

SECRET

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CF. per

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
Financial Secretary
Sir D Wass
PEX
GECS

PUBLIC EXPENDITURE: CABINET TOMORROW

You asked for a table which you might hand round, showing the profile of public expenditure over the period since 1974-75.

2. I attach a number of copies of a table for that purpose.
3. The figures for the years up to 1980-81, excluding the forecast outturn for that year, are those in the tables sent to the Prime Minister on 24 October (with a little rearrangement of the lines). The forecast outturn for 1980-81 is that in the recent NIF.
4. The second column for 1981-82 shows the rough outcome if none of the reductions still at issue were agreed; the final column assumes that those reductions are all agreed in full.

Map

MISS M E PEIRSON
29 October 1980

① Price related public debt issues

Reference: Program 2 - Save programmes on existing N.F.

SECRET

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Rest

Masterly done 102
for 73

PUBLIC EXPENDITURE 1974-75 to 1981-82

100 105 110 104.5

	1974-75	75-76	76-77	77-78	78-79	79-80	-----1980-81-----	Forecast	White	1981-82	-----
						Provisional outturn	White Paper revalued adjusted for transfers from reserve to programmes	outturn	Paper revalued	Including likely increases and agreed cuts	Including remaining proposed cuts
1. Central Government (1)	53,735	54,479	54,011	52,546	55,144	55,468	57,305		57,080	57,900	57,150
2. Local authorities	24,358	24,262	22,910	21,533	21,415	21,714	20,360		19,426	19,250	19,150
3. Nationalised industries' borrowing	3,040	2,624	2,266	908	1,335	1,527	1,124		-146	625	625
4. Reserve	-	-	-	-	-	-	575		1,400	2,000	2,000
5. Special sales of assets	-	-	-	-697	-	-998	-500		-50	-150	-150
6. Shortfall	-	-	-	-	-	-	-1,120		-840	-640	-640
7. EC refunds	-	-	-	-	-	-	-	-545	-	-670	-670
8. Planning total after shortfall	81,133	81,365	79,187	74,290	77,894	77,711	77,744	78,100	76,870	78,300	77,450
9. % change on previous year	+8.5	+0.3	-2.7	-6.2	+4.9	-0.2	-	+0.5	-1.1 ⁽²⁾	+0.3 ⁽³⁾	-0.8 ⁽³⁾
10. Debt interest	1,400	1,693	2,179	2,472	2,847	3,845	3,500	3,900	3,500	4,000	4,000

Investment
N.F. Price

3.0 - increase in Gov. increased by 1.0%.

(1) Including public corporations other than nationalised industries, and grants to nationalised industries, but excluding Government lending to nationalised industries (included in line 3).

(2) Change on White Paper revalued for 1980-81.

(3) Change on forecast outturn for 1980-81.

given to Pam

cc: Chief Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Bridgeman
Mr. Evans
Mr. Folger
Mr. Ridley

~~CHANCELLOR~~

PSBR AND PUBLIC EXPENDITURE ARITHMETIC

... I enclose, as per the instructions relayed to me by Mr. Lankester, two tables - the shorter one for handing round to your colleagues, the longer one for use by you and the Prime Minister.

2. The shorter one shows sequentially the effects on the starting point (forecast) PSBR of the reductions proposed by the Chief Secretary that have so far been agreed, and the further effects of your additional (not yet agreed) proposals, including the possible social security savings. The longer table also includes the effects of the two main tax starters (North Sea and employees' NIC), together with a 'ready reckoner' on indexation of the income tax structure and the specific duties. I have not included VAT on imports, which you have not so far mentioned to colleagues. But the proposals you have seen would reduce the PSBR by around a further £0.6 bn in 1981-82.

3. The expenditure figures are shown in 1980 Survey prices and should therefore be recognisable to your colleagues (except, of course, that the social security item has not previously been revealed to them). But in the right hand column they are translated into the cash effect on the PSBR in 1981-82.

4. I have rounded the PSBR figures in the right hand column so as to avoid the presentational problem about the adjustment in the forecast that we discussed with you earlier this evening. The figures should now be consistent with your earlier paper, and with the Chief Secretary's papers, but you should stress that the PSBT estimates are necessarily very broad orders of magnitude.

5. The message that emerges clearly is that to have any prospect of producing a credible PSBR, all the expenditure reductions must be accepted as a minimum. And even after taking account of the effect of the recession (your earlier paper made it clear that you are not seeking to get right back to the MTFS figure) there is a serious risk that you will have to raise the real burden of personal taxation in addition to the discrete tax measures identified in the longer table.

JW

for

(J.B. UNWIN)
29 October 1980

PSBR POSITION 1981-82

fbn

	Changes in Public Expenditure plans 1980 Survey Prices	PSBR, cash (rounded)
1. <u>PSBR in Forecast</u>		11
2. <u>Public Expenditure proposals in C(80)58 & 64</u>		
(a) Increases	2.8	2½
(b) Agreed reductions	-0.6	13½
		<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>
3. <u>PSBR taking account of agreed reductions</u>		13½ b
4. <u>Public Expenditure Reductions in C(80)58 & 64 not yet agreed</u>		
Defence	-0.6	
Other	-0.4	-1
		<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>
5. <u>PSBR if all Chief Secretary's proposals accepted</u>		12½
6. <u>Effect of holding all new public service pay increases to 6%</u>		-½
7. <u>PSBR after all above adjustments</u>		12½ b
8. <u>Effect of social security savings, including public service pensions consequential</u>	-0.2*	-1* ^{1/4}
		<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>
9. <u>PSBR after all spending adjustments</u>		11½ b.

[compare with 7½ implied by MTFSS]

* Effects much larger in later years

£bn

PSBR, cash
(rounded)

10.	<u>Possible discrete tax measures</u>	
	(a) North Sea	- 1
	(b) $\frac{1}{2}$ % point increase in employee NIC	- $\frac{1}{2}$
		<hr/>
		-1 $\frac{1}{2}$
11.	<u>PSBR after discretetax measures</u>	10 $\frac{1}{2}$

Memo items

...	each 1% under-indexation of income tax allowances and thresholds	-0.15
...	each 1% over indexation of specific duties and VED	-0.08