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CABINET

PUBLIC EXPENDITURE, 1980-81 TO 1983-84

Memorandum by the Chief Secretary, Treasury

1. 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) 25. Also relevant are the reviews which we shall shortly be considering: the review of nationalised industries' investment and financing, the Lord President's report on further action to reduce the size of the Civil Service, and the review of 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, £5 billion more than the expected outturn in 1979-80.

11. The Chancellor of the Exchequer's paper indicates that, in order to avoid the prospect of increases in the burden of taxation in the next Budget, we must aim at reductions of not less than £6½ billion in the Cmnd 7439 plans for 1980-81.

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. These reductions would amount to about £4 $\frac{3}{4}$ billion. In addition, I propose to cut the Contingency Reserve, which stands at £1540 million, by some £ $\frac{3}{4}$ billion. Options being put forward in the nationalised industries' financing and investment review and savings from the Lord President's review of the Civil Service (beyond the savings included in this memorandum) might be assumed to produce some £ $\frac{1}{2}$ billion. So these proposals would give total reductions of the order of £6 billion, leaving £ $\frac{1}{2}$ 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 to specific measures are elaborated in the main paper on options (C(79) 25). Because of the difficulties of some of the options presented in that paper, particularly on social security and contributions to the European Economic Community (EEC) Budget, I have had to replace them by a further general cut of 3 per cent on the majority of programmes.

DEFENCE

15. The volume of defence spending in 1979-80 will be reduced by the Value Added Tax (VAT) and other price increases. Measured against that base, the North Atlantic Treaty Organisation (NATO) target of 3 per cent growth can be met in 1980-81, whilst still permitting us to make reduction of £300 million in the previously published plans.

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 £1.1 billion, 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 planned 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 $6\frac{1}{2}$ per cent on current expenditure and $33\frac{1}{2}$ per cent on capital (England and Wales). 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 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 £6½ 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.

in 1979 Survey prices

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.

(other)	-28
Budget	+236
D/INAP/DAYS/WDAB	-43
Entry Commission	-5
Entry	-187
EU	-20
EU	+170
Export	-543
EU	-24
Export	-305
(housing)	-1264

W J B

Treasury Chambers

6 July 1979

Chancellor's Department	-4
Education and Science	-860
EU and Libraries	-33
EU (health)	-85
EU (personal social services)	-118
EU (social security)	-253
EU	-10
EU (civil administration)	-
EU	-3
EU Office (excl. D/SAFE)	-410
EU Office (excl. D/SAFE)	-130
EU Office Ireland	-160
	-4870

1. Assistance will be subject of Nationalized Industries' Financing and Investment Review.

2. Some aid programs will partly cost of first Common Fund "window". Net, correspondingly larger out and transfer to D/Trade.

£m 1979 Survey prices

Additions (+) and reductions (-) to
Cmnd 7439 revalued, 1980-81Department

Defence	-300
FCO (ODA)	-132 /
FCO (other)	-28
EEC Budget	+236
MAFF/IBAP/DAFS/WOAD	-43
Forestry Commission	-5
Industry	-187
Trade	-20
ECGD	+170
Employment	-513
Energy	-24*
Transport	-305
DOE (housing)	-1264
DOE (PSA)	-54
DOE (other)	-285
Home Office	+10
Lord Chancellor's Department	-4
Education and Science	-860
Arts and Libraries	-33
DHSS (health)	-85
DHSS (personal social services)	-118
DHSS (social security)	-253
HMSO	-10
CSD (civil superannuation)	-
COI	-3
Scottish Office (excl. DAFS)	-410
Welsh Office (excl. WOAD)	-130
Northern Ireland	-160
	<u>-4810</u>

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

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

£m 1979 Survey prices
 Additions (+) and
 reductions (-) to
Cmd 7439 revalued, 1980-81

Department

Defence (see paragraph 15) -300

FCO (ODA)

overseas aid -107

overseas aid administration -1

other external relations - pensions +1

further 3% reduction -25

-132

FCO (other)

overseas representation -8

BBC -4

British Council -10

other external relations -1

further 3% reduction -5

-28

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
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	-43
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Forestry Commission	
land purchases, new planting, etc.	-5
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Industry	
reductions already agreed	-35
estimating changes	+24
RDG	-133
regional selective assistance	-1
R & D	-7
selective assistance for individual industries	-5
further 3% reduction	-30
	<hr/>
	-187
	<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
further 3% reduction	-5
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	-20
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ECGD	
70% foreign financing	-4
estimating changes	+174
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	+170
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Employment

reduced requirements	-61
effect of Budget cuts	-159
short-time working	-207
staff -DEM,HSC,ACAS	-1
MSC	-50
further 3% reduction	-35
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	-513
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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
further 3% reduction	-5
	<hr/>
	-24
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NCB assistance will be subject of Nationalised Industries'
Financing and Investment Review

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

SECRET

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assistance to PLA	+6
further 3% reduction	-70
	<hr/>
	-305
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DOE (housing)	
council house sales	-40
local authority municipalisation	-130
l.a. land acquisition	-120
l.a. new housebuilding, incl. adjustment to reflect shortfall in starts/approvals in 1979 -at least	-455
l.a. housing subsidies - net estimating changes	-1
l.a. mortgage interest subsidy - forgo	-10
option mortgage subsidy, private sector improvement grants, and first-time purchasers' scheme - realism	-160
rent increases £1 faster than earnings (net of rebates and supplementary benefit)	-150
housing associations/new towns	-83
extra rent allowances for changes in fair rents	+5
further 3% reduction	-120
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	-1264
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DOE (PSA)	
running costs	-9
major new works - dispersal (assuming all uncommitted dispersal expenditure cancelled)	-26
major new works - other	-7
administration	-2
further 3% reduction	-10
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	-54
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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
further 3% reduction	-75
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	-285
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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	+ $\frac{1}{2}$
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	-4
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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
further 3% reduction	-230

-860

Arts and Libraries

British Library building and services	-6
Arts Council	-3
museums and galleries current	-2
local libraries	-15
local museums	-2
further 3% reduction	-5

-33

DHSS (health)

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

-85

SECRET

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DHSS (personal social services)	
effects of 1979-80 measures	-10
other	-78
further 3% reduction	-30
	<u>-118</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
modification of earnings-related supplement to short-term benefits (net of supplementary benefit)	-50
	<u>-253</u>
HMSO	
7½% reduction	-7
further 3% reduction	-3
	<u>-10</u>
CSD (civil superannuation only)	
	<u>-</u>

COI

7½% reduction	-2
further 3% reduction	-1
	<u>-3</u>

Scotland (excl. DAFS)

"comparable" programmes	-315
trade, industry etc	-25
further 3% reduction	-70
	<u>-410</u>

Wales (excl. WOAD)

industry etc	-12½
housing	-57
roads and transport	-13
other environmental services	-15
education	-2½
health	-5
personal social services	-5
further 3% reduction	-20
	<u>-130</u>

Northern Ireland

general	-130
further 3% reduction	-30
	<u>-160</u>

GRAND TOTAL

-4810

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