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Chancellor's (Lawson's) Papers:

Treasury and Civil Service Committee

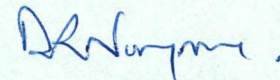
Long Term Trends Enquiry.

FROM: D R NORRGROVE
DATE: 10 MAY 1984

PS/CHANCELLOR OF THE EXCHEQUER — 12/2
PS/CHIEF SECRETARY
SIR PETER MIDDLETON
MR BAILEY
MR ANSON
MR BATTISHILL
MR SCHOLAR
MR CULPIN
MR FOLGER

TCSC REPORT ON THE PUBLIC EXPENDITURE WHITE PAPER

The TCSC will be publishing our reply to their report on the Public Expenditure White Paper at noon on Monday 14 May.



D R NORRGROVE



COMMITTEE OFFICE
 HOUSE OF COMMONS
 LONDON SW1A 0AA
 01-219 -5766 (Direct Line)
 01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

PRESS NOTICE

cc. **PS** - 12/2
 PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State
 PS/Economic Secretary
 Sir P. Macdonald
 Sir T. Burns
 Mr. Baring Mr. Carr
 Mr. Anson
 Mr. Amos
 Mr. Buzguel
 Mr. Dorsal
 Mr. Gulpin
 Mr. Portillo
 Mr. Folger
 Mr. Gledhill
 Mr. Straker

The Government's Expenditure Plans 1984-85 to 1986-87

The Government's reply to the Treasury Committee's Third Report (HC, 1983-84, No. 285) on the Government's Expenditure Plans, 1984-85 to 1986-87, will be published at 12 noon on Monday 14 May as the Committee's Third Special Report (HC, 1983-84, No 410). Copies will be available through HMSO or from room 309, St. Stephen's House, Embankment, SW1.

Negative External Financing limits of Nationalised Industries

Oral evidence on the above matter will be heard from Treasury officials at 4.45 p.m. on Monday 14 May in Committee Room 15.

Acceptance of Outside Appointments by Crown Servants

The Sub-Committee's enquiry continues on Wednesday 16 May in Committee Room 6, with the following witnesses:

at 4.15 p.m.	Sir Douglas Wass
at 4.45 p.m.	Lord Hunt of Tanworth



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 3000 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

1. To Bathwick or
Mr Walton has the original
copy of this letter.
D. S. J. J.
2. Mr Crane
Pse cc A. Ranger
3. F.

22nd May 1984

John Ruddy

I am writing to you on behalf of the Treasury and Civil Service Committee concerning their enquiry into Long-Term Trends in Resources and Public Expenditure.

Since the Committee announced their decision to undertake the enquiry the Treasury have issued a Green Paper entitled "The Next Ten Years: Public Expenditure and Taxation into the 1990's" - Cmnd 9189, 13 March 1984. It sets out rates of taxation through to 1993-94 under alternative assumptions with respect to both economic growth and public expenditure, calls for public debate about the level of total public expenditure which the nation can afford, and assessments of the priority to be given to individual programmes within the total. I enclose a proposed outline of the Committee's enquiry.

As a first step the Committee is asking for initial reactions about the issues affecting various spending departments and revenue authorities. It will also be asking for evidence from other organisations, before taking oral evidence.

As far as your Department is concerned the Committee would be grateful for a paper dealing with the following question:

Using explicit assumptions about prospective demographic and economic developments how are revenues for which your Department is responsible likely to evolve over the next ten years?

*

The Committee would appreciate as much quantitative detail as possible with separate treatment for the various different types of tax collected including national insurance contributions. For the purpose of the exercise constant real personal tax rates and allowances and corporate tax rates as announced in the Budget should be taken as given.

I should be grateful if your response can be provided by the end of June.

*Yours sincerely,
D.W. Limon*

D.W. Limon
Clerk to the Committee

Chris Ridley Esq.,
Inland Revenue
Room 44
New Wing
Somerset House
Strand
London WC2



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 3285 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

22nd May 1984

Mr Long Away.

I am writing to you concerning the Committee's enquiry into Long-Term Trends in Resources and Public Expenditure.

As the initial step in the enquiry we have written to spending departments asking them to identify expected programme expenditure over the next ten years based on an existing policy assumption and their own best guesses about economic, demographic and technological developments. Similarly the revenue authorities have been asked to provide projections of expected receipts presupposing constant real personal income tax rates and allowances, and full revalorisation of specific duties. I mention this for your information only.

As far as your Department is concerned the Committee would be grateful for a paper dealing with the following question:

Using explicit assumptions about prospective demographic, economic and technological developments how are programme expenditures likely to evolve over the next ten years, assuming that existing policies are maintained? [It would be helpful if you would include as much quantitative detail as possible on a programme-by-programme basis. The Committee would be particularly interested in the effect of changes in technology both on the demand for goods and services on the one hand, and the ability to provide such goods and services on the other].

1/2x

Enclosed is a proposed outline of the enquiry, and while at this stage the Committee is not expecting a formal response to the issues identified, we would nevertheless be grateful for any relevant material already prepared. In addition, you may wish to note the proposed coverage of the enquiry since it is likely that the Committee will wish to take Treasury officials' evidence concerning these issues at an early stage.

I should be grateful if your response can be provided by the end of June.

*Yours sincerely,
Donald Limon*

D.W. Limon

A.M.W. Battishill Esq.,
H M Treasury
Parliament Street
SW1P 3AG



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

Long-Term Trends in Resources and Public Expenditure

A SYNOPSIS FOR THE ENQUIRY

Total Expenditure

- We intend to describe trends in public spending since the early 1960's, and make international comparisons both as to levels and as to growth rates. We propose to distinguish growth in volume, value and changes in relative prices.

- The various definitions of public spending will be examined and we hope to be able to identify the most appropriate measures on which to focus public discussion. We propose to include consideration of public corporations and their use of resources within the economy.

- We intend to consider the prospects for growth and whether, and if so how, the plans for total public spending should be revised when the outlook for economic growth, employment or inflation changes.

- We hope to consider how Parliament can participate in longer-term planning.

Individual Programmes

Each of the main spending programmes is the concern of a particular Parliamentary Select Committee. It is not our job to examine programmes in detail, but we shall need evidence on the main pressures likely to arise for additional spending over the next ten years and the opportunities to make savings. We plan to produce conditional expenditure projections based on alternative assumptions about growth, inflation and demographic factors etc..

- For each programme we intend to distinguish as appropriate past and prospective growth which is due to changes in costs, economic and demographic trends and the coverage and level of services. We plan to examine the extent to which output or standard of service can be measured. For each programme we intend to study the various methods used by Departments in their assessments of future needs.

- Where appropriate we hope to examine the scope and implications for charging, for transferring activities into the private sector and for improving efficiency. Where possible the distributional effects of proposals of this kind will also be examined.

Revenue and Resources

It is not our purpose in this enquiry to examine the tax structure in detail, but we need to establish the broad implications for tax revenues over the next ten years of alternative economic assumptions given the present tax structure.

- We shall also need to consider to what extent the transfer of responsibility for providing services from the public to the private sector reduces taxable capacity?.
- It is our intention to form a view of possible rates of economic growth over the next five, and the next ten years, which it would be prudent to assume for the purpose of planning public expenditure.
- An assessment of the likely decline or increase in North Sea oil production and the consequences of changes in oil output will be an important objective.

Borrowing, Debt Interest and the Public Sector Balance Sheet

We do not expect to be able to provide useful forecasts of the PSBR five or ten years hence since it is the small residual between large and independent flows of revenue and expenditure. Neither do we wish, in this enquiry, to consider in any great depth how fiscal and monetary policy should be formulated. However, we do intend to examine the possible financing difficulties which might arise under some alternative growth projections.

- We also wish to consider borrowing in relation to public sector investment and the sale of public sector assets. To what extent do some transactions on capital account, which reduce the need for borrowing at the time they are made, also add to expenditure or reduce revenue in subsequent years?
- The construction of a public sector balance sheet could throw light on these issues. We propose to consider whether such an account could be drawn up and the use which could be made of it in debate over fiscal policy and in decision taking.

- We may also consider the broader issue of the relationship between savings and investment. In particular we believe that some investigation of prospective savings levels relative to future needs is warranted.



Annex E

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

24th May 1984

To Mr. Thatcher,

I am writing to you on behalf of the Treasury and Civil Service Committee concerning their enquiry into Long-Term Trends in Resources and Public Expenditure.

Since the Committee announced their decision to undertake the enquiry the Treasury have issued a Green Paper entitled "The Next Ten Years: Public Expenditure and Taxation into the 1990's" - Cmnd 9189, 13 March 1984. It sets out rates of taxation through to 1993-94 under alternative assumptions with respect to both economic growth and public expenditure, calls for public debate about the level of total public expenditure which the nation can afford, and assessments of the priority to be given to individual programmes within the total. I enclose a proposed outline of the Committee's enquiry.

As a first step the Committee is asking for initial reactions about the issues affecting various spending departments and revenue authorities. It will also be asking for evidence from other organisations, before taking oral evidence.

As far as your Department is concerned the Committee would be grateful to receive any demographic projections relevant to its enquiry. In particular it would particularly appreciate projections disaggregated in a way which would help with an analysis of prospective tax receipts and potential spending by departments on education and health etc. over the next ten years.

I should be grateful to receive your reply, if possible, by the end of June.

Yours sincerely,
D.W. Limon
D.W. Limon
Clerk to the Committee

A.R. Thatcher Esq.,
Registrar General
St Catherine's House
10 Kingsway
London WC2B 6JB

1. This Annex considers in greater detail the implications of providing 10 year projections of tax revenues.
2. Rather than a single, central estimate of tax receipts, based on one set of assumptions, it would be better to offer the Committee projections for a range of economic assumptions. The Revenue Departments consider they could probably produce tax projections on the basis of at most three different sets of assumptions, by the end of June. These could be presented as a percentage of GDP (as in the Green Paper) or in current price cash terms.
3. The Committee appear to be expecting some indication of the movement of tax revenues between now and 1993-94. Since the projections would have to be done on a year by year basis we could provide, in principle, figures for each, or any, of the intervening years. One approach would be to offer figures for 1988-89 and 1993-94, in line with the Green Paper, but this might enable the Committee to derive the assumptions underlying the MTFs. It might also lead to pressure for a greater disaggregation of the components of the MTFs forecast and, indeed, the Autumn Statement, than we have published before. If any intermediate years are offered, it would be difficult to resist requests for all the intervening years as well. We would, therefore, recommend providing figures for 1993-94 only - though this may not stop the Committee asking for figures for intervening years.
4. Even this approach involves difficulties. In the Green Paper, the fiscal adjustment is assumed to be used wholly for tax reductions. The Committee have asked us to assume constant tax rates and real allowances. So tax projections, together with other information they have asked for, would probably enable them to identify the prospective fiscal adjustment implied in the Green Paper. This would put them in a stronger position to argue, for example, about the scope for avoiding a need to hold down spending by adopting less ambitious objectives for reducing tax payments.
5. The Inland Revenue could offer a (limited) breakdown of total receipts into four components: income tax, corporation tax, North Sea taxes (including royalties) and capital taxes (including stamp duty). Even so:
 - though the income tax figures are not likely to be politically sensitive, care would be needed in describing the assumptions on which they were based;

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- by comparing the corporation tax yield with the assumptions for GDP (and, if given, corporate profits), the Committee might be able to make a stab at calculating the effects of the Budget changes on companies beyond the transitional period for which the Government have given any figures. Any projections beyond 1988-89 will be very rough; for example, estimates of the build-up of writing down allowances and the run-down of tax losses could not be done on a company by company basis;
- ideally, projections of North Sea revenues need to be built-up on a field by field basis using information about production and expenditure from the Department of Energy. This would be impossible to do in the time available; we would need to fall back on the overall average tax rate approach used for the Green Paper. Though such projections can be produced fairly quickly, they would be particularly tentative;
- in the time available it might be necessary to adopt stylised assumptions to derive figures for capital taxes, eg to project them in line with GDP. If such projections were based on the assumption of low real economic growth, since CTT and CGT are both indexed, the yield of capital taxes by 1993-94 would be very small.

6. The Customs could offer a breakdown of total receipts into two components: VAT and other Customs duties (we would be inclined to include VED in this latter category). They have strong reservations about providing long-term projections for individual duties because of the attention and criticism these would be likely to attract from the industries concerned.

7. For national insurance contributions, there would be two ways of producing figures. We could start with a projection of benefit expenditure and decide what NIC income would be needed to finance it. The key assumptions would be employment, prices and earnings. We would also need to decide whether to assume upratings in line with prices (present policy) or earnings (arguably more likely in the long-term). And we would need to decide whether to assume that the Treasury Supplement was held constant at its present rate of 11 per cent of contributions. There would be a risk of inconsistency with DHSS projections of benefit expenditure. More important, perhaps, it could become clear that present contribution levels may well generate a growing surplus in the Fund, leading to questions about whether we would cut contribution rates or the Treasury Supplement.

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8. The alternative, and more stylised, approach that we would favour would be to take the present contribution level and simply project NIC income levels forward assuming, say, that the earnings limit continued to be uprated in line with prices. We would also need to decide on assumptions about prices and the wage and salary bill. Comparisons with any disaggregated expenditure figures which DHSS might produce, however, would again reveal the emerging surplus in the Fund.

9. The Committee has not asked explicitly for the projections to include figures on local authority rates. But the latter were included in the aggregate figures of non-North Sea taxes published in the Green Paper and it would be difficult not to show them separately if the other main categories of receipts were separately identified. As with NICs, the judgement about what information to provide will be influenced by what figures it is decided to give on the relevant programme expenditure. Our preference would be to start with an obviously stylised assumption, for example, that rates rise in line with prices. We would have to defend this on the grounds that the actual rates burden depends on grant (and hence on taxes generally) but crucially on authorities' spending behaviour.



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Annex C

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

24th May 1984

Lu Pw,

I am writing to you again concerning the Committee's data requirements for their enquiry into Long-Term Trends in Resources and Public Expenditure.

The Committee's preferred data set covering the last ten years and extending ten years forward is as follows:

- I
 - a) Value added in the public sector (in real terms and as % of GDP)
 - b) Value added in the central government sector (in real terms and as a % of GDP)
 - c) Value added in the local government sector (in real terms and as a % of GDP)
 - d) Value added in the nationalised industries (in real terms and as a % of GDP).
- II Consumption or current spending on goods and services (broken down also into wages and procurement) in real terms and as a % of GDP. Total and disaggregated by sector, programme and Department.
- III Gross and net capital spending on goods and services (broken down also into wages and procurement) in real terms and as a % of GDP. Total and disaggregated by sector, programme and Department.

2/34

- IV Public Sector "non-exhaustive" spending (transfers, subsidies and grants). In real terms and as a percentage of GDP. Total and disaggregated by sector, programme and Department.
- V Public Sector employment. Total and as a % of the working population or labour force. Disaggregated: blue-collar, white collar and skill-composition. Also disaggregated according to programme and Department.
- VI Debt service. In real terms and as percentage of GDP.
- VII Receipts, broken down by category; in real terms and as a percentage of GDP. This would include tax rates.
- VIII Cyclical aspects of the behaviour of I-VII.

We recognise that statistical gaps will be inevitable since some of the historical data simply do not exist and future projections of some of the items may be of dubious quality. Also we are aware that some of the past data has been published already. Nevertheless in many cases it is difficult, if not impossible, to obtain consistent historical data extending back over a ten-year period. We assume that your own record systems will not be similarly limited. Therefore the Committee has instructed me to ask your Department to supply both the historical data and projections for the future covering a twenty year period in total - for those items where it is feasible to do so.

I should mention that as far as the historical data is concerned I am making the same request to the Central Statistical Office. As you may wish to co-ordinate with them I have enclosed a copy of the relevant letter.

I have also written to the Registrar General seeking demographic projections, and a copy of that letter is also enclosed for your information.

Yours sincerely,
D.W. Limon
D.W. Limon
Clerk to the Committee

A.M.W. Battishill Esq.,
Central Unit
H M Treasury
Parliament Street
SW1P 3AG



Annex D

COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 3285 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

25th May 1984

to my,

I am again writing concerning the Committee's enquiry into Long-Term Trends in Resources and Public Expenditure.

In receiving longer-term public expenditure planning procedures within the United Kingdom the Committee intends to draw on comparisons with experience and practices abroad. The Committee therefore would be grateful for a paper setting out procedures currently in use in the larger western countries.

It may be that this request would be more appropriately dealt with by the FCO, in which case we would have no objection. I refrain from imposing a rigid time limit - perhaps late Autumn.

*For security
Arnold Limon*

A.M.W. Battishill Esq.,
Central Unit
H M Treasury
Parliament Street
SW1P 3AG

D.W. Limon

1/34



I prefer
Margaret's
Approach to
the success
by Mr. Battersby
M.

C

Like Margaret (see below)

I'd be very wary of
giving the TCSC any projects
that — however unfairly —
could be described as "Treasury
projects".

In most cases, surely, one
could simply give the Committee
some useful rules of thumb, with
which they could make their
own projects — on which,
perhaps, we could then offer
to provide suitable technical
comment.

John



C
John Anson is holding a meeting with Principal Finance officers on his honour, so would like a steer before that.

The choices are

- (i) meeting the Committee's request
— must be out
- (ii) providing lots of numbers on different assumptions for parts of programmes, where reasonably straightforward
— but likely to high upward skew
- (iii) rest on Green Paper
— row with Committee
- (iv) ask Committee to specify their own assumptions and only provide figures for "difficult" projections
— EST has suggested a officials
know
But I suspect it's the thin end

of the wedge in terms of a work
load a real side in an
efforts to distance away.

(v) qualitative material on
long-term pressures with
quantitative illustrations
— not what the Committee was.

On the assumption that you
feel you can't stand on (iii), I
would be tempted to go no
further than (v) myself. But
clearly it's a political judgment.

I'd couple this with a more
forthcoming stance on revenue
projections — no one will believe
a fiscal adjustment 10 years out.

You'll want to check the
suggested approach in §15.

Similarly, we could be quite
helpful on the statistical side.

mom

6/6

Mr Peretz**CONFIDENTIAL**

not seen
 Mr Battishill plans
 (I think) to have a
 word with you
 about the urgency
 of this. J Board 5/6

FROM: A M W BATTISHILL
 DATE: 5 JUNE 1984

1. **SIR PETER MIDDLETON**
2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary
 Financial Secretary
 Minister of State
 Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr Bailey
 Mr Anson
 Mr Cassell
 Mr Monck*
 Mr Evans*
 Mr Monger*
 Mr Odling-Smee*
 Mr Scholar*
 Mr Ridley
 Mr Allen*
 Mr Bottrill*
 Mr Gray*
 Mr Stibbard*
 Mr Norgrove*

 Mr Painter - IR*
 Mr Walton - IR*

 Mr Wilmott - C&E*

[*Without annexes A to E]

TCSC: LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

We need to consider how to respond to the requests from the Treasury and Civil Service Committee for material for their study on long term resources and public expenditure.

2. You have already seen a copy of the Clerk's letter of ?? May outlining the very wide scope of the Committee's proposed enquiry and seeking from the Treasury (and in almost identical terms from the main spending Departments) a paper answering the question:

"Using explicit assumptions about prospective demographic, economic and technological developments how are programme expenditures likely to evolve over the next 10 years, assuming that existing policies are maintained [it would be helpful if you would include as much quantitative detail as possible on a programme by programme basis. The Committee would be particularly

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interested in the effect of changes in technology both on the demand for goods and services on the one hand, and the ability to provide such goods and services on the other]." (Annex A below.)

3. Since then we have learned of the following further requests from the Committee to Departments:

- from the Revenue Departments, papers describing, on explicit assumptions about prospective demographic and economic developments, how revenues are likely to evolve over the next 10 years, with separate treatment for the various types of tax, including National Insurance Contributions (and assuming constant real tax rates and allowances and full revalorisation of the excise duties). (Annex B.)
- from the Treasury, data on public spending and receipts for the last 10 years (repeated in identical terms to the CSO), and for the next 10 years under 8 separate categories (public sector value added; current spending on goods and services; capital spending on goods and services; transfers, subsidies and grants; public sector employment; debt service; and receipts by various categories). The material is requested in real terms and as a proportion of GDP; and we are asked to disaggregate it by sector, programme and department. The Committee also ask for cyclical information. (Annex C.)
- from the Treasury (or the FCO), a comparative paper describing longer term public expenditure planning procedures currently in use in the larger western countries. (Annex D.)
- from the Registrar General, any demographic projections relevant to the Committee's enquiry, disaggregated so as to help with an analysis of prospective tax receipts and potential spending by departments on education and health etc over the next 10 years. (Annex E.)

4. Most of the material has been requested by the end of June, except for the comparative paper where the Committee have allowed us until late Autumn.

5. The advice which follows represents the result of discussions within the Treasury and with the two Revenue Departments and the CSO. Spending Departments have not been consulted except to advise them to make no response to the Committee until they hear further from the Treasury. We have also reached a similar understanding with the Registrar General's office.

Programme spending

6. You have already commented that there can be no question of providing the kind of 10 year projections of programme expenditure which the Committee have asked for. To do so would be completely at odds with the "top-down" approach followed in the Green Paper and in particular with what is said in paragraph 25.

"There will be some who will argue that it makes little sense to consider, still less to decide upon, public spending totals without a clear idea of the implications for individual programmes ... it is necessary to turn the argument round the other way, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision. This Green Paper is primarily concerned with this major issue. It does not, accordingly, attempt to make detailed projections of individual expenditure programmes so far ahead in the future."

The Committee repeatedly fail to recognise the changes in procedures for controlling public expenditure made in recent years. We now plan in cash, not volume: the Government's public expenditure policies are the cash figures published in the White Papers, together with the descriptive material in Volume 2 of the White Papers which indicates, as far as this can be done, what it is expected that cash will buy. The Committee's request that we cost existing policies 10 years ahead is, strictly interpreted, impossible or meaningless.

7. Aside from these points of principle, there would be great policy and practical objections to providing programme spending projections for 10 years ahead. Departmental Ministers would be extremely reluctant to publish figures low enough to satisfy Treasury concerns - in particular the need to show public expenditure totals consistent with the thrust of the Green Paper and with progress in getting the tax burden down to reasonable levels. Although we could try to get round this difficulty by providing ranges for each programme, a 'minimum scenario' showing no real growth in, say, health or defence would be hard to defend publicly. Since no Minister would, presumably, wish to publish an option showing real cuts in his programme, the whole range would be likely to be skewed towards substantial growth in spending totals (especially with asset sales declining by 1993?-94). Finally, it is hard to believe that figures and texts for the next 10 years could be agreed in four weeks when the figures for the next three years will take until the Autumn Statement to settle.

8. An alternative approach might be to provide the Committee with a very large number of different numbers for different parts of programmes. Departments could

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provide projections on a wide range of assumptions (the economic assumptions to be provided by the Treasury) for those parts of programmes where the interpretation of "existing policy" and the calculations were reasonably straightforward, eg on pensions. But this approach would probably lead the Committee to press all the harder for quantification where it was much less clear what continuation of existing policy means (eg on the special employment and youth training programmes). Like the range approach in paragraph 7 it would probably imply an upwards skew in spending totals. And it would both fall well short of what the committee seek and at the same time involve Departments and the Treasury in much additional work at this busy time of year.

9. These considerations suggest that there is a strong case for resting on the Green Paper as the Government's contribution to the debate. The Committee's attention could be drawn to other relevant published material, including the cost terms programme figures published in March, demographic projections and the like. But nothing more would be offered. The public arguments for doing so would be the familiar ones: the Government now plans in cash and top-down (see paragraph 6 above), the uncertainties 10 years ahead are too great to make the exercise meaningful, and the indeterminacy of "existing policy" compounds the difficulties.

10. Beyond this, in order to be more helpful to the Committee, as the Chief Secretary has suggested we might reply by asking them themselves to specify the assumptions, macro-economic and policy, which they wish to see costed. We could offer help by Departments in providing factual information in costing these assumptions. Indeed, we might even offer some help in specifying the assumptions which would be required for individual programmes. However, the offer would need to be made in careful terms: we would not want to send the Committee a blank cheque allowing them to use the Treasury and Departments as research assistants. Our help would be confined for the most part to spending projections which raised particularly difficult technical problems and this would have to be made clear. Furthermore, even the limited factual information we would provide on this approach might make it more difficult for Ministers to distance themselves from unpalatable conclusions from the Committee avowedly based on Government data.

11. As a fall-back - or possibly as a supplement to this approach - we could volunteer qualitative material on the longer-term pressures on public spending on the lines of that in Part 3 of the Green Paper but expanded and with more quantitative illustrations (like that in the social security paragraphs where we said that every extra 100,000 pensioners added about £160 million to public spending).

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12. We recommend proceeding on the basis in paragraph 10 - ie offering to provide the Committee with factual information on assumptions which they would provide. Since this approach is likely greatly to disappoint the Committee there will be merit in replying as soon as possible - since they are already beginning to plan July hearings on the evidence they expect to get from us. You and the Chief Secretary will need to clear your lines with colleagues, and we shall need to establish clear guidelines as to what spending Department officials can and cannot say (eg about the comparison between this approach and the leaked 1982 exercise with its programme totals) to the Committee. A meeting has been arranged with Principal Finance Officers for Thursday, 7 June.

Revenue projections

13. The Committee's requests for tax projections are not so obviously at odds with the message in the Green Paper as their request for detailed projections for expenditure programmes. They also raise fewer problems at a purely "mechanical" level so long as some roughness in the projections is acceptable. But two points should be mentioned. The Committee have asked for projections based on constant tax rates and allowances. Set alongside those in the Green Paper, the results might well highlight the prospective fiscal adjustment in 1993-94 (the FSBR only went to 1988-89). Another potential problem arises over national insurance contributions where (on plausible assumptions) it will be difficult to conceal the prospect of a growing surplus of income over expenditure in the National Insurance Fund. Nevertheless, if these implications are thought to be tolerable, one option is to be rather more forthcoming with the Committee in meeting their request for revenue projections than those on expenditure. This would quite be consistent with the top-down approach in the Green Paper.

14. On the other hand, if volunteering long term projections of tax receipts could increase pressure to provide similar figures for spending programmes. And it seems highly desirable to apply a common set of assumptions to both expenditure and revenue projections. So, if Ministers favoured the course discussed in paragraph 12 above (to invite the Committee to specify their own expenditure assumptions) it might be better to take a similar line over their request for revenue figures. They could then be told that, if they cared to specify their assumptions, we would do our best with the Revenue Departments, within reasonable limits, to help in providing the figures they want. The result could well be fuller projections of revenue than expenditure.

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15. On either basis, whether the main assumptions were provided by the Government or specified by the Committee, some technical issues would need to be resolved and firm limits would need to be specified to keep the exercise within reasonable bounds. These are discussed in Annex F. The more important points are as follows:

- (a) We could cope with only 2 or 3 different sets of assumptions in the timescale that the Committee are envisaging (or within about a month of receiving the Committee's own specified assumptions). Any substantially larger number of variants, whatever the timescale, would displace other more important work;
- (b) for a number of reasons, it would be best to limit figures to the final year, 1993-94, and try to resist requests for projections for intervening years;
- (c) for Customs and Excise taxes, it would be best to restrict any breakdown of total receipts to VAT and other Customs duties (including VED): to offer long term projections for individual duties could attract attention and criticism from the industries concerned;
- (d) for Inland Revenue taxes, corporation tax projections beyond 1988-89 can only be very rough since, for example, estimates of the build-up of writing down allowances and of the run-down of tax losses could not be done on a company by company basis; (even so the figures could reveal more about the effects of the Budget changes beyond the end of the transitional period than the Government has so far published);
- (e) projections of North Sea revenues could only be tentative; there would not be time to construct these on a field by field basis and the estimates would have to be based on the overall average tax rate approach used in the Green Paper;
- (f) similarly, it might be necessary to adopt stylised assumptions to derive figures for capital taxes eg projecting them in line with GDP (which, on a low growth assumption, could show a pretty small yield in 10 years time because of indexation);
- (g) for national insurance contributions, we also suggest adopting a stylised approach of projecting the present contribution level and earnings limit uprated with prices; to attempt to project NICs on the basis of the benefit expenditure to be financed would not be consistent with the Green Paper;
- (h) similarly, for local authority rates, it would be best simply to project present figures in line with prices.

CONFIDENTIAL

CONFIDENTIAL

16. The approach we adopt on the receipts side depends, to a large extent, on how Minister want to respond to the Committee on public expenditure. If the advice in paragraph 12 is accepted, and we offer to provide the Committee with factual information on assumptions which they provide, we recommend that this line should be followed for tax receipts too. In inviting them to specify their assumptions, however, we shall need to warn the Committee of the kind of limits set out in paragraph 15 above.

Statistics

17. The Committee have asked for a huge quantity of statistics for the next 10 years and the past 10 years, in the letter at Annex C.

18. What we provide for the next 10 years if anything will be governed by your decision on the Committee's main request, for future programme totals and tax receipts. If we refuse the one we can only also refuse the other (though that probably need not be made explicit in a letter to the Committee - the point will be obvious). The one possible exception perhaps is to provide some data for the next two years. If you agree we could give some information on the lines requested by the Committee by using data consistent with the latest White Paper (Cmnd 9143). The plans in that document take us up to 1986-87; comparable data on outturn goes back to 1978-79 and would provide an overlap with National Accounts data, although not in a completely consistent way.

19. For past years, the least forthcoming approach would be merely to send the TCSC a bibliography and guide to published sources and leave them to do the calculations. This would save work - in the short-run at least.

20. However, much of the raw material needed to calculate the various statistics the Committee want is published or available to subscribers to the CSO data-bank service. Other material, mainly supporting detail, is also fairly readily accessible. This is perhaps an area where we could be more helpful, and to provide material would give us some control over the presentation and format of the figures, which the Committee may well use in later questioning. It would also enable us to write a commentary on the figures, remarking on their usefulness, pointing out pitfalls, and so on. In deciding how much material to provide we would, if you agree, use broadly the criteria of cost and confidentiality used when answering statistical PQs. The result would not answer all the Committee's questions but something reasonably close to many of their requirements should be achievable by the end of June.

CONFIDENTIAL

Overseas long-term planning procedures

21. We are considering what we may be able to offer the Committee here. Our immediate view is that we should be able to compile a fairly respectable piece without too much diversion of resources.

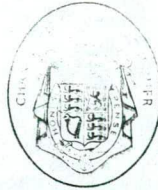
Conclusions

22. To sum up, our advice is as follows:

- (a) on programme expenditure we should decline to meet the Committee's request for Government projections, but invite them to specify their own assumptions on which some limited projections might be made; (paragraph 12 above);
- (b) consistently with this approach, we should take a similar line on revenue projections (paragraph 16 above);
- (c) we should aim to provide such historical data, and data consistent with the Public Expenditure White Paper, as can be obtained at reasonable cost (paragraph 20 above);
- (d) we should aim to let the Committee have information available in the Treasury on overseas planning procedures without mounting a special exercise on their behalf (paragraph 21);
- (e) you or the Chief Secretary should write to colleagues in Spending Departments once the ground has been cleared between officials (paragraph 12).



A M W BATTISHILL



FROM: MISS M O'MARA

DATE: 7 June 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Anson
Mr Cassell
Mr Monck
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Ridley
Mr Allen
Mr Bottrill
Mr Gray
Mr Stibbard
Mr Norgrove
PS/IR
Mr Painter - IR
Mr Walton - IR
PS/C&E
Mr Wilmott - C&E

MR BATTISHILL

TCSC: LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

The Chancellor has seen your minute of 5 June. He is content with your proposals on revenue projections, on the provision of historical data and data consistent with the Public Expenditure White Paper and with the information you intend to provide on overseas planning procedures. However, on programme expenditure, he does not wish to adopt the approach suggested in paragraph 10 of your minute but rather that described in paragraph 11.

MISS M O'MARA

FROM: A M W BATTISHILL
 DATE: 8 June 1984

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Bailey
- Mr Anson
- Mr Cassell
- Mr Monck
- Mr Evans
- Mr Monger
- Mr Odling-Smee
- Mr Scholar
- Mr Ridley
- Mr Allen
- Mr Bottrill
- Mr Gray
- Mr Stibbard
- Mr Norgrove
- Mr Painter } IR
- Mr Walton } IR
- Mr Wilmott - C&E

c
 We thought you'd prefer to
 write yourself, that's clear
 you could delegate to the
 CST if you wish. Letter
 to issue? I've tried to cut it
 down a bit but you may still
 think it too long.
 Mary
 76

OK
Mr
Mr
Mr
Mr
Mr

TCSC: LONG TERM TRENDS ENQUIRY

Miss O'Mara's minute of 7 June recorded how you wish us to respond to the Treasury Committee's various requests for information on long term spending

2. The next stage is to clear this line with Ministerial colleagues in Spending Departments - most of which have been ... approached separately by the Treasury Committee. I attach a draft letter for that purpose agreed with the Expenditure side of the Treasury.

3. Following a discussion which Mr Anson chaired yesterday with Principal Finance Officers, we have no reason to think that the proposal will encounter difficulty with other Ministers: among officials there was no real opposition to proceeding in the way suggested. The Scots and Welsh will need to co-ordinate their response closely with the relevant English Departments and with the Treasury, but should have no insuperable problem. Since the Committee has not approached them, Northern Ireland can be largely excused. The Treasury and Defence Committees have agreed the latter should have first bite at long term defence expenditure; and so MoD will concentrate on that for the time being.

4. There is now some urgency about all this. The Treasury Committee has no reason to doubt that we are all working hard to produce the projections it has asked for. The Committee is not likely to be best pleased when it learns none are coming. The closer we get to the end of June (and to their oral sessions in July) before replying, the more difficult it could be. The draft below asks your Colleagues for an early response.



A M W BATTISHILL

*pl type
as amended*

~~DRAFT~~ LETTER FROM THE CHANCELLOR OF THE EXCHEQUER

TO THE LORD CHANCELLOR

(Copies as on attached sheet)

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS ENQUIRY

The Treasury and Civil Service Committee has launched an enquiry into Long Term Trends in Resources and Public Expenditure by asking Departments for a wide range of factual papers, mostly by the end of this month. Some *questions* have been directed at the Treasury; some at other Departments. They raise some awkward issues, and we need to consider carefully how to respond.

2. The Committee is spreading its shot very widely, *as you will see from the requests listed in the annex to this letter.*

[So far, we know of the following separate requests for

information from Departments. ⁽ⁱ⁾ The Treasury has been asked for a paper showing how programme expenditures are likely to evolve over the next 10 years, assuming that existing policies are maintained and using explicit assumptions about prospective demographic, economic and technological developments. ⁽ⁱⁱ⁾ The Committee has ~~also~~ written separately to a number of other Departments, ~~including your own,~~ asking for Departmental projections in identical terms.

⁽ⁱⁱⁱ⁾ The Revenue Departments have been asked for revenue projections over the next 10 years on the basis of present tax rates and allowances. ^(iv) The Treasury (and the CSO) have been asked for data on public spending and receipts

*Put in annex headed
"Requests for information
made to Departments"*

for the last 10 years, and for the next 10 years, by economic category (public sector value-added; current spending on goods and services; capital spending and so on); and for material about longer term public expenditure planning procedures in other countries. Finally, ⁽⁴⁾ the Committee has asked the Registrar General for demographic projections.

3. We must obviously do what we can to assist the Committee within the limits of what it is reasonable and practicable to offer, beyond ^{by providing the information contained} [what is] in our Green Paper on Public Expenditure and Taxation into the 1990s. But there can be, I believe, no question of meeting the Committee's request for 10 year projections of programme expenditure in the terms they have set. In my view, it would be quite impossible to construct and agree any useful figures for even the main programmes projected so far beyond present public expenditure plans - the concept of "present policies" so far ahead would become meaningless, and the other uncertainties are too great. Even if that were not so, to provide such projections would be totally at odds with the Government's policy towards public spending in the longer term. [As the Green Paper made clear, if we are to reverse past trends, we must first reverse the processes whereby public spending growth has forced taxation continuously upwards - by deciding first what can and should be afforded and then setting expenditure plans for individual programmes consistently with that decision. Our policy is that] revenue must determine expenditure, not the other way round.

³
4. Since the Committee cannot have the figures ^{for which} it asks, for we need to consider how else to respond. The simplest thing would be to rest on the Green Paper as the Government's contribution and decline to go any further.] But that might seem churlish when the Government has encouraged public debate on long term spending; and it would no doubt precipitate a major row [with the Committee.]

[5. Another approach would be to invite the Committee to undertake its own projections with some help from Departments of a largely factual nature. But that pre-supposes the Committee could specify a whole range of economic and demographic assumptions and formulate necessary "policy" variables [for such projections.] That would avoid some - though by no means all - the difficulties associated with providing official projections. But even such limited help could make it more difficult for the Government to distance itself if the Committee tried to draw unpalatable conclusions from alleged "Government figures". I am clear that this approach, too, should be ruled out.]

⁴
6. Alternatively, having drawn attention to the Green Paper, and the reasons why "present-policy" projections are inappropriate, we could offer to provide the Committee instead with an account of the longer-term pressures - upwards and downwards - bearing on the main expenditure

Do you want to spell this out only to reject it, given that Departments are apparently content with your profound approval at official level at least?

programmes. This would build on the approach followed in the Green Paper. The degree of detail would no doubt vary from programme to programme; but that need not matter. Where quantitative illustrations were readily available [(e.g. ~~for social security, that every extra 100,000 pensioners adds about £160 million to public spending~~)] these might be mentioned, as in the Green Paper. But no attempt would be made to cost whole programmes, or to provide comprehensive data.

5.
7. This last approach is the most clearly consistent with Government policy; and is the one I recommend. I hope that none of our colleagues see any insuperable difficulty in adopting it. I suggest that only those Departments that have been approached by the Committee for material need be involved, and that we should not volunteer information any more widely. That would, for example, release Northern Ireland from the exercise. And so far as Scotland and Wales are concerned there will, of course, need to be close liaison with other Departments. For the present, I understand the Treasury Committee proposes to defer consideration of defence expenditure, pending a separate enquiry by the Defence Committee into the implications of ending the 3 per cent NATO commitment. Michael Heseltine and I may need to be in touch again at a later stage.

6.
8. The Treasury Committee, as I have said, has asked for papers by the end of June. If colleagues are content with what I propose, Treasury officials will circulate a draft timetable and suggest how the exercise might be conducted among officials. The Treasury will also need to reply to the Committee, explaining why detailed projections are not available, and offering help in the way I have suggested. Thereafter, I think it might be best for Departments to send their contributions directly to the Treasury Committee, after clearance with the Treasury, and other Departments as necessary. Departments will need to keep closely in touch when the Committee gets round to taking oral evidence.

7.
9. I see less difficulty in responding to the Committee's other demands. The requests for tax projections do not raise anything like the same problems, and we should be able to provide much of the past data on public expenditure ^{for which} the Committee has asked for, and some limited data on prospective spending by economic category up to 1986-87, consistent with the Public Expenditure White Paper. And ^{also} we should be able to provide material on long-term planning procedures overseas.

8.
10. I am sorry to press you for an early reply, but we ought to let the Committee know soon what we propose in case ^{it} they need ^{it} to rearrange their programme.

9.
11. I ~~am sending~~ ⁸⁰ copies of this letter ^{to} those of our colleagues shown below.

Copies to:

Foreign Secretary
Home Secretary
Secretary of State for Education and Science
Secretary of State for Northern Ireland
Secretary of State for Energy
Secretary of State for Defence
Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for the Environment
Secretary of State for Social Services
Secretary of State for Trade and Industry
Secretary of State for Employment.
Minister of Agriculture
Chief Secretary
Secretary of State for Transport.

cc CST
 FST
 MST
 EST
 Sir P Middleton
 Sir T Burns
 Mr Bailey
 Mr Anson
 Mr Cassell
 Mr Monck
 Mr Evans
 Mr Monger
 Mr Odling-Smee
 Mr Scholar
 Mr Ridley
 Mr Allen
 Mr Bottrill
 Mr Gray
 Mr Stibbard
 Mr Norgrove
 Mr Battishill
 Mr Painter - IR
 Mr Walton - IR
 Mr Wilmott - C&E



Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

11 June 1984

The Rt. Hon. Lord Hailsham of St Marylebone CH FRS DL
 Lord Chancellor

Stan Quinlan

**TREASURY AND CIVIL SERVICE COMMITTEE:
 LONG TERM TRENDS ENQUIRY**

The Treasury and Civil Service Committee has launched an enquiry into Long Term Trends in Resources and Public Expenditure by asking Departments for a wide range of factual papers, mostly by the end of this month. Some questions have been directed at the Treasury; some at other Departments. They raise some awkward issues, and we need to consider carefully how to respond.

The Committee is spreading its shot very widely, as you will see from the requests listed in the annex to this letter. We must obviously do what we can to assist the Committee within the limits of what it is reasonable and practicable to offer beyond the information contained in our Green Paper on Public Expenditure and Taxation into the 1990s. But there can be, I believe, no question of meeting the Committee's request for 10 year projections of programme expenditure in the terms it has set. In my view it would be quite impossible to construct and agree any useful figures for even the main programmes projected so far beyond present public expenditure plans - the concept of "present policies" so far ahead would become meaningless and the other uncertainties are too great. Even if that were not so, to provide such projections would be totally at odds with the Government's policy towards public spending in the longer term. Revenue must determine expenditure, not the other way round.

Since the Committee cannot have the figures for which it asks, we need to consider how else to respond. The simplest thing would be to rest on the Green Paper as the Government's contribution. But that might seem churlish when the Government has encouraged public debate on long term spending; and it would no doubt precipitate a major row.

Alternatively, having drawn attention to the Green Paper, and the reasons why "present-policy" projections are inappropriate, we could offer to provide the Committee instead with an account of the longer-term pressures - upwards and downwards - bearing on the main expenditure programmes. This would build on the approach followed in the Green Paper. The degree of detail would no doubt vary from programme to programme but that need not matter. Where quantitative illustrations were readily available, they might be mentioned, as in the Green Paper. But no attempt would be made to cost whole programmes, or to provide comprehensive data.

This last approach is the most clearly consistent with Government policy and is the one I recommend. I hope that none of our colleagues sees any insuperable

*Andrew Turnbull
 John Butler 1010
 Amy
 Szep.*



difficulty in adopting it. I suggest that only those Departments that have been approached by the Committee for material need be involved, and that we should not volunteer information any more widely. That would, for example, release Northern Ireland from the exercise. And so far as Scotland and Wales are concerned, there will, of course, need to be close liaison with other Departments. For the present, I understand the Treasury Committee proposes to defer consideration of defence expenditure, pending a separate enquiry by the Defence Committee into the implications of ending the 3 per cent NATO commitment. Michael Heseltine and I may need to be in touch again at a later stage.

The Treasury Committee, as I have said, has asked for papers by the end of June. If colleagues are content with what I propose, Treasury officials will circulate a draft timetable and suggest how the exercise might be conducted among officials. The Treasury will also need to reply to the Committee, explaining why detailed projections are not available, and offering help in the way I have suggested. Thereafter, I think it might be best for Departments to send their contributions directly to the Treasury Committee, after clearance with the Treasury and other Departments as necessary. Departments will need to keep closely in touch when the Committee gets round to taking oral evidence.

I see less difficulty in responding to the Committee's other demands. The requests for tax projections do not raise anything like the same problems, and we should be able to provide much of the past data on public expenditure for which the Committee has asked and some limited data on prospective spending by economic category up to 1986-87, consistent with the Public Expenditure White Paper. We should also be able to provide material on long-term planning procedures overseas.

I am sorry to press you for an early reply, but we ought to let the Committee know soon what we propose, in case it needs to rearrange its programme.

Copies of this letter go to those of our colleagues shown below.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written over a faint, larger signature.

REQUESTS FOR INFORMATION MADE TO DEPARTMENTS

- (i) The Treasury has been asked for a paper showing how programme expenditure are likely to evolve over the next 10 years, assuming that existing policies are maintained and using explicit assumptions about prospective demographic, economic and technological developments.
- (ii) The Committee has written separately to a number of other Departments, asking for Departmental projections in identical terms.
- (iii) The Revenue Departments have been asked for revenue projections over the next 10 years on the basis of present tax rates and allowances.
- (iv) The Treasury (and the CSO) have been asked for data on public spending and receipts for the last 10 years, and for the next 10 years, by economic category (public sector value-added; current spending on goods and services; capital spending and so on) and for material about longer term public expenditure planning procedures in other countries.
- (v) The Committee has asked the Registrar General for demographic projections.

Copies to:

- Foreign Secretary ✓
- Home Secretary ✓
- Secretary of State for Education and Science ✓
- Secretary of State for Northern Ireland ✓
- Secretary of State for Energy ✓
- Secretary of State for Defence ✓
- Secretary of State for Scotland ✓
- Secretary of State for Wales ✓
- Secretary of State for the Environment ✓
- Secretary of State for Social Services ✓
- Secretary of State for Trade and Industry ✓
- Secretary of State for Employment ✓
- Minister of Agriculture ✓
- Chief Secretary
- Secretary of State for Transport ✓

Andrew Turnbull
John Biffon

FROM: JOHN GIEVE
DATE: 18 June 1984



MR SCHOLAR

Handwritten initials

PPS

Sir P Middleton
Mr Bailey
Mr Anson
Mr Battishill
Miss Kelley
Mr Faulkner
Mr Gray

TCSC: LONG TERM TRENDS ENQUIRY

The Chief Secretary agrees that the DES text is acceptable. He does not wish to approve each department's text and would be grateful if you would *check* them to ensure consistency with each other and with the Chancellor's letter.

Handwritten initials JG

JOHN GIEVE

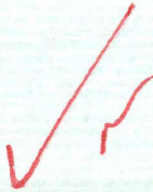


PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

18 June 1984

CH/EXCHEQUER	
REC.	18 JUN 1984
ACTION	MR BATTISHILL
COPIES TO	CST, FST, MST, EST
	SIR P. MIDDLETON
	SIR T. BURNS
	MR BAILEY

SENT 18/6



- MR STIBBARD
- MR ANSON
- MR NOLLEBROVE
- MR CASSELL
- MR BATTISHILL
- MR MONCK
- MR PAINTER I/R
- MR EVANS
- MR WALTON I/R
- MR MONGER
- MR WILMOTT I/R
- MR ODLING-SMEE
- MR SCHOLAR
- MR RIDLEY
- MR ALLEN
- MR BUTTELL
- MR GRAY

Dear Nigel,

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS ENQUIRY

I have seen a copy of your minute to Quintin Hailsham of 11 June.

In the light of the fact that the figures which the Committee have requested are unavailable, I agree that the approach you have outlined is sensible. I think, however, that it is important that when replying to their request you should make clear that the reason you are not responding in the way they expect is that you are unable to do so, and not through any desire on the part of the Government to be less than fully co-operative.

I am copying this letter to the recipients of yours.

JOHN BIFFEN

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer



JU566

Secretary of State for Trade and Industry

CH/EXCHEQUER	
REC.	19 JUN 1984
ACTION	Mr BATHAMILL
COPIES TO	CIT, FST, MST, EST
	Sir P. Middleton, Sir T. Dunn
	Mr Bailey, Mr Anderson, Mr Byatt,
	Mr Cassill, Mr Grams, Mr Monger

SENT 20/6

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 215 7877

18 June 1984
Mr Olling-Smee, Mr Scholar,
Mr Ridley, Mr Hubbard, Mr Kelly, Mr Noygrove,

Mr Packer }
Mr Walton } Sir Mr Middleton } Cor-
 } Mr Wilcott }

CONFIDENTIAL

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

D. Nigel.

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS ENQUIRY

Thank you for sending me a copy of your letter of 11 June to the Lord Chancellor.

The Committee's request does pose difficulties but I agree that we should try to be helpful. Your suggestion of providing an account of the longer term pressures on the main expenditure programmes seems to me to be an acceptable compromise.

My officials will keep in touch with yours about the timetable and content of the paper.

I am copying this letter to the Lord Chancellor and other colleagues.

NORMAN TEBBIT



C.U. are getting worried about holding up the letter from A.B. to the clerk much longer, because the original ICSC request was to have the answers by the end of June.

In fact there are still 2/3 outstanding replies to your letter of 11 June. But A.B. wd like to be able to write as soon as we have those.

So... any further word from Mr Higgins yet?

DWP

No; your letter
Com has issued.



Bathshill:
Para 10 ok
prop letter ok - in
wait until
Lawson
Higgs private.
M.

C

A reminder that you wanted to speak to Mr Higgins, and suggest that he + some (or all) Govt members of the TCSC come to see you and Sir P Middleton about this enquiry: & the dangers of it.

If you want to go ahead with this,

- (a) certainly the Bathshill letter shd not go before you first speak to Mr H?
- (b) probably better not to send it until after the meeting (though if it follows it quite quickly)?

DUP

FROM: A M W BATTISHILL
DATE: 19 June 1984

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Minister of State
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Bailey
- Mr Anson
- Mr Byatt
- Mr Cassell
- Mr Evans
- Mr Monger
- Mr Odling-Smee
- Mr Scholar
- Mr Ridley
- Mr Stibbard Mr Riley
- Mr Norgrove
- Mr Painter) IR
- Mr Walton) IR
- Mr Middleton) C&E
- Mr Wilmott) C&E

C
OK?
Mary
19/6

TCSC: LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

You have made proposals to your colleagues for handling the Treasury Committee's request for public expenditure projections. This note suggests how we might tackle the tax projections, and considers the next steps with the Committee. It follows further discussions with the Revenue Departments.

Tax projections

2. My earlier minute suggested that we might offer to provide projections on the basis of economic assumptions specified by the Committee. However, that only made sense if we were responding in the same way on public expenditure.

3. It would be far simpler now, and less likely to provoke argument with the Committee, to send them projections on the basis of the Green Paper assumptions. For the period up to 1988-89, we have already shown revenue projections in the MTFs (FSBR, Table 2.5). It is relatively straightforward to extrapolate these projections forward to 1993-94, on the basis of the

inflation path underlying the Green Paper and the alternative GDP growth rates of $1\frac{1}{2}$ and 2 per cent. As with the MTF5 other assumptions such as the distribution between wages and profits, are needed; but these are relatively innocuous. Since the projections would be on "constant real tax rates" (as the Committee asked) they would be before using up the fiscal adjustment.

4. To offer any revenue figures of course risks possible further questions:

- (i) the Committee might try to probe the detailed economic scenario underlying the projections and they could ask difficult questions, for example, on the growth of real earnings, unemployment and so on;
- (ii) they might ask for alternative projections based on the Government's "desired" tax rates rather than on unchanged tax rates and for the Government's view on what tax burden is acceptable in 1993-94;
- (iii) or they could say, if we can give revenue projections why not expenditure as well?

5. These are not likely to be serious problems. Questions about economic assumptions have sometimes arisen on the MTF5 which has always contained revenue projections; but have not been pressed very hard. And there is a very good defence on projections ten years ahead: the calculations can only be done on a pretty rough and ready basis, and the underlying economic scenarios are not of great significance. As for the questions at (ii) we can refer to what is said in the Green Paper about the need for lower taxes. And the answer to the third point is that revenue projections on unchanged tax rates are quite consistent with the approach taken in the Green Paper whereas expenditure projections of "present policies" are not.

6. If we follow the approach in paragraph 3 a number of other assumptions would be required. We recommend as follows:

- (i) Income tax allowances: the choice is between assuming these are indexed to prices or earnings. Prices indexation over a 10 year period will build in considerable fiscal drag, and higher average effective tax rates. But we think it is to be preferred, as the usual conventional assumption and consistent with the MTF5 (and what the Committee have asked for);
- (ii) in the MTF5 the fiscal adjustment is conventionally assumed to be used to reduce income tax; by raising the growth of personal disposable income this increases consumption and hence receipts from indirect taxes. We would adopt the same convention for years after 1988-89 making clear the assumptions used;
- (iii) as for this year's MTF5 national insurance contribution rates would be held constant; this would reveal nothing about trends in unemployment;
- (iv) we shall have to make some arbitrary assumption about the growth of local authority rates. On balance, we propose to assume that these grow in line with GDP (rather than, say, prices). This would be represented as a purely stylised assumption: not a reflection of Government policy;
- (v) the Green Paper already contains detailed projections of North Sea oil revenue to 1993-94: no new projections would be given;
- (vi) in view of the sensitivity of corporation tax projections (e.g. in the light of the IFS studies) it might be preferable to aggregate CT with other receipts; but we can see what the figures look like first.

Timetable

7. If you are content with this approach we will get ahead as fast as we can. Work is already proceeding; but MP and the Revenue Departments estimate that it will take them three weeks or so to complete projections on the alternative growth assumptions. We will report again when the work is finished.

Next stages


8. Those Ministers* who have so far replied to your letter about the Committee's request for ten-year spending projections support the line you propose to take. And we have no reason to suppose that the others will not also agree.

9. As soon as they have done so I ought to write to the Clerk to the Committee setting out in broad terms how the Government propose to respond to their various requests. As they asked for material by the end of this month our position with the Committee ... is becoming an increasingly false one. Attached below is a draft of what I might say. Subject to any comments you might have this can be dispatched when other Ministers have replied (your Private Office has reminded Departments of the urgency).

Summary

10. I ask your agreement:

- (a) to work on tax projections for the Committee proceeding on the lines above;
- (b) to my writing to the Clerk as soon as possible in the terms below.


 A M W BATTISHILL

* Home Secretary; Lord Privy Seal; Minister of Agriculture

by phone

you can

by phone

DRAFT LETTER TO THE CLERK TO THE TCSC
LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

You wrote to me on 22 May, 24 May and 25 May requesting papers from the Treasury for your Committee's enquiry into Long Term Trends in Resources and Public Expenditure.

2. The Committee asked how programme expenditures are likely to evolve over the next 10 years, assuming existing policies are maintained, and using explicit assumptions about prospective demographic, economic and technological developments. The Committee has also asked a number of other Departments to identify the course of expected programme expenditure over the next 10 years; the Revenue Departments to provide projections of expected receipts; and the CSO and the Registrar General for certain statistical and demographic information. There is, inevitably, some overlap between the Committee's requests and Ministers thought it would be helpful if the Treasury took the lead in responding to them.

3. The Committee will be aware of the contents of the Green Paper on "The Next Ten Years: Public Expenditure and Taxation into the 1990s" (Cmnd 9189) which the Government published in March. The Green Paper described the Government's approach to long term public expenditure and taxation in the following terms:

"As this Green Paper will argue, the growth of public spending has, over the past twenty years, been the motive force which has driven ever upwards the burden of taxation, on individuals and companies alike. The Government believes that it is necessary to reverse this process, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision (paragraph 4)."

4. As this text indicates, the Government do not think it right, as a matter of policy, to attempt to cost existing expenditure programmes 10 years ahead: to make such projections would be inconsistent with the Government's approach to expenditure planning described above.

5. However, Ministers recognise that the Committee will wish to examine the various pressures bearing upon expenditure programmes over the longer-term, some of which were discussed in Part III of the recent Green Paper. Officials have therefore been instructed to let the Committee have an account of these pressures, including any helpful figures.

Departments will do their best to meet the Committee's request for material by the end of June, but some may have to approach you for a little more time.

6. The Treasury and Revenue Departments have put in hand work on revenue projections, on the lines the Committee asked for. We shall let you have these as soon as we can, but I am afraid it may not be possible to complete this exercise either by the end of the month.

7. The Committee asked the Treasury and the CSO for expenditure and revenue data covering the past 10 years. Work on this is also in hand, and we shall aim to provide as much information as possible, by the end of June as the Committee asked. We also hope to be able to provide some information for the period to 1986-87 consistent with the White Paper on Public Expenditure (Cmd 9143).

8. The Registrar General has in hand the ~~demographic material~~ demographic material the Committee asked him to provide.

9. Lastly, the Committee asked the Treasury for some comparative material on public expenditure planning procedures abroad. I shall write to you separately about that later.

[A M W BATTISHILL]



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

John Kerr Esq
Private Secretary to the
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	19 JUN 1984
ACTION	Mr BATTISMILL
COPIES TO	CST, FST, MST, EST
	Mr P. Middleton, Mr T. Burns, Mr Bailey,
	Mr Angus, Mr Bygott, Mr Cassell,
	Mr Evans, Mr Manger, Mr Odling-Jones,

SENT 20/6

19 June 1984
Mr Scholar
Mr Ridley, Mr Shibbard, Mr Riley.
Mr Noyce
Mr Painter }
Mr Walton }
Mr Middleton }
Mr Wilmott } Cf

Dear Mr Kerr,

TREASURY AND CIVIL SERVICE COMMITTEE: LONG-TERM TRENDS ENQUIRY

I refer to the Chancellor of the Exchequer's letter of 11 June to the Lord Chancellor. My Secretary of State is content that we should proceed as Mr Lawson proposes. We are seeking a short extension of time (at most a week) from the Committee Clerk since, as Mr Lawson implies, we will have to base our reply to some extent on the replies put forward by other Departments.

I am copying this letter to the Private Secretaries to the other Ministers who received Mr Lawson's letter.

Yours sincerely,
John S. Graham

J S GRAHAM
Private Secretary

CONFIDENTIAL



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Order to DTP above x
mem 20/6

Dear Nigel

CH/EXCHEQUER

REC. 20 JUN 1984 20/6

ACTION 19 June 1984

COPIES TO Mr Battshill

CSF PST CSF NET

SUP MINTON

SUT BMS Mr Bailey

Mr Anson Mr Russell

Mr Monck Mr Evans

Mr Monger

Mr Lind-Smee

Mr Schofield
Mr Egan
Mr Allen
Mr
Bottrell
Mr
Mr
Mr
Mr
PS/IR

Thank you for copying to me your letter to Quintin Hailsham of 11 June about the Treasury and Civil Service Committee inquiry into long term expenditure trends. I agree that we should not simply rest on the Green Paper, and my Department is preparing a paper on the lines you suggest. They will be in touch with your officials about it later this month. I should mention that we may want to seek a short extension of the Committee's end June deadline, so that the paper to the Committee can take account of the White Paper on bus policy which, subject to colleagues' agreement, I intend to publish at the beginning of July.

x |

I am copying this letter to recipients of yours.

Nicholas Ridley
Nicholas

NICHOLAS RIDLEY

CONFIDENTIAL

CONFIDENTIAL



DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3AG

20 June 1984

Dear Nigel.

TCSC: LONG TERM TRENDS ENQUIRY

Thank you for sending me a copy of your letter of 11 June to Quintin Hailsham.

I agree with what you propose. I envisage that the DES paper, which will be shown in draft to the Treasury, Scottish Office and Welsh Office, will start from the latest Public Expenditure White Paper to 1986-87. Beyond that date it will illustrate briefly, where possible, the references in paragraphs 40 and 41 of the Green Paper (Cmnd 9189) to the various pressures from pupil and student numbers (qualifying the figures for the latter by reference to the new projections of demand); diseconomies of scale; teacher quality and numbers; under 5's; and the demands of industry for more highly qualified manpower.

I am copying this letter to those who had yours.

Evans

/Cair

MR H. EVANS
MR MONCIE
MR ODLING-SMEE
MR SCHOLAR
MR RIDLEY
MR ALLEN
MR BOTTEILL
MR GRAY

CONFIDENTIAL

MR STIBBARD
MR NORGDON
MR PAINTER IIC
MR WALTON IIR
MR WILMOTT CBE

CH/EXCHEQUER	
REC.	20 JUN 1984
ACTION	MR BATTISHILL
COPIES TO	CST, FST, MST, EST SIR P. MIDDLETON SIR T. BURNS
	MR BAILEY

MR ANSON
MR CASSELL
MR MONCIE

SENT 20/2

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

PH



HOUSE OF LORDS,
SW1A 0PW

20th June, 1984

The Right Honourable
Nigel Lawson, MP
Chancellor of the Exchequer,
HM Treasury,
Parliament Street,
London, SW1.

CH/EXCHEQUER	
REC.	21 JUN 1984
ACTION	Mr Buttishill
COPIES TO	CST FST LEST MST
	Sr T M Jackson
	Sr T Burns Mr Bailey
	Mr Anson Mr Cassels

Mr Monk Mr Evans
Mr Mansoor Mr O'Connell
Mr Stubbard
Mr Murray

My dear Nigel:

Treasury and Civil Service Committee
Long Term Trends Enquiry

Thank you for your letter of 11th June, though I am glad to say that my Department has received no direct request from the Committee for information.

If I had to field such a request I would certainly wish to endorse the line you propose. A projection of the cost of "present policies" ten years ahead would be misleading and provoke more questions than it would answer. Your alternative of providing an account of long-term pressures bearing on the main expenditure programmes could provide the Committee with sufficient material additional to that already published to satisfy its immediate preoccupations.

If Leon Brittan proposes to respond on the law and order programme I should be grateful if the Home Office would consult as necessary with my Department. But I would certainly not wish, for the reasons you adduce, to volunteer information for which the Committee has not asked. The Green Paper on the Next Ten Years drew attention only to expenditure on police and the prison service in the law and order passage.

Copies of this letter go to recipients of yours.

yrs:

CONFIDENTIAL



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury
Parliament Street
LONDON
SW1P 3AG

21 June 1984

Nigel Lawson

TREASURY AND CIVIL SERVICE COMMITTEE:
LONG TERM TRENDS ENQUIRY

Thank you for your letter of 11 June about the inquiry which the TCSC has launched into Long Term Trends in Resources and Public Expenditure.

I agree with your suggestion that only those departments approached by the Committee need be involved in this exercise and that we should not volunteer information more widely. As you indicate, this would release Northern Ireland as we have received no request for material.

I am copying this letter to the recipients of yours.

Law
T
m

CH/EXCHEQUER	
REC.	22 JUN 1984
ACTION	Mr Baltshin
COPIES TO	CST PSTEST MUST SVP MICKELSON SVP Burns Mr Bailey Mr Anson

- Mr Nargrove
- Mr Painter 1/R
- Mr Walter 1/R
- Mr Wilmott C&R
- Mr Scholar
- Mr Ridley
- Mr Auen
- Mr Bottrill
- Mr Gray
- Mr Shabal
- Mr Cassell
- Mr Manck
- Mr Evans
- Mr Manger
- Mr Odling-Smee

CONFIDENTIAL



sent 29/6.

CH/EXCHEQUER	
REG.	26 JUN 1984
ACTION	Mr Battishill
COPIES TO	OST FST RFB
Supt Middleton	
SRT BOME	

DEPARTMENT OF HEALTH & SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

D Peretz Esq
 Private Secretary to the
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
 London SW1P 3AG

*Mr Battishill Mr Bailey
 Mr Gray Mr Anson
 Mr Subbar Mr Cassell
 Mr Norgrave Mr Brock
 Mr ... Mr ...
 Mr ... Mr ...*

NORGRAVE 22 June 1984

*Manning
 Steel
 Mrs Chokor
 Mr Ridley
 Mr Allen*

Dear David,

TREASURY AND CIVIL SERVICE COMMITTEE: LONG-TERM TRENDS INQUIRY

I refer to the Chancellor of the Exchequer's letter of 11 June to the Lord Chancellor. My Secretary of State is content with the Chancellor's proposals.

I am copying this to the Private Secretaries to the recipients of the Chancellor's letter.

*Yours sincerely
 Stephen Hickey*

S H F HICKEY
 Private Secretary

CONFIDENTIAL



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01-211-6402

SENT:
22
/6.

Miss Margaret O'Mara
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

CH/EXCHEQUER	
REC.	22 JUN 1984
ACTION	Mr Battershill
COPIES TO	CST PST MST
	22 June 1984
	Mr P. ...
	Mr T. Burns
	Mr Bailey
	Mr Anson

Dear Margaret,

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM
TRENDS INQUIRY

My Secretary of State has seen the Chancellor of the Exchequer's letter of 11 June to the Lord Chancellor, and is content with the approach he proposes.

I am copying this to the private secretaries of other Ministers involved in this correspondence.

Yours
John

J S NEILSON
Private Secretary

CONFIDENTIAL



FROM: DAVID PERETZ

DATE: 26 June 1984

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Anson
Mr Byatt
Mr Cassell
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Scholar
Mr Ridley
Mr Stibbard
Mr Riley
Mr Norgrove

Mr Painter - IR
Mr Walton - IR

Mr Middleton - C&E
Mr Wilmott - C&E

MR BATTISHILL

TCSC: LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

As I told you some days ago the Chancellor is content with the procedure proposed in paragraph 10 of your minute of 19 June.

2. He is also content with the draft letter to the Clerk to the TCSC; and he has now agreed that it can issue as soon as all recipients of his letter of 11 June have given their clearance. (We are working hard to extract replies from the three outstanding Departments, on the basis that we will write to the TCSC tomorrow in the absence of any response).

A handwritten signature in dark ink, appearing to be 'DLP'.

D L C PERETZ



Y SWYDDFA GYMREIG
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-233 3000 (Switsfwrdd)
 01-233 6106 (Llinell Union)
 Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-233 3000 (Switchboard)
 01-233 6106 (Direct Line)
 From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

26 June 1984

Dear Chancellor

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS ENQUIRY

Thank you for sending me a copy of your letter of 11 June to the Lord Chancellor.

I agree with the general approach you suggest. The Committee's requests to the two territorial departments are awkward, as you imply, and I am not sure that we can say anything particularly helpful in reply. That is, after all, why it was agreed the territorial programmes should not receive full treatment in the Green Paper. However, my officials will be in touch with yours and George Younger's to see what can be said without potential embarrassment to us all.

I am copying this to the other Ministers who received your letter.

Yours sincerely,

Chris Jones

Approved by the Secretary of State and signed in his absence.

The Rt Hon Nigel Lawson MP
 The Chancellor of the Exchequer

CH/EXCHEQUER	
REC.	26 JUN 1984
ACTION	Mr. Bathurst
COPIES TO	CST, FST, MST, EST Sir P. Middleton Sir T. Burns, Mr. Bottill, Mr. Bailey

*Mr Gray, Mr. Anson, Mr. Stibbard
 Mr. March, Mr. Evans, Mr. Morgan
 Mr. Norgrove, Mr. Oddie-Smee
 Mr. Schelar, Mr. Ridley, Mr. Allen.*



H M Treasury

Parliament Street London SW

Switchboard 01-233 3000

Direct Dialling 01-233 301

bc Principal Private Secretary

PS/Chief Secretary

Sir P Middleton

Mr Bailey

Mr Anson

Mr Monger

Mr Odling-Smee

Mr Scholar

Mr Stibbard

Mr Norgrove

Mr Walton - IR

Mr Middleton - C&E

(Handwritten initials)

A M W Battishill
Under Secretary

D Limon Esq
Treasury & Civil Service Committee
St Stephen's House
St Stephen's Parade
LONDON SW1

27 June 1984

(Handwritten signature)

LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

You wrote to me on 22 May, 24 May and 25 May requesting papers from the Treasury for your Committee's enquiry into Long Term Trends in Resources and Public Expenditure.

The Committee asked how programme expenditures are likely to evolve over the next 20 years, assuming existing policies are maintained, and using explicit assumptions about prospective demographic, economic and technological developments. The Committee has also asked a number of other Departments to identify the course of expected programme expenditure over the next 10 years; the Revenue Departments to provide projections of expected receipts; and the CSO and the Registrar General for certain statistical and demographic information. There is, inevitably, some overlap between the Committee's requests and Ministers thought it would be useful if the Treasury took the lead in responding to them.

The Committee will be aware of the contents of the Green Paper on "The Next Ten Years: Public Expenditure and Taxation into the 1990s" (Cmd 9189) which the Government published in March. The Green Paper described the Government's approach to long term public expenditure and taxation in the following terms:

"As this Green Paper will argue, the growth of public spending has, over the past twenty years, been the motive force which has driven ever upwards the burden of taxation, on individuals and companies alike. The Government believes that it is necessary to reverse this process, to decide first what can and should be afforded, then to set expenditure plans for individual programmes consistently with that decision (paragraph 4)."

As this text indicates, the Government do not think it right, as a matter of policy, to attempt to cost existing expenditure programmes 10 years ahead: to make such projections would be inconsistent with the Government's approach to expenditure planning described above.

However, Ministers recognise that the Committee will wish to examine the various pressures bearing upon expenditure programmes over the longer-term, some of which were discussed in Part III of the recent Green Paper. Officials in the Departments concerned have therefore been instructed to let the Committee have an account of these pressures, including any helpful figures, as soon as possible.

The Treasury and Revenue Departments have put in hand work on revenue projections, on the lines the Committee asked for. We shall let you have these as soon as we can, but I am afraid it may not be possible to complete this exercise by the end of the month.

The Committee asked the Treasury and the CSO for expenditure and revenue data covering the past 10 years. Work on this is also in hand, and we shall aim to provide as much information as possible, by the end of June or very soon after. We also hope to be able to provide some information for the period to 1986-87 consistent with the White Paper on Public Expenditure (Cmnd 9143).

The Registrar General has in hand the demographic material the Committee asked him to provide.

Lastly, the Committee asked the Treasury for some comparative material on public expenditure planning procedures abroad. I shall write to you separately about that later.

Yours sincerely,
A M W Battishill

A M W BATTISHILL

RESTRICTED

FROM: M C SCHOLAR

27 June 1984

CHIEF SECRETARY

cc: Chancellor of the Exchequer ✓
Sir P Middleton
Mr Bailey
Mr Anson
Mr Battishill
Miss Kelley

TCSC: LONG TERM TRENDS ENQUIRY

The Department of Education and Science have sent us, for approval, the text (attached) which they propose to submit to the TCSC in answer to their recent request for a projection of their expenditure programme.

2. We think this meets quite well the specification set out in the Chancellor's letter to spending department colleagues. It contains a good deal of information, much of it quantitative, yet stops well short of giving any programme projection.

3. I would be grateful to know if you agree. DES are anxious for an early response from us, in order to meet the TCSC's deadline (Friday of this week).

4. We will (if you wish) submit other departments' texts for your approval as soon as we have them.

MCs

M C SCHOLAR

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D R A F T

LONG TERM PROSPECTS FOR EXPENDITURE ON EDUCATION AND SCIENCE

The Government's plans for expenditure on education (GB for universities, England and Wales for student grants, otherwise England) and science (UK) up to 1986-87 are set out in the Public Expenditure White Paper (Cmd 9143). This expenditure, which represents a tenth of all public spending, is planned to increase by nearly 5.5 per cent in cash over the next two years. The main factors expected to influence expenditure on education in the longer term are set out in paragraphs 40 and 41 of the Green Paper 'The Next Ten Years: Public Expenditure and Taxation into the 1990s' (Cmd 9189). These draw attention on the one hand to demographic trends, which point to some decline in education's share of the GDP, and on the other to pressures for increased spending on an improved teaching force, increased provision for under-5's and a growth in courses in science and technology. There may also be pressure for an expansion of adult and continuing education, and for more costly courses of vocational education, in secondary schools such as those financed through the TVET.

Demographic Trends

2. Total pupil numbers reached a peak in the late 1970s and are projected to decline until about 1991*. Numbers of pupils of primary and nursery age reached a peak of 5.2 million in 1973 and had fallen by over a million by 1983. Total numbers of secondary pupils reached a peak of over 4.2 million in 1979 and by 1983 had already fallen by

*For an earlier but more extensive treatment of demographic factors, see Report on Education No. 97 'Pupils and School Leavers: Future Numbers' (Annex I).

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over 100,000. The downward trend in primary and nursery numbers is expected to continue to a level of about 3.9 million by 1986, and that in secondary numbers to about 3.1 million by 1991.

Maintained Schools

3. Probable future pupil numbers in the maintained sector reflect these trends. More recent (and lower) projections of births than those in the Green Paper suggest future numbers of pupils of compulsory age as follows -

	<u>Pupils in maintained (excluding special) schools</u>				
				000's	
	1980	1984	1988	1992	1996
Primary age	4029	3362	3366	3482	3654
Secondary (under school leaving age)	3525	3262	2728	2506	2643
Total	7554	6624	6094	5988	6297

The Green Paper assumes (paragraph 40) that, on the basis of 1982-83 costs per pupil, every 100,000 fewer pupils would lead on average to savings of around £90 million a year. On this basis expenditure on schools would be lower by over £500 million a year in 1992-93 than in 1984-85, and by about half as much in 1996-97. These figures ~~however~~ ^{however} make no allowance for the substantial costs likely to be involved in adapting the school system to lower numbers, or for the diseconomies of scale that are likely to arise (paragraph 41 of the Green Paper).

4. They also take no account of possible changes in student numbers outside the compulsory school age. Recent trends in participation by three and four year olds suggest the following projections of under fives in maintained schools -

	000's				
	1980	1984	1988	1992	1996
	337	360	351	372	396

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The Green Paper noted the likelihood of future pressures for increases in the participation rate for under 5's beyond the present record level of 40%. The figures above make no allowance for such pressures. Every additional 10,000 children of nursery age would add, on current unit costs, between about £7m and £10m a year to education costs, depending on the balance of provision between places in nursery schools and in nursery classes.

5. The numbers staying on at school over the school leaving age are affected by such factors as the state of the labour market, the level of support available to them in education and elsewhere, the accessibility of further and higher education, and the nature of the provision made for them in school. The numbers of those staying on are tentatively estimated as:

				000's	
	1980	1984	1988	1992	1996
	293	329	313	264	265

On the basis of average unit costs of pupils over school leaving age, which are more than $1\frac{1}{2}$ times those of a secondary pupil aged 11-16, a reduction of 10,000 pupils would imply savings of up to about £14m a year. But because of diseconomies of scale the actual savings would be less.

Teachers

6. The implications for teacher numbers of the declining numbers of pupils were discussed in Report on Education No. 98 'Teacher Numbers - Looking Ahead to 1995' (Annex 2). Teacher numbers ~~however~~ have not fallen as fast as school rolls; and in recent years the rate of reduction achieved by local education authorities has been lower than that assumed in Government plans. On the basis of average teacher

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costs in 1982-83, a reduction of 10,000 secondary teachers might be expected to generate savings of about £100m a year.

7. The Green Paper identified the case for 'a better, as well as a smaller teaching force' and for improved in-service teacher training. If a new structure for teachers' pay emerges from current discussions, it may have some impact on costs, both directly and through its potential effects ~~on rates of recruitment and wastage and thus~~, over time, on the age profile of the teacher force: this cannot yet be quantified. Future needs for in-service training are at present under review by the Advisory Committee for the Supply and Education of Teachers: their terms of reference include mechanisms for future funding of in-service training. The Committee's report is expected towards the autumn of this year.

Higher education

8. Report on Education No. 99, 'Higher Education in the 1990s',^(Annex 3) issued in April 1983, showed student demand for higher education declining after 1985, to reach its lowest point by 1996. These projections are now being revised. The new projections are likely to show a stable level of demand through (approximately) the rest of the 1980s and a fall to the mid 1990s - the net result of a fall, related to the demographic trend, in numbers aged under 21 and an increase in numbers of older people.

9. A fall in student numbers, if and when this occurs, should enable savings to be made in student awards: on the basis of the 1983-84 average student maintenance award (about £1250) a fall of 10,000 in student numbers would yield savings of about £13m a year. Much will

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however depend on movements in the value of the student award and level of parental contribution in future years. Each 1% change in the value of the award would affect costs, on present student numbers, by about £7m a year.

10. Reductions in student numbers might also be expected to yield some savings in institutional costs (though they have no direct implications for research). The extent to which these can be realised will depend, amongst other things, on the balance of provision between universities and public sector institutions and between ~~laboratory and classroom-~~^{science and other} based courses. The Green Paper drew attention to the probability of growing demand from employers for increased provision of courses in science and technology: these are on average about one-half more expensive than arts courses. It also however referred to the possibility of involving employers and employees in the financing of such courses.

Science

11. The Science Budget is planned to increase in cash from £550m this year to about £590m in 1986-87. This is intended broadly to allow the 1983-84 level of provision to be maintained over the following three years. No decisions have been taken about later years.

12. About half of the Research Councils' expenditure goes on salaries and superannuation of their own staff; capital investment, including equipment; and international subscriptions payable under treaties. Other commitments, notably of research grants and postgraduate student support running over several years, limit the amount of money becoming free each year. Councils actively deploy these resources so freed to new areas of science, and are seeking to improve their efficiency.

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RESTRICTED

13. Other ^{significant} ~~major~~ determinants of demand on the Science Budget over the next ten years include the growth of new scientific opportunities and the decline of old ones; the scale and quality of the research base in universities (and hence demand for research grants); the demand for postgraduate training; and, related to that, the requirements of employers for specialised scientific and technological manpower. Some major Government policy initiatives, as in Information Technology or research in Antarctica, are also relevant.
14. Some adjustments are certainly possible in the outlay of Councils' funds and in the deployment of their staff, but the rate is affected by limitations on individuals' adaptability and transferability. It should be possible to disengage from some traditional areas of research; but major areas cannot be abandoned against a background of uncertainty about where in the future the most useful areas of scientific endeavour will be found. Against uncertainty of this sort is the fact that the growth of scientific understanding and knowledge - and hence of scientific opportunities - is accelerating; that the costs of research, certainly at international standards, rise faster than ordinary domestic costs; and that science is likely to become more important for UK employment and for the wealth of the UK.

RESTRICTED

94P



FCS/84/186

CHANCELLOR OF THE EXCHEQUER

CH/EXCHEQUER	
REC.	28 JUN 1984
ACTION	Mr. BATTISHELL
COPIES TO	CST, FST, MST, EST Sir P. Middleton
	Mr Bailey, Mr Anson, Mr Byatt,
	Mr Lewisell, Mr Evans, Mr Monger,
	Mr Odling Smee, Mr Scholar,

22/b

Sir T. Burns,
Mr Byatt,
Mr Monger,
Mr Scholar,
Mr Redley,
Mr Stibbard,
Mr Riley,
Mr Nargrove,
Mr Painter } IR
Mr Walton }
Mr Middleton } Ct
Mr Wilmott }

Treasury and Civil Service Committee: Long Term Trends Enquiry

1. Your letter of 11 June sought agreement from colleagues to the approach you recommend adopting in response to the Treasury and Civil Service Committee's requests for papers from Departments on long-term trends in resources and public expenditure.

2. I am content with the approach you propose. Indeed, the Committee staff have indicated to us that, since the references in their enquiry to demographic, economic and technological developments refer only to the UK, the FCO is asked to address itself mainly to the question of pressures, upwards and downwards, on expenditure programmes, together with any other material we deem relevant to the enquiry. My officials have let yours have a draft along these lines.

3. I am copying this letter to the recipients of yours.

GEOFFREY HOWE

Foreign and Commonwealth Office
27 June, 1984



(pup)

Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213.....6400
Switchboard 01-213 3000

CH/EXCHEQUER	
REC.	27 JUN 1984
ACTION	Mr BATTISHELL
COPIES TO	CST, FST, MST, EST, Sir P. Middleton Sir T. Burns Mr Bailey, Mr Anson,

SENT 27/6

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Great George Street
LONDON SW1

Mr Byatt, Mr Cassell,
Mr Evans, Mr Manger,
Mr Odling-Smee

27th June 1984
Mr Scholar, Mr Ridley,
Mr Stibbard, Mr Riley,
Mr Noygrove
Mr Painter } IK
Mr Walton }
Mr Middleton } C+E.
Mr Wilmott }

Nigel

TREASURY AND CIVIL SERVICE COMMITTEE : LONG TERM TRENDS
INQUIRY

In your letter of 11 June you sought support for your proposed approach to the Committee's inquiry into long term trends in resources and public expenditure. I agree that having encouraged a debate on the subject we must go some of the way with the Committee while being unable to provide projections of expenditure, programme by programme, over the next ten years.

Responses based on the approach in the Green Paper, as you suggest, would give the Committee material on which they could work while not taking us on to new ground. However, in the case of my own department it will not amount to much. There was nothing in the Green Paper about my main programmes on training and special employment measures, no doubt because it is difficult to see so far ahead on such programmes. Identifiable longer-term pressures like population changes are relevant but not major influences. There are of course insuperable problems about forecasting unemployment over the next ten years. I shall be able to fall in with your proposal but on the understanding that the results will be limited and subject to considerable qualification.

Copies of this letter go to the recipients of yours.

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K

6/7/84

Mr Alcock

TREASURY AND CIVIL SERVICE SELECT COMMITTEE: LONG-TERM PUBLIC EXPENDITURE ENQUIRY: HPSS MATERIAL

1. The Treasury and Civil Service Select Committee are doing an enquiry into long-term public spending, in the light of (amongst other things) the Treasury's Tax and Expenditure Green Paper.

2. They have asked all the main spending Departments for papers on their programmes' expenditure needs over the next ten years or so (with particular reference to demography and technological changes); and the Treasury and the Tax Departments for projections of Government revenue.

3. The Treasury have suggested - and following correspondence with the Chancellor it is now collectively agreed - that instead of submitting full expenditure projections Departments should give the Committee what information as they can on the pressures their programmes will be faced with; and that when possible this material should be quantified.

4. I attach at 'A' the main Tax and Expenditure Green Paper references to the NHS. MS(H) will see from this that:-

(i) the long-term pressure of demography on the HCHS is acknowledged and broadly quantified. The pressure of medical advance is also acknowledged, but the significance of the potential for efficiency gains is also emphasised.

(ii) the FPS and the PSS are dealt with very broadly.

5. I attach at 'B' a draft HPSS memorandum for the Committee. It follows the general approach in the Green Paper, though naturally fleshes it out somewhat. It does not contain anything not already on the public record. Treasury have indicated that they would probably be content with it, subject to a final check for considering with other Departments' contributors.

6. It would be helpful to know as early as possible next week whether the MS(H) is content with it please.

TRH

T R H LUCE
FA1
630 FRH
Ext 4434

6 July 1984

Copy to: Mr Hulme Mr Nodder Mrs Banks Mr Birch Mr McKeon

Mr Colman (Treasury)
Mr Robertson (SHHD)
Mr Pritchard (WO)

34. Nevertheless, as the economic recovery continues and the number of those unemployed falls, the pressures on the social security programmes will abate. For each 100,000 fewer unemployed there should be a fall in the cost of benefits to the unemployed of around £185 million.

Defence

35. It is difficult to be confident of a reduction in international tension or in external threats to UK interests. Where these threats are backed by increasingly sophisticated equipment there will be pressure to match them by a comparable improvement in our own defence equipment. The government will seek to offset these factors by pursuing greater value for money within the defence programme. But there will continue to be strong pressures for more expenditure on defence.

Health and Personal Social Services

36. As with social security, demographic changes constitute a major influence on this programme. Health care costs are dependent on age. At present the costs in the 0-4 age group are about twice as much per head as for those of working age; for the 65-75 age group about four times as much, and for the 75 and over age group about nine times as much. Until the early 1990s, and again from the early years of the next century, the proportion of the elderly and very elderly in the population is forecast to rise. In particular the numbers of those over 75 are forecast to rise from 3.5 million in 1984 to 3.8 million in 1994. If current levels of spending on the hospital and community health services per head of population in different age groups were to remain constant over time, spending would need to rise somewhat under 1 per cent a year between 1983-84 and 1993-94 simply to keep pace with demographic changes.

37. Medical advances may prove a major further pressure. Where these lead to simpler or non-hospital treatments, they may in fact reduce costs. But where they involve expensive equipment, expensive surgical techniques or new drugs they can lead to powerful demands for increased funds. Even where unit costs have been reduced widespread demand for such treatment may strain the resources available.

38. Changes in social attitudes and patterns of treatment may also pose problems for expenditure control in this programme. Increasingly, on both medical and social grounds, the aim is to keep the elderly and the mentally ill and mentally handicapped in the community. Although treatment in hospital is expensive, keeping people in the community requires heavy investment in support services—the medical professions, social workers and domiciliary support. This affects both the family practitioner services and the local authority personal social services, both of which are highly labour-intensive.

39. Finally, evidence from other countries suggests that increased affluence will lead to pressures for higher spending on health care. Within the United Kingdom such spending is largely financed from general taxation although there is a role for charges for those able to pay them. Here as elsewhere, demographic pressures and increasing demands are not the whole story. The Health Service needs to achieve continuing efficiency improvements, from higher productivity and better management, following the example of private industry in recent years. Many people have chosen to make provision for some of their health needs outside the State system, whilst continuing to contribute towards Health Service costs through their taxes. As living standards continue to rise, some further increase may be expected in the numbers who so choose. These developments will moderate the pressures for an increased contribution from the taxpayer, but such pressures will continue.

Education

40. Demographic changes affecting education over the next decade are such that, if current levels of provision per pupil and per student were broadly maintained, education's share of GDP could be expected to decline significantly. The number of pupils in maintained schools is expected to fall from over 8.9 million in 1984 to some 8 million in 1991. If the cost per pupil were maintained at existing levels every 100,000 fewer pupils would lead on average to savings of around £90 million a year. The latest projection, currently under review, of the number of full-time and sandwich home students in higher education shows a fall from over 500,000 now to well under 450,000 in the early 1990s, with the decline in the size of the relevant age-groups more than outweighing a continued increase in the age participation rate. This would yield savings in student grants even without a further reduction in the dependence of students on public funds for their maintenance, and also in expenditure on universities, polytechnics and colleges.

DRAFT PAPER FOR TREASURY AND CIVIL SERVICE COMMITTEE

Health and Personal Social Services Expenditure in the Longer Term

The National Health Service

1. The net budget for the National Health Service in England accounts for some 11% of public spending. It is as follows for 1984-85:-

	£m cash
Hospital and Community Health Services Current Expenditure	8928
Hospital and Community Health Services Capital Expenditure	711
Family Practitioner Services, current and capital	2883
Centrally Financed Services, current and capital	591
	<hr/>
	13113
	<hr/>

2. Expenditure provision for each of these sub-programmes is made for the following three years in each annual public expenditure survey. In the Surveys, the Government assess the levels of service required to meet needs where these can be identified and projected, the scope for increasing outputs through improved efficiency, and the affordability of expenditure increases.

3. Projections of pressures for service provision and of changes in service costs and levels of efficiency can be made for the longer

term only in very broad terms, and substantial margins of uncertainty - eg over disease prevalence, treatment patterns and costs, and the relative roles of State and private provision - must be recognised. The following paragraphs outline the main factors that so far as we can foresee can be expected to influence the provision of health services within the main expenditure sub-programmes. The material includes no predictions of possible changes in the real economic cost of inputs - notably manpower which at present accounts for nearly three-quarters of hospital and community health spending.

Hospital and Community Health Services (HCHS) Current Expenditure

4. This sub-programme contains the main health services provided through cash-limited allocations by health authorities - ie all NHS in-patient and out-patient hospital care, and the community health services (eg District Nurses, health visitors, school health, ante- and post-natal clinics etc) provided by regional and district health authorities rather than through family practitioner committees. The main trends affecting the levels of service needed are:-

- (i) changes in population size and composition
- (ii) the introduction of new treatments, and the further spread of treatments developed in recent years
- (iii) changes in the patterns of care generally considered desirable, particularly as between hospital and community services
- (iv) changes in the nature or prevalence of illness, or in professional or public expectations of what conditions can or should be treated or of the scale and type of treatment that is given.

5. Population size and composition As explained in paragraph 36 of "The Next Ten Years: Public Expenditure and Taxation into the 1990s" (Cmnd 9189), the need for health care is largely dependent on age. HCHS expenditure per capita for the whole population, on births, and by age group was as follows in 1981-82:-

	<u>£, cash, gross</u>	<u>Relationship to whole population average</u>
Average for the whole population	160	-
Age group: 0-4	150	90% ⁽¹⁾
5-15	70	40%
16-64	85	50%
65-74	325	200%
75-84	680	420%
85+	1170	730%
Births	915	570%

(1) Figures are rounded down to the nearest 10%

6. The principal population projections published by the OPCS following the 1981 Census suggest that in the decade to 1994:-

- the total population will grow very gradually
- the numbers of births will rise by some 17%
- the number of children up to age 4 will increase by over 18%, those between 5-15 are projected to fall by 7½%, to 1989 and then rise again to reach the 1984 level by 1994; the group 0-15 as a whole is projected to fall by 2½% to 1988 and then to rise (4% increase between 1984 and 1993, nearly 6% increase between 1984 and 1994);
- the working age population will grow by less than 1%;
- the 65-74 group will grow by about 4½%
- the 75-84 group will grow until 1990 (by 7%) and then fall back to the 1984 level;
- the 85+ group will grow by 40% to 1993, 44% to 1994.

7. These forecasts are subject to considerable uncertainty in relation to mortality and - in particular - fertility rates. But if it is assumed that the forecast population changes occur,

that average annual HCHS current expenditure by age group continues at the real levels of 1981-82, and that there were to be no significant or relevant changes in the prevalence of disease, in the patterns of care or in the costs of provision the average annual increment in the input volume of total HCHS current expenditure, expressed as an increase on the estimated 1984-85 level, would need to be of the order of $\frac{3}{4}\%$ a year. The pressure is most severe in the early part of the decade, and weakens in the later years.

8. New Treatments Some advances in medicine can reduce health treatment costs by reducing the prevalence or severity of particular conditions or reducing the time needed for active treatment. But medical advance also imposes substantial extra costs - because at the present stage of medical and scientific evolution newly discovered drugs tend to be more expensive than those they replace, new procedures tend to be more staff-intensive; and, in particular, new treatments - such as by-pass grafts in some forms of coronary disease, hip replacements in arthritis - tend to widen the range of cases which can benefit from active treatment. As is recognised in Cmnd 9189, innovations of this kind can lead to powerful demands for increased funds. It is not possible to calculate with any precision the future costs of these trends, but in its forward costings the Department has for some years made the assumption that they may have implications for expenditure equal to an annual increase in input volume of about $\frac{1}{2}\%$ of total HCHS current spending. This is very broad; and the need for extra resources to accommodate such a trend will be

crucially affected by trends in the costs and efficiency of service provision (see paragraphs 12-14 below).

9. Changes in Epidemiology, Care Patterns, and Expectations

Well-founded predictions of change in disease prevalence, in the patterns of care judged suitable for particular types of case, and in professional and public expectations of health care services are still harder to make. Major changes in the patterns of morbidity and mortality are these days fairly slow. Health promotion programmes aimed at reducing the incidence of diseases associated with behavioural factors such as smoking, drug or alcohol misuse, and lack of exercise, may over a period reduce the level of need for certain types of treatment; but it would be imprudent to assume that dramatic change in the overall trend in demands for care will necessarily occur within a decade, and the programmes themselves will in the meantime require some health services resources.

10. Changes in public and professional attitudes are likewise hard to predict. At present, for example, there are pressures for a more specific response to the growing number of young drug misusers. Similar pressures are likely to arise in other contexts from time to time, but by their nature cannot readily be foreseen.

11. As regards the general pattern of care, both the health and personal Social Services are in a long period of evolution in which health and social services community provision - with people receiving the support and help they need in the most normal and least restrictive environment possible - is replacing a pattern of services in which there was a heavy emphasis on hospital and residential care provision for elderly, mentally handicapped, mentally ill and disabled people. The point is being reached, at which, for the first time, some large hospitals not required as a permanent feature of the new pattern of services will actually be closed as opposed to being run down. ~~While in the longer-term period the new pattern of services should enable more appropriate provision to be made for care without significant additions to costs,~~ there will be transitional costs during the next few years.

↳ Meanwhile

12. Costs and Efficiency Since the mid 1970s the Hospital and Community Health Services have shown a tendency to increase outputs (measured by the number of cases, weighted for costs) in relation to the volume of inputs (measured by expenditure at constant health services prices) by roughly $\frac{1}{2}\%$ a year, ~~assuming that efficiency gains of this order would continue.~~

13. The present Government have instituted a major programme of measures to improve health authority management and efficiency, including annual accountability reviews, the use of performance indicators, Rayner scrutinies, and a special review of health service management. As a result, health authorities are now introducing, and are required to sustain over the long-term, programmes of local cost-improvement which should provide substantial extra resources to improve local services. There is no pre-determined national aggregate quantification of the extra resources that can be expected from this new framework for health service management; but the Government is confident that they will be significant in relation to the sources of pressure on health authority expenditure arising from the non-demographic factors described in this memorandum.

14 Government Policy for Development of the Hospital and Community Health Services. As set out in the 1984 Public Expenditure White Paper (Cmnd 9143), and in planning guidance to health authorities,

the Government intends that these services should be expanded and improved in order to provide the extra care needed by an ageing population, and to provide for the introduction and continued spread of medical advances as they occur. The Government has also urged authorities to reduce waiting lists, to increase the provision of certain major treatments known to be in short supply, to continue to work for a better balance of care between hospital and community provision and for the further improvement of services for certain groups of patients.

15. The Government have indicated to health authorities that, subject to the process of geographical re-allocation of resources recommended in the 1976 report of the Resources Allocation Working Party ~~on average~~, they can expect a small annual increase in the input volume of resources over the next decade; the cash plans to 1986-87, for example, were stated in Cmnd 9143 to imply increases in health authorities' real resources sufficient to meet the needs which arise from the population structure changes forecast for those years. The resources for other improvement and expansion will need to be found from cost-improvement and efficiency gains.

16 It is for regional and district health authorities to plan and manage their services within this overall framework. The Government has impressed upon them the need to do so flexibly, so that their development of services can be maintained in spite of the inevitable uncertainties over the margin of growth in resources that will be affordable.

NHS Capital

17. Capital expenditure on the Family Practitioner Services is a very small part - some £3m - of their expenditure; and a relatively small part - some £33m - of central expenditure on the NHS. Capital expenditure on the HCHS is considerably more significant. It covers new construction, and capital works

associated with change of use, renovation and maintenance of the existing stock.

18. Since the overall population is not forecast to expand significantly, demographic change is not of itself a helpful pointer to the appropriate level of overall capital expenditure in the NHS. The major goals on the capital side are to modernise the inherited capital stock by replacement or renovation; to make NHS facilities more economical to run (eg by improving the efficiency of energy use); to create new provision to cater for major population shifts; and to improve standards of maintenance and amenity generally. Between 1978-79 and 1983-84 NHS capital spending has increased by 23% in input volume terms. Health authorities are able to transfer up 1% of their current expenditure allocations to capital spending. This provides substantial scope for adjusting the levels of capital spending to meet local needs and priorities without increasing overall NHS expenditure, and though the Department has made no formal projections of capital spending beyond 1986-87, maintenance of broadly the present level is implied in the cash plans to 1986-87 and is a reasonable presumption for the longer term.]

Family Practitioner Services

19. Net expenditure on the General Medical, General Dental, Pharmaceutical and Ophthalmic services accounts at present for just over a fifth of NHS expenditure and about 2% of total public expenditure.

20. FPS spending has shown a tendency in the past to rise in economic cost terms by about 3% a year. Demographic change has some effect on FPS spending, though, a significant part of the past rise in spending is associated with increasing expenditure on drugs.

21. The Department expects to issue later this year a Green Paper on the primary health care services generally which will raise issues about their future development and expenditure.

Central Health Expenditure

22. Central health expenditure - about 4% of total NHS spending - supports a variety of different types of health provision. The Department itself administers some services such as the Special Hospitals, the Artificial Limb and Appliance Centres and the Welfare Food Service. There is a range of statutory and other bodies which undertake regulatory and protective functions (eg the UK Central Council for Nursing, Midwifery and Health Visiting and the Public Health Laboratory Service Board); or which provide direct support for the NHS (eg the Prescription Pricing Authority). Other provision includes services financed through grants to voluntary bodies and where there is a special need to encourage certain types of service innovation through payments to health authorities. There is also a research programme and the total includes the share of the Department's own administrative costs attributable to its HPSS functions. [The Department has made no longer-term projections of this expenditure in the aggregate; but at present foresees no need for it to alter significantly in scale.]

The Personal Social Services

23. Net personal social services expenditure by local authorities - some £2,240 million in 1984-85 - accounts for some 8% of local government spending in England, or 2% of total public spending.

Population structure change has significant implications for these services because the need for personal social services care is greatest in relation to children and old people. Average expenditure per head by age group was as follows in 1981-82:-

	<u>£, cash</u>	<u>Relationship to whole population average</u> (2)
Average for the whole population	45	-
Average by age group:		
0-4	60	130%
5-15	65	140%
16-64	15	30%
65-74	65	140%
75 and over	275	610%

(2) Figures are rounded down to the nearest 10%

25. On assumptions comparable to those for the HCHS in paragraph 7 above, forecast population structure change would imply an annual average increase in input volume over the next decade in the range of $\frac{1}{2}$ %-1%.

26. In addition to population structure change, there are pressures to increase the amount and the suitability of care for the increasing problem of young offenders or potential offenders, young and vulnerable children; and mentally ill and mentally handicapped people; and more generally to carry forward the trend towards care in the community for all groups of people who can benefit from it, as described in paragraph above.

27. On the other hand, there are wide variations between local authorities in their unit costs of provision of certain services. The availability of family and voluntary care and the extent to which this is encouraged and supported by local authorities also varies from place to place. This suggests that some local authorities may have significant scope for improvements in the cost-effectiveness of their personal social services provision.

CONFIDENTIAL

From: J ODLING-SMEE
10th July 1984

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Sir Terence Burns
- Mr Bailey
- Mr Anson
- Mr Byatt
- Mr Cassell
- Mr Battishill
- Mr Evans
- Mr Monger
- Mr Scholar
- Mr Melliss
- Mr Riley
- Mr Stibbard
- Mr Ridley
- Mr Painter - Inland Revenue
- Mr Walton - Inland Revenue
- Mr Middleton - C & E
- Mr Wilmott - C & E

Thanks. Re Table 1, psc aggregate VAT & other expenditure taxes. Table 2 OK. I have suggested amendments to paras 7 & 8. But I so far so good. But I remain worried on para 2, which was puzzle to TSC & other, too. I suspect. It is conceptually very odd when I have pre-fixed tax shown pre-fixed adjustment, but expenditure tax that I see a no fixed adjustment. I think this occurs. Myself Mr. John of SA. Various other things.

See end of table same that I think is correct. See summary table on back of this.

TCSC: LONG-TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

In association with the revenue departments we have now produced the attached projections of revenues along the lines set out in Mr Battishill's minute of 19th June. I would be grateful for your approval to send them to the Committee.

2. The projections for 1988-89 are the same as those in the MTFS (Table 2.5). However we are now proposing to provide more detail. In the MTFS only two categories are shown: taxes on incomes, expenditure and capital; and National Insurance and other contributions. The first of these is

sub-divided into seven categories in the attached note, while contributions are left as a single category. (The MTF5 table is in £billion at current prices, whereas the present table is in percentages of GDP. However, the MTF5 also provides figures of nominal GDP in Table 2.6 so that the two can be directly related.)

3. The projections for 1993-94 are new. Those in the Green Paper are calculated as a residual and hence are after fiscal adjustment. The present ones are calculated on the basis of constant real tax rates and hence are before fiscal adjustment. A comparison of the two therefore provides information about the fiscal adjustment. Although we have not given this before it will not come as much of a surprise. Most people would expect little change in revenues relative to GDP with constant real tax rates, and Table 1 confirms this. The decline in the tax burden shown in the Green Paper could therefore be accounted for more or less fully by the fiscal adjustment.

4. For most taxes the ratio of revenue to GDP does not change very much. In the case of local authority rates and National Insurance contributions this is largely by assumption, so that nothing is given away about the Government's policy towards rates or unemployment projections.

5. The text offers explanations for the major changes in revenue relative to GDP. It is for consideration whether it provides too much information; for example, Table 2 could be omitted. On the other hand we need to go sufficiently far to discourage the Committee from asking supplementary questions, and Table 2 is fairly harmless.

6. There are two areas that could cause difficulty: on-shore corporation tax (CT) and expenditure taxes. The rise in revenue from CT relative to GDP occurs mostly in the MTF5 period, although it continues to 1993-94. In 1983-84 the mainstream corporation tax receipts stemmed from the low profits of the previous two years. The remainder of the rise in the MTF5 period is the result of the assumed rise in profits' share in GDP - the main counterpart of the fall in North Sea profits' share.

7. There is a risk that people will attribute the rise in CT revenues relative to GDP to the new tax regime. In fact that is not correct. We estimate that CT revenues would have risen even more under the old tax

regime in the second five-year period, with very little difference in 1988-89. A sentence or two to that effect has been included in the attached text.

8. The rise in expenditure taxes as a proportion of GDP is mainly the result of the adoption of the MTFIS convention that the fiscal adjustment is attributed to income tax, and hence disposable incomes and personal consumption are assumed to rise relative to GDP. (If consumption had been held constant as a proportion of GDP, the share of VAT revenues would have risen somewhat but revenues from other expenditure taxes would have fallen.) An alternative assumption would be to ignore the fiscal adjustment altogether (and hence implicitly to assume that it had no consequential effects on tax bases). But that is also a stylised assumption, with the added disadvantage that it would produce numbers for 1988-89 that were different from those in the FSBR. A third possibility would be to adopt the MTFIS convention as here, but not to draw attention to it. We could face difficult questions if the Committee took an interest in the rise in expenditure taxes relative to GDP.

9. There is no ideal way to handle the fiscal adjustment. The method we have adopted can be defended and has the advantage that it is consistent with the MTFIS. However you may think that it would be better to present it in some other way.

10. You might like to consider whether any of the rows in Table 1 should be combined. It is not obvious, however, that aggregation will overcome the difficulties with CT and expenditure taxes. The most obvious aggregation would be into five categories: income and corporation tax, North Sea tax, expenditure taxes, rates and other taxes, and contributions. Any more aggregation would bring one so close to the MTFIS two-way disaggregation as to provide virtually no more information for 1988-89. Yet the five-way classification would still leave two categories (income and corporation tax, and expenditure taxes) showing increases, and hence requiring explanation.

*Looks like
the only
sensible
option left.
mv*

06-0-8

J ODLING-SMEE

CONFIDENTIAL

LONG-TERM REVENUE PROJECTIONS

Note by H M Treasury, Inland Revenue and Customs and Excise

This note presents projections of taxes and National Insurance contributions in 1988-89 and 1993-94 on the assumption of constant real tax and contribution rates, and the corporation tax rates announced in the Budget. The same assumptions about the development of the economy are made as in the Medium-Term Financial Strategy and the Green Paper⁽¹⁾.

2. The projections are based on the same conventions as those adopted for the MTFS revenue projections. Thus, it is assumed that income tax allowances and thresholds are indexed, specific duties are revalorised, National Insurance contribution rates are unchanged and local authority rates grow in line with GDP. The MTFS convention is that the fiscal adjustment (ie room for lower taxes) is assumed to be allocated to income tax. Although the income tax projections are before fiscal adjustment, the expenditure tax projections are affected by the fiscal adjustment, because it enables personal disposable income and hence consumption to grow more rapidly than pre-tax income and GDP.

3. Projected revenues are expressed as a percentage of GDP at market prices and are shown in Table 1. The estimates for 1983-84 and the projections for 1988-89 are identical to those in the MTFS (FSBR 1984-85, Table 2.5), except that total taxes and contributions are disaggregated into eight main groups compared with only two in the MTFS. Two sets of projections are provided for 1993-94 based on the two alternative assumptions in the Green Paper for the growth of GDP from 1988-89 to 1993-94: 1½% and 2% a year.

4. Broadly speaking, a change in revenues relative to GDP reflects either a change in the share in GDP of the type of income or expenditure that is being taxed, or a change in the effective tax rate on that income or expenditure category. The projected changes over time in revenues relative to GDP shown in Table 1 can be explained in terms of these two factors.

(1) H M Treasury The Next Ten Years: Public Expenditure and Taxation in the 1990s Cmnd 9189 March 1984

5. The assumptions that have been made about the shares of different categories of income in GDP are fairly stylised and are shown in Table 2. The main features are a rise in non-North Sea profits and a fall in North Sea profits. The projections for the North Sea in Tables 1 and 2 are identical to those in the Green Paper, Annex 4 of which provides further detail. The assumed rise in non-North Sea profits' share brings it back towards historical levels from the depressed position of recent years. The other shares to change are those of other employment income (National Insurance and other employers' contributions) and rent; they rise in line with the long-term trend.

6. The relative shift of income from North Sea to onshore profits is reflected in the decline in North Sea revenues and the rise in onshore corporation tax revenues. The latter are projected to rise somewhat faster up to 1988-89 than the rise in profits' share in GDP would suggest. This is largely because the mainstream corporation tax receipts in 1983-84 stem from the low share of on-shore profits in the previous two years. Projections of corporation tax revenues under the old (pre-Budget) regime would also have shown a significant rise, for similar reasons. Indeed, revenues in 1993-94 would have been projected to be higher on the pre-budget basis than those shown in Table 1.

7. Income tax revenues are projected to rise slightly relative to GDP, although wages, salaries and self-employment income are unchanged. The main explanation for this is that allowances are indexed in line with prices rather than earnings, according to the conventions of MTF5 projections and as the Committee requested. As real earnings are assumed to grow, ^{this means} there is ~~some "real fiscal drag", that is the burden of income tax rises.~~ ^(automatically)

8. The rise in VAT and other expenditure tax revenues relative to GDP is mainly the result of the increase in the ratio of consumers' expenditure to GDP. [In addition there is a tendency for VAT revenues to rise relative to consumers' expenditure because VAT is more heavily concentrated on the faster-growing components. On the other hand, there is projected to be a decline in the effective real tax rate in the case of excise duties because of falling shares in total consumption of some heavily taxed goods (eg tobacco).]

9. Revenue from other taxes is projected to fall relative to GDP after 1983-84 mainly because of the abolition of National Insurance surcharge (which amounted to 0.5% of GDP in 1983-84) and the reduction in stamp duty rates.

10. The differences between the two sets of projections for 1993-94 are generally very small relative to GDP. The absolute amount of income from the North Sea, rents and other employment income is assumed to be similar in the two cases, and so their shares in GDP are lower in the high GDP case. Higher GDP is assumed to produce higher shares of wages and salaries and, especially, non-North Sea profits. These raise revenue from income and corporation tax and, via a larger fiscal adjustment, expenditure taxes, compared with the low GDP case.

Table 1

Long-Term Revenue Projections⁽¹⁾
(per cent of GDP at market prices)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽²⁾	High GDP ⁽²⁾
Income Tax	11.0	10.3	10.6	10.7	10.8
Corporation Tax (excluding North Sea) ⁽³⁾	2.3	1.7	2.6	2.7	2.8
North Sea taxes ⁽⁴⁾	0.3	2.9	2.2	1.6	1.6
VAT		5.0	5.5	5.6	5.7
Other E xpenditure taxes		6.0	6.0	6.0	6.1
Local authority rates		4.0	4.0	4.0	4.0
Other taxes ⁽⁵⁾		1.8	1.1	1.0	1.0
National Insurance contributions		7.0	7.0	7.0	7.0
TOTAL		38 ³ / ₄	39	38 ¹ / ₂	39

(1) The figures are given to the nearest 0.1 percentage point to enable comparisons to be made, but they are subject to margins of error considerably greater than that.

(2) Growth rates from 1988-89 to 1993-94: low 1¹/₂% a year
high 2% a year

(3) Corporation tax (CT) receipts, including Advance Corporation Tax (ACT). Excludes all CT attributable to North Sea oil and gas production (see (4))

(4) Royalties, petroleum revenue tax (including advance payments), and CT from companies engaged in North Sea oil and gas production. The latter represents the total CT charged before ACT set-off, and is defined as receipts of mainstream CT from these companies plus any CT liability satisfied by setting off ACT paid previously.

(5) Capital taxes, stamp duty, local authority VAT payments, gas levy and, in 1983-84, National Insurance surcharge

Table 2Assumed Income Shares

(per cent of GDP at factor cost)

	1983-84	1988-89	1993-94	
			Low GDP(1)	High GDP(1)
Wages, salaries and self-employment income	64.5	64.5	64.5	64.6
Other employment income	8.7	9.0	9.3	9.2
Non-North Sea profits and surpluses	13.0	14.0	14.5	14.8
North Sea profits	6.2	4.4	3.3	3.2
Rent	7.7	8.1	8.4	8.2
GDP	100	100	100	100

(1) Growth rates from 1988-89 to 1993-94: low 1 $\frac{1}{2}$ % a year
high 2% a year

S
N.B. Michael
Scholar's
postscript.
MP

From J G Colman
Date 11 July 1984

- 1. MR RAYNER
- 2. MR SCHOLAR
- 3. CHIEF SECRETARY

*I think we
have to watch
this - but
must*

*we state
state grants
to our grants
possibilities*

cc Chancellor
FST EST MST
Sir P Middleton
Mr Anson
Mr Watson
Mr Balthill

Mr Barley
Mr Odling-Smee

*for programme
each has its
own change
to give
to change
to change*

TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS
ENQUIRY: HEALTH

The purpose of this submission is to seek your agreement to the line DHSS propose to take in responding to the TCSC's requests for information on long term trends of health spending. Although their draft, in accordance with the general approach which has been agreed for all programmes, merely records the various pressures bearing upon the health programme, it looks very like a 10 year costing of the existing programme. I attach a copy of the DHSS draft.

The nature of the debate on health spending

2. The Government has sought to defend its record on the NHS by referring to the real growth in services which it has provided for since coming into office, and by pointing out that this has been enough to meet pressures arising from demography and from medical advances. The growth in service has arisen from a combination of greatly increased funding (in cost terms) with steadily increasing efficiency savings.

3. For the future, the Government has said it has no ~~basis~~ *plans* for changing the existing basis of funding the NHS largely through taxation. The Government has also given long term planning guidance to health authorities that they should work on the assumption that the Government will provide resources growing in real terms at ½% a year on average. It has been stressed that this is not a commitment: the actual provision

may be more or less, and plans should be flexible enough to cope with such uncertainty.

4. Informed debate, as distinct from general attacks on "the cuts", has centred on whether in fact the past service growth has been adequate. It is important therefore for the Government to deal with these criticisms by giving the facts on demography, medical advance, and efficiency. This has been done for instance in successive public expenditure White Papers.

The DHSS draft

5. The DHSS draft is consistent with this approach: the effects of demography are costed (on stated assumptions about morbidity and efficiency), and a suitably qualified figure is given for medical advance, with a clear statement that this will not necessarily call for increased resources. Future efficiency savings are not quantified but the past figure of ½% a year is quoted (which is relevant to refuting allegations about past "cuts"). This approach is in line with current policy (although we may be seeking a different approach once the new NHS general managers have been appointed). No projection is given for the family practitioner services: the draft refers to the forthcoming Green Paper on Primary Care. The draft states that actual expenditure will depend upon efficiency improvements and affordability.

6. If read closely the draft is not therefore a costed 10-year programme. It does however look like one because the pressures are easy to describe and quantify (based on past experience), and past policy has been to spend so as to meet them.

7. There are a few comparatively minor points of drafting which we would wish to put to DHSS, provided the general line of their text were acceptable. But the immediate question is whether the Treasury can tolerate the submission to the TCSC of a text which has the appearance of a costed programme.

Conclusion

8. Our advice is that the nature of the argument on health spending makes it hard to avoid the general line adopted in the DHSS draft. A completely different approach would provoke comment, and suggest a change of policy. The DHSS draft is intended to be low key. We recommend you to agree to its submission (subject to minor draft points).

J. G. Colman

J G COLMAN

Of all the departmental returns to the TCSC this is closest to giving programme figures for 1993-94. In view of what has already been said about the resources necessary in future to cope with demography etc I do not see how DHSS could submit anything less revealing. But this document, read together with the Treasury revenue projections (which, of course, give revenue totals on the stated assumptions), may well lead the Committee to ask Treasury witnesses why we are unwilling to go one step further and give programme totals.

I agree with Mr Colman's recommendations; but you should be aware of the pitfalls.

MCS

M C SCHOLAR

* which we are
about to send
to the Committee

FROM: R PRATT
DATE: 11 JULY 1984

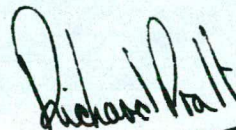
PS/CHIEF SECRETARY

cc Principal Private Secretary ✓
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir Peter Middleton
Mr Littler
Mr Bailey
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Anson
Mr Kemp
Mr Byatt
Mr Battishill
Mr Scholar
Mr Monger
Mr Sedgwick
Mr Mountfield
Mr Fitchew
Mr Evans
Mr Odling-Smee
Mr Lovell
Mr Burgner
Mr Watson
Miss Kelley
Mr Pestell
Mr Kitcatt
Mr Stibbard
Mr Gray
Mr Williams
Mr Allen
PS/Inland Revenue
PS/Customs & Excise
Mr Lewis - IR
Mr Wilmott - C&E

TCSC: LONG TERM TRENDS ENQUIRY

I mentioned on the telephone that the Clerk to the Select Committee had told me that it was very probable that Treasury witnesses would be called to give evidence to the Committee on Monday 23 July. He also told me that it was a possibility that they would ask for a Treasury Minister.

2. We should know one way or the other by 17 July. In the meantime, you agreed to reserve a space in the Chief Secretary's diary on the assumption that the Chancellor might ask the Chief Secretary to take this on.



R PRATT



Handwritten initials, possibly 'MO' or 'MP', enclosed in a circle.

FROM: MISS M O'MARA

DATE: 13 July 1984

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Bailey
Mr Anson
Mr Battishill
Mr Odling-Smee
Mr Scholar
Mr Watson
Mr Rayner
Mr Colman

**TREASURY AND CIVIL SERVICE COMMITTEE:
LONG TERM TRENDS ENQUIRY: HEALTH**

The Chancellor has seen Mr Colman's minute of 11 July. He believes we have to accept the draft which the DHSS are proposing to submit to the Committee but has commented that we must stick fiercely to our guns over the possibility of giving more than we have done for each programme. He points out that since each programme has its own characteristics, the TCSC's quest for uniformity is absurd.

Handwritten signature of Miss M O'Mara.

MISS M O'MARA

peretz

FROM: DAVID PERETZ

DATE: 16 July 1984

MR ODLING-SMEE

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Bailey
Mr Anson
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Monger
Mr Scholar
Mr Melliss
Mr Riley
Mr Stibbard
Mr Ridley
Mr Painter (IR)
Mr Walton (IR)
Mr Middleton (C&E)
Mr Wilmott (C&E)

TCSC: LONG-TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

As I have already mentioned to you, the Chancellor has now considered the draft note for the TCSC attached to your minute of 10 July.

2. He would like the following detailed changes made:-

(a) in table 1, add together the VAT and "other expenditure taxes" lines, to give a single line entitled "Expenditure Taxes". The second and third sentences of paragraph 8 of the note can be deleted as a consequential.

(b) the last sentence of paragraph 7 to be redrafted to read "as real earnings are assumed to grow, this means that, as conventionally measured, the burden of income tax automatically rises."



3. He is content with table 2.

3. He is, however, worried by the last two sentences of paragraph 2 - which he thinks will puzzle the TCSC and others also. There is something conceptually odd about having income tax figures shown pre-fiscal adjustment, but expenditure tax figures on the basis that the fiscal adjustment has occurred. The Chancellor wonders whether the best answer might not be simply to show what the figures would be on various alternative bases?

DLCP

D L C PERETZ

ppp

FROM: R PRATT
DATE: 17 JULY 1984

PS/CHIEF SECRETARY

- cc Principal Private Secretary
- PS/Financial Secretary
- PS/Minister of State
- PS/Economic Secretary
- Sir Peter Middleton
- Mr Littler
- Mr Bailey
- Sir Terence Burns
- Mr Cassell
- Mr Monck
- Mr Anson
- Mr Kemp
- Mr Byatt
- Mr Battishill
- Mr Scholar
- Mr Monger
- Mr Sedgwick
- Mr Mountfield
- Mr Fitchew
- Mr Evans
- Mr Odling-Smee
- Mr Lovell
- Mr Burgner
- Mr Watson
- Miss Kelley
- Mr Pestell
- Mr Kitcatt
- Mr Stibbard
- Mr Gray
- Mr Williams
- Mr Allen
- PS/Inland Revenue
- PS/Customs & Excise
- Mr Lewis - IR
- Mr Wilmott - C&E

TCSC: LONG TERM TRENDS ENQUIRY

As I told you on the telephone this morning, I have now heard from the Clerk to the Select Committee that they will not now be calling any Treasury witnesses to give evidence on Monday 23 July - ie they do not wish to see either Ministers or officials.

2. In all probability, now, we can stand down until after the Recess. We should know a little more about their future plans after their next meeting next Monday.

Richard Pratt

R PRATT

CONFIDENTIAL

From: J ODLING-SMEE
17th July 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Bailey
Sir Terence Burns
Mr Anson
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Monger
Mr Scholar
Mr Melliss
Mr Riley
Mr Stibbard
Mr Ridley
Mr Painter - IR
Mr Walton - IR
Mr Middleton - C&E
Mr Wilmott - C&E

C
Tax points are taken...
Q2 still less income tax pre-fiscal
adjusted with expenditure post-
adjusted but also refer to the
second projection where fiscal
adjusted less no impact at all.

MOM
17/7

Mark

2
Table 1
shows
both

TCSC: LONG-TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

We have reworked the note in the light of your comments. In particular, we have added a second set of projections of expenditure taxes as you suggested. The second projections are based on the assumption that the fiscal adjustment has no influence on personal disposable income and consumers' expenditure. The difference between the two projections is fairly small, which should reassure anyone who might suspect that the MTFS convention is misleading.

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2. The changes in this note compared with the last one are in paragraphs 2, 7, 8, and 10, and in the tables. They mostly reflect the introduction of a second set of projections, and otherwise reflect minor improvements and your own comments.

3. As I shall be away for the rest of the week, Mr Battishill will accept overall responsibility for the note and for sending it to the Committee. Mr Melliss will be responsible for the numbers and the associated text, in consultation with the revenue departments.

DL 08

J ODLING-SMEE

CONFIDENTIAL

LONG-TERM REVENUE PROJECTIONS

Note by H M Treasury, Inland Revenue and Customs and Excise

This note presents projections of taxes and National Insurance contributions in 1988-89 and 1993-94 on the assumption of constant real tax and contribution rates, and the corporation tax rates announced in the Budget. The same assumptions about the development of the economy are made as in the Medium-Term Financial Strategy and the Green Paper⁽¹⁾.

2. The projections are based on the same conventions as those adopted for the MTFS revenue projections. Thus, it is assumed that income tax allowances and thresholds are indexed, specific duties are revalorised, National Insurance contribution rates are unchanged and local authority rates grow in line with GDP. Two alternative projections of VAT and excise duties are presented. The first (A) is based on the MTFS convention that the fiscal adjustment (ie room for lower taxes) is assumed to be allocated to income tax. Although the income tax projections are before fiscal adjustment, the expenditure tax projections are affected by the fiscal adjustment, because it enables personal disposable income and hence consumers' expenditure to grow more rapidly than they would otherwise have done. The second projection (B) is based on the assumption that the fiscal adjustment has no influence on taxable income and expenditure.

3. Projected revenues are expressed as a percentage of GDP at market prices and are shown in Table 1. The estimates for 1983-84 and the projections for 1988-89 are identical to those in the MTFS (FSBR 1984-85, Table 2.5), except that total taxes and contributions are disaggregated into eight main groups compared with only two in the MTFS. Two sets of projections are provided for 1993-94 based on the two alternative assumptions in the Green Paper for the growth of GDP from 1988-89 to 1993-94: 1½% and 2% a year.

4. Broadly speaking, a change in revenues relative to GDP reflects either a change in the share in GDP of the type of income or expenditure that is

(1) H M Treasury The Next Ten Years: Public Expenditure and Taxation in the 1990s Cmnd 9189 March 1984

CONFIDENTIAL

being taxed, or a change in the effective tax rate on that income or expenditure category. The projected changes over time in revenues relative to GDP shown in Table 1 can be explained in terms of these two factors.

5. The assumptions that have been made about the shares of different categories of income in GDP are fairly stylised and are shown in Table 2. The main features are a rise in non-North Sea profits and a fall in North Sea profits. The projections for the North Sea in Tables 1 and 2 are identical to those in the Green Paper, Annex 4 of which provides further detail. The assumed rise in non-North Sea profits' share brings it back towards historical levels from the depressed position of recent years. The other shares to change are those of other employment income (National Insurance and other employers' contributions) and rent; they rise in line with the long-term trend.

6. The relative shift of income from North Sea to onshore profits is reflected in the decline in North Sea revenues and the rise in onshore corporation tax revenues. The latter are projected to rise somewhat faster up to 1988-89 than the rise in profits' share in GDP would suggest. This is largely because the mainstream corporation tax receipts in 1983-84 stem from the low share of on-shore profits in the previous two years. Projections of corporation tax revenues under the old (pre-Budget) regime would also have shown a significant rise, for similar reasons. Indeed, revenues in 1993-94 would have been projected to be higher on the pre-budget basis than those shown in Table 1.

7. Income tax revenues are projected to rise slightly relative to GDP, although wages, salaries and self-employment income are unchanged. The main explanation for this is that allowances are indexed in line with prices rather than earnings, according to the conventions of MTFs projections and as the Committee requested. As real earnings are assumed to grow, this means that as conventionally measured the burden of income tax automatically rises.

8. The rise in VAT and excise duties relative to GDP reflects mainly a fall in the savings ratio as inflation declines. The allocation of the fiscal adjustment to income tax as in projection A produces a higher level of these taxes relative to GDP than when the fiscal adjustment is ignored (projection B).

CONFIDENTIAL

9. Revenue from other taxes is projected to fall relative to GDP after 1983-84 mainly because of the abolition of National Insurance surcharge (which amounted to 0.5% of GDP in 1983-84) and the reduction in stamp duty rates.

10. The differences between the two sets of projections for 1993-94 are generally very small relative to GDP. The income shares are similar: a higher share of non-North Sea profits in the high GDP case being offset by lower shares of wages and salaries and North Sea profits. This contributes to a higher ratio of corporation tax to GDP in the high GDP case. VAT and excise duties are also relatively high in projection A, partly because of the larger fiscal adjustment.

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Table 1

Long-Term Revenue Projections⁽¹⁾
(receipts basis; per cent of GDP at market prices)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽²⁾	High GDP ⁽²⁾
Income tax	10.9	10.3	10.6	10.8	10.8
Corporation tax (excluding North Sea) ⁽³⁾	2.1	1.7	2.5	2.7	2.8
North Sea taxes ⁽⁴⁾	0.3	2.9	2.2	1.6	1.6
VAT and excise duties: A ⁽⁵⁾	8.8	11.0	11.5	11.7	11.8
B ⁽⁵⁾	8.8	11.0	11.1	11.3	11.3
Local authority rates	3.4	4.0	4.0	4.0	4.0
Other taxes ⁽⁶⁾	2.2	1.8	1.1	1.0	1.0
National Insurance contributions	6.0	7.0	7.0	7.0	7.0
TOTAL: A⁽⁵⁾	33³/₄	38³/₄	39	38³/₄	39
B⁽⁵⁾	33³/₄	38³/₄	38³/₄	38¹/₂	38³/₄

(1) The figures are given to the nearest 0.1 percentage point to enable comparisons to be made, but they are subject to margins of error considerably greater than that.

(2) Growth rates from 1988-89 to 1993-94: low 1¹/₂% a year
high 2% a year

(3) Corporation tax (CT) receipts, including Advance Corporation Tax (ACT). Excludes all CT attributable to North Sea oil and gas production (see ⁽⁴⁾)

(4) Royalties, petroleum revenue tax (including advance payments), and CT from companies engaged in North Sea oil and gas production. The latter represents the total CT charged before ACT set-off, and is defined as receipts of mainstream CT from these companies plus any CT liability satisfied by setting off ACT paid previously.

(5) Projection A is based on the assumption that the fiscal adjustment is allocated to income tax and hence affects personal disposable income and consumption. In projection B the fiscal adjustment is assumed to have no influence on taxable income and expenditure.

(6) Capital taxes, stamp duty, local authority VAT payments, gas levy and, in 1983-84, National Insurance surcharge

Table 2

Assumed Income Shares
(per cent of GDP at factor cost)

	1983-84	1988-89	1993-94	
			Low GDP(1)	High GDP(1)
Wages, salaries and self-employment income	64.5	64.5	64.7	64.5
Other employment income	8.7	9.0	9.2	9.2
Non-North Sea profits and surpluses	13.0	14.0	14.5	14.8
North Sea profits	6.2	4.4	3.3	3.2
Rent	7.7	8.1	8.3	8.2
GDP	100	100	100	100

(1) Growth rates from 1988-89 to 1993-94: low 1 $\frac{1}{2}$ % a year
high 2% a year

FROM: JOHN GIEVE
DATE: 18 July 1984



MR COLMAN

CC

- PPS
- FST
- EST
- MST
- Sir P Middleton
- Mr Anson
- Mr Watson
- Mr Bailey
- Mr Battishill
- Mr Odling-Smee
- Mr Rayner
- Mr Scholar

**TREASURY AND CIVIL SERVICE COMMITTEE: LONG TERM TRENDS ENQUIRY:
HEALTH**

The Chief Secretary has read your minute of 11 July. He is content with the draft the DHSS ^{are} proposing to submit.

JG

JOHN GIEVE



FROM: MISS M O'MARA

DATE: 18 July 1984

MR ODLING-SMEE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Mr Bailey
Sir Terence Burns
Mr Anson
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Monger
Mr Scholar
Mr Melliss
Mr Riley
Mr Stibbard
Mr Ridley
Mr Painter (IR)
Mr Walton (IR)
Mr Middleton (C&E)
Mr Wilmott (C&E)

TCSC: LONG-TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

The Chancellor was grateful for your minute of 17 July and is content with the revised note.

man

MISS M O'MARA



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3016

109

A M W Battishill
Under Secretary

D Limon Esq
Treasury & Civil Service Committee
St Stephen's House
St Stephen's Parade
LONDON SW1

19 July 1984

Dear Donaru,

LONG TERM TRENDS IN RESOURCES AND PUBLIC EXPENDITURE

... In my letter of 27 June I said that the Treasury and the Revenue Departments had in hand work on revenue projections on the lines your Committee had asked for. I now enclose a note for the Committee which provides figures for 1993-94. I am sorry it was not possible to provide this sooner.

*Yours sincerely,
A M W Battishill*

A M W BATTISHILL

cc For information:

Chancellor of the Exchequer

Chief Secretary

Financial Secretary

Economic Secretary

Minister of State

Sir P Middleton

Mr Bailey

Sir T Burns

Mr Anson

Mr Byatt

Mr Cassell

Mr Odling-Smee

Mr Evans

Mr Monger

Mr Scholar

Mr Melliss

Mr Riley

Mr Stibbard

Mr Ridley

Mr Painter - IR

Mr Walton - IR

Mr Middleton - C&E

Mr Wilmott - C&E

LONG-TERM REVENUE PROJECTIONS

Note by H M Treasury, Inland Revenue and Customs and Excise

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2. The projections are based on the same conventions as those adopted for the MTFs revenue projections. Thus, it is assumed that income tax allowances and thresholds are indexed, specific duties are revalorised, National Insurance contribution rates are unchanged and local authority rates grow in line with GDP. Two alternative projections of VAT and excise duties are presented. The first (A) is based on the MTFs convention that the fiscal adjustment (ie room for lower taxes) is assumed to be allocated to income tax. Although the income tax projections are before fiscal adjustment, the expenditure tax projections are affected by the fiscal adjustment, because it enables personal disposable income and hence consumers' expenditure to grow more rapidly than they would otherwise have done. The second projection (B) is based on the assumption that the fiscal adjustment has no influence on taxable income and expenditure.

3. Projected revenues are expressed as a percentage of GDP at market prices and are shown in Table 1. The estimates for 1983-84 and the projections for 1988-89 are identical to those in the MTFs (FSBR 1984-85, Table 2.5), except that total taxes and contributions are disaggregated into seven main groups compared with only two in the MTFs. Two sets of projections are provided for 1993-94 based on the two alternative assumptions in the Green Paper for the growth of GDP from 1988-89 to 1993-94: 1½% and 2% a year.

4. Broadly speaking, a change in revenues relative to GDP reflects either a change in the share in GDP of the type of income or expenditure that is

(1) H M Treasury The Next Ten Years: Public Expenditure and Taxation in the 1990s Cmd 9189 March 1984

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5. The assumptions that have been made about the shares of different categories of income in GDP are fairly stylised and are shown in Table 2. The main features are a rise in non-North Sea profits and a fall in North Sea profits. The projections for the North Sea in Tables 1 and 2 are identical to those in the Green Paper, Annex 4 of which provides further detail. The assumed rise in non-North Sea profits' share brings it back towards historical levels from the depressed position of recent years. The other shares to change are those of other employment income (National Insurance and other employers' contributions) and rent; they rise in line with the long-term trend.

6. The relative shift of income from North Sea to onshore profits is reflected in the decline in North Sea revenues and the rise in onshore corporation tax revenues. The latter are projected to rise somewhat faster up to 1988-89 than the rise in profits' share in GDP would suggest. This is largely because the mainstream corporation tax receipts in 1983-84 stem from the low share of on-shore profits in the previous two years. Projections of corporation tax revenues under the old (pre-Budget) regime would also have shown a significant rise, for similar reasons. Indeed, revenues in 1993-94 would have been projected to be higher on the pre-budget basis than those shown in Table 1.

7. Income tax revenues are projected to rise slightly relative to GDP, although wages, salaries and self-employment income are unchanged. The main explanation for this is that allowances are indexed in line with prices rather than earnings, according to the conventions of MIFS projections and as the Committee requested. As real earnings are assumed to grow, this means that as conventionally measured the burden of income tax automatically rises.

8. The rise in VAT and excise duties relative to GDP reflects a fall in the savings ratio as inflation declines and, in projection A, the effects of the fiscal adjustment. When the fiscal adjustment is allocated to income tax (projection A) there is a higher level of these taxes relative to GDP than when it is ignored (projection B).

9. Revenue from other taxes is projected to fall relative to GDP after 1983-84 mainly because of the abolition of National Insurance surcharge (which amounted to 0.5% of GDP in 1983-84) and the reduction in stamp duty rates.

10. The differences between the two sets of projections for 1993-94 are generally very small relative to GDP. The income shares are similar: a higher share of non-North Sea profits in the high GDP case being offset by lower shares of wages and salaries and North Sea profits. This contributes to a higher ratio of corporation tax to GDP in the high GDP case. VAT and excise duties are also relatively high in projection A, partly because of the larger fiscal adjustment.

Table 1
Long-Term Revenue Projections⁽¹⁾
(receipts basis; per cent of GDP at market prices)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽²⁾	High GDP ⁽²⁾
Income tax	10.9	10.3	10.6	10.8	10.8
Corporation tax (excluding North Sea) ⁽³⁾	2.1	1.7	2.5	2.7	2.8
North Sea taxes ⁽⁴⁾	0.3	2.9	2.2	1.6	1.6
VAT and excise duties: A ⁽⁵⁾	8.8	11.0	11.5	11.7	11.8
B ⁽⁵⁾	8.8	11.0	11.1	11.2	11.2
Local authority rates	3.4	4.0	4.0	4.0	4.0
Other taxes ⁽⁶⁾	2.2	1.8	1.1	1.0	1.0
National Insurance contributions	6.0	7.0	7.0	7.0	7.0
TOTAL: A⁽⁵⁾	33³/₄	38³/₄	39	38³/₄	39
B⁽⁵⁾	33³/₄	38³/₄	38³/₄	38¹/₂	38¹/₂

(1) The figures are given to the nearest 0.1 percentage point to enable comparisons to be made, but they are subject to margins of error considerably greater than that.

(2) Growth rates from 1988-89 to 1993-94: low 1¹/₂% a year
high 2% a year

(3) Corporation tax (CT) receipts, including Advance Corporation Tax (ACT). Excludes all CT attributable to North Sea oil and gas production (see ⁽⁴⁾)

(4) Royalties, petroleum revenue tax (including advance payments), and CT from companies engaged in North Sea oil and gas production. The latter represents the total CT charged before ACT set-off, and is defined as receipts of mainstream CT from these companies plus any CT liability satisfied by setting off ACT paid previously.

(5) Projection A is based on the assumption that the fiscal adjustment is allocated to income tax and hence affects personal disposable income and consumption. In projection B the fiscal adjustment is assumed to have no influence on taxable income and expenditure.

(6) Capital taxes, stamp duty, local authority VAT payments, gas levy and, in 1983-84, National Insurance surcharge

Table 2

Assumed Income Shares
(per cent of GDP at factor cost)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽¹⁾	High GDP ⁽¹⁾
Wages, salaries and self-employment income	67.0	64.4	64.5	64.7	64.5
Other employment income	8.8	8.7	9.0	9.2	9.2
Non-North Sea profits and surpluses	14.7	13.1	14.0	14.5	14.8
North Sea profits	2.0	6.2	4.4	3.3	3.2
Rent	7.5	7.7	8.1	8.3	8.3
GDP	100	100	100	100	100

(1) Growth rates from 1988-89 to 1993-94: low 1½% a year
high 2% a year

FROM: H C GOODMAN
DATE: 19 July 1984

PS/CHANCELLOR (MISS O'MARA)

cc Mr Battishill (o/r)
Mr Evans
Mr Monger
Mr Odling-Smee (o/r)
Mr Riley
Mr Melliss
Mr Stibbard
Mr Painter } IR
Mr Walton }
Mr Middleton } C&E
Mr Wilmott }

c/
Loshan Smith

MOM
19/7

OK

TCSC: LONG TERM TRENDS AND RESOURCES AND PUBLIC EXPENDITURE

You minute to Mr Odling-Smee of 18 July.

... 2. I attach a further copy of the note for the TCSC. Two revisions have been made to the tables of figures:

(a) in Table 2 a column setting out income shares in 1978-79 has been added. This makes this table consistent with Table 1 and also illustrates the statement in paragraph 5 of the text that: "the assumed rise in non-North Sea profits brings it back towards historical levels from the depressed position of recent years".

(b) in Table 1 the 1993-94 projection for VAT and excise duties in assuming the fiscal adjustment has no influence on taxable income and expenditure, (B(5)), has been reduced by £0.1 billion, following re-working of the consumers' expenditure figures. This flows through into the B(5) total on the high GDP scenario which is now rounded down from 38½ to 38¼.

3. MP division have agreed these changes with the Inland Revenue and Customs and Excise.

4. You may wish to show these to the Chancellor, but we should try to get these papers to the TCSC today, or first thing tomorrow at the latest.

H C Goodman
H C GOODMAN

CONFIDENTIAL

LONG-TERM REVENUE PROJECTIONS

Note by H M Treasury, Inland Revenue and Customs and Excise

This note presents projections of taxes and National Insurance contributions in 1988-89 and 1993-94 on the assumption of constant real tax and contribution rates, and the corporation tax rates announced in the Budget. The same assumptions about the development of the economy are made as in the Medium-Term Financial Strategy and the Green Paper⁽¹⁾.

2. The projections are based on the same conventions as those adopted for the MTFS revenue projections. Thus, it is assumed that income tax allowances and thresholds are indexed, specific duties are revalorised, National Insurance contribution rates are unchanged and local authority rates grow in line with GDP. Two alternative projections of VAT and excise duties are presented. The first (A) is based on the MTFS convention that the fiscal adjustment (ie room for lower taxes) is assumed to be allocated to income tax. Although the income tax projections are before fiscal adjustment, the expenditure tax projections are affected by the fiscal adjustment, because it enables personal disposable income and hence consumers' expenditure to grow more rapidly than they would otherwise have done. The second projection (B) is based on the assumption that the fiscal adjustment has no influence on taxable income and expenditure.

3. Projected revenues are expressed as a percentage of GDP at market prices and are shown in Table 1. The estimates for 1983-84 and the projections for 1988-89 are identical to those in the MTFS (FSBR 1984-85, Table 2.5), except that total taxes and contributions are disaggregated into eight main groups compared with only two in the MTFS. Two sets of projections are provided for 1993-94 based on the two alternative assumptions in the Green Paper for the growth of GDP from 1988-89 to 1993-94: 1½% and 2% a year.

4. Broadly speaking, a change in revenues relative to GDP reflects either a change in the share in GDP of the type of income or expenditure that is

(1) H M Treasury The Next Ten Years: Public Expenditure and Taxation in the 1990s Cmnd 9189 March 1984

being taxed, or a change in the effective tax rate on that income expenditure category. The projected changes over time in revenues relative to GDP shown in Table 1 can be explained in terms of these two factors.

5. The assumptions that have been made about the shares of different categories of income in GDP are fairly stylised and are shown in Table 2. The main features are a rise in non-North Sea profits and a fall in North Sea profits. The projections for the North Sea in Tables 1 and 2 are identical to those in the Green Paper, Annex 4 of which provides further detail. The assumed rise in non-North Sea profits' share brings it back towards historical levels from the depressed position of recent years. The other shares to change are those of other employment income (National Insurance and other employers' contributions) and rent; they rise in line with the long-term trend.

6. The relative shift of income from North Sea to onshore profits is reflected in the decline in North Sea revenues and the rise in onshore corporation tax revenues. The latter are projected to rise somewhat faster up to 1988-89 than the rise in profits' share in GDP would suggest. This is largely because the mainstream corporation tax receipts in 1983-84 stem from the low share of on-shore profits in the previous two years. Projections of corporation tax revenues under the old (pre-Budget) regime would also have shown a significant rise, for similar reasons. Indeed, revenues in 1993-94 would have been projected to be higher on the pre-budget basis than those shown in Table 1.

7. Income tax revenues are projected to rise slightly relative to GDP, although wages, salaries and self-employment income are unchanged. The main explanation for this is that allowances are indexed in line with prices rather than earnings, according to the conventions of MTFs projections and as the Committee requested. As real earnings are assumed to grow, this means that as conventionally measured the burden of income tax automatically rises.

8. The rise in VAT and excise duties relative to GDP reflects mainly a fall in the savings ratio as inflation declines. The allocation of the fiscal adjustment to income tax as in projection A produces a higher level of these taxes relative to GDP than when the fiscal adjustment is ignored (projection B).

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9. Revenue from other taxes is projected to fall relative to GDP after 1983-84 mainly because of the abolition of National Insurance surcharge (which amounted to 0.5% of GDP in 1983-84) and the reduction in stamp duty rates.

10. The differences between the two sets of projections for 1993-94 are generally very small relative to GDP. The income shares are similar: a higher share of non-North Sea profits in the high GDP case being offset by lower shares of wages and salaries and North Sea profits. This contributes to a higher ratio of corporation tax to GDP in the high GDP case. VAT and excise duties are also relatively high in projection A, partly because of the larger fiscal adjustment.

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Table 1

Long-Term Revenue Projections⁽¹⁾
(receipts basis; per cent of GDP at market prices)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽²⁾	High GDP ⁽²⁾
Income tax	10.9	10.3	10.6	10.8	10.8
Corporation tax (excluding North Sea) ⁽³⁾	2.1	1.7	2.5	2.7	2.8
North Sea taxes ⁽⁴⁾	0.3	2.9	2.2	1.6	1.6
VAT and excise duties: A ⁽⁵⁾	8.8	11.0	11.5	11.7	11.8
B ⁽⁵⁾	8.8	11.0	11.1	11.2	11.2
Local authority rates	3.4	4.0	4.0	4.0	4.0
Other taxes ⁽⁶⁾	2.2	1.8	1.1	1.0	1.0
National Insurance contributions	6.0	7.0	7.0	7.0	7.0
TOTAL: A⁽⁵⁾	33³/₄	38³/₄	39	38³/₄	39
B⁽⁵⁾	33³/₄	38³/₄	38³/₄	38¹/₂	38¹/₂

(1) The figures are given to the nearest 0.1 percentage point to enable comparisons to be made, but they are subject to margins of error considerably greater than that.

(2) Growth rates from 1988-89 to 1993-94: low 1¹/₂% a year
high 2% a year

(3) Corporation tax (CT) receipts, including Advance Corporation Tax (ACT). Excludes all CT attributable to North Sea oil and gas production (see (4))

(4) Royalties, petroleum revenue tax (including advance payments), and CT from companies engaged in North Sea oil and gas production. The latter represents the total CT charged before ACT set-off, and is defined as receipts of mainstream CT from these companies plus any CT liability satisfied by setting off ACT paid previously.

(5) Projection A is based on the assumption that the fiscal adjustment is allocated to income tax and hence affects personal disposable income and consumption. In projection B the fiscal adjustment is assumed to have no influence on taxable income and expenditure.

(6) Capital taxes, stamp duty, local authority VAT payments, gas levy and, in 1983-84, National Insurance surcharge

Table 2

Assumed Income Shares
(per cent of GDP at factor cost)

	1978-79	1983-84	1988-89	1993-94	
				Low GDP ⁽¹⁾	High GDP ⁽¹⁾
Wages, salaries and self-employment income	67.0	64.4	64.5	64.7	64.5
Other employment income	8.8	8.7	9.0	9.2	9.2
Non-North Sea profits and surpluses	14.7	13.1	14.0	14.5	14.8
North Sea profits	2.0	6.2	4.4	3.3	3.2
Rent	7.5	7.7	8.1	8.3	8.3
GDP	100	100	100	100	100

(1) Growth rates from 1988-89 to 1993-94: low 1½% a year
high 2% a year



FROM: MISS M O'MARA

DATE: 19 July 1984

MS GOODMAN

cc Mr Battishill
Mr Evans
Mr Monger
Mr Odling-Smee
Mr Riley
Mr Melliss
Mr Stibbard

Mr Painter) IR
Mr Walton)

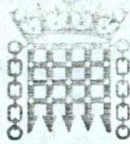
Mr Middleton) C&E
Mr Wilmott)

TCSC: LONG TERM TRENDS AND RESOURCES AND PUBLIC EXPENDITURE

This is to confirm that the Chancellor is content with the revisions to the note for the TCSC set out in your minute of today's date.

MOM

MISS M O'MARA



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)



TREASURY AND CIVIL SERVICE COMMITTEE

26th July 1984

Dear Peter.

The Treasury and Civil Service Committee is in the early stages of a wide-ranging enquiry into Long-Term Trends in Resources and Public Expenditure. At the outset the Committee asked for written submissions from all Government Departments.

I regret to tell you that the Committee singled out the contribution received from the Department of Energy as being particularly unenlightening, sketchy and unhelpful. It is difficult to understand how your Department can be taking an intelligent interest in the long-term future for Energy, if this is the kind of material which is being turned out.

Along with other Departments, yours will shortly receive a request from the Committee for more specific information. I very much hope that you will seek to ensure that a real effort is made to see to it that a good paper is produced on this second occasion.

A. M. P.
Fruen

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30/7

Rt Hon Peter Walker *M.P.*
Secretary of State for Energy

SECRETARY OF STATE'S OFFICE	
TO PUS	Copies to
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE).	<i>Mr Manley</i>
PLEASE BY: 1/8	<i>Mr Guinness</i>
<i>RM</i>	<i>Mr Wilson</i>
	<i>Mr Mayhew</i>
	<i>Mr Wilcock</i>
	<i>Mr Pugh</i>



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HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

PS/CHANCELLOR

PS/CST

SIR. P. MIDDLETON

MR. BAILEY

MR. MONCK. MR. ANSON

MR. BURGNER.

MR. LOVEU. MR. SCHOLAR

MR. GRIMSTONE. MR. GRAY

MS. CONN. MR. STIBBARD

MR. RIDLEY.

- circulated for information.

TREASURY AND CIVIL SERVICE COMMITTEE

1st August 1984

Mr. Limon

Thank you for your response to my previous letter concerning the Committee's current enquiry into Long-Term Trends in Resources and Public Expenditure. The Committee has three supplementary questions, which are listed beneath. I should be grateful to receive your reply by end September, so that we can proceed with the processing of the material in time for the beginning of the new session.

1. Paragraph 10 explains the future speed of the Government's privatisation programme will depend on the state of the economy. How swiftly will the programme proceed if the economy develops in line with the Green Paper projections?
2. What are your best estimates for public support over the Green Paper period for these industries which remain under public ownership?
3. What are the quantitative implications for expenditure on regional aid (which is demand led) of the economy developing in line with the Green Paper projections?

Yours sincerely,

D.W. Limon

Miss B.M. Currell
Department of Trade and Industry
Finance and Resource Management
Division 1A
Room 304
Kingsgate house
66-74 Victoria Street
London SW1E 6SJ

D.W. Limon
Clerk to the Committee

11/50



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

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SIR. P. MIDDLETON
MR. BAILEY.
MR. ANSON
MR. SCHOLAR
MR. GRAY
MR. STIBBARD
MR. RIDLEY
MR. WATSON
MR. RAYNER
MS. SEAMON

- circulated for information

1st August 1984

Les Parker,

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

As far as statistics are concerned the Treasury and CSO jointly have provided programme-related expenditure on goods and services information together with gross capital formation statistics covering the historical period from 1978-79 and extending forward to the 1986-87 survey year (I have enclosed photocopies). Ideally we would like to obtain a longer time series for these or similar data. At the same time the Committee is interested in the question of relative prices within the public sector, and if it is to pursue this it will need volume-term information to set alongside the cost-term data. The Committee would therefore appreciate the following data - based on either financial or calendar years:

- expenditure on goods and services extending back for a 10-year period expressed in cost terms. Ideally we would like to have this information relating to both your Department and separately for programmes for which your Department is responsible;
- the same as above but expressed in volume terms;
- capital spending extending back for a 10-year period, expressed in cost terms. Again we hope you will be able to provide this both for your Department and for programmes for which your Department is responsible;
- the same as above but expressed in volume terms.

The Committee is relatively indifferent as to whether the above statistics are based on White Paper concepts and definitions, or alternatively based on national account definitions.

The Treasury and CSO also jointly provided the Committee with separate cash and cost-term programme information separately identifying wages and salaries, procurement, subsidies and grants, and net lending; but these were also confined to the 1978-79 to 1986-87 survey period.

(Photocopies are enclosed.) The Committee would appreciate the annual cash-term figures extending back five years earlier to 1973-74. Again analysis for both your Department's spending and separate analysis based on programmes would be helpful.

The Committee recognises that certain consistency problems may exist in pushing all this data 10 years back in time, but it is prepared to "live with" difficulties of this kind - provided that the resulting time series are not unduly misleading.

The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
2. When are the results of the four reviews mentioned in paragraph 1.3 likely to become available?
3. May we be provided with projections of unemployment consistent with both output growth options as set out in the Green Paper? What difference would it make to unemployment if output growth were 1 percentage point more or less than assumed?
4. Assuming that unemployment remains at its present level for the next 10 years, what would be the implications for the cost of unemployment and means-tested benefits?
5. What is the Department's policy with respect to the possible introduction of a comprehensive disability benefit? What is the likelihood of such a benefit being introduced some time over the 10 years? Is the cost of £3 billion per year referred to in paragraph 5.3 a net addition to expenditure?

- ✓ 6. What is the Department's best guess of the change in proportion of people contracted-out of State pension schemes over the next decade? (refers to para 3.4)
- ✓ 7. Given the present high level of unemployment does the Department envisage a reduction in the retirement age over the next 10 years?
- ✓ 8. How does the retirement age in the UK compare with that in other Western European countries?

*Yours sincerely,
D.W. Limon*

C.J. Parker Esq.,
Department of Health and Social
Security
Friars House
157-168 Blackfriars Road
London SE1 8EU

D.W. Limon
Clerk to the Committee



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

MR. MONCK.
MR. WYLLIE.
MR. GORDON.
MR. CHANCELLOR
MR. COST
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MR. ANSON
MR. SCHOUMER
MR. GRAY
MR. STIBBARD
MR. RIDLEY

- circulated for information

TREASURY AND CIVIL SERVICE COMMITTEE

1st August 1984

Dear Mr. Williams,

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

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(Photocopies are enclosed.) The Committee would appreciate the annual cash-term figures extending back five years earlier to 1973-74. Again analysis for both your Department's spending and separate analysis based on programmes would be helpful.

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The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
- X 2. What assumptions about the future levels of unemployment in different age groups are the Department using as a basis for expenditure planning in the short, medium and long term?
- Y 3. What are your best estimates of the future demand for places on the various schemes which you administer, based on alternative assumptions about economic growth and unemployment?
- ✓ 4. Paragraph 4 gives figures for gross expenditure for various training schemes. Could we have comparable figures for net expenditure taking account of unemployment and other benefits?

- ✓ 5. Paragraph 8 gives figures for gross expenditure for various special employment measures. Could we have comparable figures for net expenditure taking account of unemployment and other benefits?

J.P. Cullinane Esq.,
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

Yours sincerely,
D.W. Limon
D.W. Limon
Clerk to the Committee



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

MISS. KOPPEL
MR. F.K. JONES

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MR. ANSON
MR. SNOUPE
MR. GRAY
MR. STIBBARD
MR. RIDLEY.

- circulated for information

TREASURY AND CIVIL SERVICE COMMITTEE

1st August 1984

2w Norris

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

As far as statistics are concerned the Treasury and CSO jointly have provided programme-related expenditure on goods and services information together with gross capital formation statistics covering the historical period from 1978-79 and extending forward to the 1986-87 survey year (I have enclosed photocopies). Ideally we would like to obtain a longer time series for these or similar data. At the same time the Committee is interested in the question of relative prices within the public sector, and if it is to pursue this it will need volume-term information to set alongside the cost-term data. The Committee would therefore appreciate the following data - based on either financial or calendar years:

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The Committee is relatively indifferent as to whether the above statistics are based on White Paper concepts and definitions, or alternatively based on national account definitions.

The Treasury and CSO also jointly provided the Committee with separate cash and cost-term programme information separately identifying wages and salaries, procurement, subsidies and grants, and net lending; but these were also confined to the 1978-79 to 1986-87 survey period. (Photocopies are enclosed.) The Committee would appreciate the annual cash-term figures extending back five years earlier to 1973-74. Again analysis for both your Department's spending and separate analysis based on programmes would be helpful.

The Committee recognises that certain consistency problems may exist in pushing all this data 10 years back in time, but it is prepared to "live with" difficulties of this kind - provided that the resulting time series are not unduly misleading.

The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
2. Do the simple extrapolations referred to in paragraph 13 represent the Department's best estimates of future levels of recorded crime and "business"?
3. Given your estimates of future developments, what level of expenditure will be needed in future years to ensure that the criminal justice system provides a similar level of service as at present?
4. Given current expenditure plans, how far will it be possible to fulfill the various objectives for improvement referred to in paragraph 15?
5. Given projections of prison population over the next 10 years, will the prison building programme at present envisaged lead to an increase or a reduction in prison overcrowding?

Your sincerely,
Frank Limon
D.W. Limon
Clerk to the Committee

T.C. Morris Esq.,
Parliamentary Clerk
Home Office
Queen Anne's Gate
London SW1J 9AT



COMMITTEE OFFICE
 HOUSE OF COMMONS
 LONDON SW1A 0AA
 01-219 (Direct Line)
 01-219 3000 (Switchboard)

MISS KELLEY
 MR. F.K. JONES

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 MR. ANSON
 MR. SCHOLAR
 MR. GRAY
 MR. STIBBARD
 MR. RIDLEY

- circulated for information

TREASURY AND CIVIL SERVICE COMMITTEE

1st August 1984

New Rhodes.

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

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1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
- X 2. Is it Department policy to maintain expenditure on motorways at its current real level over the next 10 years?
3. Given the fact that present levels of maintenance investment on all purpose trunk roads will lead to an increase in the backlog of expenditure, is the Department's policy likely to be to expand investment over the next 10 years? To what extent are the economies referred to in paragraph 10 taken into account when expenditure levels are decided? Is there not a case on economic grounds for a significant acceleration in expenditure on road maintenance to reduce the repair backlog and to avoid complete reconstruction?
4. In the light of what is said in paragraph 11, is it Department policy to expand expenditure on the maintenance of local authority roads? What level of expenditure would be necessary to ensure that maintenance work is adequate?

5. What are the Department's projections of the required support for British Rail after 1986 assuming that present levels of service are maintained?

*Yours sincerely,
Donald Limon*

J.A. Rhodes Esq.,
Department of Transport
Room P1/180
2 Marsham Street
London SW1P 3EB

D.W. Limon
Clerk to the Committee



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

MISS. KENNY.
MR. FAULKNER.

PS/CHANCELLOR.
PS/CLT.
SIR. P. MIDDLETON.
MR. BAILEY.
MR. ANSON
MR. SCHOMAR
MR. GRAY.
MR. STIBBARD.
MR. RIDLEY.

TREASURY AND CIVIL SERVICE COMMITTEE

- circulated for information

1st August 1984

Les Au Griffiths

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

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The Committee recognises that certain consistency problems may exist in pushing all this data 10 years back in time, but it is prepared to "live with" difficulties of this kind - provided that the resulting time series are not unduly misleading.

The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
- 2.. The projections of the number of pupils up to 1996 (para 3) are for England only. Is it possible to have comparable estimates for the UK? What is the margin of error for these projections - ie what difference does it make if alternative estimates of future birth rates are made? What are your projections of pupils in the years 2000 and 2004 (ie 20 years time)?
3. The paper refers to the fact that the Green Paper estimates of the reduction in expenditure made possible by fewer pupils makes not allowance for 'the substantial costs likely to be involved in adapting the school system to lower numbers' (para 3). What are your estimates of such costs - ie how much of a reduction in expenditure is really possible if the object were to maintain a constant provision of service per pupil? What are your estimates of the costs of re-adapting the education system to cope with expanding numbers of pupils after 1992?

4. Para 4 refers to the increasing trend in participation by three and four year old children. To what extent has this trend been depressed by restrictions on expenditure? What is the meaning of the future projections in the paper given the continuation of such restrictions? Are the projections given for England or the UK? If the former, can we have projections of the latter, including projections for 2000 and 2004? What is your estimate of the demand for nursery education at present - ie what proportion of three and four year olds would now be participating in the education system if there were no restraints on expenditure? How is this demand likely to change in future? How does the UK compare with other European countries in its provision of education for three and four year olds?
5. Para 5 and para 8 give projections of numbers in further and higher education. Are these projections for the UK? If not, can we have UK projections, including those for 2000 and 2004? What assumptions have been made to generate these figures. In particular, what have been assumed about the future state of the labour market, the level of support available, the accessibility of further and higher education, the nature of provision for them in schools, the participation of those aged over 21? What estimates of the proportion of each socio-economic group participating in further and higher education, broken down by sex, underlie the aggregate projections? How do these estimates compare with past trends? How does present and recent participation in further and higher education in the UK compare with that in other European countries?
6. Para 5 also refers to the diseconomies of scale in further and higher education as numbers decline. What are your estimates of such diseconomies?
7. Para 6 refers to the fact that teacher numbers have not fallen as fast as school rolls. To what extent is this a reflection of the diseconomies of scale referred to earlier in the paper? What are your estimates of teacher numbers over the next 20 years? What are your estimates of the numbers of primary and secondary school teachers which would be necessary to maintain a constant provision of service over the next 20 years (ie taking account of diseconomies of scale)?
8. Para 7 refers to the possible impact on costs of a new structure of teachers' pay. Can this statement be clarified and quantified so far as the future is concerned?
9. Para 10 refers to the potential importance for costs of the balance of further and higher education provision between universities and other institutions and between science and other courses. What are your estimates of

the future development of these two balances and of the additional (or lower) costs implied relative to the present balance of provision? What is your policy with regard to the way in which the balance of provision between universities and other institutions and between science and arts should develop? How will this affect the expenditure levels?

10. Para 13 sets out a list of factors which will affect the demands on the Science Budget over the next ten years. What are your estimates of the future development of each of these factors and of the costs implied for the education service? What is your policy on the development of each of these factors - ie how in the view of the Department should these factors develop and what measures are planned to encourage such developments?
11. Para 14 refers to the fact that the growth of scientific opportunities is accelerating, that the costs of research rise faster than other domestic costs and that science is likely to become more important for UK employment and wealth. Can you give quantitative estimates of developments for future years and of their implications for future public expenditure on science?
12. Will the existing level of capital expenditure, if maintained over the next 10 years, be sufficient to ensure that the educational programme is not hampered by a lack of adequate buildings?

*Yours sincerely,
Donald Limon*

Sally Griffiths
Department of Education and Science
Elizabeth House
York Road
London SE1 7PH

D.W. Limon
Clerk to the Committee



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

MR. WATSON.
MR. RAYNER.
MS. SCAMMEN.
MR. GRAY.
MR. STIBBARD.
MR. RIDLEY.

PS/CHANCEUR
PS/CST.
SIR. P. MIDDLETOWN.
MR. BAILEY
MR. ANSON.
MR. SCHOUAR.

TREASURY AND CIVIL SERVICE COMMITTEE

- circulated for information

1st August 1984

Law Luce,

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

As far as statistics are concerned the Treasury and CSO jointly have provided programme-related expenditure on goods and services information together with gross capital formation statistics covering the historical period from 1978-79 and extending forward to the 1986-87 survey year (I have enclosed photocopies). Ideally we would like to obtain a longer time series for these or similar data. At the same time the Committee is interested in the question of relative prices within the public sector, and if it is to pursue this it will need volume-term information to set alongside the cost-term data. The Committee would therefore appreciate the following data - based on either financial or calendar years:

- expenditure on goods and services extending back for a 10-year period expressed in cost terms. Ideally we would like to have this information relating to both your Department and separately for programmes for which your Department is responsible;
- the same as above but expressed in volume terms;
- capital spending extending back for a 10-year period, expressed in cost terms. Again we hope you will be able to provide this both for your Department and for programmes for which your Department is responsible;
- the same as above but expressed in volume terms.

The Committee is relatively indifferent as to whether the above statistics are based on White Paper concepts and definitions, or alternatively based on national account definitions.

The Treasury and CSO also jointly provided the Committee with separate cash and cost-term programme information separately identifying wages and salaries, procurement, subsidies and grants, and net lending; but these were also confined to the 1978-79 to 1986-87 survey period. (Photocopies are enclosed.) The Committee would appreciate the annual cash-term figures extending back five years earlier to 1973-74. Again analysis for both your Department's spending and separate analysis based on programmes would be helpful.

The Committee recognises that certain consistency problems may exist in pushing all this data 10 years back in time, but it is prepared to "live with" difficulties of this kind - provided that the resulting time series are not unduly misleading.

The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?
2. Are the figures set out in paragraphs 5, 6, 7, 23 and 24 applicable to the UK as well as to England? If not may we be given equivalent figures for the UK?
3. May we have estimates of the costs both in the transitional period and in the long run of carrying-out the Department's policy of changing the pattern of care from hospitals to personal social services? (refers to paragraph 11)
4. What scope is foreseen for extending charges within the Health Service for such services as visits to GPs and hospital meals and accommodation etc?
5. What is your policy with regard to increasing charges where these are already levied? Is it your policy that an increasing proportion of expenditure will be financed by such increases over the next 10 years?

6. What is your policy in regard to narrowing the gap between the surgical and medical services now available overseas, for example to private patients in the United States, and those available under the NHS?
7. Could you provide statistics covering the past 10 years relating to the average length of hospital waiting list, split according to major category? What prospect, given existing planning levels, is there of reducing these waiting times over the next 10 years? What would be the additional costs of halving waiting times by the end of a 10 year period?
8. What estimate has the Department made of the impact of growing private health insurance on NHS expenditure over the next 10 years?
9. Could you give us some quantitative indication of the reduction in expenditure which can be expected from the prospective gains in efficiency mentioned in paragraph 12.
10. Paragraph 14 refers to a small annual increase in input volumes over the next decade. Does small in this context refer to a similar rate of growth of expenditure per head as occurred over the last 10 years? Is such prospective growth independent of the increasing relative cost which might occur?
11. Is the maintenance of capital expenditure at its current level sufficient to achieve the aims as outlined in paragraph 17?
12. Paragraph 19 refers to FPS rising by 3% per year over the past. Is this a reasonable estimate of the likely future rate of growth?
13. What steps are being taken to improve the efficiency of personal social services provision in those local authorities where it appears to be low? (refers to paragraph 26)
14. What steps are being taken to improve the provision of personal social services in those local authorities where these services appear to be relatively inadequate?
15. Will the net effect of the steps referred to in questions 13 and 14 be to increase or reduce the overall level of expenditure?

*Yours sincerely,
Ronald Limon*

T.H. Luce Esq.,
Department of Health and
Security
Friars House
157-168 Blackfriars Road
London SE1 8EU

D.W. Limon
Clerk to the Committee



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01-219 (Direct Line)
01-219 3000 (Switchboard)

MR. JAMESON
MR. PIRIE
MR. ALLAN

PS/GRANCOCK
PS/CBT
SIR. P. MIDDLETOWN
MR. BAILEY.
MR. ANSON.
MR. SCHOLAR.
MR. GRAY.
MR. STIBBARD.
MR. RIDLEY.

- circulated for information

TREASURY AND CIVIL SERVICE COMMITTEE

1st August 1984

To Mr. Thomas

Thank you for your reply to my earlier letter concerning the Treasury and Civil Service Committee's enquiry into Long-Term Trends in Resources and Public Expenditure. Further to that response the Committee has a few supplementary questions, and in addition it hopes to obtain some background statistical information. The Committee hopes to take oral evidence early in the new session which begins on 22 October. Accordingly we would hope to receive your reply by the end of September in order to leave sufficient time for appropriate processing.

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- expenditure on goods and services extending back for a 10-year period expressed in cost terms. Ideally we would like to have this information relating to both your Department and separately for programmes for which your Department is responsible;
- the same as above but expressed in volume terms;
- capital spending extending back for a 10-year period, expressed in cost terms. Again we hope you will be able to provide this both for your Department and for programmes for which your Department is responsible;
- the same as above but expressed in volume terms.

The Committee is relatively indifferent as to whether the above statistics are based on White Paper concepts and definitions, or alternatively based on national account definitions.

The Treasury and CSO also jointly provided the Committee with separate cash and cost-term programme information separately identifying wages and salaries, procurement, subsidies and grants, and net lending; but these were also confined to the 1978-79 to 1986-87 survey period. (Photocopies are enclosed.) The Committee would appreciate the annual cash-term figures extending back five years earlier to 1973-74. Again analysis for both your Department's spending and separate analysis based on programmes would be helpful.

The Committee recognises that certain consistency problems may exist in pushing all this data 10 years back in time, but it is prepared to "live with" difficulties of this kind - provided that the resulting time series are not unduly misleading.

The Committee's supplementary questions are listed beneath. The first is intended to relate to the data generated in response to the requests made above. Paragraph numbers refer to your original response.

General

1. What specific factors contributed to the trends in your Department's relative costs and real growth over the past 10 years? Are these factors likely to continue to influence expenditure in the next 10 years, and to what extent will new factors affect relative prices and real growth over the next 10 years?

Housing

2. Paragraph 5 states that the proportion of the housing stock which is owner-occupied will increase in future years. What is the Department's best estimate of this proportion in 10 years' time?
3. Given the likely annual formation of new households, and given the Department's projection of private sector completions, is the housing stock relative to demand likely to become more or less adequate over the next 10 years on current expenditure plans?
4. How much will expenditure on housing need to increase over the next 10 years in order to meet the need for repairs and improvements as the average age of local authority housing stock increases, and in order to rectify the recently discovered defects referred to in paragraph 11?

5. Paragraph 12 refers to the need for continuing expenditure on repairs to the private housing stock. How much would expenditure on improvement grants have to increase over the next decade to meet such a need?
6. What is the Department's best estimate of the revenue likely to come from future council house sales?
7. If such sales are expected to decline as indicated in paragraph 13, are authorities likely to receive more revenue from other sources to compensate?
8. What is the Department's policy with regard to the future development of housing subsidies and council house rents? Is the decline in subsidy which has already occurred since 1979-80 likely to continue in future years?

Local Environmental Services

9. Paragraph 17 refers to mounting pressures for expenditure in this area. What is the Department's estimate of the implications for expenditure of meeting these pressures?
10. Does the Department consider that present levels of capital spending on local environmental services are consistent with providing a suitable infrastructure for future local prosperity?

The Urban Programme

11. Can the Department give some estimates of the expenditure likely to be necessary over the next 10 years to fulfill the objectives of its urban programme?

The Water Authorities

12. Plans for water investment show some increase up to 1986-87. Is growth in investment likely to continue at a similar rate up to 1993-94?
13. Paragraph 40 refers to the Government's aim of reducing the water authorities' borrowing requirements over the medium to long term. Is such an aim likely to mean higher charges relative to the rate of inflation over the next decade?

Sewers

14. Does the Department accept that there is a maintenance backlog within many of the UK's city sewer systems? If so, what funding over a 10 year period would be required to return these systems to a satisfactory standard?

Property Services Agency

15. Paragraph 43 refers to the need for increased expenditure on office accommodation in future years. Is it possible to quantify the increase which will be necessary?

Mrs L.A. Thomas
CPPU
Department of the Environment
2 Marsham Street
London SW1

Yours sincerely,
D.W. Limon
D.W. Limon
Clerk to the Committee

W



DEPARTMENT OF ENERGY
Thames House South
Millbank
London SW1P 4QJ

Tel: Direct Line: 01-211 6402
Switchboard: 01-211 3000

*C/ We are not the only
supplier for the TCSC.*

B

- 2 AUG 84

M

With the Compliments of

the

Secretary of State


SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon Terence Higgins MP
Chairman
Treasury and Select Committee
Committee Office
House of Commons
LONDON
SW1A 0AA

CH/EXCHEQUER	
REC.	03 AUG 1984
Action	MR BATTIMILL
COPIES TO	CST, PSE (ST), MST
	SIR P. MIDDLETON, MR BAILEY
	MR ANSON, MR MURKIN,
	MR EVANS, MR SCHOLAR
	MR RIDLEY, MR BURGESS
	MR PAVITT (R), MR MIDDLETON (R)

2 August 1984


Thank you for your letter of 26 July about the wide ranging enquiry your Committee have decided to undertake into Long Term Trends in Public Expenditure.

I am sorry that the Committee should have singled out the note sent by the Department of Energy for complaint. Of course I am anxious to be helpful to the Committee.

But I am sure that you with your experience will understand the special difficulties and limitations of long-term forecasts of public expenditure in the energy area. What we are talking about there is mainly the cash-flow position (EFL's) of the 3 major energy nationalised industries; one at present sharply negative (NCB), the other two substantially positive (BGC and the electricity supply industry). Forecasting the cash flow of any business in 10 years time would be hazardous, to put it mildly. One might even argue that such forecasts would be neither enlightening nor helpful. I think you would agree that it is very possible to take an intelligent interest in the future of say, the coal industry without claiming to be able in present circumstances to forecast with any confidence the annual cash-flow position of the industry, or even its approximate level of profitability in 10 years time. Yet the coal industry is, as you know, by far the Department's biggest public expenditure responsibility.

No doubt it was for reasons of this kind that discussion of public expenditure in the energy sector did not loom large in the Green Paper on "The Next Ten Years" of March 1984 (Cmnd 9189).

As I have said, I would like to help the Committee. But I hope that the Committee from its side will not mistake realism by the Department of Energy about these limitations for ill-will, which I can assure you is remote from my mind and from that of the Department.

Will

C
OKs as in Para 6?
OK; See it is

FROM: M C SCHOLAR

3 August 1984

1. MR ~~BATLEY~~

cc attached for: Chief Secretary
Sir P Middleton

2. CHANCELLOR OF THE EXCHEQUER

cc: Mr Monck
Heads of Expenditure
Groups
Mr Battishill o/r
Mr Gray o/r
Mr Stibbard o/r
Mr McDonald o/r
Mr Perfect
Mr Pratt
Mr G White

make copies
make clear
Mr S in para 4
when this info.
is very
misleading.

TCSC: LONG TERM TRENDS ENQUIRY

1. We have today received copies of a sheaf of letters from the Clerk to the TCSC addressed to seven of the Departments (not including the Treasury) to whom they addressed their earlier enquiries. These letters (copies attached - top copy only) request a large volume of supplementary information covering a wide field.

2. For the most part we will be able to guide Departments to reply on the lines suggested in the Chancellor's letter to colleagues of 11 June - ie to decline politely to give ten-year programme figures or anything approaching them, and to provide essays, in the manner of The Next Ten Years on the pressures for more or less expenditure. We will set up an arrangement with the Departments concerned, as before, to clear their draft replies with expenditure divisions.

3. But there is a new snag, on which I would be grateful for guidance. As a preliminary to a question about expected relative price movements and programme growth over the next ten years, the Committee are asking each Department for detailed expenditure information over the past ten years, in cash, cost and volume terms. To meet this request we intend to provide the cash and cost terms information from the PES data-base, and supply it to Departments for onward transmission to the Committee. By this means we will ensure that the figures supplied are consistent and recognisable without too high a profile for the Treasury.

4. The request for volume terms information, however, is more difficult. We do not keep this information any longer, except in the highly aggregated

form which the CSO uses to compile GDP, and which has already been supplied to the TCSC. Nor would we wish to do so, because it is, in our view, potentially misleading, in that it does not measure level of service (as it is sometimes thought to do) but is rather a kind of input measure; because it now plays no part in the Survey; and because it is often used to display, given the way that relative prices in the public sector have moved, less growth in some individual programmes than is comfortable: the recent criticisms of the Social Services Committee of the government's performance on health, which were based on volume figures supplied by the DHSS are a case in point.

5. On the other hand the volume figures are in principle calculable, and the Committee know that Departments can, if they wish, carry out the calculation - as DHSS have done. Moreover, since Departments will be declining to give the Committee many of the figures they are seeking it would be conciliatory to give figures where they are available and not too damaging.

6. If you agree, therefore, we will tell Departments that they may, if they wish, provide the volume information requested, for past years only; and we will handle Departments' replies generally on the lines set out in this minute.

MLJ

M C SCHOLAR

The standard question 1, about "specific factors" past and future, may be awkward to answer without going too far into quantified projections - but we shall check replies, and insist on "impossible to say" where necessary.

AmJ
3/8



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
01-219 (Direct Line)
01-219 3000 (Switchboard)

12/2 - PS / CHANCELLOR

PS / CST

(Handwritten initials)

SIR. P. MIDDLETON

MR. BAILEY

MR. ANSON

MR. SCHOUAR

MR. GRAY

MR. STIBBARD

MR. RUDLEY

MR. MONCK

MR. BURGNER

MR. S.A. ROBSON

TREASURY AND CIVIL SERVICE COMMITTEE

- circulated for information

3 August 1984

Mr. Cannon,

Thank you for your response to my previous letter concerning the Committee's current enquiry into Long-Term Trends in Resources and Public Expenditure. I believe that the Committee's current Chairman, the Rt. Hon. Terence Higgins, recently wrote to the Secretary of State for Energy saying, inter alia, that the Treasury Committee was somewhat dissatisfied with the original answer, and that the Committee would be writing again with some further specific questions. In conducting the enquiry the Committee needs to have a good idea of potential spending levels ten years hence, but it is not easy to make an assessment of this on the basis of your previous reply. The Committee's supplementary questions are set out below. Most of these relate to the coal industry since it comprises a large proportion of the Department of Energy's voted expenditure.

1. Assuming that the National Coal Board is successful in achieving its current restructuring plans, how is expenditure on the three types of grants listed in the first paragraph of your previous memorandum likely to develop over the next ten years? (May we be provided with projections made conditional on alternative assumptions about developments in energy prices?)
2. Are capital requirements likely to rise or fall over the next ten years, and what do these imply about future EFL's for the National Coal Board?
3. Page 139 of Cmnd 9143-II mentions that one of the aims for the NCB is to earn a satisfactory return on capital. How fast can the industry feasibly move towards achieving this objective? What would such a return imply about their current EFL?
4. Pages 140 and 141 of Cmnd 9143-II mention target rates of return on assets of 1.4% and 4.0% for the electricity and gas industries respectively. Do these rates of return represent longer-term objectives, or is there an intention to raise them progressively?

5. How are EFL's for the electricity supply industry and the British Gas Corporation likely to develop over the next ten years? What are the important factors contributing towards such developments?

I should be grateful to receive your reply by the end of September if possible, since we want to get on with the processing of the material in time for the beginning of the new session.

*In reply,
Donald Limon*

D.W. Limon

Clerk to the Committee

J.D. Cannon Esq.,
Energy Policy Division,
Department of Energy,
Thames House South,
Millbank,
London.
SW2P 4QJ



FROM: DAVID PERETZ

DATE: 10 August 1984

MR SCHOLAR

cc Chief Secretary
Sir P Middleton
Mr Bailey
Mr Monck
Heads of Expenditure
Groups
Mr Battishill
Mr Gray
Mr Stibbard
Mr McDonald
Mr Perfect
Mr Pratt
Mr G White

TCSC: LONG TERM TRENDS ENQUIRY

The Chancellor is content for you to proceed as proposed in paragraph 6 of your minute of 3 August. At the same time, he considers it most important to make clear to the Committee the reasons (which are touched on in paragraph 4 of your minute) why this information is very misleading.

A handwritten signature in dark ink, appearing to be 'D L C' followed by a stylized flourish.

D L C PERETZ