

Pamir Aminist



This all seems reasonable - including the minor drafting amendments.

Yes content, subject to
p/s colleagues' views?

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER

(The drafts clerk will bring up the bulky White Paper next if you wish to see it again).

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I circulated a draft of the White Paper with my minute of 26 February. I said in that minute that I should want to review two matters - the general allowance for shortfall in the light of our decision on cash limits on 28 February, and the provision for the contingency reserve. Some other minor amendments are required, particularly to take account of the decision to publish the White Paper with the Budget. (To clear up one point left open in my minute of 26 February, the White Paper will be published on Budget Day itself, 26 March, rather than the day after.)

Shortfall

As I said in my minute of 26 February, the shortfall allowance of £750 million (at 1979 Survey Prices) for 1980-81 did not take account of the effect of cash limits on the volume of expenditure. For the purposes of the White Paper a cash limits squeeze appears as shortfall in volume terms. We have now confirmed the cash limits decisions, and the White Paper is likely to be published alongside a Budget forecast showing a slightly higher forecast of inflation than in the forecast we published last November. I propose therefore to increase the shortfall allowance in 1980-81 to £1000 million (at 1979 Survey Prices).

We should explain in the White Paper that there are two new factors, roughly offsetting each other: the greater stringency in programmes,

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likely to reduce shortfall, and the effect of cash limits, which will be to increase it in volume terms.

We cannot and should not attempt precise prediction here:
£1000 million has the further merit of being a good round number.

Contingency reserve

If we were simply to increase the allowance for shortfall, this would reduce pro tanto the total expenditure we are envisaging. In view of the uncertainties facing us, notably as to the nationalised industries, it will be wise, instead of reducing the total further, to increase the contingency reserve for next year from £750 million to £1000 million. It does not follow that we will spend it all. We should strive not to do so. The move would be entirely precautionary. It does not imply any relaxation in our rigorous attitude to proposals for additional expenditure.

I also propose one consequential adjustment to 1981-82. At present the Contingency Reserve for 1981-82 is £1000 million, the same figure as now proposed for 1980-81. It rises to £1500 million in 1982-83 and £2000 million in 1983-84. To provide a plausible progression of the figures, I propose that we increase the contingency reserve in 1981-82 to £1200 million.

Other Points

I attach a list of some drafting amendments which, unless I hear to the contrary by 7 March, I propose to make to the text of the White Paper to cover the points above and some other minor drafting amendments, partly required by the decision to publish the White Paper with the Budget.

I shall be minuting you separately about the latest position on the EFLs for nationalised industries. The net effect, mainly as a result of BSC's involuntary shortfall this year (due to its inability

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to pay its 1979-80 bills), is likely to be an increase in public expenditure of about £100 million at Survey prices in 1980-81.

I am copying this minute to other members of the Cabinet, the Minister of Transport and Sir Robert Armstrong.

W J B

JOHN BIFFEN

4 March 1980

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Amendments proposed to the White Paper

Paragraph 2: first sentence:- Redraft: "The Government intend to reduce public expenditure progressively in volume terms over the next four years". A similar amendment would be made in the first of the main points on the facing page.

Paragraph 5: Redraft: "Since the White Paper is being published this year simultaneously with the Financial Statement and Budget Report, no separate statement of the economic background to the public expenditure plans is included in this White Paper."

Paragraph 12, first sentence: Redraft: "The main changes in 1980-81 since Cmd. 7746 are in housing, debt interest (see paragraph 30) and the contingency reserve (see paragraph 28)".

Paragraph 26: Redraft: "The Government intend to hold the cash limits determined at the start of the financial year. Unless costs are contained within the provision in the 1980-81 cash limits for cost increases, these limits will require a reduction in the planned volume of expenditure in that year. In any case, the cash limits provide a further stimulus to greater efficiency, in line with the Government's objectives, in the use of resources. Account has been taken of the possible effect of the cash limits in 1980-81 in the general allowance for shortfall (see paragraph 31)."

Paragraph 28: Add at the end: "In view of the stringency of the plans for 1980-81 as now proposed and of the uncertainties of the economic outlook, the Government have decided to increase the 1980-81 contingency reserve from £750 million to £1000 million at 1979 Survey prices. This is, however, precautionary: the Government will aim to avoid or minimise any additional expenditures from the reserve and to keep as much as possible of the reserve unspent.

Paragraph 31: Redraft: "31. One effect of the stringency of the plans is that it is expected that shortfall in the forward years covered by the White Paper will be lower than in recent years. In 1980-81, the further cuts since the Government's November White Paper will tend to reduce shortfall from the allowance in that White Paper, but this effect is offset by the cash limits which are likely to exert

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some downward pressure on the volume of expenditure. After taking account of these two conflicting influences, the allowance for shortfall in 1980-81 is put at £1000 million, as in the November White Paper. The allowance for shortfall in 1981-82 to 1983-84 is tentatively put at about 1 per cent of expenditure, i.e. £ $\frac{3}{4}$ billion. Shortfall in 1979-80 seems also likely to be at about that level, though much of it is now reflected in the revised estimates of expenditure - see paragraph 50".

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