	20	120	125	80	Increase prescription charges to £1 in autumn 1980 and replace present exemptions by 50% charge for all except the poor.
Proposed (health and personal social services):	(-)	(170)	(200)	(225)	
DOE - Housing					
Agreed:	225	364	415	420	See paragraph 11.
Proposed:	(300)	(500)	(500)	(600)	
DOE - Other					
Agreed:	-	40	50	50	Legal aid fund and capital.
Proposed:	(-)	(40)	(50)	(50)	
DES - Education					
Agreed:	16	42	55	64	Uprate student grants by less than the increase in prices and give local authorities discretion to charge for nursery schools and classes.
Proposed:	(-)	(75)	(115)	(125)	
D/Employment					
Agreed:	35	30	30	30	Mainly savings on Manpower Services Commission expenditure eg training (subject to consultation with MSC).
Proposed:	(35)	(30)	(30)	(30)	

/continued

M/transport					Road construction and local authority expenditure on road maintenance and administration and concessionary fares.
Agreed:	-	35	40	40	
Proposed:	(-)	(50)	(50)	(50)	
FCO - Overseas aid					
Agreed:	-	19	28	28	
Proposed:	(-)	(50)	(50)	(50)	
FCO - Other					Does not include possible further reductions in grant to the British Council which is still under review.
Agreed:	-	1½	1½	1	
Proposed:	(-)	(-)	(-)	(-)	
Home Office					Mainly economies in fire service.
Agreed:	-	16	24	28	
Proposed:	(-)	(15)	(20)	(30)	
Energy					Mainly estimating changes in Redundant Mineworkers' Payments Scheme.
Agreed:	15	10½	7½	6½	
Proposed:	(-)	(-)	(-)	(-)	
Lord Chancellor					Legal aid fund and capital.
Agreed:	7½	4	2	2	
Proposed:	(-)	(-)	(-)	(-)	
Export credit and home shipbuilding					Withdrawal of refinance from April under fixed-rate lending scheme.
Agreed:	8	39	84	126	
Proposed:	(-)	(-)	(-)	(-)	
Consequentialials - Scotland, Wales, N. Ireland					
	56	137½	153	146	
TOTAL	492	1363	1430	1436	

S E C R E T

## Public expenditure 1974-75 to 1983-84

£m at 1979 Survey prices

	Outturn						Plans			
	<u>74-75</u>	<u>75-76</u>	<u>76-77</u>	<u>77-78</u>	<u>78-79</u>	<u>79-80</u>	<u>80-81</u>	<u>81-82</u>	<u>82-83</u>	<u>83-84</u>
Outturn (actual or projected), before further cuts*	71626	71887	70069	65852	69600	69800	69950	70050	69000	69000
Cuts agreed (Annex A)	-	-	-	-	-	-	-492	-1363	-1430	-1436
Outturn resulting <sup>‡</sup>	71626	71887	70069	65852	69600	69800	69450	68700	67550	67550
Further savings proposed in paragraphs 5 and 8-9:										
social security (UK)	-	-	-	-	-	-	-98	-241	-247	-257
local authority manpower (UK) or other equivalent savings	-	-	-	-	-	-	-	-137	-273	-410
Outturn resulting <sup>‡</sup>	71626	71887	70069	65852	69600	69800	69350	68300	67050	66900
Percentage change on previous year	..	+0.4	-2.5	-6.0	+5.7	+0.3	-0.6	-1.5	-1.8	-0.2

\* Total as defined in line 13 of table 1 of Cmnd 7746. Subject to further revision, especially in 1979-80. Includes (in the years 1980-81 to 1983-84) approximate adjustments for revised assumptions about unemployment, inflation etc (mainly affecting social security).

‡ Rounded to nearest £50m in the years 1980-81 to 1983-84.

S E C R E T



## NOTE ON THE SOCIAL SECURITY PROPOSALS

Note by the Secretary of State for Social Services on the agreed proposals.

The first agreed proposal is to abolish Earnings Related Supplement to unemployment, sickness, maternity and injury benefit, and to widows' allowance. This would eliminate entitlement on average of £11 per week, <sup>but</sup> up to £17, for 500,000 people at any one time (people on a spell of benefit at abolition would continue to receive benefit until that spell ended). The Secretary of State accepts that abolition needs to take place in January 1981 in order to obtain the substantial saving required in the year 1981-82. Whilst the abolition of any insurance benefit linked with past contributions is bound to be intensely controversial, in the case of ERS, contributions are being paid in 1979-80 for title to benefit throughout 1981 and withdrawal of benefit in January 1981 is therefore open to additional attack as a breach of contract. Deferment to January 1982 would reduce criticism.

2. The second agreed proposal is that the November 1980 uprating for the flat rate benefit paid to the groups of people referred to above, and for those on long term invalidity benefit, should be 10 per cent less than needed to keep pace with prices (ie if price protection needed 15 per cent, the uprating would be 5 per cent). One ground for this is that these benefits should be subject to income tax but it is not yet possible to tax them.

3. The Secretary of State believes this to be as fierce a package as it is possible to sustain politically. It involves the first ever abolition of a benefit and the first time since the thirties that the real value of an income maintenance benefit has deliberately been cut. Nevertheless the Secretary of State accepts that in present circumstances the savings must be found.

Views of the Secretary of State and the Chancellor on the points at issue.

4. The Secretary of State considers child benefit, which needs to go up by more than £1 in November just to keep pace with prices since April 1979, should be raised across the board from £4 to £5. The importance of child benefit to the incentives equation is that social security benefits are reduced

SECRET

by its value while the worker has the benefit in addition to wages. There are also now no child tax allowances and child benefit is the only significant means by which help may be given to the family man above the poverty line. If personal tax allowances are price protected and child benefit not, the family man with children is singled out for unfavourable treatment.

5. Even if less than full price protection were given to child benefit the Secretary of State does not consider that there should be any cut in the basic subsistence level for children on short term supplementary benefit. Of the  $\frac{1}{2}$  million children involved, 300,000 are in one-parent families or families of the sick, for whom the incentives argument is not relevant. The effect would therefore be small in relation to the total "why work" problem any way, and the political difficulties of selecting the childrens rates for cuts are obvious. Moreover such cuts would run entirely counter to the Government's declared policy now being implemented in the Social Security Bill now before Parliament, to switch supplementary benefit resources towards families with children on supplementary benefit because they of all groups find it most difficult to manage.

6. The Chancellor's view as to child benefit is that an increase of as much as £1 is not justifiable in current circumstances. Price protection is not required either by statute or by custom, and it is most undesirable to extend indexation. The benefit itself goes indiscriminately to all with children, whether they are rich or poor; the arguments about poverty and incentives apply to only a minority of recipients and would be met in part by the proposed premium for the 4th and subsequent child. So far as supplementary benefit goes, the Chancellor thinks that as a consequence of less than full price protection of child benefit childrens scale rates must be held back in the interests of work incentives, in the same way that broadly similar steps have already been agreed in respect of child dependency allowances payable with sickness and unemployment benefit. He notes that supplementary benefit levels are otherwise virtually untouched.