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Prime Minister

MR. LANKESTER

(This suggests even bigger
option cuts than we discussed)

For Cabinet

Review of Expenditure Programmes

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

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

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

4. We have made the following assumptions:

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

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

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

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

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

(signed) Sir Kenneth Berrill

23 May 1979