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C(80) 64

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CABINET

PUBLIC EXPENDITURE CHANGES

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

1. This memorandum reports the outcome of discussions in MISC 47, except for the final discussions of Northern Ireland and agriculture on which we will report orally.
2. C(80) 58 set out increases in expenditure compared with the March White Paper revalued of £2,724 million (at late 1979 prices) in 1981-82, and more in later years. It proposed reductions of £1,610 million in programmes (other than social security which was to be discussed separately) as a step towards bringing the total back to the aim, agreed in July, of holding to the March White Paper figures, less the benefit from the European Community contributions.
3. As a result of discussions in the last week we now accept a larger increase for employment measures, so bringing the total increase to £2,780 million in 1981-82. We have also agreed to abate our proposed reductions by £125 million in that year mainly in respect of health (paragraph B(ii)): the total reductions in programmes which we now propose is £1,485 million in 1981-82. The changes are summarised in Table 1.
4. We have reached full agreement with the Ministers concerned on programmes where the reductions amount to £273 million. Also, on the programmes where there are issues unresolved, we have reached agreement with the Ministers concerned on reductions of £92 million, taking into account the abatement referred to above. With the other changes already agreed before circulation of C(80) 58, the total reductions agreed so far amount to £642 million.
5. This leaves still at issue:-
  - i. Further increase for employment measures of £90 million, and increases of £20 million on Wales, proposed by the respective Secretaries of State.
  - ii. Further reductions of £800 million on programmes discussed but not agreed.

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- iii. Reductions being discussed today with the Ministers concerned of £43 million.

The position in respect of the programmes with issues outstanding is summarised in Table 2.

A. AGREED PROGRAMMES

i. Environment (including Property Services Agency (PSA))

6. The Secretary of State accepts our proposals for reductions totalling £173 million in 1981-82, but wishes to leave open the distribution between his programmes (apart from P&A, where colleagues will need to be consulted on the implications of these proposals). On housing, he wishes his colleagues to recognise that, if as he proposes no further cuts are made in capital, this is likely to require a rent guideline for next year indicating an average rent increase of £3.25 (as against £2.85 implied by the Cmnd 7841 figures).

ii. Transport

7. The Minister of Transport has accepted the proposals for his Department in C(80) 58 (despite their impact on the private sector construction industry), provided that reductions elsewhere do not fall short. He has doubts about carrying forward the capital cuts to later years, but we hope to reach agreement with him on this also, following the Cabinet discussion.

iii. Foreign and Commonwealth Office/Aid

8. Foreign Office Ministers have accepted the 2 per cent cut on the totals for their programmes (including aid) for all three years, with discretion to adjust between programmes.

iv. Office of Arts and Libraries

9. For the arts, after discussion we are prepared to accept £11 million reductions in each year, instead of the £15 million proposed earlier, given the cuts already made in this small programme and the damage any bigger reduction might do; the Chancellor of the Duchy has agreed to the £11 million.

B. ISSUES FOR DECISION

i. Education

10. We have proposed further cuts in 1981-82, additional to the £85 million agreed by Cabinet in July, of £61 million as the education share of the 1 per cent reduction in local authority current spending, and £30 million which is 2 per cent of the remaining cash-controlled Department of Education and Science programmes (universities, local authority capital,



science). We proposed that this total cut of £176 million next year should be carried forward into the later years in reductions of £236 million and £241 million.

11. The Secretary of State is particularly reluctant to accept any of the extra £61 million proposed reduction on local authority current (schools and further education). On his other programmes, the July cut (£24 million) amounted to  $1\frac{1}{2}$  per cent, and he is prepared to find a further  $\frac{1}{2}$  per cent (£8 million) making 2 per cent in all, provided that colleagues accept the full 2 per cent cuts; but this falls short of the extra £30 million we are seeking.

12. We need cuts from education on the scale proposed, to achieve our overall target. In particular we cannot make the further 1 per cent reduction in local authority current spending unless education takes its share. We therefore invite colleagues to agree that:-

a. in 1981-82 local authority education expenditure should take the full 1 per cent further cut (£61 million);

b. also in that year other cash-limited education programmes should take the proposed 2 per cent further cut (£30 million), rather than the  $\frac{1}{2}$  per cent (£8 million) proposed by the Secretary of State;

c. the total cut of £176 million for 1981-82 should be carried forward into later years in reductions of £236 million and £241 million.

## ii. Health

13. Because £100 million of expected income (mainly accident charges) has been lost, the net provision for health is at present by that amount less than the Cmnd 7841 figures which have so far been taken as a Manifesto commitment. We proposed a further reduction of £125 million as the health share of the 2 per cent cut in cash-controlled programmes.

14. The Secretary of State wishes to avoid this £225 million cut, by raising this amount instead through an increase in the National Insurance health contribution. He regards this as politically and socially more acceptable than cutting services or raising prescriptions or other charges; it would make the same contribution to the Public Sector Borrowing Requirement and would avoid placing a bigger burden on the sick and the elderly.

15. We cannot accept this argument. The National Insurance contribution, from which there is an allocation towards health costs, is essentially a form of tax, and should be considered as such. It does not count towards staying within the Cmnd 7841 targets for public expenditure. Volume spending on health cannot be exempted from making its contribution towards our expenditure target.



16. We are prepared to accept that the £100 million loss of expected charges cannot now reasonably be made up, so that the health programme should bear only the standard 2 per cent cut in cash-controlled expenditure (and 1 per cent reduction in local authority current expenditure), with the same reduction carried forward into the later years. This would still provide for some growth in the total National Health Service programme.

17. We therefore invite colleagues to agree that:-

a. the health programme should not be required to carry the £100 million loss of receipts from charges, which should be reinstated;

b. it should be required to find its share of the 2 per cent reduction in cash-controlled programmes (£126 million) and 1 per cent of local authority current spending (£12 million) in 1981-82;

c. this £138 million reduction should be carried forward into the two later years.

iii. Employment

18. The Secretary of State for Employment has proposed expenditure on special employment measures (including unified vocational preparation) of £624 million in 1981-82 and similar amounts in later years. The existing provision for 1981-82 is £323 million.

19. To continue the existing measures on their present basis would cost an additional £112 million. If the Youth Opportunities Programme (YOP) were to be expanded in order to maintain the current undertakings for unemployed school leavers and other young people, this would cost a further £97 million. The remaining £92 million proposed by the Secretary of State would allow for the improvement of this and other schemes, in particular, the Job Release Scheme and Community Enterprise Programme.

20. Against this, the Secretary of State is offering savings on his other programmes of £32 million in 1981-82 (and higher figures in the later years) as well as the general 2 per cent cut in cash limited programmes and the 1 per cent cut in local authority current expenditure. His net additional bid is therefore £269 million in 1981-82.

21. Of these additions to the programme, we are prepared to agree to the £112 million to continue existing schemes, and the £97 million to meet YOP undertakings. To offset this, we think the Secretary of State should find £42 million net savings (£10 million more than he has offered), either by reducing the rate of support under the Short-Time Working Scheme or by further savings elsewhere. This would give total addition of £167 million, with equivalent figures for the later years of £203 million and £189 million. It falls £102 million short of the Secretary of State's net bid for 1981-82, but in our view this is the limit of what can be afforded on this programme without even more drastic reductions than we have proposed elsewhere.



22. Accordingly we invite colleagues to agree that the net additions for special employment measures should be £167 million for 1981-82, £203 million for 1982-83 and £189 million for 1983-84.

iv. Defence

23. Our proposal here was for specific cuts of £312 million in each year in addition to the standard 2 per cent of cash-limited expenditure, making for total savings of £500 million a year.

24. The Secretary of State for Defence has agreed to consider the implications of accepting the standard 2 per cent cut in cash-limited expenditure. But he is firmly opposed to any additional specific cut in view of its likely effect on operational capability. He considers that our international commitments require sustained real growth in defence spending in 1981-82; points out that he has already been obliged to make substantial economies, and to accommodate the Trident programme within the existing provision for Defence; and is concerned about the employment and industrial implications of deeper cuts.

25. The Defence programme grew by 3 per cent in 1979-80 and seems likely, through overspending, to achieve 3 per cent again this year. The effect of our proposal would be to break with 3 per cent growth in 1981-82 but allow some resumed growth in later years. Against the background of acute economic difficulties this is, and would we believe be seen as, a modest contribution from a £10 billion programme (comprising  $\frac{1}{6}$ th of total central government expenditure). Performance against the North Atlantic Treaty Organisation target would remain well above average; and the proportion of Gross National Product devoted to Defence would continue to be higher than any major European ally.

26. We invite our colleagues to agree that:-

a. Defence should not be exempted from the general 2 per cent cut in cash-limited expenditure.

b. In addition there should be specific cuts of £312 million in each year, bringing the total saving on the Defence programme up to £500 million a year.

v. Scotland

27. We proposed a reduction of £150 million in the Scottish Office programme, consisting of formula cuts based on the proposals for other Departments (then put at £60 million for 1981-82), and an extra cut of £90 million because the Scottish share of public expenditure on comparable services is much larger than is justified by relative need, as indicated by the Needs Assessment Study. The Secretary of State is prepared to make the formula cuts, but considers that any additional reduction for Scotland alone would be politically disastrous. His assessment of what cuts on this scale would imply is set out in C(80) 62.

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28. We recognise the political difficulties of a conspicuous extra cut in the Scottish programme. But we have to judge the programmes where there is a relatively good case for finding contributions to the overall target, and there is good evidence that the public expenditure baseline provides relatively well for Scotland. Accordingly we invite colleagues to agree that:-

a. in addition to formula cuts, the Scottish programme should be reduced by £90 million in 1981-82;

b. this should be carried forward into similar cuts (about £140 million a year) in 1982-83 and 1983-84.

vi. Wales

29. The Secretary of State for Wales has agreed to accept his share of formula cuts based on the proposals for other Departments. But he has asked for an additional £20 million in both 1981-82 and 1983-84 for factory building in areas affected by steel closures. We recognise that the position will be difficult, but it will be equally difficult elsewhere in the United Kingdom and we see no case for special treatment for Wales. We therefore recommend acceptance of the figures in Table 1.

**CONCLUSION**

30. We seek agreement to our proposals including both the general cuts and the specific cuts in programmes set out above. The resultant net changes in the programmes affected are set out in Table 3.

GH  
JB

Treasury Chambers

29 October 1980



TABLE 1

CHANGES SINCE C(80)58

	£m late 1979 prices		
	1981-82	1982-83	1983-84
I Total increases proposed in Table 1 of C(80)58	+2,724	+3,056	+2,967
Subsequent addition to those increases now accepted:			
Employment	+47	+68	+54
Resulting total increases	+2,771	+3,124	+3,021
II Total reductions proposed in Table 2 of C(80)58	-1,610	-1,586	-2,042
Abatement of those proposals now accepted:			
Health (lost charges) - DHSS	+100	+100	+100
- Scotland, Wales and Northern Ireland	+21	+21	+21
Arts	+4	+4	+4
Total reductions now proposed	-1,485	-1,461	-1,917
III Net changes in programmes under discussion			
Reductions proposed (II)	-1,485	-1,461	-1,917
Less: That part of I involving policy changes in Industry and Employment	+197	+253	+239
Totals in Table 3.	-1,288	-1,208	-1,678



TABLE 2

## PROGRAMMES UNRESOLVED

(\* indicates changes agreed)

	1981-82						£m late 1979 prices	
	White Paper Revalued	Programme as would now be without proposed cuts and increases	Specific cuts and increases proposed	1% reduction in LA current expenditure	2% volume cuts in cash - controlled programmes	Total changes proposed by Treasury Ministers	Resulting programme	Further increases at issue
Department of Education	8,314	8,351	-85*	-61	-30	-176	8,175	-
DHSS (Health)	} 9,141	9,144	{ +100*	-	-12*	-126	-26	} 9,106
DHSS (PSS)								
DHSS (Social Security)	20,183	20,800 <sup>(1)</sup>	x	x	x	x	x	
Department of Employment	1,145	1,191	+167*	-½	-18*	+148½	1,340	+102
Defence	9,941	9,942	-312	-	-188	-500	9,442	-
Scotland (excl. DAFS)	4,162	4,167	{ -90 +1*(3) }	-	-48*(2)	-137	4,030	-
Wales (excl. WOAD)	1,640	1,641	+1*(3)	-	-22*(2)	-21*	1,620	+20
<u>Programmes being discussed</u>								
MAFF/DAFS/WOAD	727	696	-26	-	-9	-35	661	-
N. Ireland	2,376	2,400	+1*(3)	-	-8(2)	-7	2,393	-

(1) Including provisional Treasury estimate of effect of revised economic assumptions.

(2) Formula changes (including effect of lost health charges).

(3) Industrial support increases.



TABLE 3

PROPOSED CHANGES (1)

	£m late 1979 prices		
	1981-82	1982-83	1983-84
<u>Departments</u>			
(excluding nationalised industries)			
<u>Agreed for 1981-82</u>			
DOE (housing)	-64	-90	-85
(PSA)	-19	-15	-15
(Other)	-90	-84	-79
OAL	-11	-11	-11
Home Office	-40	-40	-40
Transport	-46	-46	-46
Industry	+20	+40	+40
FCO (total)	-21	-21	-21
Lord Chancellor's Department	-2	-2	-2
ECGD	-48	+4	+4
Other Departments (general cuts) (2)	-40	-40	-40
Other changes to all Departments	+39	+140	-75
EC contribution before refund	-100	-250	-500
Sales of assets	-100	-	-
<u>Unresolved for all years</u>			
Education	-176	-236	-241
DHSS (HPSS)	-38	-38	-38
DHSS (Social Security)	x	x	x
Employment	+148	+184	+170
Defence	-500	-500	-500
Scotland (excl. DAFS)	-137	-137	-137
Wales (excl. WOAD)	-21	-25	-25
<u>Being discussed</u>			
MAFF/DAFS/WOAD	-35	-35	-35
N. Ireland	-7	-6	-2
<b>TOTAL</b>	<b>-1,288</b>	<b>-1,208</b>	<b>-1,678</b>

NOTES:

- (1) These changes do not include the increases in respect of revised economic assumptions and the changes to the survey baseline shown in aggregate in table 1 of C(80)58 and not allocated to programmes; this will be done in consultation with Departments.
- (2) Less increases for industrial support.