MR LANKESTER

I attach a note prepared by George Cardona comparing the proposals for public expenditure economies in 1979/80 put forward by the Treasury with those which were identified recently in Opposition as being possible this year.

This is not something to which the Prime Minister needs to turn her attention urgently, but she may find it of some interest in a day or two's time.

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ADAM RIDLEY
8 May 1979

PUBLIC EXPENDITURE

Reductions in 1979-80

1. This note comments on the options for reductions in 1979-80 prepared by the Treasury, and compares them with the reductions agreed on in Opposition. It is a preliminary "dirty look".

2. The Treasury's options for savings in 1979-80 (by means of policy changes rather than squeezes through cash limits) are almost all cuts in capital expenditure and increases in charges. This repeats the pattern of expenditure reductions under Labour and is something we have decided to avoid as far as we possibly can. The Treasury may be quite right in thinking that no cuts in current spending beyond those suggested by themselves are possible in the current financial year. But it would be helpful to have a documented argument against such cuts.

3. In some areas we assumed that it might be possible to make reductions in 1979-80 by reducing the cash limit on the RSG and the increase orders, in order to make local authorities cut current expenditure, or perhaps run down reserves so that they would be more susceptible to such pressure in subsequent years. It would be helpful to obtain the Treasury's view on this specific point.

4. The expenditure programmes for which the Treasury have prepared reductions are considered below. The programmes for which we plan reductions, but the Treasury do not, are listed next. Sales of assets are discussed last. Figures for Treasury cuts are in 1979 Survey prices; ours are in 1978 Survey prices. All savings are in 1979-80.

Health Services

5. Treasury cut: £35 million (increasing prescription charge from 20p to 50p)

We agreed: (i) Increase prescription charges to 60p.

(ii) Restoring pay-beds might raise some small amount in 1979-80. (£5 million?).

/ Housing

Housing

6. Treasury cuts:

(i) Increase local authority rents: £25 million.

(ii) Cut local authority housing capital spending by £300 million.

We agreed:

(i) Increase local authority rents enough to save £142 million.

(ii) We expected revenue of some £70 million from selling council homes. The Treasury appear to be sceptical about savings from this measure.

Education

7. Treasury cuts:

(i) Increase school meal charge by 10 pence (£20-25 million).

(ii) Defer some building (£20 million).

(iii) Savings on scheme for awards to 16-18s (£10 million).

We agreed: A reduction of £74 million, spread over meal charges and current expenditure in general.

Local Authorities

8. Treasury cut: £10 million by increased charges (other than rents, meals, etc.)

We agreed the same figure.

Employment services

9. Treasury cuts:

(i) Early termination of 1979-80 temporary employment measures (£50-100 million).

(ii) Restrict MSC special employment programmes (£25 million).

We agreed on these changes, but estimated greater savings.

/ Nationalised Industries

Nationalised Industries

10. Treasury cut: Restrict BNOC's new commitments (£40 million).

We assumed (but did not discuss with the Industry team):

(i) A reduction of £150 million in support for British Steel.

(ii) A reduction of £30 million in support for British Shipbuilders.

(iii) A far more radical approach to BNOC (see section below on Sale of Assets).

Industrial Support

11. Treasury cuts: Stop NEB new acquisitions (£50 million).

We agreed:

(i) A smaller saving on NEB; there may be problems of definition here.

(ii) A cut of £20 million in Selective Assistance.

(iii) £15 million off regional aid.

(iv) £35 million off the SDA and WDA.

Other Environmental Services

12. Treasury cut: £30-40 million by stopping operations of Community Land Act.

We agreed the same.

13. Our further reductions are listed below.

Overseas Aid and Other Overseas Services

14. Aid: £20 million.
Overseas representation: £2 million.
Other external relations: £1 million.

Agriculture, Fisheries, Forestry

15. Administrative costs: £10 million.
Forestry: £5 million (cutting purchases by Forestry Commission).

Trade

16. Promotion of tourism: £1 million.

/ Transport

Transport

17. Motorway construction: £20 million.
Subsidies (rail, bus, ferry, underground): £80 million.
Concessionary fares: £5 million.

Northern Ireland

18.		£ million	
	Trade, industry and employment	15	
	Roads	2	
	Housing	30	
	Law and order	- 3	(An increase)
	Education	5	
	Civil Service	1	
	Total:	50	

Energy

19. Research: £6 million off.

Sales of Assets

20. The Treasury assume that only the following could easily be disposed of in 1979-80:

	(£m)	
BP shares	500	
BNOC assets	100	
NEB holdings	100	
Covent Garden Market Authority	14	(office block)
Suez Canal shares	20-25	
about	700-750	

They also offer the possibility of sales in British Airways, Cable and Wireless, British Airports Authority and British Aerospace.

21. We had assumed that the following could probably be sold in 1979-80:

/ (£m)

	(£m)
British Airways (49%)	100-150
NEB assets	40
National Freight	40
British Gas (say 50%)	600
BNOC (50%)	300
about	1,080-1,130

We had envisaged a single Act empowering either the relevant Secretaries of State, or a new agency, to arrange rapid sales of shares. There may nevertheless be very good reasons why these sales could not take place in 1979-80, in which case we should wish to take up the Treasury's options.

22. BNOC presents special problems. The UK needs to retain adequate control of oil extracted from its continental shelf. There should be an assessment of the possibility of splitting BNOC into a concern that explores for, and extracts, oil (which concern could be sold in whole or in part) and a second concern that would retain the right to purchase oil.

Contingency reserve

23. The Treasury assume £300 m. could be cut from the Contingency reserve. This is in line with what we had assumed.

Cash limits

24. The squeeze on the volume of expenditure as a result of not increasing limits to cover higher price increases than those forecast will amount to between £200 m-350 m. in the case of Central Government, and local authority capital, expenditure. Higher than expected pay increases will also cause some squeeze in the volume of expenditure, but no clear estimate seems ready. We may presumably wish to squeeze even more than this by means of cash limits, but it would be useful to be given some idea of what such a squeeze might imply in practical terms.

/ 25. Some

25. Some increases in cash limits will of course be required, to offset the squeeze on defence and police. It appears that up to £380 m. will be required to offset the squeeze on defence. We may wish to go even further and allow for a volume increase in 1979-80. No estimate for the effect of the squeeze on law and order seems ready yet.

Conclusion

26. We should certainly wish to save as much as possible in 1979-80. This means preserving as many as possible of the cuts we agreed in Opposition (of which a more detailed account is available) and adding any additional savings the Treasury have suggested.