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PRIME MINISTER

PUBLIC EXPENDITURE ANNOUNCEMENT

.... I attach a copy of the statement which I propose to make in the House on 2 December.

2. I should draw your attention to two points.

3. First, I am clear that it would not be right to say nothing about the treatment of short-term benefits. The increase in the RPI means that I must reassure retirement pensioners that we will next year honour the pledge to make good the deficiency in this November's uprating. But having said that, Norman Fowler and I are bound to be asked what will happen to short-term benefits. Moreover the Government Actuary will state in his report that he has "been instructed to assume, for purposes of illustration, that there will be a benefit uprating of 10 per cent in November 1982 in line with the expected movement in prices, plus, in the case of long term benefits, a further 2 per cent to make good the expected shortfall in the November 1982 uprating". To attempt to conceal the fact that the further 2 per cent will not apply to the short-term benefits would, in my considered view, be wholly counter-productive. We could not hope to prevaricate for more than a day or two, let alone until the Budget, and it seems unwise to try: there is everything to be gained in taking the initiative and presenting the decision in the best light.

4. Second, I propose to list the EFLs for individual nationalised industries in the supporting text to be circulated in the official report. My reasons for doing so, rather than giving only an aggregate figure, are set out in a separate letter to the Energy Secretary.



5. The detailed text to be circulated in the official report, and the Treasury Press statement, have been shown to Departments at official level.

6. I am sending copies of this minute to all members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

(G.H.)

30 November 1981



S E C R E T

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER : 2 DECEMBER

1. 'With permission, Mr. Speaker, I wish to make a statement about two matters on which it is necessary to take decisions at this time of year.' The Government has now completed its annual review of the plans for public expenditure. We have also decided the future pattern of National Insurance contributions on the basis of the Government Actuary's report which is being laid before the House today. In each case the proposals follow reviews which are normal at this time of year. They will take effect not in this financial year but in the next one: 1982-83.

2. I am also publishing today, as required by the 1975 Industry Act, the forecast of economic prospects for 1982. The outlook is for a further fall in inflation. Whereas 15 months ago the annual increase in the RPI was 22 per cent and a year ago 15 per cent, it is now about 12 per cent. We expect an increase over the next year of 10 per cent. GDP at constant prices is expected to be higher in 1982 than in 1981 - by about 1 per cent - and manufacturing output should continue to increase rather more rapidly. The forecast, in short, is for gradual recovery, despite the difficult world environment.

1981-82

3. I begin, however, with the current year. Public spending in 1981-82, covered by the planning total, is now expected to be about £107 billion. That involves a substantive increase since the Budget of just over £2 billion. This increase does not arise from the programmes subject to cash limits. They are being held. Where exceptionally increases have been made in cash limits, or in nationalised industry external financing limits, these have been charged to the Contingency Reserve, and so have not added to the planned total. That applies for example to the increase of £319 million announced today in the Defence cash limit for this year.

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4. About a quarter of the expected increase in spending this year is due to the effect on the cost of some demand-led programmes, like export credit and housing subsidies, of higher interest rates and slightly higher unemployment than was allowed for in this year's White Paper. Some three-quarters of the increase is due to higher current expenditure by some, but by no means all, local authorities.

5. Revenue during the current year is also likely to be rather higher than expected at the time of the Budget. The PSBR for 1981-82 therefore still appears to be on track for the estimate of £10½ billion which I gave at that time.

1982-83

6. I turn now to the year ahead, 1982-83. As I told the House in my Budget statement we are no longer planning public expenditure in volume terms but in cash. The plans for next year, which appeared in the last White Paper in volume terms, had therefore to be revalued in cash. On this basis the starting point for discussions about 1982-83 was a cash total of £110 billion.

7. The net result of the decisions which I am announcing today will be to raise that figure by almost £5 billion, to bring the planning total for next year to about £115 billion.

8. At the time of the Budget we expected cash expenditure in 1982-83 to grow more slowly than we now envisage. ~~But as my~~ ~~rt. hon. Friend, the Prime Minister, has told the House on~~ ~~numerous occasions,~~ we believe it is right to show flexibility as well as consistency with our long-term objectives. We have felt it appropriate to increase the planned provision for certain programmes to reflect changed circumstances.

9. Even so, our plans for public expenditure in 1982-83 will be some 7½ per cent higher than the expected outturn this year. The expected increase in prices between the two years is about 10 per cent. So we expect some reduction in public expenditure in real terms next year.



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10. The Government has throughout been clear about the need to restrain the proportion of the nation's resources pre-empted by public spending. The new plans for public spending will enable us to make good some of the ground lost in previous years. There is still a considerable way to go to achieve what we would regard as a healthy balance. However, on present forecasts public expenditure as a proportion of GDP should fall from about 45 per cent this year to perhaps 44 per cent next.

PSBR

11. It is too early to judge with precision what these changes will mean for next year's PSBR. But our current judgement is that, with revenue again likely to be higher than previously foreseen, the figures point to a PSBR next year broadly in line with the projections published at the time of the last Budget. Were that assessment to change, or were it necessary to take a different view of the PSBR for 1982-83, I would of course have to consider appropriate fiscal action in my next Budget.

Public expenditure Plans

12. Full details of our new plans for 1982-83, and the two following years, will be set out in the public expenditure White Paper to be published at the time of the Budget. The exact figure for next year will depend upon decisions which cannot be taken yet about the appropriate provision for certain demand-determined programmes and for the Contingency Reserve. I am in the meantime circulating in the Official Report a summary of the changes for 1982-83 in the cash allocation to Departments and in the External Financing Limits for nationalised industries.

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13. I shall inform the House now about some of the main changes. Increases in programmes - whether on account of policy or of changed demands - amount to about £6 billion. But, to keep the total to an acceptable level, we have found offsetting reductions in previous plans of over £1 billion. This restricts the net increase to the figure previously mentioned - £5 billion.

Current Costs

14. The administrative costs of central government are not far short of 10 per cent of total public expenditure. We are determined to reduce that proportion and maintain the drive for more efficient management throughout Government. Our spending plans provide broadly for increases in the pay of public servants of 4 per cent from next settlement dates. The provision for administrative costs will be further reduced by the impact of a general reduction of at least 2 per cent in all cash-limited expenditure, which will involve economies in the cost of maintenance and improvement of Government buildings as well as economies in manpower and ancillary services. And we shall continue to reduce Civil Service numbers so as to sustain progress towards our aim of 102,000 fewer staff in post in April 1984 than when this Government came into office.

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15. We have not been able to avoid a reduction in the cash provision for some capital programmes. This will apply to water services, motorways and trunk roads, and certain local authority services. But because of a substantial fall in tender prices there should be no significant impact on our published plans for motorways, trunk roads and water works. As for housing, my rt. hon. Friends the Secretaries of State for the Environment and for Wales are about to undertake consultations with the local authority associations on the increase in local housing income including rents to be assumed for grant and subsidy purposes. Subject to those consultations and to the contribution of our successful policy for increasing council house sales, we hope to be able to maintain activity on public housing construction and improvement at approximately the same level as this year.

#### Health

16. More of the cost of the Health Services will be financed by contributions from those using them. The full present range of exemptions from charging is however unchanged, so that two out of every three prescriptions will continue to be provided free of charge. Where a charge is payable, it will be raised to £1.30. There will be some increases in dental charges, for example raising the maximum cost of a routine course of treatment by £4, and in charges for spectacle lenses, raising the maximum cost per lens by £6.70. We will also be increasing the Health Service contribution by 0.1 per cent on this account. We shall continue to honour our promise to increase the real resources available to the National Health Service.

#### Benefits and Grants

17. I turn now to National Insurance Benefits. The increase in the RPI to November 1981 will probably be some 2 per cent higher than the 10 per cent increase allowed for when calculating this year's uprating. For retirement pensions and other long-term benefits, the shortfall will be made good in the November 1982 uprating, which will allow for that difference as well as the expected increase in the RPI between this year and next. The Government will thus continue to fulfil our pledge to retirement pensioners that they will be fully protected against inflation.



18. In the case of the short-term benefits, however, next year's uprating will be limited to the expected increase in the RPI over the next 12 months. ~~To allow more would mean that the payments to those out of work could rise significantly faster than the earnings of those in work. There will also be some detailed changes in the rules governing supplementary benefit and child benefit.~~

19. ~~It would be difficult to justify an increase in student grants beyond the broad level of pay increase envisaged for employees in the public service.~~ Accordingly the increase in student grants for the next academic year will be limited to 4 per cent.

#### NIC

20. It is convenient to inform the House at this stage about the Government's decisions on the scale of National Insurance Contributions to be paid from next April.

21. I have already referred to the increase in pensions. This, together with the slower rate of growth in contribution income, and increases in unemployment and redundancy, would mean that if we took no action on contributions, there would be substantial deficits in the National Insurance and Redundancy Funds. It is right for those deficits to be dealt with. In addition, ~~as I have said~~, we have decided to propose an increase of 0.1 per cent in the allocation to the NHS.

22. The Government think it right that the greater part of the increase in contributions should come from those in work, the employees rather than the employers, particularly since I am not ~~in a position to propose any change in the rate of National Insurance Surcharge from next April.~~ The rate of contribution for employees will therefore be raised by 1 per cent from the beginning of April next: it will then be 8.75 per cent of relevant earnings. There will be some increase for the self-employed. The percentage rate for employers will not be changed. The Treasury supplement to the Fund will at the same time be reduced by 1½ per cent.



23. The lower earnings limit, which sets the starting point of the contributions, will be increased to £29.50 per week, in line with the single rate retirement pension. The upper earnings limit, which sets the ceiling up to which payments are made proportionate to income, will be increased to £220 per week, within the normal criteria. The House will appreciate that, although the percentage rates charged to employers will not be changed, the cash amount which they pay in national insurance contributions and national insurance surcharge will rise in line with any increase in the wages and salaries which they pay, and also as a result of the increase in the upper earnings limit. The amount which employees pay in contributions will be similarly affected, as well as by changes in their contribution rates.

24. The increase in contribution rates, as well as the decision to exempt employers from it, both in respect of the Redundancy Fund and in respect of National Insurance, will require legislation. My rt. hon. Friend, the Secretary of State for Social Services, will present the necessary Bill today. He will also lay before the House the Government Actuary's Report, together with full details of the changes in rates and limits for all classes of contributors, including the self-employed, and a table showing a breakdown of total payments in 1982-83 compared with 1981-82.

25. I turn now to the areas where spending next year is planned to rise. The increases have been concentrated in four main areas - special employment measures, local government, Defence, and finance for nationalised industries.

#### Employment

26. Although unemployment is rising less steeply than before, we have to assume a slight further rise; an assumption which is reflected in the Government Actuary's Report. My rt. hon. Friend, the Prime Minister announced on 27 July improvements to the various special employment programmes which added some

£650 million to public expenditure next year. My rt. hon. Friend, the Secretary of State for Employment, will be making an announcement on further training measures in due course. In all, nearly £800 million will be added to the employment programme next year.

#### Local authorities

27. Local authorities are likely to spend this year 9 per cent more than was allowed for in the White Paper. The Government clearly cannot accept continuing over-spending on this scale. We recognise however that it would not be practicable to eliminate such a substantial overshoot in a single year. We therefore propose to increase the provision in programmes for local authority current expenditure in 1982-83 by some £1,350 million. This will provide a realistic target for ~~authorities~~. But since the cash provision is only some 2 per cent higher than the probable outturn for this year, they will still be required to make substantial reductions in their spending plans.

28. My rt. hon. Friend the Secretary of State for the Environment proposes to ~~reduce~~ <sup>provide</sup> the level of grant support to local authorities in England to 56 per cent. My rt. hon. Friends will be consulting local authorities about this and about commensurate reductions in Scotland and Wales.

29. We will be looking to local authorities to take further steps in the following years to get back closer to the level envisaged in the previous White Papers.


#### Defence

30. In order to enable us to carry through the policies set out in the June Defence White Paper (Cmnd 8288) we are increasing the provision for Defence next year by a further £500 million. This includes the cost of carrying forward the 1981 Armed Forces pay award.



Nationalised industries

31. And finally the nationalised industries. Their total bids for increased external finance amounted to about £2½ billion. This would have been in addition to the nearly £1½ billion already provided in the plans. Such a massive increase would be quite unacceptable. We have been able to allow them only about half their new bids, some £1,300 million in total. Nevertheless if, as the Government and the House very clearly expect, they continue their drive to contain current costs, both by increasing efficiency and by making moderate pay settlements, they should be able to maintain their aggregate capital investment programme at much the same level as was envisaged in the last White Paper.

  
Conclusion

32. The scale of the planned increase in cash spending next year is larger than we initially envisaged, though right in present circumstances. But the Government remains convinced that economic recovery requires a reduction in the burden that the public sector imposes on productive private enterprise, and we remain determined to achieve precisely that. I am satisfied that today's statement is consistent with the attainment of that objective.

H.M. Treasury  
1 December 1981

Public Expenditure on Roads and Rail  
1981/82 estimate (cash) £m

	<u>England</u>	<u>GB</u>
Motorway and Trunk	680	905
Local Roads	1075	1425
Total Roads	<u>1755</u>	<u>2330</u>
BR	not applicable	920*

\* BR's EFL, which includes grants and borrowing

There is additional public expenditure on road transport which does not appear in the table. The largest element is on bus services, whose total amount in 1981/82 is of the order of £700m.

Public expenditure is only a part of the overall commitment of national resources to road transport. Motorists and road hauliers spent some £33b last year on buying and running vehicles: of this, £4.5b went on fuel and vehicle excise duties.

- 93% of passenger miles are by road.
- 7% of passenger miles are by rail.
- 77% of freight ton-miles are by road.
- 14% of freight ton-miles are by rail.

London and South East commuter lines account for about 40% of passenger miles travelled, for which they get about 25% of the subsidy to BR.