

CONFIDENTIAL

Ref. A09620

PRIME MINISTER

Review of Expenditure Programmes

(C(79) 10 and 11)

BACKGROUND

You saw and approved the Chief Secretary's main paper (C(79) 11), subject to the inclusion of a more ambitious target than that which he first proposed. The other paper (C(79) 11) about the expenditure cuts discussed in opposition is tabled mainly as background.

2. The arithmetic in the main paper aims at reducing public expenditure to the level of the 1977-78 outturn. I attach a chart which shows that this is a convenient target, because it represents the lowest outturn of recent years. But the 1977-78 outturn was the result of a very large shortfall, partly related to the fact that 1977-78 was the first year of the 'cash limits' system and partly reflecting the negotiations with the IMF. It therefore constitutes a difficult target to reach. Moreover, exemption of two very large blocks (Defence and law and order) and the partial exemption of health, means that the other programmes have to take a correspondingly larger proportion of the total cuts. This reinforces the need for a wide range of options to be prepared, because clearly the Cabinet, when it takes the public expenditure survey in the late summer, is going to face some very difficult decisions. Meanwhile, you will want to stress that this is not a meeting for decisions on where the cuts will fall (the Chief Secretary's minute of today is relevant): the whole object is to ensure that there is a wide range of choice later in the year.

FLAG 'A'

HANDLING

2. I suggest you start yourself on those lines. There should be no need for extensive discussion, but you will want to watch the following points:-

- (a) The size of the options. You have already decided on this, calling for a range of cuts of $7\frac{1}{2}$ per cent next year, $12\frac{1}{2}$ per cent in 1981-82 and $17\frac{1}{2}$ per cent in 1982-83. No one need quibble at producing options on this

But see
Ken Benih's
note at Flag C.

CONFIDENTIAL

scale, even though they may add up to more than will be needed. You might also - and this is a point not in the Chief Secretary's paper - urge that Ministers make it their personal business to produce realistic options, and not to come up with a list of items which it would be unthinkable to cut, in the hope of thus escaping scot-free. You could add that if the cuts proposed in opposition proved, on closer examination, not to be feasible, it is up to the Ministers concerned to produce alternatives. Past experience suggests the need for close political involvement in the preparation of the costed options, even though the detailed work at this stage is done bilaterally between Departmental officials and those of the Treasury.

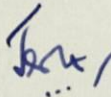
- (b) Exemptions. You will want to limit exemptions to those already set out in the paper and resist any suggestion that the list should be extended. The chart illustrates how thorough those two big exemptions increase the need for reductions in other programmes.
- (c) A moratorium on fresh commitments. Paragraph 11 of the Chief Secretary's paper asks for a clear decision not to pile up any further commitments pending completion of the Survey. An exception may have to be made for the Social Security uprating - see my separate brief on this. Otherwise you will want to record a very clear Cabinet decision that there should be no further pre-emption of the decisions which were to be taken in the later summer.
- (d) Local authorities. As the Chief Secretary suggests (paragraph 12) you will want to call Mr. Heseltine to speak on this point. But there should be no difficulty in getting agreement in principle on the line proposed. You may want to ask Mr. Heseltine and Mr. Biffen to keep you informed of the progress of talks with the local authorities. There will have to be parallel talks in Scotland and Wales.
- (e) Nationalised industries. Again there should be no difficulty in agreeing to Commission a separate parallel report on nationalised industries. The control total here is their borrowing, rather than (as under the previous Conservative Government) their capital expenditure. This allows for consideration of reduction in the level of service and of price increases as a further option, as well as straight cuts in investment.

CONFIDENTIAL

- (f) Sale of assets. Work is already in hand. But you might ask that at least an interim report should be available to Cabinet at the same time as the Public Expenditure Survey comes forward.
- (g) Timing. The Treasury aim to bring the whole thing back to Cabinet before the end of July. You can decide then whether to take final decisions; or whether as has been customary recently to reach a broad political view of priorities and commission further work to be completed during the summer, leading to final decisions in the autumn. In one sense there will be no immediate hurry, since the Budget will by then be out of the way. But I suspect that you will want to maintain the momentum and to reach final decisions which can be announced, say, before the Party Conference.

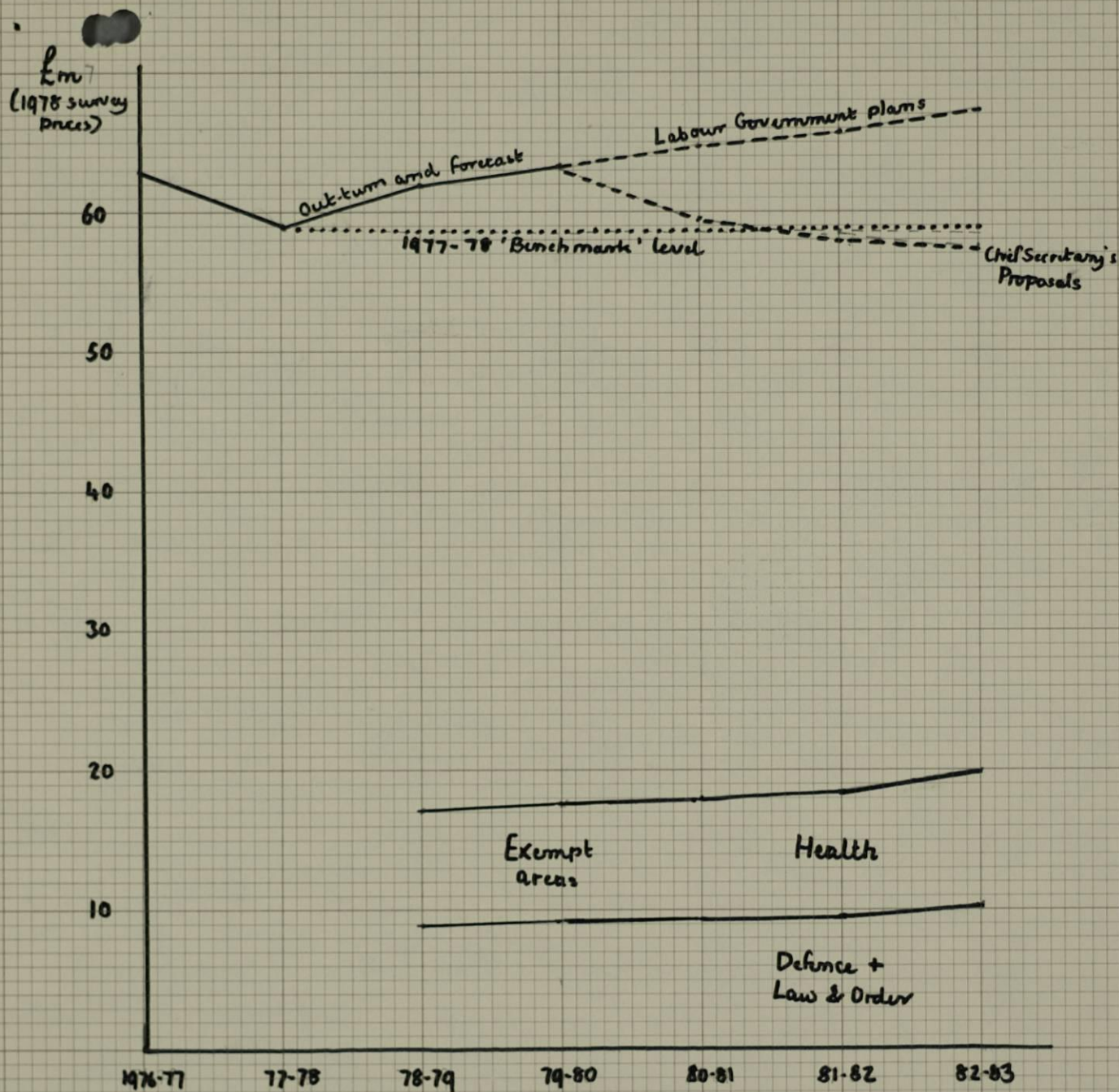
Conclusions

3. Subject to the discussion, you should be able to record complete endorsement of the proposals in the Chief Secretary's paper, with any additions you may want to make yourself about the need for political commitment to the exercise.



(John Hunt)

23rd May, 1979



The top line shows the planned totals set out in Cmnd. 7439

The dotted line shows the 'target' level reached in 1977-78

The broken line shows the level which would be reached if all the Chief Secretary's 'options' could be secured.

The bottom two lines indicate how far the exemptions limit the scope for cuts.