

Pm Minute

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Original on: —

Lcom for: Strategy

Mr. Morrison

Mr. Barker

PA 7



This seems alright.

Do you have any comments?

Treasury Chambers, Parliament Street, SW1P 3AG
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See B.9.

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27/4

PRIME MINISTER

mb.

PUBLIC EXPENDITURE

At Cabinet yesterday, I undertook to clear with the colleagues directly concerned the references in my statement to public expenditure.

..... 2. I now enclose the present draft of that part of my statement which refers to public expenditure. I also enclose the summary of changes to be circulated in the Official Report. The latter has been cleared at official level, subject to one point. I should be grateful to know during the course of Friday whether you, or any other members of the Cabinet to whom I am sending a copy of this minute, have any comments on the drafts.

3. The one outstanding point is the way in which we treat the increase in the EFLs for nationalised industries, but I am sure that can be resolved satisfactorily bilaterally between myself and the Secretary of State for Industry, and I need not trouble you and the others with it.

4. Immediately after the statement I propose to write to Edward du Cann, as Chairman of the Treasury and Civil Service Department Committee, about the treatment of pay in cash limits. This caused a good deal of misunderstanding between

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us and the Committee last year, so I want to make what we are doing absolutely clear to the Committee from the outset.

..... I enclose a draft of the letter which I would send to Mr. du Cann, and put out in a Press Release at the same time as the other material.

5. I am sending copies of this minute to the other members of the Cabinet, to the Minister of Transport and to Robert Armstrong.

B. Higgins

for (G.H.)

20 November 1980

(Approved by the Chancellor and signed
in his absence)

Public Expenditure

As hon members will know, the PSBR during the first half of 1980-81 is estimated to have been
 B1. I expect the PSBR to be much lower in the second half of the ^{above 10} financial year, but it could be around £11½ bn for the year as a whole [Much] of this is due to the effect of the recession, particularly on public expenditure.

B2. We have reviewed public expenditure plans for 1981-82. In conditions of continuing recession in the UK, some increases in expenditure arising from the recession must be expected and planned for. However, the total increase in expenditure and in public borrowing must be consistent with the medium term strategy and with a continued reduction in inflation. That is essential for a resumption of sound sustainable growth.

B3. It is realistic to assume a higher level of spending on unemployment and other benefits this year than allowed for in the White Paper of last March. The changes in trading conditions are reflected in the external financing limits for the nationalised industries for 1981-82 which, excluding steel, are being announced separately [today]. These industries are being required to secure substantial economies.

B4. My rnf the Secretary of State for Employment announced last week extension of the special employment measures which will cost nearly £250 million next year. The Government have also decided to increase the provision for selective assistance for investment and support for industrial research and development at a cost of £50 million next year. These amounts, and the other public expenditure changes I shall mention, are in the 1980 survey prices at which the decisions have been taken - that is broadly the prices of a year ago.

B5. In view of these increases, we must now plan to cut the volume provision for the majority of spending programmes. We must also restrict the cost, and so the cash requirements, of the public sector. Our aim is to hold the planning total for the volume of public expenditure in 1981-82 below the outturn now expected for 1980-81. The ^{latter} ~~is~~ ^{is} some £1 billion higher in volume than envisaged at the time of the last White Paper. I am publishing in the Official Report [and making available in the Vote Office now] a summary of the effect

on expenditure programmes in 1981-82 of these decisions. Details of these changes, and of the changes in the provision for later years, will be set out in the public expenditure White Paper to be published at the time of the Budget.

B6. I should mention some of the main changes. We must, like some of our other NATO allies, adjust the rate of growth of our defence expenditure. Planned expenditure in 1981-82 will now be £200 million less than allowed for in the last White Paper. This will be nearly 8% higher than the level achieved in 1978-79.

B7. In broad terms, we shall be seeking a 3% reduction in the volume of local authority current spending compared with the level we planned for this year. We also propose to calculate the Rate Support Grant on the basis of providing a lower percentage of the reduced volume than the 61% (for England and Wales) in recent RSG settlements. My rths the Secretaries of State for the Environment, Scotland and Wales will be consulting their local authority associations on these proposals before the RSG settlements next month.

B8. In 1980 prices have increased less than we allowed for when we decided on the uprating of social security benefits for this November. There will accordingly be some increase in real value of benefits. We intend that the increase in retirement pensions and other benefits in 1981 will be such that the excess adjustment over prices, estimated at one percentage point, is not carried forward into future years. This will maintain the real value of the retirement pension over time. Public service pensions will be treated in the same way. Any further action on index linked pensions will follow the report of the Scott Enquiry. A decision on child benefit uprating will be taken at the time of the Budget. We have also decided that the earnings rule limit will remain unchanged.

B9. But the cost of public expenditure programmes, especially pay, is as important as volume. It is essential to our fiscal policy, and fair, to look for a much lower growth in public service earnings in the coming year than in the recent past. It has already been announced that the Rate Support Grant limit will allow for a 6% annual increase in earnings from due settlement dates in the current pay round. It

Please look at details
 This looks like 6% on each pension earnings

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will provide for an increase in prices other than pay of 11% between the average levels for 1980-81 and 1981-82. Expenditure in other parts of the public services will be subject to broadly the same financial disciplines.

TEXT FOR CIRCULATION IN THE OFFICIAL REPORTSUMMARY OF PUBLIC EXPENDITURE POLICY DECISIONSA. Volume

1. The changes in expenditure programmes for 1981-82 due to policy decisions since the March Public Expenditure White Paper (Cmd 7841) are:

	<u>1981-82</u>	
		<u>£m at 1980 Survey Prices</u> (1) (3)
<u>Nationalised Industries</u>		
Increases in EFLs (other than for British Steel) including revised provision for shortfall		+620
<u>Other policy increases</u> (2)		
Special employment measures	+245	
Industrial support	+ 51	
Industry (other)	+ 10	
Health (withdrawal of some proposals for new charges)	+121	
Civil superannuation (accelerated retirement of civil servants)	+ 64	
Trade	+ 21	
		+510
<u>EC refunds</u> agreed on 30 May 1980		-650
<u>Other significant policy changes:</u> (2)		
(i) Local Authority Current Expenditure (England) - reduction by about 3% instead of 2% from planned level for 1980-81	-165	
(ii) Further changes in Departmental programmes (excluding elements of local authority current expenditure included in (i))		
Agriculture Departments	- 36	
Department of Employment	- 25	
Department of Transport	- 21	
Department of Environment	-158	
Home Office	- 17	
Department of Education and Science	- 52	
Office of Arts & Libraries	- 10	
Department of Health & Social Security (health and personal social services)	- 25	
(iii) Other Departments		
Defence	-200	
Foreign & Commonwealth Office	- 16	
Export Credits Guarantee Department	-166	
Department of Health & Social Security (social security)	- 66	
Scotland, Wales and N. Ireland (including changes to local authority current expenditure in Scotland and Wales)(4) (about)	-100	
Other (about)	- 15	
		-1,070

/ Footnotes - see next page

2. The changes take account of the salary savings expected in 1981-82 from the progressive reduction in Civil Service numbers to 630,000 by 1984.

3. The list does not include changes where the exact amount will be decided later eg British Steel and Child Benefit. Nor does it include the estimating adjustments, eg for demographic and economic factors, which will be made in the public expenditure White Paper to be published at the time of the Budget. The White Paper will include further details of the policy changes for 1981-82 and will set out the plans for 1982-83 and 1983-84.

B. Cash limits

4. Cash limits and Votes for expenditure other than pay will allow for an average level of prices in 1981-82 11% higher than the corresponding level in 1980-81.

5. The cash limits for the Rate Support Grant and for the Universities' Grant will include allowance for increases in earnings of 6% in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual settlements due after that date. The allowance for pay in other cash limits, and Votes, will be so set that the pay of the relevant groups is dealt with broadly within the same financial disciplines. The outcome of settlements in particular cases will depend on the way in which the cash is allocated.

(1) The figures are in the prices used for the 1980 Public Expenditure Survey, ie those of late 1979 or in some cases on average in 1979-80. In the case of transfer payments the definition of survey prices has been changed since the last public expenditure White Paper (Cmd 7841) from the average of the financial year in which the survey takes place to the average of the last completed financial year.

(2) The increases and reductions shown include the net effect of various minor policy changes.

(3) Total changes are rounded to the nearest £5 million.

(4) The exact changes to Scottish, Welsh and Northern Irish programmes, in parallel with those to English programmes, have yet to be determined.