



Ami Amisti

*Mr. Latham
Mr. Heslop*

Treasury Chambers, Parliament Street, SW1P 3AG

*As I warned you
the entire time, latest
expenditure projections look
bad. But the*

*Toni - I cannot
do nothing about this.*

PRIME MINISTER

*We appear to have
no control over expenditure
Will you discuss with
Robin the following?*

*Chancellor does not
seem to want to
reopen November's
public expenditure
decisions prior to
the Budget. This will
inevitably make his
task harder.*

PUBLIC EXPENDITURE WHITE PAPER

*We are going to take
some steps after the
Chancellor meeting*

This minute is to amplify my warning of the picture which the public expenditure totals will present in the White Paper which we hope to publish on Budget Day. I shall be circulating a full draft to Cabinet early next month.

*on my way to see the full
table of the White Paper
22/1*

2. There may still be some changes in the figures, but it is clear that they will present problems both of substance in regard to the PSBR and the Budget, and of presentation. This was always inevitable after the last round of public expenditure discussions in Cabinet ended with the programmes so much higher than we hoped. There have been further increases since. The outturn in 1980-81 now looks like being about 2 per cent in volume terms above the plans of the White Paper of last March, rather than the 1½ per cent mentioned in my November statement, and the 1981-82 plans nearly 3 per cent above those in the March White Paper. Main reasons for the further increase this year are the larger take up of special employment measures and the increased scale of defence overspending, and lower scales of assets. Next year the main increases come also from the special employment measures, and from a lower estimate for shortfall.

/The table



... 3. The table attached compares the totals as they now stand with those of the March White Paper and with the plans of the previous Government. It also shows the totals in "cost terms", which take account of relative price changes.

4. There is no doubt that these figures are uncomfortably high and will disappoint our supporters. The cost terms increases are particularly striking. In 1979-80 prices in cost terms, the planning total compared with the projections underlying the medium term financial strategy has increased by about 3-3½ billion in both 1981-82 and 1982-83, and by 2-2½ billion in 1983-84. In actual cash, the planning total is likely to rise from £77 billion in 1979-80 to around £94 billion in 1980-81, (a rise of 22 per cent) and £102 billion (a further 9 per cent) in 1981-82, ie about £2 billion higher in the latter two years than the projections underlying the Medium Term Financial Strategy. Opposing forces have been at work: the volume of expenditure (at constant prices) has risen by about £2 billion in each of the years 1981-82 and 1982-83. In addition there has been an increased adverse relative price effect because of the faster than expected increase in public sector pay relative to the general price level, which has increased expenditure in cost terms by a further £1-2 billion. On the other hand the slower than expected inflation rate reduces the aggregate in terms of cash at current prices, with the result that - coincidentally - the increase in ^{above the MTFs underlying figure} cash is roughly the same as the increase in constant prices.

5. The figures in the table include the provision for the Reserve which I propose to ask Cabinet to endorse. These

/are (in the 1980

The MTFs
figure was
expected
in 1979/80
prices
The

CONFIDENTIAL



are (in the 1980 survey prices used for the detail of the White Paper) £1500 million for 1981-82 and £2000 million in 1982-83 and 1983-84. The figure for 1981-82 is somewhat higher than the Reserve of £1160 million (at 1980 survey prices) which we had last year for the year then next ahead, but we must include enough in the Reserve to avoid breaching it, that is, enough to cover those additional proposals, some foreseeable, which will come forward and which in practice Cabinet will consider inescapable. The £2000 million for the two later years is probably too small for realism, but it is not at this stage a control figure and we shall be reconsidering all the figures for those years in the next survey.

6. I am considering some changes in the way in which we operate the Reserve for next year, and will consult you about these later. They do not affect the volume figures here under consideration.

7. I propose to say frankly in the White Paper that we should have preferred lower expenditure totals. (The precise wording can be considered when we look at the draft.) We can point to the recession as one cause, but shall need to lay stress on the efforts we have made, and our success in reducing expenditure below the previous Government's plans.

8. I am sure, however, that these totals are not acceptable for the medium term and that we shall have to return to the question of how to get them down in the survey discussion next summer and autumn. But this need not be decided firmly now.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

23 January 1981

CONFIDENTIAL

	£ billion, 1980 survey prices					
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
<u>PROPOSED PLANNING TOTALS</u>						
1. Public expenditure programmes (including finance for nationalised industries)	78.0	78.6	79.3	78.2(1)	76.2(1)	74.7
2. Special sales of assets	-	-1.0	-0.3	-0.1(2)	-0.1	-0.1
3. Reserve	-	-	+0.4	+1.5	+2.0	+2.0
4. General allowance for shortfall	-	-	-	-0.5	-0.5	-0.5
5. PLANNING TOTAL	78.0	77.6	79.4	79.1	77.6	76.1
Percentage change on previous year		-0.5	+2.3	-0.4	-1.9	-1.9
PLANNING TOTALS IN EARLIER WHITE PAPERS (revalued)						
6. March 1980 White Paper, Cmnd 7841		78.4	77.8	76.8	75.4	75.2
7. Labour White Paper, Cmnd 7439		80.3	82.1	83.5	85.1	-
COST TERMS (1979-80 prices)						
8. Planning total (as now proposed) <i>(Planning plus unwinding MFS)</i>	77.0	77.0	79.2	78.0 <i>(74.7)</i>	76.4 <i>(72.9)</i>	75.0
Percentage change on previous years		-	+2.9	-1.5	-2.1	-1.8

NOTES: (1) Including Corporate Plan figures for BL

(2) Net of unwinding of advance oil payments