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CABINET

REVIEW OF EXPENDITURE PROGRAMMES

Memorandum by the Chief Secretary, Treasury

1. Cabinet have already discussed expenditure cuts in 1979-80 (CC(79) 2nd Conclusions, Minute 4). We must next turn to the much more substantial cuts needed in the expenditure plans we inherited for later years in order to carry through our strategy of tax cuts, of monetary discipline, and of curbing waste.
2. The regular annual public expenditure survey can provide the framework for our decisions. This will come to Cabinet after the Budget. That will be the time for substantive discussions.
3. We need however to give instructions to officials now to provide the factual and analytical material which we shall need. I propose that we ask officials to report by the end of June on the following:
 - a. A description of the inherited programmes: objectives, amounts allocated under the previous plans, and what those allocations can be expected to achieve. In many cases we shall be changing the programmes, but we need the initial factual base.
 - b. Where those programmes can be cut. I ask my colleagues to instruct their Departments to identify as options the widest possible range of reductions in expenditure which are realistic and feasible.
4. Much thought was given to this when we were in Opposition. I am circulating a separate paper summarising the outcome of those discussions (C(79) 10). The cuts then agreed would not get us to the broad objectives stated in Opposition of bringing expenditure back to the 1977-78 level. We need to go further. The options identified under 3b. should therefore include the reductions in mind when we were in Opposition but should not be limited to those.

5. Defence and law and order should be exceptions. Here we envisaged increases but the Departments concerned should still be asked to effect the maximum economy in the use of resources before formulating proposals for new money. In health, where we said we did not intend to reduce spending, the maximum cuts should be identified within the Manifesto commitment.
6. I propose that for each of the remaining programmes each Department should produce options amounting to its share of the cuts identified in Opposition, or (if greater) $7\frac{1}{8}$ per cent of its programmes in 1980-81, as in Cmnd 7439 (or in some cases its share of programmes), $12\frac{1}{2}$ per cent in 1981-82 and $17\frac{1}{2}$ per cent in 1982-83. This formula has been calculated to produce options amounting to some £5 billion in 1980-81, rising to around £10 billion in 1982-83. These amounts would enable us to meet our broad objective of bringing the total of public expenditure back to the 1977-78 level over the lifetime of the Parliament, and would allow us a limited degree of choice combined with some modest increases in the programmes to which we are giving priority.
7. For 1983-84, the year now being brought into the Survey for the first time, options identified should not be less than those for the previous year.
8. The volume savings resulting from our cash limits policy and other savings this year should be carried forward as a permanent contribution to the reductions we want. In parallel with the rest of the expenditure survey, the Civil Service Department will be separately examining the further savings needed in Civil Service Departmental administration. As a general principle, we should be looking for cuts in current expenditure and not putting a disproportionate burden on capital.
9. We shall need a note of any unavoidable additional requirements. But these will make our task harder. They must be kept to a minimum, and generally limited to areas where we have a definite commitment. Even there any additions must be offset as far as possible by economies and eradication of waste. If net additions are considered inescapable, their timing must be related to resources and to what savings are being achieved elsewhere.
10. When officials have completed reports assembling the material over the whole field, I will bring to Cabinet, for discussion of substance, considered proposals based on but not necessarily limited to the options identified by officials.
11. Meanwhile we should avoid premature commitment to particular levels of expenditure beyond this year for individual services until we have surveyed the whole field and taken co-ordinated decisions.

LOCAL AUTHORITIES

12. Our approach to local authority spending should be on the same lines as for central Government. The local authorities will expect to be consulted, and we do not want to cause unnecessary friction by ignoring them. The Secretary of State for the Environment will no doubt want to outline our general approach to the Consultative Council. The Committees on individual programmes should then be asked to consider the scope for reductions on the lines proposed, and to report by the end of June.

13. The amount of detail given to these Committees as to cuts we have in mind will need care. There will be some risk of leaks and misrepresentation. But we can make clear that these are options, not yet Ministerial decisions. We cannot allow the consultative machinery to block our own consideration of the full range of possibilities. But the best way to deal with the local authorities is to tell them our overall targets for reductions which concern them, and ask them to consider how best to achieve these.

NATIONALISED INDUSTRIES

14. The nationalised industries will be the subject of a separate inter-departmental report based on the investment programmes and financing estimates recently submitted by the industries, including appropriate options for the individual industries. Here again the options need to be as wide as possible. The report should be available for Ministers to consider when we consider public expenditure generally.

SALE OF ASSETS

15. There should be a separate report on the scope for selling assets or shares, whether in the nationalised industries or elsewhere. The Financial Secretary, Treasury, has initiated work on some specific possibilities, but all Departments should consider what they can contribute. The economic and monetary effects will vary.

16. Sales of assets are not a substitute for cuts in continuing programmes.

CONCLUSION

17. I invite the Cabinet to agree:-

1. We need to get the maximum possible cuts in expenditure programmes as a crucial element in our strategy.

2. Officials should be instructed to pursue the first stage of the public expenditure survey as indicated in this paper, and to report by the end of June.
3. The local authority aspect should be handled on the lines of paragraphs 12 and 13 above.

W J B

Treasury Chambers

22 May 1979