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PRIME MINISTER

## PUBLIC EXPENDITURE SURVEY 1982

I have circulated separately my proposals for public expenditure to 1985-86 following this year's Survey. They contain a small number of politically important items which you have agreed I should draw to colleagues' attention. Because of the sensitivity of these items, I know that you wish this minute to have a very restricted circulation. I therefore ask Cabinet colleagues not to circulate it outside their offices.

Local authority housing

2. The Secretary of State for the Environment and I have reached agreement on the net public expenditure for housing in a way which will allow gross capital expenditure to be increased by some 10 per cent (about £300 million) from the levels which seem likely to be achieved in 1982-83. On rents, the Secretary of State initially favoured an average increase of £1.50 (11%) but he now favours a rent increase of 6% - an average of 85p per dwelling per week. This will not affect the public expenditure total but the higher rent figure would have permitted a further increase of some £75 million in capital expenditure.

Social security

3. This year, as last, we are faced with the need for substantial increases in the baseline. Bids for extra demand-determined expenditure and other inescapable bids, taking account of the latest economic forecast, amounted to £815 million in 1983-84, £622 million in 1984-85 and £1200 million in 1985-86. There is, however, a difference from last year. The fall in the rate of inflation means that the uprating of benefits this November, which

was fixed at Budget time and based on the then expected inflation of 9 per cent, will be at least 2½ per cent in excess of the inflation now forecast for the year to November 1982. The Secretary of State for Social Services and I are agreed that we should recover this overshoot at the November 1983 uprating.

4. We established the principle of recovering overshoot by the action we took at the uprating in November 1981. We have made good a shortfall when that has arisen. Indeed, this year's uprating will actually be 11%, for it will include on top of the 9 per cent an additional 2 per cent to make good the shortfall last year. It was never intended (nor would it be fair at a time of generally falling or stable real incomes) to create a ratchet effect, whereby beneficiaries could never do worse than the rate of inflation but will from time to time do better.

5. The sums involved are £250 million in 1983-84, £725 million in 1984-85 and £775 million in 1985-86. The Secretary of State and I are agreed that we should seek to recover these amounts, both to offset the increases in this programme and to reinforce our strategy on work incentives. Nevertheless, despite its basic fairness, a proposal of this kind could encounter difficulties in Parliament. It may not be easy to secure the necessary legislation. Partly for that reason, I agree with the Secretary of State that we should use some of the savings obtained from the recovery to make a number of worthwhile improvements in social security, which we could not otherwise afford.

6. The Secretary of State and I have agreed a package of such measures, set out in the Annex. The most important are restoration of the 5 per cent abatement of invalidity benefit, and a start in 1983 in phasing out the earnings rule for retirement pensioners, leading to complete abolition from November 1985. There is substantial pressure from our own backbenchers for these changes. The Secretary of State and I are agreed that these improvements cannot be made if the overshoot is not recovered.

Student grants

7. There is provision for the basic student grant to rise next autumn by 6 per cent. The Secretary of State for Education and Science proposes net savings of £10 million in 1983-84 (with consequential effects for later years), by eliminating the minimum maintenance award (currently £410) payable to those with parents earning over £20,000; by holding the increase in the value of the grant next year to 5 per cent; and by reducing the amount set aside for extra travel costs. The gross savings of £15 million in 1983-84 will enable parental contribution scales to be indexed in line with earnings, reversing for 1983-84 (but not for 1982-83) the 1981 Survey decision.

8. The Secretary of State has accepted that if these savings are not approved, he should make corresponding savings elsewhere, probably by giving up an agreed addition for extra research graduates and new courses in high technology areas, including information technology.

9. I am sending copies of this minute to members of the Cabinet for their personal information and to Sir Robert Armstrong.

L.B.

LEON BRITTAN

1 November 1982

## PROPOSED SOCIAL SECURITY IMPROVEMENTS

	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>
(i) restore 5% abatement of Invalidity Benefit	20	56	59
(ii) remove invalidity trap <sup>(1)</sup>	7	16	17
(iii) increase income disregards for Supplementary Benefit and Housing Benefit <sup>(2)</sup>	5	15	16
(iv) increase capital disregard for Supplementary Benefit	3	10	11
(v) increase earnings rate for retirement pensioners <sup>(3)</sup>	18	45	20
(vi) other possible measures	18	51	51
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(1) Anomaly whereby person receiving invalidity benefit can never qualify for long term rate of supplementary benefit.

(2) From £4 to £5; for one parent families increase in range of earnings over which half are disregarded from £4-£20 to £5-£26; and extension of this one-parent concession to long term unemployed family men.

(3) To £94 per week, with a view to complete abolition from November 1985.

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