Spending cuts hit NHS and defence

● **The Cabinet agreed to a package of £500m in expenditure cuts in the current financial year and the raising of an equal amount by extra sales of public assets.**

● **Paying the price include: defence, £240m; employment, £25.3m; education, £36m; health, £140m; and transport, £16m.**

● **The latest Treasury forecast is thought to show public borrowing is running at about £3,000m over the Budget target of £8,200m.**

● **Mr Nigel Lawson, the Chancellor of the Exchequer, may be forced to make further cuts, possibly as much as £2,000m, this autumn.**

● **The Royal College of Nursing called cuts in the national health service "a betrayal".**

● **Mr Geoffrey Drain, general secretary of the National and Local Government Officers' Association, forecast a "disastrous effect on public sector provision, on health care and on jobs".**

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By Julian Haviland and Frances Williams

Early evidence of the determination of Mr Nigel Lawson, Chancellor of the Exchequer, to try to keep down public spending, as he promised Parliament last week, was furnished yesterday when the Cabinet agreed to an emergency package of £500m in expenditure cuts in the current financial year and to the raising of an equal amount by extra sales of public assets.

Mr Lawson may be forced to make further and bigger cuts in public spending in the autumn if he intends to restore the Government's original plans. The cuts announced yesterday do not go nearly far enough.

The latest Treasury forecast, prepared before yesterday's measures, is thought to show public borrowing running about £3,000m over the Budget target of £8,200m, almost entirely because of overspending by Government departments and local authorities.

This means further cuts of as much as £2,000m may be necessary if public spending is to be held to the planned £120,000m in 1983-84.

Mr Lawson was careful to say the measures would bring spending "closer to the course" laid out in February's White Paper, not that they would bring it back on track.

Mr Lawson is thus faced wth an agonising dilemma – whether to push through, against all odds, more painful cuts in spending to keep public borrowing down, or to give way, leaving his financial strategy in tatters.

More spending will mean higher taxes, rather than the reductions Mr Lawson wishes to deliver, or higher borrowing, putting paid to hopes of lower interest rates.

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In the Commons Mr Lawson said an adjustment of some £1,100m was needed to bring expenditure closer to the planned total of £119,600m.

Some £100m would be saved in the current year by allowing a limited carry-forward of underspending on capital programmes – something long demanded by the Defence Department in particular and hitherto resisted by the Treasury – which Mr Lawson said would reduce the "end-year surge" by departments keen to use all their allocations.

Mr Lawson told the Commons the savings will be made by reducing cash limits, by 1 per cent for pay and for central government administration, and by 2 per cent for capital procurement and other elements. There is also to be a 2 per cent reduction across the board in the external financing limits of nationalized industries, saving about £57m.

Last night the Treasury calculated that the approximate effect of the cuts on the various programmes would be: defence £240m, overseas aid £20m, employment £25.3m, education £36m, health £140m, transport £16m.

Mr Norman Fowler, Secretary of State for Social Services, said indications had been that spending on programmes for which he was responsible was running at some £300m more than planned – one third from spending on family practitioner services, two thirds on social security spending.

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Lawson

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As these are not cash-limited but depend on demand, savings by his department will have to come from elsewhere. Mr Fowler said they would get back on target by setting lower manpower targets in the National Health Service, by seeking economies in less important expenditure, and by cutting the drugs bill.

He admitted these measures would impose additional strains on the health service, but was confident that changes would be made "sensibly" during the rest of the financial year.

Capital spending by local authorities is exempted from the cuts. The Government wants programmes to be maintained to sustain the construction industry.

Mr Lawson faced furious criticism in the Commons from Opposition MPs not only for his cuts but because, they said he and his colleagues must have known what was in prospect during the general election campaign and concealed it to deceive the voters.

Among his own backbenchers he earned some credit for taking corrective action early enough for it to be easier to implement than if left to the autumn.

The Opposition pressed in vain for Mr Lawson to say when and on what evidence he made his decision. The answer is that evidence of two unwelcome trends accumulated steadily during the first quarter of the year.

First, demand was rising for a number of entitlements not subject to cash control, including agricultural support, the new housing benefit and family practitioner services.

Second, Treasury expectations of a shortfall of some £1,200m on cash-limited spending were not being realised. Departments have evidently learned better how to spend up to the limits without overshooting.

It was also made clear yesterday that a large part of Mr Lawson's purpose was to convince financial markets of his firmness.