

cc: Mr. Stowe
Mr. Wolfson
Mr. Hoskyn

PRIME MINISTER

Public Expenditure

Attached are two papers which the Chief Secretary wishes to circulate for Thursday's Cabinet.

There are three points on the main paper (Flag A) which I think you may want to consider:

i. There is no discussion of what should be the overall level of public expenditure cuts, and no decision is asked for on what should be the cuts objective. There is merely a reference in paragraph 4 to the "broad objective stated in Opposition of bringing expenditure back to the 1977/78 level". Mr. Biffen, in his covering note, implies that it will not be possible to take a firm view of the total level of cuts until he has considered the options for individual programmes. There is certainly something in this approach. On the other hand, it might concentrate the minds of spending Ministers if Cabinet were to come to a firm view right away that public expenditure in 1982/83 is to be cut by some minimum figure.

ii. The formula in paragraph 6 for the putting forward of cuts options is not accompanied by any estimate of what this would produce if all the options were accepted. The Treasury tell me that it would in fact fall £2 billion short of meeting the objective of getting public expenditure back to 1977/78 levels. If we are to take the latter as our minimum objective, it seems to me that the formula is totally useless. It must surely at least produce enough to achieve

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that objective? The Treasury tell me that in order to reach that objective, the formula would have to read as follows:

"The options for each service should amount in each year to not less than the amount of the cuts identified in Opposition, or 15% of the relevant programme (if that is greater)".

The reason why there is such a big jump from 5% to 15% in the formula to achieve only £2 billion in further reductions is that defence, law and order are exempted, and health largely so. This would be in line with Manifesto commitments; but I wonder whether health should be exempted in the options exercise.

iii. The revised formula which I have given in (ii) above would allow public expenditure to be brought back to 1977/78 levels only if all the options were accepted. It might be better for Departments to put forward options which in aggregate would more than meet the objective; and then Ministers would at least have some choices to make.

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21 May 1979

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10 DOWNING STREET

From the Private Secretary

21 May 1979

Review of Public Expenditure Programmes
1980/81 to 1983/84

The Prime Minister has considered the Chief Secretary's minute of 21 May and the two draft papers accompanying it which he intends to circulate for Cabinet on Thursday.

The Prime Minister has commented on the options formula set out in paragraph 6 of the main paper. She has asked that the percentage figure should be at least large enough to show total public expenditure savings which would get public expenditure back to the 1977/78 level. I understand that this would mean substituting the figure of 15% for the figure of 5% in the draft.

But the figure of 15% would only achieve the 1977/78 objective if all the options put forward by Ministers were accepted. The Prime Minister thinks that, in order to give Ministers some choices to look at, it would be wise to have a somewhat higher figure; and she has herself suggested that it should be 17½%.

It would be helpful if the paper could spell out the basis on which the revised formula has been calculated.

Subject to the above revisions, the Prime Minister is content for the two papers to be circulated to Cabinet.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

J. P. LANKESTER

A.C. Pirie, Esq.,
H.M. Treasury.

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~~PRIME MINISTER~~

M. S.

REVIEW OF PUBLIC EXPENDITURE PROGRAMMES 1980-81 TO 1983-84

The first phase of our operation to cut public expenditure is now in hand, that is, the quick cuts for the current year 1979-80. The second phase is to go for more substantial cuts in future years.

2. This will conveniently be done in the context of the regular public expenditure survey, which has already started and which would be reported in the normal way in a few weeks time.
3. The action required now is to confirm that the survey is to go forward and to give some further guidelines for the preparatory work by officials on which our Cabinet discussions will in due course be based.
4. For this purpose I propose, if you agree, to circulate the attached two papers for Cabinet next Thursday, 24 May. They are, I hope, self explanatory. They do not require extensive discussion at this stage, but it will be helpful to circulate them to our colleagues and to record a collective decision to go forward on these lines; and a further reminder at Cabinet from you of the central importance of this operation would also be helpful.
5. When the factual and analytical material is reported, I will make my proposals for cuts. But I want at this stage to circulate the second paper to remind of the proposals developed when we were in opposition, as a first indication of the scale on which all concerned need to be thinking.



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6. I hope that you will agree that these papers can be taken by Cabinet next Thursday, so that the work goes forward without delay.

7. I am copying this minute and the two papers to Sir John Hunt.

W. J. B.

21 May 1979

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C(79)

21 May 1979

REVIEW OF EXPENDITURE PROGRAMMES

Memorandum by Chief Secretary, Treasury

Cabinet have already discussed expenditure cuts in 1979-80. 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)). The cuts then agreed would not get us to the broad objective stated in Opposition of bringing expenditure back to the 1977-78 level. We need to go further.

5. The options identified under 3(b) should therefore include the items in mind when we were in Opposition but should not be limited to those.

6. To ensure that all services are properly scrutinised, I propose that the options for each service should amount in each year to not less than the amount of the cuts identified in Opposition, or 5 per cent of the relevant programme (if that is greater). 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.
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 interdepartmental 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 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 12-13 above.

W.J.B.

Treasury Chambers
Parliament Street
London SW1

21 May 1979

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C(79)

21 May 1979

CABINET

REVIEW OF EXPENDITURE PROGRAMMES
DURING PERIOD IN OPPOSITION

Note by the Chief Secretary, Treasury

Attached to this note is a list of reductions in expenditure for the years 1980-81 to 1982-83 which we discussed in Opposition.

2. For most of the large programmes (health, social security, housing and "other" local authority expenditure) the reductions shown reflect discussions earlier this year. For others reductions agreed in 1978 were broadly updated by Conservative Research Department in the light of the previous Government's last public expenditure White Paper (Cmnd 7439), published in January 1979.

3. The reductions shown are from the totals for each programme (including Scotland and Wales) in Cmnd 7439, and are at 1978 Survey prices, since this is the price basis on which they are recorded.

W.J.B.

Treasury Chambers
Parliament Street
London SW1

21 May 1979

SUMMARY OF EXPENDITURE CHANGES

	(£million, 1978 Survey prices)			
	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	% cut from White Paper limits.
Overseas Aid and other overseas services	-57	-96	-130	6%
Agriculture, Fisheries, Food and Forestry	-40	-46	-46	6%
Trade	-2	-3	-3	3%
Industry	-210	-345	-523	39%
Energy	-12	-12	-22	9%
Employment	-425	-500	-565	38%
Roads and Transport	-210	-310	-375	15%
Health	-71	-100	-100	1%
Social Security	-2	-142	-282	2%
PSA	-130	-191	-252	excluding defence 11%
Housing	-1,163	-1,607	-2,096	38%
Education	-250	-400	-592	9%
Other LA	-494	-624	-754	excluding Administration 11%
Northern Ireland	-80	-120	-155	8%
	<u>-3146</u>	<u>-4496</u>	<u>-5895</u>	

In addition, once-for-all savings through sales of assets or issues of shares were envisaged for action as soon as possible, as follows (all figures in 1978 Survey prices):-

National Enterprise Board	(£50 million);
National Freight Corporation	(£40 million);
British National Oil Corporation	(£300 million);
British Airways	(£40 million);
British Gas	(£600 million).

(The discussions on British Gas were not completed before the Election.)

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Overseas Aid and other overseas services</u>				
Overseas Aid	-50	-75	-100	
Overseas representation, information and external relations	- 7	-21	- 30	
Total	-57	-96	-130	
<u>Agriculture, Fisheries, Food and Forestry</u>				
Administration	-26	-26	- 26	
Forestry	- 9	-10	-10	
ADAS charges	- 5	-10	- 10	
Total	-40	-46	- 46	
<u>Trade</u>				
Promotion of tourism	- 2	- 3	- 3	

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Industry</u>				
Regional aid	-55	-110	-220	
SDA and WDA	-35	- 40	- 40	
General industrial R & D	-15	- 20	- 25	
NEB	-55	-110	-160	
Selective assistance	-30	- 30	- 28	2
Future industrial support	-20	- 35	- 50	
Total	-210	-345	-523	
<u>Energy</u>				
Research (mainly nuclear)	- 12	- 12	- 22	
<u>Employment</u>	-425	-500	-565	End short-time-working scheme; review charges; review Health and Safety Commission and Executive; cut waste in Manpower Services Commission

£ million, 1978 Survey prices.

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Roads and Transport</u>				
Motorways	-30	-30	-30	
Local road maintenance	-20	-40	-45	
Subsidies and concessionary fares	-160	-240	-300	British Rail, bus, ferry, underground
Total	-210	-310	-375	
<u>Health</u>				
Prescription charges	- 55	- 55	- 55	Assuming prescription charges to be raised to 60p
Pay beds	- 16	- 30	- 30	Restoration of pay beds
Abolish Area Health Authorities	-	- 15	- 15	
Total	- 71	-100	-100	

3

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Social Security</u>				
Uprating	-100	-250	-400	Indexing long-term benefits to prices rather than to earnings
Unemployment benefit	-27	-27	-27	Increase the waiting period from 3 to 5 days
Sickness benefit (administration)	-25	-25	-25	Administrative saving from requiring employers to pay the first 4-6 weeks of sickness benefit
Offset by:-				
Christmas bonus	+100	+100	+100	
Disabled	+30	+30	+30	
Earnings rule	+20	+30	+40	Gradual abolition
Total	- 2	-142	-282	
<u>PSA</u> (including work done for all Departments)	-130	-191	-252	

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Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Housing</u>				
Rent subsidies	-427	-712	-997	
Option Mortgages	-48	-48	-48	
Sale of homes net of associated lending	-118	-123	-175	
Housebuilding	-570	-724	-876	
Total	-1163	-1607	-2096	
<u>Education</u>				
Current expenditure on:-				
Primary schools			-180)Expenditure per pupil to stay at present)level, plus a further reduction in)auxiliary staff
Secondary schools			-289	
Meals			- 90	
Transport			- 80	
Schools Council			- 3	
Assisted places scheme			+ 50	
Total	-250	-400	-592	Figures agreed for final year only

51

Programme	Changes proposed on Cmnd 7439			Comment
	1980 - 81	1981 - 82	1982 - 83	
<u>Other LA expenditure</u>				
LA administration	-300	-400	-500	
Local charges	- 20	- 20	- 20	
Urban programme	- 80	-100	-120	
Sales of land and other assets	- 30	- 40	- 50	
Community Land Act	- 64	- 64	- 64	
Total	-494	-624	-754	
<u>Northern Ireland</u>				
Total	- 80	-120	-155	Never discussed at shadow Ministerial level - broad equivalent of above GB figures according to usual percentage of comparable programmes.

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2

10 DOWNING STREET

From the Principal Private Secretary

23 May 1979

Review of Expenditure Programmes
During Period in Opposition

The Prime Minister has read the note by the Chief Secretary (C(79) 10) which was circulated yesterday. The Prime Minister does not think it appropriate for the note which Mr. Biffen circulated to be discussed in Cabinet.

I am copying this letter to Tony Battishill (Treasury) and to Sir John Hunt.

K. R. STOWE

A. C. Pirie, Esq.,
H. M. Treasury.

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