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*Dec. Steve*

SOCIAL SECURITY PROGRAMME

The Chief Secretary and your Secretary of State have reached agreement on a package of bids and savings as follows:-

	1984-85	1985-86	1986-87
Additional bids	191	324	730
Public Expenditure savings	(251)	(374)	(407)
Net addition (reduction) to baseline	(60)	(50)	323
<del>Rate rebate</del> savings (approx)	(48)	(50)	(52)

We are aware of some of the measures by which the overall saving will be achieved. These include changes to housing benefit tapers, withdrawal of the non householder housing addition for all save pensioners, the sick and disabled, deferral for one year of the phasing out and abolition of the pensioners' earnings rule and phased withdrawal of certain child dependency additions. However I gather this is not the full list.

I would be grateful, therefore, for a comprehensive list, with up-to-date costings, of the measures which your Secretary of State is proposing. The Chief Secretary does not envisage that the details will need to be given to Cabinet but he does think it essential in this as in other programmes that the figures he puts forward should be backed up by an agreement between the spending department and the Treasury on the means by which they will be achieved.

I am sending a copy of this to Robin Butler.

*Yours sincerely*

*JSL*

JOHN GIEVE  
 Private Secretary



## PUBLIC EXPENDITURE

### 1. Public spending plans to 1986-87?

Cabinet agreed on 21 July to adhere to totals already published in February White Paper (Cmnd 7879) for 1984-85 and 1985-86. They also decided to keep total expenditure at same level in real terms for 1986-87. Detailed figures for each programme, including necessary manpower provision, now under discussion between Treasury and Departmental Ministers in usual way, leading to final decisions in Cabinet during autumn. Those decisions will be announced to Parliament and published in the Autumn statement.

### 2. 1983 Survey: state of play?

[Press reports that excess bids total £6 billion of which £2.5 billion for defence and social security.]

Bids exceeded planned total for 1984-85 by £6 billion but these were initial bids, most of which had no chance of acceptance. The £2.5 billion represented 'strong bids' from all programmes, not just defence and social security. Offsetting savings are being sought in a number of areas.

### 3. Programme cuts?

Survey still in progress. Too early to speculate on outcome for individual programmes. Increases in some areas will mean reductions in others to keep to Government's spending objectives. Results of survey will be published in Autumn Statement later in year, following Cabinet decisions. Cannot comment on details of Ministerial talks or on press speculation.

### 4. What are Government's long-term plans for public expenditure?

Government at present concerned with public expenditure plans for survey period (1984-85 to 1986-87). There are no formal plans for overall levels of spending for years beyond. But right,

*talked  
with  
misleading  
aim to  
bring expenditure  
back to  
stated plans*



especially at start of new Parliament, to be looking further ahead. No secret that work being done on Treasury to assess where going: 'dynamics' of public expenditure liable to take total up again unless prevented. Will be looking at public expenditure against long term taxation objectives. Important issues involved. Determined not to rush decisions. Do not expect early announcements.



5. Government deliberately crying wolf to influence current public expenditure debate.

Almost universally in the past Governments have over-estimated growth and under-estimated pressures for more public expenditure - producing higher borrowing and taxation. This Government not going to repeat that error. Still holds to its views that there is a potential problem in longer term, though it has never described this as a "crisis".

6. The 3 per cent growth case in the LTPE paper a deliberately constructed horror story; shows lack of faith by Government in its own policies.

Original LTPE exercise took two cases which straddled rate of growth achieved by UK economy on the long term. Not projecting that there will be slow growth but certainly prudent to investigate such a case.

7. IFS study shows picture not as bad as Treasury claims

Are enormous uncertainties in such projections. Extraordinarily rash for IFS to conclude that "there is no difficulty in the foreseeable future in maintaining current (expenditure) policies at current tax rates".

Such a dogmatic conclusion is a triumph of hope over experience. In any case the Government is seeking lower taxes which may be necessary if higher growth is to be achieved by private sector.

8. Why are IFS results different

Differences are still being investigated. Results depend on numerous assumptions. Other studies draw on different conclusions. Simon and Coates conclude that if public expenditure is not tightly controlled, higher taxes will be needed to keep borrowing within bounds.



[Not for use:- One of the main differences in Scenario A is that IFS assume NIC rate is unchanged and LA rates grow in line with GDP even though LA expenditure and NI benefits are expected to grow more slowly than GDP. In effect IFS assume that income tax can be held down by cutting rate support grant and Treasury supplement to National Insurance Fund. Also IFS do not include a contingency reserve; nor do they allow for shift from wages to profits which is likely to reduce income tax yields.

Simon and Coates do not see problems arising on expenditure side, as they see demographic factors as favourable for the rest of the decade. They see problems arising from lack of buoyancy of revenues.]



## BACKGROUND NOTE

The Cabinet, in July, held a preliminary discussion on the 1983 Survey. Total bids by Departments amounted to increases on the Survey baseline of £6.2 billion in 1984-85, £6.8 billion in 1985-86 and £6.6 billion in 1986-87. The Treasury considered that increases of £2.5 billion overall would be difficult to avoid. Cabinet agreed that the objective for the Survey should be to maintain the cash totals for 1984-85 and 1985-86 published in the last public expenditure White Paper and hold expenditure in 1986-87 to the same level in real terms as in 1985-86.

The Chief Secretary has now completed bilateral discussions with Ministers responsible for the individual programmes and Cabinet is expected to consider this subject further on 20 October.

At the Cabinet meeting in July, the Prime Minister said that further work on public expenditure in the longer term (after 1986-87) was needed and that she would consider how this should be done.