

SECRET



Prime Minister ④
There is some interesting material in Annexes C & D on experience in other countries.

AT 6
4/10

Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq
10 Downing Street

2 October 1984

Dear Andrew

PUBLIC EXPENDITURE

As requested in your letter of 28 September to David Peretz, I attach a draft speaking note and briefing for the Prime Minister's use at Cabinet on 4 October.

On public expenditure in the current year, the Chief Secretary proposes to introduce the topic on the line of the speaking note at Annex A. Annex B provides a speaking note for the Prime Minister to bring this topic to a conclusion.

For the future years, the Chief Secretary will introduce his paper in full. Annex C provides a speaking note for the Prime Minister (or Treasury Minister's use as necessary) on experience in other countries. Annex D sets out the background in more detail.

The conclusion of this discussion would be an appropriate point for the Prime Minister to warn of the need to exercise care in responding to Party Conference motions. Annex E provides a speaking note. Annex F provides background notes on the motions to be debated at the Conference which have potentially serious public expenditure implications. The Chief Secretary believes that energy, defence and agriculture are the three debates where public expenditure objectives are most at risk. Experience last year in the field of energy prices for example underlines the need to minimise premature public speculation.

I am sending a copy of this letter to David Peretz in the Chancellor's Office.

Yours sincerely
Richard Broadbent

RICHARD BROADBENT

SECRET

PUBLIC EXPENDITURE 1984-85

Chief Secretary's introductory speaking note

The public expenditure situation is very serious - both this year and in the prospect for future years.

On this year, it has been clear for some months that there are many substantial claims on the Reserve. The main factors are the miners' strike and overspending by local authorities, both current and capital. But there are other demands, for example pay in the National Health Service and the effects of changes in interest rates. There is no doubt that the press and the City are aware that our plans are likely to be exceeded; but they have yet to realise the extent of the problem. [not for the minutes: The Treasury's latest assessment suggests that the planning total will be exceeded by over £1 billion.]

PUBLIC EXPENDITURE 1984-85

Prime Minister's speaking note

In 1983 we agreed an across-the-board package of cash-limit cuts when it became apparent early in the year that our plans were likely to be exceeded. This year we have had no cash limit cuts; and we have ruled out a moratorium on local authority capital expenditure. But we cannot allow expenditure to run away, unrestrained. I do not need to tell you of the damage to our whole strategy if we fail to control public expenditure.

I am therefore asking each spending Minister to do your utmost to restrain expenditure this year. In the first place this means ensuring that existing cash plans are not exceeded. Savings must be sought to offset extra demands on programmes. This must also apply - as it often has not in the past - for demand-led programmes, where there may be little discretion over meeting the extra demand. The presumption must always be of no net increase in programmes, and the rules for access to the public expenditure Reserve must be strictly interpreted and applied. Secondly, I would ask each Minister to review his programme with a view to generating further savings this year. I am not suggesting going back on commitments, or making cuts which would be excessively disruptive or store up trouble for future years. But I am asking that everything should be done to realise savings that can be identified. This will mean bringing forward efficiency schemes, pushing for greater and quicker asset and land disposals, looking for increases in charges, as well as postponing new expenditure measures or delaying projects.

I hope that if you all go back to your Departments and set in hand measures of this kind it may be possible to achieve savings that would bring the prospective outturn this year much closer to the expenditure planning total.

PUBLIC EXPENDITURE 1985/86 - 1987/88

Speaking note on experience in European countries for use if necessary

For future years the prospect is one of acute difficulty. But

we are far from alone in our difficulties with public expenditure. France, Germany, the Netherlands, Italy, Spain - indeed the United States itself - are all grappling with the difficulties of keeping public expenditure in check: and some of these countries - including a number with socialist governments - have not shrunk from measures which we are often told would be quite impossible here. The French, Dutch and Belgian governments have all reduced unemployment benefit. Pension increases were delayed in Germany last year and this. Family allowances in Italy for higher income earners are being progressively withdrawn. The Spanish government is trying to rationalise its social security system, with a view to reducing the Budget deficit.

BACKGROUND NOTE: AUSTERITY MEASURES IN OTHER COUNTRIESa) United States

1. The Administration remains committed to cutting discretionary domestic programmes. The Government-appointed Greenspan Commission reported in January 1983 on ways of closing the deficits projected in the social security funds. Largely following its recommendations, Congress, in May 1983, agreed to cuts in planned expenditure and increases in social security contributions, together worth around \$165 billion over 7 years. Cost of living adjustments to social security pensions were delayed for 6 months, benefits for those who retire early were reduced and benefits for those with relatively high incomes will be taxed.

2. There is also serious concern over the escalation of health costs. The Administration has made a number of proposals including lowering its contribution if States' spending on medicare exceeds target, and "capping" the fees of medical practitioners under the scheme. The 1984 Deficit Reduction Act will cut \$15 billion from entitlement programmes between FY 1984-87 with most of the savings concentrated in the medicare programme.

b) Japan

3. Concern has been expressed over the rise in the number of the elderly expected in the coming years. Partly as a result of these pressures the Government intends to reduce pensions. Unemployment benefit was cut from 1 August 1984 by shortening the entitlement period and excluding bonus earnings from the calculation.

4. Insured workers have to meet 10% of health costs from October 1984. In addition, health care insurance premiums are now levied on a substantially larger portion of taxable income. Another aim of the Government is to eliminate the budget's current account deficit by 1990.

c) Germany

5. The Government delayed some pension increases by 6 months in 1983 and 1984. Unemployment benefit for those without children was reduced by an average 2 percentage points of previous wages on 1 January 1984. No further reductions in social benefits are expected in 1985.

6. On the health side board and lodging charges for hospital patients were introduced from 1 January 1983 for the first 14 days of their stay. Drugs for common ailments such as colds and flu are no longer available under sickness insurance. Prescription charges were increased by one-third on 1 January 1983.

7. The 1985 Budget includes proposals to decrease industrial subsidies from 5.6% to 5.2% of 1985 Federal Government expenditure. The plan is apparently to decrease this progressively to 4% by 1988.

d) France

8. The social security fund has moved into surplus since 1983 after large deficits in 1981 and 1982, as a result of increased taxes and contributions and some economies in spending. The unemployment benefit scheme, which was running into deficit, was renegotiated by the Government, trade unions and employers in early 1984. The main features of the new scheme, which came into effect on 1 April, were a reduction of maximum level of benefit and shortened entitlement periods. A board and lodging charge (now Fr 21 per day) for hospital patients was also introduced from 1 April 1983.

9. The 1985 draft Budget presented to the Parliament on 12 September, pledged to reduce taxation by 1% of GDP. Nominal state expenditure is forecast to grow by 6% against nominal GDP growth of 7½%. The increase in general operating expenditure will be limited to 4½% in nominal terms while capital expenditure will rise by 6½%. No cuts in social welfare benefits were announced in the Budget. The Budget also revealed that the number of state employees is to be cut by 5450 through non-replacement and the rise in subsidies to the public sector is to be restricted to 3% in nominal terms.

10. At the same time that the 1985 draft Budget was presented the Council of Ministers also decided upon some significant measures relating to energy pricing, intended to promote the use of electricity and make full use of France's nuclear generating capacity. In future electricity prices will be increased at 1% below the inflation rate. Gas prices will be increased sufficiently in 1984 and 1985 to help reduce Gaz de France's severe losses. Thereafter, price increases will be in line with inflation. Petrol prices will be increased by 2% faster than inflation in 1984 and 1985. Coal prices will continue to be set in line with international prices. The additional petrol tax revenue will help to pay for the cuts in direct taxes announced in the draft 1985 budget in accordance with President Mitterand's pledge to reduce taxes by 1% of GDP.

e) Italy

11. In recent budgets family allowances for higher income earners have been progressively withdrawn and the availability of old age and invalidity pensions have been reduced. Prescription charges have been introduced for drugs unless they are essential or for emergency treatment.

12. The 1985 Budget was presented to Parliament on 1 October. The aim of the Budget measures is to reduce the PSBR from the 1984 level of 15.7% of GDP to 14.3% in 1985. To do this Mr Gorla, the Treasury Minister, is hoping to reduce total public expenditure by about 3% of the estimated 1984 outturn. The savings are targeted at three main areas. First, and foremost, transfers to the nationalised industries are to be reduced significantly. Second, health expenditure is to be reduced and, specifically, prescription charges are to be increased (although savings have not been defined). Third, expenditure on pensions is to be reduced, especially invalid pensions which make up the bulk of spending on pensions, but as yet the savings have not been defined.

f) Spain

13. The Government is working on a comprehensive reform of the social security system. It hopes to rationalise the structure and size of the benefits and thereby try to reduce the budget deficit. No announcements regarding the reforms are expected until 1986 at the earliest. During talks between the Government and the non-communist trade union organisations over 1985 wage settlements, the Government is reported to have made two concessions: no drastic cut in the budget deficit and delay in the social security review.

14. As a result of the 1984 Budget deficit running well above target the Government introduced a package of measures in June 1984 in an attempt to hold back the rise in public expenditure. Among these measures was the introduction of cash limits on government departments.

15. Press reports suggest that the 1985 Budget (to be announced within the next 10 days) will contain very few measures to restrain public spending. The two most significant initiatives are reported to be the restructuring of the shipbuilding industry, at a cost of 8000 jobs (savings unknown) and the closure, from 1 January 1985, of 1176 kilometres of passenger track which is expected to yield the equivalent of around £36 million in savings in the next financial year.

g) Belgium

16. In March 1984 the Government proposed a series of tough measures to reduce the cost of the social programmes. These included a common basic unemployment benefit with dependents' supplement, and a reduction in benefits for non-heads of families unemployed for over two years. In addition, it is proposed that family allowance will not be paid until the month following a birth. Limits will be imposed on the amount of total benefits an individual may receive and on indexed invalidity benefits. Higher rates paid to benefit recipients are to be restricted to those with no other income. These proposals are currently being considered by Parliament.

17. Prescription charges were increased on a sliding scale in the 1984 budget, but no increases have been proposed for 1985.

h) Netherlands

18. Unemployment, disablement and the minimum benefit levels were cut by 3% from 1 January 1984 and the bi-annual indexation of all benefits was suspended. There was a further 3% reduction in unemployment and disability benefits from July for those recipients whose previous salaries were above the minimum daily wage. The 1985 budget proposes further rate reductions in the above benefits.

i) Denmark

19. In the 1984 Budget the Government reduced some unemployment benefits and cut child benefits for high income earners with the overall aim of securing budget balance for individual schemes. In addition, social security benefits (excluding pensions) were de-indexed until 1987 and flat rate increases only will be paid.

j) Australia

20. An assets test has been introduced for age (ie, retirement) pensions, operative from March 1985. This test supplements the incomes test which already applies.

PARTY CONFERENCE MOTIONS

Speaking note for the Prime Minister

We must all be very careful at the Party Conference next week to say nothing which will worsen the situation, and intensify the pressures for higher public spending. There are, as usual, many motions down requiring us to take action which would be very expensive indeed. We must not shrink from squarely rejecting these, and if necessary basing our rejection explicitly on public expenditure considerations, in order to bring home to the Party the seriousness of our commitment to control public expenditure.

or pre-empt optious for reductions whether in central or local government or the nationalised industries.

CONSERVATIVE PARTY CONFERENCE:POTENTIALLY SENSITIVE ISSUESTUESDAY OCTOBER 9THSOCIAL SECURITY. Reply Speaker Mr Newton (?)

Pressures to - increase real value of state pension
- maintain intact the second state earnings - related pension scheme (SERPS).

LAW AND ORDER. Reply speaker Mr Brothan

Requests for undertakings on spending on law and order or, in particular, police pay.

*ENERGY. Reply speaker Mr Walker

Pledges on the financing and investment of the coal industry, and coal prices.

WEDNESDAY OCTOBER 10TH*DEFENCE. Reply speaker Mr Heseltine

Pledges on spending on or the scale of the defence programme after 1986/7, when the NATO 3% commitment ends.

DRUG ABUSE. Reply speaker Mr Clarke

Pledges to increase policy NHS or Customs & Excise manpower to curb the drug problem.

HEALTH. Reply speaker Mr Fowler

New commitments on public spending levels in the longer term, or to preserve the present pattern and structure of services, including ancillary ones.

LOCAL GOVERNMENT. Reply speaker Lord Bellwin

Predictions about future spending rate levels after the abolition of the metropolitan councils.

THURSDAY OCTOBER 11TH*FOOD AND FARMING. Reply speaker Mr Jopling

Commitments to long-term maintenance of present objectives, grants etc., or maintenance of 'parity' with assistance to Agriculture elsewhere in the Community.

EMPLOYMENT. Reply speaker Mr King

Commitments to more and more generous schemes to help the jobless.

HOUSES AND LAND. Reply speaker Mr Gow

Promises of more generous subsidies or schemes to encourage sales of council houses and flats.

FRIDAY OCTOBER 12TH

EDUCATION. Reply speaker Sir K Joseph

Pressure for more spending to raise educational standards or to increase output of those qualified in key skills.

Agenda of the Conference

Chairman: DAME PAMELA HUNTER, D.B.E.

TUESDAY, 9th OCTOBER

First session: 9.30 a.m.–12.30 p.m.

- 1 Religious Service (*see page 30*)
- 2 Official welcome by the Worshipful the Mayor of Brighton, Cllr. John Blackman
- 3 Chairman's opening remarks
- 4 Adoption of the Annual Report (*see page 112*)
- 5 Debate on SOCIAL SECURITY

MOTION NO. 829.

MR MICHAEL JACK (*on behalf of the Southport Conservative Association*) to move:

"This Conference, recognising the growing proportion of the population of pensionable age, calls upon Her Majesty's Government to develop further its social policies to ensure that those who have given a life time service to society can look forward to retirement free from economic and material worry."

Reply Speaker: DR. RHODES BOYSON, M.P., *Minister for Social Security*

- 6 Debate on LAW AND ORDER

MOTION NO. 493.

MR W. COATES (*on behalf of the Meriden Conservative Association*) to move:

"That this Conference believes the Government must reconsider the whole problem of organised violence and intimidation and calls on her Majesty's Government to implement in full their manifesto promises on violence, law and order."

Reply Speaker: RT HON. LEON BRITTAN, Q.C., M.P., *Secretary of State for the Home Department*

- 7 The Chairman of the Party Organisation
MR. JOHN SELWYN GUMMER, M.P.

Second Session: 2.30–5.30 p.m.

- 8 Debate on ENERGY

MOTION NO. 284.

MR D. W. RIDGE (*on behalf of Newark Conservative Association*) to move:

"This Conference calls upon Her Majesty's Government to embark upon a vigorous programme to restore the pride and confidence of all those working within the coal industry; and to ensure the mining community is given every

assistance to change and adapt itself to modern needs, and thereby obtain the benefits of becoming strong and self-sufficient."

Reply Speaker: RT HON. PETER WALKER, M.B.E., M.P., *Secretary of State for Energy*

9 Debate on CONSERVING THE ENVIRONMENT

MOTION NO. 307.

MR MICHAEL WILLIS (*on behalf of Brentwood and Ongar Conservative Association*) to move:

"This Conference calls on the Government to conserve the environment by all practical means, including the reduction of known sources of pollution and vigorous defence of the Green Belt."

Reply Speaker: THE HON. WILLIAM WALDEGRAVE, M.P., *Parliamentary Under Secretary of State, Department of the Environment*

10 Debate on PUBLIC RELATIONS

MOTION NO. 745.

MR R. D. APPLETON (*on behalf of Stockton North Conservative Association*) to move:

"This Conference urges the Government to smarten its public relations, to ascertain Conservative views and reactions on the ground and to explain its policies lucidly to the whole country."

Reply Speaker: RT HON. VISCOUNT WHITELAW OF PENRITH, C.H., M.C., *Lord President of the Council and Leader of the House of Lords*

WEDNESDAY, 10th OCTOBER

Third session: 9.30 a.m.—12.30 p.m.

11 Debate on RATES

MOTION NO. 644.

MR N. CUTTS (*on behalf of the Rushcliffe Conservative Association*) to move:

"This Conference welcomes the rate capping legislation but urges her Majesty's Government to make positive steps towards the abolition of the domestic rating system, replacing it eventually with a system of local taxation which bears more fairly on a wider spread of the population."

Reply Speaker: RT HON. PATRICK JENKIN, M.P., *Secretary of State for the Environment*

12 Debate on DEFENCE

MOTION NO. 50.

MRS ANGELA BROWNING (*on behalf of the Tiverton Conservative Association*) to move:

"This Conference urges Her Majesty's Government to continue its realistic defence policy and strong support of NATO. The Conference is equally supportive of the Government's initiatives to encourage détente between East and West."

Reply Speaker: RT HON. MICHAEL HESELTINE, M.P., *Secretary of State for Defence*

13 Debate on DRUG ABUSE

MOTION NO. 65.

MR J. D. ATKINSON (*on behalf of Pudsey Conservative Association*) to move:

"That this Conference requests Her Majesty's Government to take immediate steps to eliminate drug and solvent abuse—with particular emphasis on harsher sentences for 'pushers'."

Reply Speaker: RT HON. KENNETH CLARKE, Q.C., M.P., *Minister for Health, Department of Health and Social Security*

Fourth Session: 2.30–5.30 p.m.

14 Debate on ECONOMY AND TAXATION

MOTION NO. 81.

MR SIMON H. HOY (*on behalf of the Guildford Conservative Association*) to move:

"This Conference believes that low inflation and tight public expenditure provide far the best foundation for the expansion of jobs and prosperity and urges the Government both to adhere to these basic policies and to reinforce them with all possible measures in order to reform the labour market and ease the transition for those who have to move jobs."

Reply Speaker: RT HON. NIGEL LAWSON, M.P., *Chancellor of the Exchequer*

15 Debate on HEALTH

MOTION NO. 437.

MR IAIN McCRONE (*on behalf of the North East Fife Conservative Association*) to move:

"This Conference welcomes the increased expenditure by H.M. Government on health and urges that every effort is made to ensure that Health Authorities and Boards provide the most cost effective ancillary service consistent with the best interests of patient care."

Reply Speaker: RT HON. NORMAN FOWLER, M.P., *Secretary of State for Social Services*

16 Debate on LOCAL GOVERNMENT

MOTION NO. 576.

CLLR BRIAN MOGFORD (*on behalf of the Birmingham, Edgbaston Conservative Association*) to move:

"This Conference congratulates her Majesty's Government in their persistent action to abolish the Metropolitan County Councils and re-affirms its belief that their abolition will improve standards of accountability of elected representatives to their electorate; that it will reduce the duplication caused by two tier local government in urban regions; will provide a greater degree of choice to residents therein and thereby help to contain rate rises to both residents and job-providing business enterprises."

Reply Speaker: LORD BELLWIN, *Minister for Local Government, Department of the Environment.*

THURSDAY, 11th OCTOBER

Fifth Session: 9.30 a.m.—12.30 p.m.

17 Debate on FOOD AND FARMING

MOTION NO. 365.

MR PETER TALBOT (*on behalf of North Norfolk Conservative Association*)
to move:

"While acknowledging the need for economies in the soaring cost of the Common Agricultural Policy, this Conference urges Her Majesty's Government to ensure that the British farmer is treated fairly in comparison with his European equivalent, and that United Kingdom policies directly supporting our agriculture are maintained."

Reply Speaker: RT HON. MICHAEL JOPLING, M.P., *Minister of Agriculture, Fisheries & Food*

18 Debate on EMPLOYMENT

MOTION NO. 215.

MRS SALLY WILLIAMS (*on behalf of the Ceredigion & Pembroke North Conservative Association*) *to move:*

"This Conference believes that, whilst this government has made a positive contribution to assist the unemployed to find work, there is still a gap between help available and the needs of those unemployed."

Reply Speaker: RT HON. TOM KING, M.P., *Secretary of State for Employment*

19 Debate on HOMES AND LAND

MOTION NO. 459.

MR JOHN WYLIE (*on behalf of the Fulham Conservative Association*) *to move:*

"That this Conference congratulates H.M. Government on the success of its measures to expand home ownership among Council and Housing Association tenants and now urges the Government to develop further policies to bring the benefits of home ownership to tenants of those Council-owned properties which are less suitable for outright sale (such as those on older, flatted estates or in high rise blocks), in partnership with independent Housing Associations and other organisations."

Reply Speaker: MR IAN GOW, T.D., M.P., *Minister for Housing and Construction, Department of the Environment*

Sixth Session: 2.30–5.30 p.m.

20 Debate on FREE ENTERPRISE AND INDUSTRY

MOTION NO. 398.

MR RAYMOND ROBERTSON (*on behalf of the Scottish Conservative & Unionist Association*) *to move:*

"This Conference, believing that industry in private ownership is a fundamental part of a free society, calls upon H.M. Government to make known its long term plans for the privatisation of the nationalised industries."

Reply Speaker: RT HON. NORMAN TEBBIT, M.P., *Secretary of State for Trade and Industry*

21 Debate on OVERSEAS AFFAIRS

MOTION NO. 705.

SIR DONALD WALTERS (*on behalf of the Cardiff North Conservative Association*) to move:

"That this Conference strongly supports Her Majesty's Government's initiative to reduce tension between the Communist Bloc and the Free World to secure balanced and verifiable disarmament and thereby to free resources for the promotion of wealth throughout the world."

Reply Speaker: RT HON. SIR GEOFFREY HOWE, Q.C., M.P., *Secretary of State for Foreign and Commonwealth Affairs.*

22 Debate on a BALLOTTED MOTION (*see enclosed ballot paper*)

FRIDAY, 12th OCTOBER

Seventh Session: 9.30 a.m.—12.00 noon

23 Debate on a BALLOTTED MOTION (*see enclosed ballot paper*)

24 Debate on EDUCATION

MOTION NO. 136.

CLLR F. ALLGOOD, J.P. (*on behalf of the Fareham Conservative Association*) to move:

"This Conference approves the Secretary of State's initiative to raise standards in education and asks that more should be done to ensure that young people are equipped with skills and knowledge that are of relevance to modern Britain."

Reply Speaker: RT HON. SIR KEITH JOSEPH, Bt, M.P., *Secretary of State for Education and Science*

Eighth Session: 2.15—3.20 p.m.

25 Financial appeal and collection in aid of Party funds

26 Address by

RT HON. MRS MARGARET THATCHER, F.R.S., M.P.

The Prime Minister and Leader of the Conservative and Unionist Party

Chairman: COL SIR ALASTAIR GRAESSER, D.S.O., O.B.E., M.C., T.D., J.P., D.L. President of the National Union of Conservative and Unionist Associations

The National Anthem

■ 3 OCT 1984

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