

PREM 19/984

PART 22

SECRET

19.92

CONFIDENTIAL FILING

Public Expenditure and Cash Limits.

ECONOMIC POLICY

Pe 1: May 1979

Pe 22: Jan 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
6.4.83							
11.4.83							
17.4.83							
14.4.83							
20.4.83							
21.4.83							
3.5.83							
11.5.83							
18.5.83							
31.5.83							
13.6.83							
21.6.83							
29.6.83							
PART ENDS							

PREM 19/1984

PART 22 ends:-

Ch/Ex to PM 29.6.83

PART _____ begins:-

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmnd. 8789 - The Government's Expenditure Plans, published by HMSO February 1983.
ISBN 0 10 187890 7

House of Commons – Third Report from the Treasury and Civil Service Committee - The Government's Expenditure Plans 1983-84 to 1985-86, published by HMSO 28 February 1983.
ISBN 0 10 220483 7

Signed J. Gray Date 18/1/2013

PREM Records Team

Law
27

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

PRIME MINISTER

PUBLIC EXPENDITURE IN 1983-84: CORRECTIVE ACTION

This minute sets out an issue which I should like to discuss with you at tomorrow's meeting.

2. At Budget time we forecast a PSBR of £8.2 billion for the current financial year. The summer forecast, just being completed, suggests that this will be overrun by over £3 billion.

3. There is of course a considerable margin of error about this figure, and there may be some grounds for scepticism about new fiscal projections which partially explain it: I shall be examining them closely. But clearly we face a real problem. And the main monetary aggregates are running way ahead of the indicated range published at Budget time. The trade figures for May were poor, and Sterling, though still high, may come under pressure if the upward movement in American interest rates is maintained. I have therefore been considering whether some immediate corrective action is needed to reassure market confidence immediately and (more important) to secure an outturn for the year closer to our original strategy.

4. One possibility, which we are already examining, is the sale of a further tranche of the Government's holding in BP. This could raise up to £500/600 million.

5. But public expenditure accounts for by far the largest part of the forecast PSBR overrun - see attached table. Much of this is higher estimates for non-cash-limited demand-determined programmes, notably agricultural support and social security benefits. Local authority current expenditure is also likely to be rather higher - and rate income lower - than we expected. The



nationalised industries are expected to borrow more than we had allowed for. The forecasters - following the experience of end 82/3 - now expect over £½ billion less shortfall on cash limited expenditure than had been assumed in the Budget. About £300 million of this is on defence votes, and the rest spread across the field.

6. It is not practicable, within the year, to take action to offset the increases on non-cash limited expenditure by changes in agricultural support or social security benefits (where we have only just announced the upratings). But we could take action on cash limits aimed broadly at reducing the overall rate of spending on those programmes to what we had assumed earlier (when we expected shortfall to be higher).

7. I do not think we could avoid some exceptions, notably the pay and running costs of the Civil Service and armed forces, reflecting our agreement earlier in the year to finance the non-industrial Civil Service pay award from within this total, which is as a result already under some strain. In my view the best option would thus be a reduction of 2 per cent on the non-pay element of central government cash limits.

8. This would mean excluding RSG, because it is very doubtful whether any cuts would achieve public expenditure savings. To include capital expenditure of local authorities and certain public bodies might also not be effective, and would clearly run counter to the Government's earlier efforts to avoid under-spending on those programmes. However, central government capital spending would be included.

9. This package would be expected to yield some £300 - 500 million gross in public expenditure savings, though there would be some offset to the extent that under-spending on these programmes was reduced.



10. To discourage a repetition of last year's end-year surge, we could also proceed with a scheme of end-year flexibility of the kind which the previous Chief Secretary proposed to his colleagues earlier in the year. There would be considerable managerial advantages in such a scheme, and introducing it should be welcomed by spending Departments. It would also mean that spending in this financial year would be reduced - by how much is uncertain, but the full amount of under-spending at stake on relevant programmes could be as much as £0.5 billion. This would of course represent some additional pressure in 1984-85 (on which the Chief Secretary has already sent you a minute), but this in turn should be at least partially offset by the carry-forward of the effects of putting a brake on spending now by cutting the non-pay cash limits.

11. Taken together these two measures should reduce public spending and the PSBR by £0.5 billion or more this year. Even with a BP sale as well, that would not dispose of the PSBR problem, but the case for immediate action is nonetheless strong. First, the sooner we decide to reduce expenditure the easier and less damaging it will be. Secondly, an early decision should help to dispel the impression that has got about in the public sector, perhaps partly as a result of last winter's exercise to prevent a PSBR under-shoot, that we are now less determined than we were to insist on strict financial discipline. Thirdly, an early announcement should forestall anxiety within the markets. If we put off action until after the summer recess there is a real risk that we will be forced to take even more severe action as a result of market pressures.

12. So my instinct is to try to get these two measures agreed very quickly. I do of course recognise the political difficulties of taking such action so soon after the election, and while taking through the House a Finance Bill confirming tax reliefs, mainly for the better off, amounting to some £250 million. But our commitment to the Finance Bill is firm, and our supporters are more likely to be reassured than dismayed by measures to curb an



increase in planned expenditure.

13. The present problem arises, to a large extent, because it has proved so difficult to provide reliable forecasts of rates of spending, even very late in the year. This is a problem throughout the year, but it is especially acute towards the year-end, as Departments seek to spend up to their cash limits. I intend therefore to seek the co-operation of spending Ministers in improving the financial information flows from their departments to the Treasury during and particularly at the end of the financial year. Detailed proposals will be made at official level shortly.

14. To sum up, in addition to pursuing the possible BP sale, I propose:-

a. a reduction of 2 per cent in the non-pay element of all cash limits - with certain exceptions - to yield up to £300 - £500 million in 1983-84;

b. the introduction of a scheme of end-year flexibility on capital expenditure at the end of 1983-84 which, together with (a), should take the saving this year to £500 million or more; and

c. to seek the co-operation of all spending Ministers in improving information flows to the Treasury about the course of expenditure during the year.

15. If you agree, I will prepare a paper for Cabinet setting out these proposals. It seems to me desirable to separate this exercise from consideration of the public expenditure projections for future years, due on 21 July (see the Chief Secretary's minute of 27 June). I would favour Cabinet considering action on the

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current year as soon as possible, say on 7 July. But we can discuss that tomorrow.

NL

(NL)
29 June 1983

CONFIDENTIAL

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MAIN CHANGES TO THE BUDGET FORECAST OF THE PSBR

Changes to
Expenditure Receipts
£ billion

CommentsCentral Government Receipts

1	Inland Revenue (non-North Sea)	-0.6	Mainly lower forecast of wage and salary bill
2	Total North Sea Receipts	+0.8	Mostly higher production levels.
3	Customs & Excise	0	Forecast of poorer compliance than expected at budget time; offset by higher consumer spending.

Central Government Expenditure

4	Cash-limited items	+0.6	Lower estimate of shortfall reflecting experience in 1982-83 (particularly on defence) and fresh look at historical experience by programme.
5	Non-cash-limited items of which:	+1.1	
	Agricultural Support	(+0.3)	Higher beef production and lower beef prices; higher milk production.
	Grants	(+0.3)	Higher estimates of take-up of housing benefits; higher estimate of number of social security recipients.
	Family Practitioner Services	(+0.1)	Poor estimate at Budget time.
	EC Contributions	(+0.3)	Mainly lower refund.
6	Debt Interest (net)	+0.5	Effects of higher borrowing and estimating revisions.
7	<u>Central Government Financial Transactions</u>	-0.3	Assumed delay in sale by BGC of North Sea oil interests.
8	<u>Local Authorities Borrowing</u>	+0.9	
	of which:		
	Rate Income	(-0.5)	Poor estimate of average rate increases this year.
	Current Expenditure	(+0.3)	Implications of higher overspend than expected in 1982-83.
9	<u>Public Corporations' Borrowing</u>	+0.3	
	of which:		
	Nationalised Industries' Trading Surpluses	(-0.5)	Downward revision to industries' expected sales this year (reflecting new information from industries); some price increases reduced or delayed.
	<u>PSBR total change</u>	<u>+3.5</u>	

In box but not seen by

PM - please PA

SECRET

29 June 1983

Policy Unit

PRIME MINISTER

MCS 30/6

26
Prime Minister (2)

cc Defence Budget file

DEFENCE AND PUBLIC EXPENDITURE

Chief Secretary's in the folder for tomorrow's meeting with the Chancellor
MCS 29/6
The Chancellor's paper on The 1983 Survey and The Longer Term leads, I think, to one overwhelming conclusion: that the prime candidate for reduction in expenditure, this year and for the foreseeable future, must be Defence. The overruns are bigger; the commitment up to 1985/86 is larger; the control of expenditure feeble; and the lack of collective discussion the most painfully felt.

All these defects are obvious in the way Michael Heseltine has presented the Harm/Alarm decision. You will not need the arguments rehearsed yet again. But there is no other area of Government expenditure where £150 million could be so easily saved and performance of the function actually improved. I know of your concern to keep high technology teams together and keep Britain in the forefront of that technology, but so long as defence is the most obvious "soft touch" in the public sector:

- (i) Our research effort will continue to be over-concentrated on Defence, to the detriment of our ability to compete in all other industries.
- (ii) The commercial aspects will continue to predominate over military priorities. I understand that not only the military but also the officials in the MOD are united, almost to a man, in preferring Harm.
- (iii) The MOD will continue to keep these issues in-house and try to avoid thorough collective discussion as far as possible, because they know how weak their case is.

There are other reasons for preferring Harm to Alarm, eg the difficulty of persuading the Americans to buy our advanced military hardware if we refuse to buy theirs, when it is evidently cheaper and superior. But I think the most crucial one for the future of this Government is that, at the outset of the second term, with all the public expenditure difficulties which we now face, we should show that we mean business in controlling expenditure in the Department where the need is greatest.

FERDINAND MOUNT

fm

SECRET



Michael.

A personal preview.

Something like this
will reach you tonight.

John

29.6.83

Secret



25
FROM: J O KERR

DATE: 29 JUNE 1983

cc Chief Secretary
Mr Middleton
Sir T Burns
Mr Battishill
Mr Mountfield
Mr Hart
Mr Stibbard
Mr Ridley

MR A M BAILEY

PUBLIC EXPENDITURE AND PSBR: 1983-84

The Chancellor has worked over-night on the draft minute to the Prime Minister which you submitted on 28 June. He is clear that he does want to send such a minute, and to do so today: but he proposes a number of changes to the draft. I attach a clean version.

The Chancellor asked the Chief Secretary to let him have advice on these papers during the course of the day. It might be helpful if you could route your reactions to the attached text to the Chancellor via the Chief Secretary.

J.O.K.

J O KERR



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

PRIME MINISTER

PUBLIC EXPENDITURE IN 1983-84: CORRECTIVE ACTION

This minute sets out an issue which I should like to discuss with you at tomorrow's meeting.

2. At Budget time we forecast a PSBR of £8.2 billion for the current financial year. The summer forecast, just delivered, suggests that this will be overrun by over £3 billion. The main monetary aggregates are running way ahead of the indicated range published at Budget time, and the trade figures for May were poor. Sterling remains high, but mainly as a result of relatively low American interest rates, on which we cannot rely much longer. In order to reassure market confidence immediately, and (more important) to secure an outturn for the year close to our original strategy, I am convinced that some immediate corrective action is needed.

3. There are grounds for scepticism about new fiscal projections explaining part of the increase in the forecast PSBR, and I shall be examining them closely. But public expenditure accounts for by far the largest part: see attached table. Much of this is raised estimates for non-cash-limited demand-determined programmes, notably agricultural support and social security benefits. Local authority current expenditure is also likely to be rather higher - and rate income lower - than we expected. The nationalised industries are expected to borrow more than we had allowed for. The forecasters - following the experience of end 82/3 - now expect over £½ billion less shortfall on cash limited expenditure than had been assumed in the Budget. About £300 million of this is on defence votes, and the rest spread across the field.

4. It is not practicable, within the year, to take action to offset the increases on non-cash limited expenditure by changes in agricultural support or social security benefits (where we have only just announced the upratings.) But we could take action to reduce the rate of spending on cash-limited programmes to



what we had assumed earlier (when we expected shortfall to be higher). In my view the best option is a reduction of 2 per cent on the non-pay element of central government cash limits.

5. I do not think we can avoid some exceptions, notably the running costs of the Civil Service and armed forces, rate support grant to local authorities, and the capital expenditure of local authorities and certain public corporations. The exception of pay and running costs reflects our agreement earlier in the year to finance the non-industrial Civil Service pay award from within this total, which is therefore already under some strain. RSG is excluded because it is very doubtful whether any cuts would achieve public expenditure savings. To include capital expenditure of local authorities and certain public bodies might also not be effective, and would clearly run counter to the Government's earlier efforts to avoid under-spending on those programmes. However, central government capital spending would be included. This package is expected to yield some £300-350m in public expenditure savings, though there will be some PSBR offset to the extent that under-spending on these programmes is reduced.

6. To discourage a repetition of last year's end-year surge, I propose that we should also proceed with a scheme of end-year flexibility of the kind which the previous Chief Secretary proposed to his colleagues earlier in the year. There are considerable managerial advantages in such a scheme, and introducing it should be welcomed by spending Departments. It will also mean that spending this financial year is reduced by some £0.5 B. This will of course be balanced by some additional pressure in 1984/85 (on which the Chief Secretary has already sent you a minute), but this in turn should be at least partially offset by the carry-forward of the effects of putting a brake on spending now by cutting the non-pay cash limits.

7. Even taken together these two measures will not dispose of the PSBR problem but they will help, and should change the climate on spending issues. This is crucial, for it seems clear that, perhaps partly as a result of last winter's exercise to prevent a PSBR under-shoot, the impression has got about that we are now less determined than we were to insist on strict financial discipline. It is of course unfortunate that we have to act so soon after the Election, but we



have in fact little choice . To delay until September would make the cut in cash limits very much harder to impose and implement.

8. The present problem arises to a large extent, because it has proved so difficult to provide reliable forecasts of rates of spending, even very late in the year. I intend therefore to seek the co-operation of spending Ministers in improving the financial information flows from their departments to the Treasury during and particularly at the end of the financial year. Detailed proposals will be made at official level shortly.

9. To sum up, I propose:

a. a reduction of 2 per cent in the non-pay element of all cash limits - with certain exceptions - to yield up to £300-£350 million in 1983-84;

b. the introduction of a scheme of end-year flexibility on capital expenditure at the end of 1983-84 which should reduce spending this year by up to a further £500 million;

c. to seek the co-operation of all spending Ministers in improving information flows to the Treasury about the course of expenditure during the year.

10. If you agree, I will prepare a paper for Cabinet setting out these proposals. It seems to me desirable to separate this exercise from consideration of the public expenditure projections for future years, due on 21 July (see the Chief Secretary's minute of 27 June). I would favour Cabinet considering action on the current year as soon as possible, say on 7 July. But we can discuss that tomorrow.

(N.L.)

29 June 1983

MAIN CHANGES TO THE BUDGET FORECAST OF THE PSBR

	<u>Changes to</u>		
	<u>Expenditure</u>	<u>Receipts</u>	<u>Comments</u>
	<u>£ billion</u>		
<u>Central Govt Receipts</u>			
<u>Inland Revenue (non-N/Sea)</u>		- 0.6	Lower employment and earnings; more tax relief on mortgage interest. <i>because interest rates higher</i>
North Sea Receipts (PRT, SPD, Royalties)		+ 0.8	Mainly higher production levels.
Customs & Excise		0	Effects of poorer compliance and lower prices offset by higher expenditure volumes.
<u>Central Government Expenditure</u>			Lower estimate of shortfall reflecting experience in 1982-83 (particularly on defence) and fresh look at historical experience by programme.
Cash-limited items	+ 0.6		
Non-cash-limited items of which:	+ 0.8		
Agricultural Support	(0.3)		Supplementary estimate already presented
Grants	(0.3)		Upward estimating revisions on take-up of housing benefits plus social security and student awards.
Family Practitioner Services	(0.1)		Poor estimate at Budget time
EC Contributions	0.3		Lower refund
Debt Interest (Net)	0.5		Higher borrowing and estimating revisions
<u>Central Government Financial Transactions</u>		- 0.3	Delayed sale by BGC of "Holdings"
<u>Local Authorities Borrowing</u>		+0.9	
of which:			Bad estimate of average rate increases this year.
Rate Income		- 0.5	
Current Expenditure	0.3		Higher overspend than expected in 1982-83
<u>Public Corporations' Borrowing</u>		+0.3	
of which:			Downward revision to NIs' expected output this year (reflecting new information from industries) and some price increases reduced or delayed.
National Industries' Trading Surpluses		- 0.5	
<u>SBR total change</u>		<u>3.5</u>	



24A
N.O.

Prime Minister (1)

PRIME MINISTER

MS

Advanced warning about
how public expenditure exercise
is likely to go.

PUBLIC EXPENDITURE - THE 1983 SURVEY AND THE LONGER TERM

MS 29/6

I understand that provisional arrangements have been made for Cabinet to consider public expenditure on 21 July. I have naturally been giving some thought to what I should recommend then. In the normal way, we will need to reach provisional decisions on the public expenditure totals for the three years 1984-85 to 1986-87 covered by this year's Survey as a basis for the bilateral negotiations I will hold with Spending Ministers in the autumn. Related to that is the question of what should be our objectives for public expenditure in the longer term.

Longer Term Prospects

You will recall work done last year which indicated that on modestly optimistic assumptions public expenditure would still account for 39 per cent of GDP by 1990 - 47 per cent on a more pessimistic scenario. To follow this up, in February you invited Ministers "to review their programmes critically with a view to contributing to a substantial reduction in public expenditure in the longer term". I have now completed an analysis of their replies and this is summarised in the attached notes and schedule with brief comments by the Treasury.

The results are disappointing. Few departments appear to have carried out any thorough rethinking of their policies leading to sizeable reductions. About one third of the replies offer no savings at all. Some of the proposals put forward are merely changes of presentation, which would have no real economic effect.

In a number of other cases, notably defence, substantial increases in expenditure are proposed which, if agreed, would offset the savings which might be achieved elsewhere.

The projections made in the official study last summer suggested that to achieve tax cuts equivalent to a basic rate of income tax of 25 pence in 1990-91 (with a borrowing requirement of 2 per cent of GDP) would require savings in expenditure of some £5 billion in cost terms, even on the more optimistic view of the economy. On the more pessimistic scenario, the reduction would need to be over £15 billion. In comparison with this, though the price basis of the departmental replies is not in all cases clearly specified, our best estimate of the gross savings to the PSBR which might be achieved from the recent exercise, would not exceed £2 billion. It is clear, therefore, that we have not yet succeeded in identifying the major savings we need and that to continue on present trends would leave us very little room for reducing taxation even by the end of the decade.

I am sure we cannot let the matter rest there, and I think the best way to take it forward is to relate the longer term objectives to the discussion on the annual Survey. What I have in mind is that, in my paper to Cabinet, I should explain in broad terms the implications for taxation at the end of the decade of current trends in expenditure and should suggest that we set ourselves a target for spending and a path for programmes which would then constrain decisions taken in future Surveys.

This approach will ensure that proper attention is given during the annual discussions to the later years covered by the Survey, though we must not let it distract us from the shorter-term problem discussed later in this minute. I hope it will help us to secure significant reductions in the longer term. Certainly it will be important this year to hold down the expenditure total in 1986-87 where we expect very severe pressure for increases - for example, a bid of possibly over £1 billion on defence. While recognising the legitimate claims of Defence, I will wish to argue strongly that we should not extend beyond 1985-86 our public commitment to meet the NATO objective of a 3 per cent real growth in defence spending. It has been agreed that we must look hard and urgently

(I think
you need
to consider
this very
carefully.

Discuss with
the Chancellor

on Saturday?
Yes.
AUS 30/6
mt

at local authority spending, which has been under discussion in E(LF). We should consider again all the main areas of subsidy and support (including the nationalised industries). We must, I think, look again/^{also} at some of the more acceptable means of reducing the cost of the Health Service on which work was started earlier this year.

The Survey Period

In addition to this longer term case for expenditure reductions, the position in the next three years also gives cause for concern. We shall not have a clear view of the prospects until a new economic forecast is available at the end of the month. However, it seems likely that, if expenditure follows the plans on which the White Paper was based, tax increases may be needed next year to hold to the Medium Term Financial Strategy set out in the Budget. This is a very unattractive prospect. Both for short and long term reasons, therefore, I expect that I shall have to recommend to Cabinet in July that our objective must be to keep expenditure well within the planned totals for the next three years.

This will not be easy. Our preliminary assessment is that we will face additional bids in 1984-85 amounting to some £5 billion and some of these, totalling at least £2½ billion, we may find difficult to resist - say £1.2 billion for local authority current expenditure, £1 billion for social security, £225 million for health and perhaps £100 million for defence. To meet these, the White Paper shows a provisional reserve of £3 billion, but we need to start the year with a contingency reserve of around £1½ billion. Hence we shall have to find savings elsewhere of the order of £1 billion even to stay within the announced total. For 1985-86, the bargaining will be even harder.

I should add that there are indications, likely to be confirmed later this week, that the PSBR and public expenditure in the current year are running ahead of what was expected at the time of the last Budget. This increases the need to hold down future expenditure plans, and may well create a need for mid-year corrective action this year. The Chancellor will be discussing this with you as soon as the revised forecast is firm, and is likely to make proposals for further action.

S E C R E T

I will not be in a position to put forward firm proposals for the Survey years until the final bids are received from the Departments and the latest economic forecast is available at the end of the month. I will then want to show my paper to you in draft well in advance of Cabinet on 21st July. However I thought you would want an early indication of the approach I had in mind.

I am sending copies of the minute to the Chancellor of the Exchequer, with whom of course I have discussed it, and to Sir Robert Armstrong.



PETER REES
27 JUNE 1983

S E C R E T

EMPLOYMENT

Small reductions (£30 million rising to £90 million in 1990-91) identified. Little scope for significant savings unless unemployment falls (reduction of 100,000 reduces expenditure by £30 million)

TRANSPORT

For railways savings of £220 million might be achieved by 1986-87 but doubts about feasibility. No other reductions identified. Maintenance of "real" value of road programme proposed. Little possibility seen of cutting transport subsidies.

ENVIRONMENT

Report outlines a possible strategy for reducing expenditure in the longer term through control of local authority current expenditure, privatisation, ending of housing subsidy and by encouraging demand for private sector housing. But proposals largely unquantified and report demonstrates difficulty of cutting local authority expenditure, and pressures for increases.

HOME OFFICE

Effectively a nil return. 80% of expenditure on law and order. Prime Minister has commented that "it would be unreasonable to expect reductions in expenditure on prisons or on law and order generally".

LORD CHANCELLOR'S DEPARTMENT

Realistic but small-scale reductions identified. Scope for reductions limited by nature of programme.

EDUCATION AND SCIENCE

No strong runners. Two measures, very difficult to achieve (restraining teachers' real pay and reducing numbers), would together yield savings of £300 million a year. Student loans would provide worthwhile savings but only in face of considerable backbench resistance.

ARTS AND LIBRARIES

Small reductions identified from greater efficiency, increased private sponsorship of the arts and private finance for some British Library operations. Small scale but probably achievable.

DEFENCE

No reductions identified. Proposes extension of 3 per cent real growth undertaking

AID AND OVERSEAS SERVICES

No reductions identified

AGRICULTURE

No reductions identified. Some increases in existing programme proposed.

INDUSTRY

Reductions of £100 million in 1985-86 rising to £285 million in 1990-91. Possible reduction in regional support building up to £260 million a year over the period.

Reduction in support for British Steel of up to £100 million a year by 1990. No proposal for privatisation of the Post Office but EFL expected to be negative.

Some further scope for savings in expenditure on aerospace, R and D and advisory services.

ENERGY

Substantial reductions in EFL's of the Coal Board (reduction estimated at possibly £500 million a year by 1990-91 but some doubts over feasibility of necessary pit closures - British Gas and Electricity Supply Industry, £500 million to £1500 million p.a. together.) Alternatively British Gas and Electricity Supply Industry could be privatised.

Reductions of up to £100 million a year in nuclear R and D by 1990-91. But possible offset due to increasing costs of expenditure on nuclear safety.

TRADE

No firm proposals. Very limited scope for reductions in programmes but substantial possibilities for privatisation (British Airways, British Airports Authority, Civil Aviation Authority Aerodromes).

ECGD

No reductions quantified. Expenditure determined by interest rates, market conditions and the Consensus Agreement. Some reductions possible through restrictions on export subsidies but offsetting increase could be caused by Consensus decisions.

HEALTH

Only small and uncertain reductions (£20 million rising to £80 million a year over the period) identified. More radical measures ruled out by Department. Some non-extreme earlier options not pursued.

SOCIAL SECURITY

Four options identified, with no PSBR effect, but large (cosmetic) public expenditure effect. No change to policies or benefit levels proposed.

SCOTLAND

WALES

NORTHERN IRELAND

No specific reductions identified. The three Secretaries of State consider that the present formula arrangements should continue; savings would accrue pari passu with savings on English programmes.

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PUBLIC EXPENDITURE IN THE LONGER TERM

AMOUNTS: £MILLION

	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	COMMENTS
MINISTRY OF DEFENCE:base	15,987	17,290	18,330	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	
FOREIGN AND COMMONWEALTH OFFICE:base	1,790	1,860	1,920	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	
MINISTRY OF AGRICULTURE FISHERIES AND FOOD:base	1,754	1,650	1,730	-	-	-	-	-	No savings identified. Additional expenditure of the order of £20m per annum for each of the years 1983-4 to 1985-6 proposed.
None identified	0	0	0	0	0	0	0	0	
DEPT OF INDUSTRY:base	1,148	1,110	1,090	-	-	-	-	-	
i) Projected Science and Technology Act support					40			90	
ii) Cuts in Launch Aid projections					15			25	
iii) Reduced provision for investment support etc (Section 8, Industry Act)					30			70	
iv) British Steel Corp-revised EFL's			100		up to 200			up to 100	
Total Savings			100		up to 285			up to 285	Figures only available for the years stated.
DEPT OF ENERGY:base	313	310	310	-	-	-	-	-	
i) Nuclear R&D (UKAEA)	4			5				40	
ii) Coal industry (including redundancy payments)								300-500	
iii) Electricity and Gas								500-1500	
Total Savings	4+			5+				840-2040	Figures only available for the years shown
DEPT OF TRADE:base	288	290	310	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	
ECGD:base	145	160	40	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	

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SECRET

PUBLIC EXPENDITURE IN THE LONGER TERM

AMOUNTS: £ MILLION

	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	COMMENTS
DEPT OF EMPLOYMENT:base	3,021	3,320	3,340	-	-	-	-	-	Additional possible savings identified but not quantified.
i) Unemployment benefit service computerisation	0	10	12	14	15	15	15	15	
ii) Abolition of signing on for unemployment benefit	0	0	0	0	5	5	5	5	
iii) MSC manpower reductions	0	14	14	14	14	14	14	14	
iv) Skill centres	0	5	10	15	20	30	40	50	
Total Savings	0	29	36	43	54	64	74	84	
OFFICE OF ARTS AND LIBRARIES:base	563	580	600	-	-	-	-	-	Small savings identified but not quantified.
i) More efficiency in arts bodies	0	0	0	-	-	-	-	-	
ii) More private sponsorship	0	0	0	-	-	-	-	-	
iii) Income generation in local libraries	0	0	0	-	-	-	-	-	
iv) Private financing for British Library	0	0	0	3	3	3	3	3	
Total Savings	0	0	0	3	3	3	3	3	
DEPARTMENT OF TRANSPORT:base	4,301	4,530	4,690	-	-	-	-	-	
i) Railways				220	220	220	220	220	
DEPARTMENT OF THE ENVIRONMENT - HOUSING:base	2,792	2,990	3,110	-	-	-	-	-	Possible savings not quantified.
None identified	0	0	0	0	0	0	0	0	
OTHER ENVIRONMENTAL SERVICES:base	3,564	3,680	3,800	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	
PROPERTY SERVICES AGENCY:base	141	120	120	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	

SECRET

SECRET

PUBLIC EXPENDITURE IN THE LONGER TERM

AMOUNTS: £MILLION

	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	COMMENTS
HOME OFFICE:base	4,045	4,240	4,410	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	
LORD CHANCELLOR'S DEPARTMENT:base	465	510	550	-	-	-	-	-	Potential savings, unquantified but not likely to be substantial.
i) Possible merger of High Court and County Court; possible Family Court	0	0	0	0	0	0	0	0	
ii) Formation of a single Estate Management Office	0	0	0	0	0	0	0	0	
iii) Greater control over legal aid	0	0	0	0	0	0	0	0	
Total Savings	0	0	0	0	0	0	0	0	
DEPARTMENT OF EDUCATION AND SCIENCE:base	12,560	12,910	13,340	-	-	-	-	-	
i) Teachers' pay									
ii) Teacher numbers									=150
iii) Teachers' pay/numbers									=150
									=1,000
Total Savings									Possible savings of £300 million or £1000 million a year, commencing from implementation.

SECRET

SECRET

PUBLIC EXPENDITURE IN THE LONGER TERM

AMOUNT: £ MILLION

	1983-4	1984-5	1985-6	1986-7	1987-8	1988-9	1989-90	1990-1	COMMENTS

DHSS - HEALTH AND PERSONAL SOCIAL SERVICES:base	14,608	15,380	16,070	-	-	-	-	-	
i) Review of General Ophthalmic Service	0	0	40	40	40	40	40	40	
ii) Review of Pharmaceutical Price Regulation Scheme	0	10	20	30	30	30	30	30	
iii) More effective prescribing	0	10	10	10	10	10	10	10	
iv) Fiscal help for private health insurance for the over 65s	0	0	0	0	0	0	0	0) Effect not quantified
v) Experimental contract for private management of a NHS hospital	0	0	0	0	0	0	0	0	

Total Savings	0	20	70	80	80	80	80	80	

DHSS - SOCIAL SECURITY:base	32,473	35,900	37,900	-	-	-	-	-	
i) Contracting out benefits to employers	0	1,000	+	+	+	+	+	+) Reduction in public expenditure totals; no effect on PSBR. + Rising over period
ii) Redefine scope of public expenditure	0	24,800	+	+	+	+	+	+	
Total Savings	0	25,800	+	+	+	+	+	+	

SCOTLAND:base	6,384	6,580	6,790	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	Formula savings will apply.

WALES:base	2,528	2,610	2,720	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	Formula savings will apply.

NORTHERN IRELAND:base	3,866	4,020	4,210	-	-	-	-	-	
None identified	0	0	0	0	0	0	0	0	Formula savings will apply.

SECRET

27 JUN 1969



010



Minister of State
for Local Government

Department of the Environment
2 Marsham Street London SW1

Telephone 01-212 3434

NSPM

MUS 28/6

Mr. ~~Scholar~~

A.J.C. 28/6

27 June 1983

copy of pp...

Previous papers not copied to PM
but copy attached

Dear Peter,

EUROPEAN REGIONAL DEVELOPMENT FUND: NON-QUOTA AID

Prior to the election, Leon Brittan wrote to Norman Lamont, about the offsetting savings required from Departmental programmes to take up extra ERDF non-quota receipts.

I, like Norman and George Younger, find it hard to accept the principle that the affected Departments alone should make the sacrifices necessary to take up potential Community receipts. There is a noticeable lack of incentive in such a scheme.

Perhaps we should now have the discussion proposed?

I am copying this letter to members of OD(E) and E(A) and to Sir Robert Armstrong.

Yours Sincerely,
Lorwin

LORD BELLWIN

28 JUN 1953



Mr Mountfield
Mrs Hedley-Miller
Mr A J C Edwards
Mr Hart
Miss Low
Mr Spearing



cc Chancellor
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Middleton
Sir Anthony Rawlinson
Mr Bailey
Mr Lovell

Treasury Chambers, Parliament Street, SW1P 3AG

Norman Lamont Esq MP
Minister of State
Department of Industry
Ashdown House
Victoria Street
London SW1

20 April 1983

Dear Minister,

EUROPEAN REGIONAL DEVELOPMENT FUND: NON QUOTA AID

Following your letter of 11 March on this subject I have given further careful consideration to the position.

The issue is whether certain additional receipts (£13 million over five years) should be allowed to increase public expenditure programmes; or whether programmes should be reduced to offset the increase, and if so, how. The amounts we are talking about now may be small but, as you have fairly acknowledged, more cases like this will arise, and we need to establish sound principles and stick to them.

The principle that I am bound to protect is that ERDF money should reduce the total of public expenditure, not finance inflated programmes. I should be reluctant to turn down Community receipts that were on offer. But I am even more unwilling to allow them to increase our planned expenditure programmes.

You are urging me to allow programmes to be increased now and merely to take this into account in deciding how much we can limit public expenditure in the next annual Survey. This is an easy counsel, but misguided.


Our public expenditure plans reflect an agreed allocation of resources between programmes. There would be absolutely no logic in reducing expenditure on defence or law and order because part of the Industry programme happens to be financed from Community sources.

Of course you may say that these ERDF programmes do not correspond with your priorities. But this is a natural reflection of the fact that there is a degree of Community competence in the matter of regional assistance. It is not a reason for increasing public expenditure.

In view of these considerations I am afraid that I see no alternative but to hold that those Departments to whose programmes these and similar future receipts will contribute must find the offsetting savings from them.

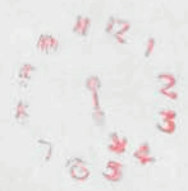
I am copying this letter to members of E(EA) and OD(E) Committees and to Sir Robert Armstrong.

yours sincerely



for LEON BRITTAN
(approved by the Chief Secretary
& signed in his absence)

8 JUN 1983





DEPARTMENT OF EDUCATION AND SCIENCE
 ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
 TELEPHONE 01-928 9222
 FROM THE SECRETARY OF STATE

Prime Minister

(2)

Sir Keith argues for

end-year flexibility.

21 June 1983

MUS 22/6

Mr Peter

[Handwritten signature]

End-Year Flexibility on Capital Programmes

I agree with Tom King (his letter of 9 May to your predecessor) that the inflexibility of the present system is a major cause of underspending on most local authority capital programmes. Local authorities are discouraged from full and effective use of the power to vire between services because of the risk of being unable to meet committed expenditure in later years and also because of fears about the revenue consequences of capital expenditure. Furthermore, the present system does not allow local authorities to take full advantage of higher than forecast receipts. Some form of end-year flexibility is essential if we are to avoid a repetition of the damagingly large underspending of £1.5 billion in the last two years - underspending indeed that doubled between 1981-82 and 1982-83.

Unlike other service blocks, the education sector has not been subject to large underspends. Final figures for 1981-82 show a net underspend of only £15m and a small overspend is forecast for 1982-83, even after allowing for the additional £45m approved last autumn. Provision is well below need and we have clear evidence of the willingness of some education authorities to remedy deficiencies in their capital provision. If the Government's targets for the removal of surplus school places and for the rationalisation of polytechnics and other local authority colleges are to be met (and both will serve to reduce subsequent revenue expenditure) and if the present backlog of repairs and maintenance is to be reduced (thereby cutting future maintenance costs), I believe that a substantial addition to the present planned level of local authority capital expenditure on education

/is needed

The Rt Hon Peter Rees MP
 Chief Secretary
 Treasury
 Parliament Street
 LONDON SW1P 3AG

is needed both this year and next.

I am not clear whether Tom King envisaged that the 1982-83 underspend in a particular service block would be added to the same block for 1983-84 and 1984-85, or that the 1982-83 underspend on all services should be carried forward and then redistributed between the services according to need and willingness to spend. I would prefer the second course since it would enable authorities to make the best use of resources.

I am sure that we should make progress on these issues in time for our decisions to be effective in the current financial year. Perhaps we can discuss them when those of us directly concerned meet in the next few weeks to consider local authority current expenditure in 1984-85.

I should also like to see end-year flexibility extended in some form to other educational capital programmes. Voluntary aided schools are part of the maintained sector; but because capital grant is paid from my Vote, DES is denied the power of virement between years available to local authorities on a limited scale. We are statutorily required to pay legitimate grant claims, and controlling the incidence of this expenditure is very difficult, not least because the expertise of individual schools is almost invariably less than that of local authorities when it comes to managing building work. I believe that the Department should be allowed to permit the carrying over to the following year of 10 per cent of the Estimate if projects are shown to be slipping, and similarly to permit anticipation of 10 per cent of the next year's Estimate if legitimate claims are materialising earlier than expected. On present figures this would mean plus or minus £4m. Such a change would simply place voluntary aided schools on the same footing as the remainder of the maintained sector. Similar considerations apply to some of the directly funded colleges within the higher education system and to the Research Councils. I hope you will agree that officials here should work out with the Treasury some detailed proposals which you and I can consider.

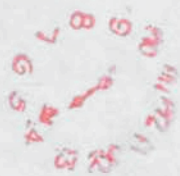
I am copying this letter to the Prime Minister, other members of the Cabinet, the Minister for the Arts and Sir Robert Armstrong.

Tom King,

Kew

ECON POL

Public Exp + Cash Limits
Pt 22



21 JUN 1972

MR SCHOLAR13 June 1983cc: Mr Mount
Sir Alan WaltersPUBLIC EXPENDITURE: THE LONG TERM AND THE SHORT

The Chancellor may well present a picture such as this:-
The Government's problem on expenditure is that it has made steady gains, by a process of attrition, in wearing down public expenditure by means of a cash squeeze on spending departments. These have been achieved largely by bilateral discussions; very few disagreements, on politically sensitive subjects (eg student loans, council house rents), have had to be resolved at Cabinet level. Yet the long-term position looks very worrying. The Forward Look exercise failed to yield proposals for substantial savings. On the contrary, the departments involved collectively forecast increases in real terms of £5 billion. This would imply a constant ratio of spending to GDP on the most optimistic growth assumptions.

On less optimistic forecasts this proportion would increase. Far from being rolled back the frontiers of the state could roll on top of the Government. A standard rate of tax of 25% is not deliverable on present plans.

Clearly there is a need for a strategy which spells out

- where the Government wants to be in 1988 in terms of its borrowing, its levels of taxation, and its spending.
- the path by which it hopes to get there.

If the control of inflation objective rules out increases in borrowing it follows that the reduction in levels of taxation can only be achieved by reduced expenditure. The strategy therefore needs to relate all short-term expenditure plans, including the next year's, to this long-term objective. Unless this objective is understood and agreed there can be no basis for resolving arguments about the means, which will be difficult. Better

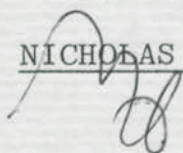
housekeeping will not be enough; some major programmes will have to go. Departments themselves have too many vested interests in these programmes and cannot be relied upon to propose major sacrifices. They failed to do so in the Forward Look exercise and they are failing to do so in the latest LTPE exercise.

The Prime Minister will wish to discuss with the Chancellor how such a pruning exercise might be handled. A crude formula of equal misery for all departments is out of the question: demographic and social pressures will be pushing up some major items (pensions, health and education).

A better, perhaps the only solution would be to phase out those items of discretionary expenditure which are inconsistent with the Government's market philosophy, such as:

- investment subsidies of various kinds for industry, trade and agriculture;
- operating subsidies for the coal industry and the railways;
- the protectionist stance towards the defence equipment industries which results in premia over off-the-shelf "alternatives" of anything up to 60% (cf HARM/ALARM). The defence equipment bill is expected to reach £8 billion by 1985/86. Savings of, say, 20% on this could yield £1600 m.

Options such as these raise intensively difficult questions but unless a start is made now to tackle them, under Treasury chairmanship, it is difficult to see how a 25% standard rate of tax could be delivered by 1988.


NICHOLAS OWEN

RESTRICTED



C.A.W.
B.T.

Prime Minister (2)

MCS 9/6

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

8 June 1983

Michael Scholar Esq
10 Downing Street
LONDON SW1

Dear Michael,

The May CGBR Press Notice will be published at 2.30pm on 9 June.

The Chancellor sees no reason to bother the Prime Minister just now with the usual monthly note. But you should know that the May figure was £1.7 billion, £200 million lower than forecast (largely because of lower supply expenditure), but higher than some commentators seem to expect. Our press briefing will underline that though cumulatively over April and May the CGBR is £1 billion higher than it was in the same period last year, the difference is nearly all accounted for by higher on-lending, particularly to local authorities, which will not necessarily increase the PSBR compared with last year.

Yours ever,

J O Kerr

J O KERR

CONFIDENTIAL

MCS 075



PA - MBPM
Uninformative!
MCS 2/6

✓ CCNO

Treasury Chambers, Parliament Street, SW1P 3AG

M Scholar Esq
10 Downing Street
London SW1

31 May 1983

Dear Michael

PUBLIC EXPENDITURE OUTTURN 1982-83

Since receiving your letter of 21 April we have continued our investigations of this year's outturn, and examination of how to forecast it better in future; and the Chief Secretary and the Secretary of State for Defence have had a helpful discussion.

MOD are fully aware of the importance of the Budget forecasts. They are conducting their own enquiry into this year's experience, and working with the contractors to improve forecasts and agree firm cash profiles. Under the present MOD system of monthly bill-paying there is a real problem in predicting the final outturn until the very end of the year. MOD and Treasury officials are in close touch on possible improvements.

Aside from the special MOD problem, the Treasury will shortly be discussing end-year control and forecasting with Principal Finance Officers of the main departments, in the context of a full review of the present information system. We need to ensure that PFOs themselves take responsibility for producing the best possible forecast of their departments' spending before the crucial pre-Budget deadline. But the implications of going further and making PFOs responsible for delivering their pre-Budget forecasts need thinking about very carefully. It could be tantamount, as you say, to introducing a revised, lower, cash limit very late in the year. This would add to administrative complexity and increase the risk of wasteful spending if, as is likely, PFOs' forecasts tend to err on the side of caution and are thus higher than the outturn that would be achieved in the absence of the new arrangements. With these factors in mind we are aiming to work out new reporting arrangements with departments which should bring a net improvement both to the control and forecasting of expenditure.

As with your letter, I am copying to Richard Mottram (MOD).

Yours sincerely

J.G.

JOHN GIEVE
Private Secretary

CONFIDENTIAL

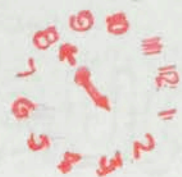
econ For Public Expend

A 22



House of Commons, Parliament Street, W.P. 2AC

10



31st March 1985

11

FOR DONOR

010



Prime Minister²

MUS 19/5 CC NO

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State
Department of Health
and Social Security
Alexander Fleming House
Elephant & Castle
London SE1 8BY

19 May 1983

Norman

[Signature]

NATIONAL HEALTH SERVICE

I am glad that we were able to agree on the telephone the line to take in the Election on NHS expenditure. I understand that one of the questions at the press conference on the launch of the manifesto concerned the future provision for the National Health Service. This is bound to come up again during the next few weeks, for example in response to yesterday's article in the Financial Times. As I suggested and you agreed, the best line would appear to be:

- We have increased expenditure on the National Health Service in real terms and have achieved a real improvement in the level of service;
- we have provided for further real growth in 1983-84 and by more than is necessary only to meet the additional costs arising from demographic changes; and
- the Public Expenditure White Paper set out cash provisions for 1984-85 and 1985-86 which will be reviewed in the normal way during the annual public expenditure survey.

I think this is a tenable line to take, but, as I mentioned to you on the telephone, we have to be careful to avoid going any further. Especially in view of the Prime Minister's clear statement that all our expenditure commitments are consistent with the provisions for public expenditure in the White Paper, we must avoid any statement committing us to maintain the real value of the health programme or the present level of service in the NHS.

I do recognise, of course, that we will need to consider the provisions for 1984-85 and later years during the course of the survey.

I am sending copies of this to the Prime Minister, to Cecil Parkinson and to the Chancellor.

LEON BRITTAN

CONFIDENTIAL

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FROM: JOHN GIEVE

DATE: 18 May 1983

CHANCELLOR

cc Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Mr Ridley
Mr Bailey
Mr Mountfield
Mr Hall
Mr Hague

"MAJOR SPENDING REVIEW LIKELY IF TORIES WIN"

The Chief Secretary has asked me to circulate Mr Mountfield's note below on the article in the Financial Times today. He intends to follow the line set out in the note and to say:

(a) that the longer-term trend; will have to be taken into account in the forthcoming public expenditure survey which will as usual get underway in the summer; and

(b) that Ministers have submitted reports on the manpower requirement of their departments and that these will have to be put together and considered after the election.

Mr S. [unclear]

G. [unclear]

JG

JOHN GIEVE

The Chancellor suggested
that this should be sent to No 10.

John Gieve

19/5

Mr R Evans

cc Mr Bailey

cc
Mr Bailey
Mr Wilding
Mr Hart
Mr Kelly
Mr King
Mr Hall

93/2

"MAJOR SPENDING REVIEW LIKELY IF TORIES WIN"

You asked for a note about the story in the Financial Times this morning.

2. I have no idea where this one came from. But the facts are basically correct.
3. The "line to take" is, I suggest:
 - a. The Annual Public Expenditure Survey is, as usual, going on at the moment. But because of the Election, the usual timetable has been setback a little. Incoming Ministers will no doubt want to look at the results shortly after the Election.
 - b. It is no secret that there was a review, last year, of long term public expenditure plans. Ministers said at the time that there was nothing surprising in this. Any Government needs to review its long-term commitments from time to time. [Nothing has been said in public about the more recent developments. In fact, the Prime Minister did call for suggestions on further cuts - para 4 of the FT story. Para 5 correctly records Ministerial responses. But you should refuse to be drawn on this.]
 - c. It is also true that there has been a review of manpower requirements after the present 630,000 target is achieved on 1 April 1984. (It will be, so far as we can tell at present.) We have said to the Unions, and in public, that we are carrying out a review of requirements up to 1988. (For your own guidance, the results have been similarly disappointing: para 6 of the FT story is correct. But you should refuse to comment).
 - d. We do not know the intentions of incoming Ministers, even if the present Government is returned. There have been no substantive discussions with them yet. Obviously the topic will be high on the agenda after the Election. But you can correctly say that the rest of the article is pure speculation.

RM

P Mountfield

out off will nsburg

minute telephone conversation with Mrs Thatcher on Monday, which obviously failed to yield the assurances he wanted about her presence at the summit. She acknowledged yesterday that it would have been difficult for her to attend. The general does not leave the field of battle when it is coming to its climax.

A British Government spokesman stressed that London had not sought the postponement. Nevertheless, Herr Kohl's decision is bound to cause satisfaction in Downing Street, because it removes any possibility of a damaging eve-of-poll clash with Britain's partners over the rebate on its 1983 payments to the EEC. British officials say that Mrs Thatcher was confident of securing a rebate whenever the summit was held. The government, said a spokesman, would be looking for a settlement of the rebate issue at the postponed meeting. British officials clearly believe that Mrs

Continued on Back Page
French leader criticises U.S.
Page 8

Major spending review likely if Tories win

BY PETER RIDDELL, POLITICAL EDITOR

RENEWED Whitehall efforts to cut long-term public spending, and Civil Service manpower, look certain after the general election. The Conservatives will win a second term, and the Treasury recently completed two parallel cost-cutting exercises. But these failed to identify significant reductions in spending and manpower below currently planned levels. Consequently, the Treasury wants to launch the two reviews again if the Tories win the election.

The Conservative election manifesto, published later today, is expected to contain only a general reference to reducing the share of the public sector in total national resources.

The Prime Minister had asked spending departments to suggest cuts in expenditure beyond those already planned for the period up to the end of the decade. This was intended to provide room for the tax cuts which Mrs Thatcher wants.

Most spending ministers argued that their programmes had already been cut substantially and could not be reduced further without severely restricting services. Most were reluctant to discuss politically highly sensitive cuts ahead of a general election.

A related exercise to find further cuts in civil service staffing has also run into the ground because of the attitude of spending ministers. The aim had been to go beyond the current exercise of reducing the number of civil servants to 630,000 by April 1984. Treasury ministers and officials make no secret of their

dissatisfaction with this outcome. They are determined to put new impetus into the review after the election, if there is a Conservative government, when the normal annual survey of spending plans (the PESC exercise) comes before ministers. The Treasury hopes that Mrs Thatcher, assuming she is still Prime Minister, will put her political weight behind the exercise.

The review would follow last autumn's row over the leaked Think Tank paper on long-term trends in public spending. The central issue is that, on present plans, public expenditure is set to grow by around 1 per cent a year in cost terms after adjusting for inflation.

This trend will severely limit the scope for cuts in income taxation which a Conservative Government would want to make a priority.

According to present plans, the most that could be expected would be a reduction in the share of public expenditure in national income as the economy expands. At the time of the Budget, the Treasury projected a decline in public expenditure's share of Gross Domestic Product from 44 per cent in 1982-83 to 41.5 per cent in 1985-86. But this is heavily dependent on a continuation of economic growth at above the levels of recent years.

Consequently, the Treasury is urging a re-examination of all spending commitments to secure a cut in real terms, rather than just a commitment to maintain a broadly unchanged level. There has been pressure to avoid pledges to new projects in the manifesto. Election news, Page 10; Editorial Comment, Page 16; Tory attack, Back Page

Tilling rejects new bid of £655m

By Ray Maughan

THOMAS TILLING—the construction materials, health care, engineering and publishing group—has firmly rejected a revised £655m bid from BTR. The latter yesterday added more than £116m to the cash terms of what was already the biggest UK bid.

Sir Patrick Meaney, the chief executive of Tilling, said, "there is a feeling of relief that the new offer is in the open. The terms were still 'derisory and rather lower than we had expected,'" he added.

BTR said this was its final offer. BTR, an industrial holdings group, estimates that the bid will cost £20m in underwriting, advertising, stamp duty and other fees. It was backed by aggressive buying of Tilling shares on the stock market yesterday, and by an indication that BTR profits in the first

four months of this year are a fifth higher than those of the equivalent period of 1982. The group also confirmed that its total dividend will be raised to the same proportion, to 12p per share. The bid will close on July 8, the day before the general election.

The offer is again in three forms. The cash bid has been raised by 40p per share, to 225p. Morgan Grenfell, merchant bank advising BTR, has underwritten £376.8m of the cash consideration. BTR will fund the balance from its own resources.

Mr Owen Green, chief executive of BTR, said after an annual meeting yesterday that full acceptance of the terms would not raise capital rowing above the value shareholders' funds. He made clear that the bidder has no intention at present of any of Tilling's principal assets, although a number of them had been received for non-industrial subsidiaries, notably Cornhill Assurance. Under the equity element of the bid BTR is now

to confront budget

case running in the \$200bn range. Cuts could be achieved, he said, by adapting his original proposal to freeze domestic spending downward to reflect lower inflation figures. The President said that there

Watney to raise £50m through debenture stock

BY DOMINIC LAWSON

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Department of Education and Science

Office of Arts and Libraries
From the Minister for the Arts

NBPM

MUS 13/5

Elizabeth House York Road
London SE1 7PH

Telegrams Aristides London SE1
Tel: 01-928 9222

13th May 1983

The Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Whitehall
LONDON SW1

Dear Sir,

Thank you for your letter of 11 May in which you set out some proposals to improve the information we provide about public expenditure. I note that officials have pointed to the resource implications of any extensive change and I welcome your assurance that changes would be introduced gradually as resources allow. Subject to this observation I find the proposals acceptable.

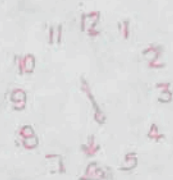
I am sending copies of this letter to the recipients of yours.

[Handwritten mark]

[Handwritten signature]

PAUL CHANNON

13 MAY 1983



010



NBPM

cc NO

MUS 11/5

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon William Whitelaw CH MC MP
Secretary of State
Home Office
50 Queen Anne's Gate
London SW1H 9AT

11 May 1983

R. White

INFORMATION ABOUT PUBLIC EXPENDITURE

We have for some time been working on ideas for improving the Public Expenditure White Paper and other sources of information about public expenditure. These ideas are partly a response to pressure from the Treasury and other Select Committees. They are also linked to the work which departments are doing as part of the FMI, on the improvement of departmental information systems. It seemed timely to look at all the ways in which we produce and use information about public expenditure: for internal departmental management; for Ministerial consideration of the Public Expenditure Survey; for presentation to Parliament and the public in the White Paper; and for securing Parliamentary approval of Supply.

Treasury officials, with my agreement, recently consulted the Finance Officers of the major departments on a number of possible changes. While officials were conscious of the resource implications of any extensive change, they were, I understand, agreed that work on the following lines might be broadly acceptable:-

- a. for the 1984 White Paper, we should try to introduce a more consistent pattern for each of the main programme chapters in Part 2, with a greater emphasis on the statement of policy objectives and progress towards the achievement of those objectives;
- b. in the light of this, we should consider the introduction in 1985 of separate "programme" or "departmental" volumes to replace some or all of the existing Part 2 of the White Paper;
- c. in the meantime, one or more volunteer departments might produce "shadow" departmental volumes in parallel with

their chapter of the 1984 White Paper. These "shadow" volumes would not be included in the White Paper, but if they looked attractive, Select Committees, the PAC and the Procedure Committee could be invited to comment on them. The studies might be used to establish the feasibility in the longer term of amalgamating a (fuller) White Paper with (simplified) Estimates.

- d. Departments and the Treasury should in any case develop, wherever possible, common "building blocks" of data needed for internal management purposes, PES, Estimates and the control of running costs.

An essential feature of the scheme is that the changes would be introduced gradually as resources allow. The effects of each stage (a-c) would be assessed before the next stage was introduced.

... I agree that this is a reasonable and cost-effective way of tackling the work, and I commend it to you. The immediate need will be for an improved and more consistent presentation of the programme chapters of the 1984 White Paper, and I suggest that we should now set this work in hand. I am attaching a note of guidance for officials, which indicates what we have in mind. The suggested common framework is not intended to be a strait-jacket. Within it, there is still considerable room for variation to reflect the circumstances of individual programmes, and departments can provide additional information if they wish.

One or two departments have already indicated that they might be able to produce "shadow" departmental volumes on the lines indicated above. If this can be done it would be particularly helpful, and I have asked Treasury officials to discuss the possibilities further with the Finance Officers concerned. Any pilot work of this kind would be entirely voluntary at this stage. Such developmental work would, inevitably, require a certain commitment of resources, but I have no doubt of its value. In the longer term, there could be big economies from standardising and simplifying the way in which we present this information.

I am sending copies of this letter to other members of the Cabinet, to Paul Channon and to Sir Robert Armstrong.


LEON BRITTAN

IMPROVING THE PUBLIC EXPENDITURE WHITE PAPER

Guidance note by H M Treasury

Introduction

In recent years, as a result of great effort by departments, major improvements have been made in the presentation both of the Estimates and the Public Expenditure White Paper (PEWP). But we continue to come under heavy pressure for further change. The Treasury and Civil Service Committee (TCSC) has asked for further improvements to Volume II of the White Paper. The Procedure (Finance) Committee is likely to make similar, if more general, recommendations for an increase in the quality of information provided to Parliament.

2. These demands are part of a general trend towards the publication of more information on the background to Government decisions. At the same time, as part of the Financial Management Initiative, Departments are making major changes in their systems for management information, particularly on financial management. We are committed, by the terms of the Government's reply to the TCSC report on "Efficiency and Effectiveness," to publishing much more internal information of this kind. The danger is that we may build up separate systems for different purposes, causing additional and unnecessary work. We need to integrate the flows so far as possible for the purposes both of manageable planning and control, and of public presentation.

Improving the 1984 White Paper

3. It is intended that the forthcoming White Paper on the FMI should contain the following paragraph:-

"In particular, the Public Expenditure White Paper will in future contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible. The intention is that both the White paper and the Estimates should, so far as possible, be derived directly from the information systems which departments are already developing for the management both of programmes and of their own activities and costs."

4. More detailed instructions on the preparation of the 1984 White Paper will be issued, as usual, later in the year. Principal Finance Officers have, however, agreed that programme chapters should have, so far as possible, the following common pattern:-

- brief statement of areas of expenditure included in the programme
- programme table in cash (as at present)
- cost terms equivalents for those years for which GDP deflators are available
- for each main element in the programme, brief statement of (a) policy objectives (related to trends and needs); (b) progress achieved towards objectives; (c) targets and criteria for future achievement. Wherever possible, output indicators should support the information in (b) and (c). Where specific indicators are not available, the basis of the qualitative judgements should be explained.
- other statistical tables with any necessary commentary
- bibliography, including in particular any relevant reports by Select Committees.

This framework is not intended to be a strait-jacket. Within it, there is room for variation to reflect the circumstances of individual programmes. Departments can provide additional information if they wish. In particular, Select Committees would no doubt find it helpful if sections of the improved programme chapters of the White Paper said explicitly where to look in Estimates to find the relevant supply expenditure for the year ahead. (This obviously need not be carried down to the last sub-head, but some cross-referencing would be helpful).

Possible changes after 1984

5. At this stage, no specific changes have been agreed by Finance Officers beyond that in paragraph 4 above. However, one possibility, modelled on the recently introduced Canadian system, would be for the Treasury to produce two volumes, one containing the equivalent of Volume 1 and parts 4 and 5 of Volume 2, and one for the nationalised industries as at present. For the rest, which is now in Part 2, there would be a series of volumes dealing with each main programme. (Big programmes like programme 4 might be broken down). These volumes could be prepared within a common format, as in the Canadian system, with minor variations and additional information if desired.

6. Within this framework, the Treasury would still need to be responsible centrally for the classification, collection and analysis of the data (derived from FIS) which provide the statistical backbone for Part 2. This is essential to obtain the standard aggregate figures needed for Volume 1 of the White Paper, for in-year monitoring at the centre, and for the raw material needed for macro-economic forecasts. To ensure consistency and central control over the total of expenditure, each volume would have to be seen as part of a series presented to Parliament by Treasury Ministers. But subject to that, each department would write the volume for its own programmes, agreeing the text with the Treasury as now. They

would be an annual account of the department's stewardship of the resources under its control.

7. Ministers will wish to consider whether to make these further changes, for some or all programmes, in the light of (among other things) reactions to the changes of format introduced in 1984. In the meantime some departments have already indicated that they might be willing to take part in pilot studies on these lines. The aim would be to produce "shadow" departmental volumes in parallel with their chapters of the 1984 White Paper. These "shadow volumes" would not be included in the White Paper, but Select Committees might be invited to comment on them. The Treasury will discuss this suggestion further with those Finance Officers who have expressed an interest in taking part, and with others who may wish to do so.

Possible longer-term changes - a closer link with Estimates

8. The proposals discussed above would simply recast and re-present the sort of information now contained in the White Paper. They could therefore be implemented in a fairly limited timescale. But it would be possible to go further than this, for example - again as in the Canadian model - to amalgamate the White Paper and the Estimates. A much fuller text of the White Paper would then serve as an introduction to a simplified presentation of Estimates, as well as explaining their relationship to other non-supply expenditure and the multi-year programmes. Departments could then supplement and further justify their Estimates in Memoranda to their Select Committees, including financial management data drawn from their internal information systems.

9. This longer-term design would depend on the development of a data-base supporting all three systems (PES/PEWP; Estimates; Departmental Management Systems). It is not suggested that Departments should take any specific steps now towards the introduction of such a change. However, where pilot studies are to take place on the preparation of departmental volumes, they may throw some light on the feasibility in the longer term of amalgamating a fuller White Paper with a simplified form of Estimates. More generally, Departments should also ensure that any early adjustments to the White Paper should be consistent with this possible longer-term development.

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Prime Minister 2

cc No
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Pressure to

introduce end-year

flexibility is building

up.

ms 11/5

My ref:
Your ref:

9 May 1983

MS

Dear Lea

END-YEAR FLEXIBILITY ON CAPITAL PROGRAMMES

I was glad to see that in the guidelines for this year's public expenditure survey you recognise the need for greater priority to be given to capital expenditure programmes. I fully endorse this. This is a clear need for more capital expenditure in many parts of the economy. In my own programmes the particular need is for more to be spent on improvement and repair of the housing stock, on urban renewal and on repair and renewal of sewers and other pipes.

Against this background I shall be making a case for increased provision for some of these capital programmes in the current survey. We also need to do everything that we can to make sure that the resources which we do make available for capital programmes are utilised, and that we do not suffer continued under-spending as we have done in the last two years.

I recognise that the traditional Treasury argument is that under-spending is a sign of excess provision, leading to the conclusion that far from increasing provision we should reduce it in future years. This is however to ignore the rigidities and inflexibility in the system which make it difficult if not impossible for local authorities and other bodies to spend right up to a cash limit determined for a single year. In the last two years, for example, authorities could not realistically have planned for the favourable movements of construction prices. Nor could they have anticipated the very high level of capital receipts they have achieved, mainly from the sale of council houses, which has surpassed expectations both as to the number of dwellings sold and as to the amount of private finance which have supported these sales. The traditional argument leads therefore to a vicious circle. The inflexibility in the system compels authorities to underspend provisions. And this is used in turn as an argument for reducing provision yet further.

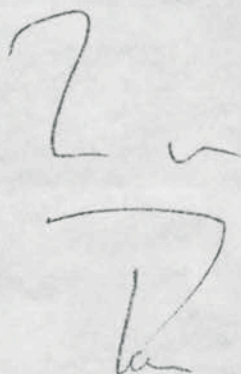
To illustrate what I mean the total capital underspend on my programmes in 1981/2 and 1982/3 were approximately £840m and £1040m respectively. Housing posed a particular problem in that the gross expenditure line is heavily dependent on the continuing and somewhat volatile flow of capital receipts arising from sales of council houses. Moreover the assumptions we made in our plans about receipts have proved to be too pessimistic with the result that some £160m in 1981/2 and £490m in 1982/3 which could have boosted local authorities capital allocations have in effect been foregone.

The "lost" provision could give a much needed boost to capital programmes if it were to be restored now and I therefore want to make

One specific proposition that all cash limits on capital programmes for 1983/4 or 1984/5 be increased by the forecast underspends in 1982/3 (the distribution between the years being for further consideration.) That at any rate would be my proposal. I would be happy to discuss any alternative proposal on end-year flexibility which you wish to advance, or the alternative ideas put forward recently by George Younger and David Howell in their letters of 29 March and 7 March.

What is imperative is that we reach an early conclusion on this matter. There are already signs that local authorities are having to rein back on housing improvement expenditure because they fear that there will not be adequate resources next year. If we could say now that all or at least some of the unspent resources of the last two years could be carried forward to this year or next we should overcome this problem. This would be very much more satisfactory than deferring action until the autumn, and then urging authorities to spend to the limit as we did last year. That crash programme led to some inefficient use of resources, and exposed us to justifiable criticism.

I hope you will agree to an early meeting on this. I am copying this letter to Cabinet colleagues, the Minister for Arts and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized 'T' followed by a smaller 'K' and a horizontal line underneath.

TOM KING

NO MAT 1983



CONFIDENTIAL

NA: NBPM
ms 9/5



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2111/(Direct Dialling)

01-218 9000 (Switchboard)

MO 8

9th May 1983

Prime

Dear Michael,

The Secretary of State for Defence has seen your letter to me of 3rd May. He has asked me to confirm that his minute of 25th April was naturally referring to the extra costs of the Falklands garrison and campaign, in accordance with last year's agreement.

I am copying this letter to John Gieve (Treasury).

Yours etc,

Richard Mottram

(R C MOTTRAM)

M C Scholar Esq

CONFIDENTIAL

MINISTRY OF DEFENCE
PUBLIC EXPENDITURE
Public Expenditure 22

CONFIDENTIAL

3 May 1983

Long Term Public Expenditure

The Prime Minister has seen your Secretary of State's minute of 25 April commenting on the Chief Secretary's minute of 12 April.

The Prime Minister has commented that the decision to fund the cost of the Falklands garrison over and above the 3 per cent aim was a decision in respect of the extra cost of the garrison.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office).

MS

Richard Mottram Esq
Ministry of Defence.

CONFIDENTIAL

Ry



LC N.O. 2

Prime Minister

MO 8

PRIME MINISTERLONG TERM PUBLIC EXPENDITURE

I should like to make one or two comments on the Chief Secretary's minute to you of 12th April.

2. He suggests that we should look for more meaningful measures of defence contribution than the 3% real growth calculation. There are, of course, a variety of ways of comparing nations' defence efforts and some of these are included in Chapter 5 of the draft Statement on the Defence Estimates which we discussed in OD last Monday. The United Kingdom comes out well from these comparisons - though this partly reflects the relative strength of sterling against the dollar in 1982 - and full credit is taken for this in the text. The measurement of achievement against the 3% aim allows an assessment to be made of the year-on-year increase in nations' defence efforts. It is not by any means a perfect tool for this purpose: in particular - like the SDE comparisons - it measures inputs rather than outputs. But output measurement in defence is a notably difficult art and although NATO puts a lot of efforts into seeking to devise measures of output - to which the UK actively contributes - no satisfactory form of measurement has yet been identified. There is therefore no sensible alternative to using input measures as the basis of comparison.

3. It should not be thought, however, that because the 3% aim is a less than perfect basis for measurement it is therefore of no utility. In the first place, it rests on an assessment made in 1978 that if NATO was to stem the deterioration in the balance of forces between



East and West real increases in defence expenditure of at least 3% a year over a sustained period would be needed. Nothing that has happened since 1978 calls into question the validity of this assessment - indeed there is a case for aiming higher, as SACEUR has repeatedly observed. Secondly, without the discipline of a form of measurement that is widely understood and easy to apply, it would have been much more difficult to achieve the growth in Allies' expenditure that we have seen and the Alliance's capability would thereby have been diminished.

4. The Chief Secretary says that very few nations take the 3% aim conscientiously, if their plans and achievements are any criterion. I cannot agree - the table at paragraph 7 of John Nott's paper C(82)33 indicates that in the period 1979-81 our three major European allies as well as the United States performed better against the aim than us: and it is not suggested that we do not take it conscientiously. As to the level of defence spending in 1982/83, we shall seek to take full credit in NATO for our overall level of achievement including Falklands expenditure. But we decided last year - and so informed NATO - that we would fund the cost of the Falklands campaign and garrison in addition to the 3% aim. We shall therefore, also need to identify our achievement on a Falklands - exclusive basis - and this falls some way short of 3%.

5. I am, however, encouraged by the fact the the Chief Secretary does not seek reductions in defence expenditure after 1985/86 but confines himself to questioning how long it should go on increasing. That is my position also and I am expecting to address this issue in this year's PES discussions. In doing so I shall of course wish to consider principally the requirements imposed on us by the continuing growth in the threat and not be sidetracked by the peripheral

✓ the X's coll. →
"the garrison."



issues of NATO 'league tables'. Let us by all means take due credit for our achievements; but there is more to ensuring the nations's security than that.

West

Ministry of Defence

25th April 1983

Econ. Pol. :
Public Exp.
Pt 22



26 Apr. 1933





Wm
28/3

22000 22/3 20

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CONFIDENTIAL

27 APR 83

Don Lea

I am broadly content with the draft guidelines for the 1983 Public Expenditure Survey which you sent to the Prime Minister on 28 March so far as they go though I support Norman Tebbit's reservations about the proposed 3% factor to be used in establishing the new 1986/7 baseline.

The proposition seems to amount to a deliberate cash squeeze in addition to proposals for option reductions and any selective cuts which may emerge from the exercises on longer term public expenditure and manpower requirements. I do not see the justification for this and in any event I think it should be a matter for collective decision.

On local authority expenditure I agree that we should follow last year's procedure to determine a figure for the total of local authority current expenditure at an early date with a view to announcing this in July. We shall need to establish at an early date a separate timetable for the necessary work leading up to this July announcement.

On capital expenditure I welcome the recognition in the guidelines that greater priority needs to be given to capital programmes, and I trust that this objective will remain to the fore in the course of the survey. We are doing all that we reasonably can do to encourage worthwhile expenditure even within existing plans given the rigidities and uncertainties of the present system and a number of steps have been taken to follow up some of the proposals made by Michael Heseltine last December, but I am convinced that we need to take more active steps now to combat underspending. End-year flexibility would be a major advance and I entirely endorse what David Howell and George Younger have recently said in support of it in their letters of 7 March and 29 March.

Housing poses a particular problem in that the gross expenditure line is heavily dependent on a continuing and somewhat volatile flow of capital receipts arising from sales of council houses which it is virtually impossible for authorities to plan to spend in full in the year in which they arise. Moreover assumptions on housing capital receipts have in the past proved to be too pessimistic with the result that some £160m in the 1981/82 and £490m in 1982/83 which could have boosted local authorities capital spending has in effect been foregone.

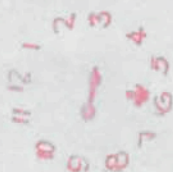
Faced with underspends of this magnitude I am convinced that we cannot delay further in reaching an early decision on implementing end-year flexibility. I would like to discuss this fundamental issue with you now before we go any further into this year's survey.

I am copying this letter to Cabinet colleagues, the Minister for the Arts and Sir Robert Armstrong.

TK
→
TK

TOM KING

27 April 1983



Development
in Kuwait
£7m

B/F



Handwritten initials and scribbles

10 DOWNING STREET

From the Private Secretary

21 April 1983

Revised Estimate of the PSBR Outturn 1982/83

The Prime Minister and Chancellor had a word yesterday afternoon about the revised outturn of £9.2 billion for the PSBR 1982/83. On the defence expenditure element of this, the Prime Minister understands that the last instruction from the Treasury to the MOD before the Budget was one seeking the elimination or minimisation of the underspend; but that the Ministry of Defence, while complying energetically with this request, were at the same time continuing to forecast a substantial underspend until well after the Budget.

B/F | The Prime Minister wants action to be taken to ensure no repetition of this situation in future years, which seems to her to be wide open to misunderstanding. She has enquired whether a Department which is predicting an underspend can be asked to take action designed to bring its prediction true, or whether this would be unacceptable, since it would in effect be to ask the Department concerned to accept a revised, and lower, cash limit.

I would be grateful if you would let me have a note on these points.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence).

M. C. SCHOLAR

John Kerr Esq
HM Treasury.

CONFIDENTIAL



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

20 April 1983

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Dear Michael,

PSBR

Last week the outturn for the Central Government Borrowing Requirement in 1982-83 was published, showing an excess of £1½ billion over the estimate published at Budget time. The Chancellor warned the Prime Minister that this had implications for the PSBR as a whole.

On Thursday, the provisional outturn for the PSBR for 1982-83 will be published. This will show a figure of £9.2 billion or £1.7 billion higher than the Budget estimate of £7.5 billion. The two main sources of the difference are as follows:

- (i) higher supply expenditure by Central Government (£0.9 billion), reflecting a misjudgement of the extent to which cash totals would be underspent;
- (ii) higher borrowing by local authorities (£0.5 billion); we have as yet no information on whether this represents higher spending or lower income.

Work is in hand on assessing the full reasons for the overshoot of the 1983 Red Book estimate; and in particular on the problem of monitoring and estimating supply expenditure in the closing weeks of the year. (The Chancellor has of course already discussed this problem with the Prime Minister.)

I attach a copy of the press briefing. While the difference from the 1983 Red Book estimate will cause comment, the outturn for 1982-83, £9.2 billion, remains below the estimate published in the 1982 Red Book (£9½ billion), even allowing for the tax reductions and other changes announced last November. And, particularly as we shall not be revising our forecast of borrowing in 1983-84, this week's figure will in no way invalidate the general downward trend in the PSBR as a percentage of GDP: it has fallen from 5½ per cent in 1980-81 to 3½ per cent in 1981-82, 3¼ per cent in 1982-83 and a forecast of 2¼ per cent this year.

Yours sincerely,
John Kerr

J O KERR
Principal Private Secretary

Prime Minister

I am getting a

list of examples

eg Sullivan Voc

MOD 1 April payday

3 and looking for some

Healey quotes.

M/S 20/4

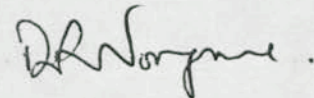
FROM: D R NORGROVE
DATE: 20 APRIL 1983

MR HALL

cc Principal Private Secretary (+ copy
for No 10)
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State (C)
PS/Minister of State (R)
Mr Middleton
Sir Anthony Rawlinson
Mr Burns
Mr Littler
Mr Cassell
Mr Monck
Mr Evans
Mr Mountfield
Mr Shields
Mr Stibbard
Mr Collinson
Mr Turnbull
Mr Webb
Mr Allen
Mr R Evans
Mr Ridley
Mr Lumsden - CSO
Mr Wells - CSO
Mr Ward - CSO
Mr Alexander - CSO
Mr Luke - CSO
Mr Wright - Bank of England

PRESS BRIEFING ON PSBR OUTTURN FOR 1982-83

The outturn for the PSBR in 1982-83, together with the figures for the March quarter, is to be published at 2.30 pm tomorrow, Thursday 21 April. I attach briefing, as approved by the Chancellor.



D R NORGROVE

PSBR MARCH QUARTER AND 1982-83: PRESS BRIEFING 21 APRIL 1983

The main figures, rounded, are set out below:-

	January-March		1982-83 provisional outturn	1982-83 FSBR estimate published on 15 March
	Unadjusted	Seasonally adjusted		
CGBR (including borrowing for on-lending to LAs and PCs)	2.1	4.4	12.6	11.3
CG less on-lending to LAs and PCs (CG own account)	-	2.2	7.2	6.2
LABR	0.9	0.4	0.3	-0.1
PCBR	0.9	1.3	1.7	1.5
PSBR	1.7	4.0	9.2	7.5

Figures do not necessarily add because of rounding.

General

2. The PSBR outturn in 1982-83 is estimated at £9.2 billion. The forecast for the 1982-83 PSBR made at the time of the March 1982 Budget was £9.5 billion. This was revised downwards to £9.0 billion in the Autumn Statement, and to £7.5 billion at the time of the 1983 Budget.

3. The PSBR for the last quarter of the financial year was £1.7 billion (unadjusted). This compares with a large repayment of £2.1 billion for the last quarter of 1981-82 and smaller repayments in 1980-81 and 1979-80.

4. The question and answer briefing below sets out the line to take on particular aspects.

Q1. Why was the 1982-83 PSBR so much higher than shown in the 1983-84 FSBR?

A. The main reasons are:

- (i) a CGBR £1.3 billion higher than in the FSBR resulting mainly from higher Supply expenditure (0.9 billion) and higher than expected net lending by the National Loans Fund to local authorities (£0.5 billion). (These figures were published on 13 April.) Central government own account borrowing is put at some £1 billion higher than the FSBR estimate. On Supply expenditure,

Table 5.10 in the FSBR showed an estimate of £1.3 billion for underspending by Departments. A detailed breakdown of information on the outturn is not yet available but preliminary indications are that some Departments actually spent much of this in an end of year surge of expenditure larger than expected at the time of the Budget.

- (ii) LABR higher by about £½ billion, which is largely reflected in the increased borrowing from the National Loans Fund. It is too early to say what caused this extra local authority borrowing, and to what extent it represents borrowing brought forward from 1983-84. (The FSBR forecast of course already took account so far as possible of the new arrangements for LA borrowing from the NLF.) [CSO will publish 1982-83 outturns for the full LA account in July Financial Statistics, to be published end July/early August.]
- (iii) PCBR higher by about £0.2 billion. This is fairly close to the FSBR estimate. [The outturn for the full PC account will be published in July Financial Statistics.]

The Budget estimate for the PSBR was based on the information available at the time. The Budget speech and the FSBR (paragraphs 5.03, 5.06 and 5.10) drew attention to the great uncertainties about PSBR estimates. As the Chief Secretary said on 14 April, because spending and borrowing looked likely to fall short of planned levels, action was taken to encourage spending to come closer to the amount provided for it. The effect of that action now looks if it has been greater than we thought probable at the time of the Budget.

[For use only if pressed: Announcements in autumn, for example introduction of spirits duty deferment and extra cut in NIS in 1982-83 raised PSBR above what would have been. Government does not control PSBR out of a wish to wear a hair shirt. Chancellor said in his Mansion House speech that PSBR in 1982-83 seemed to be undershooting. In light of this Government found room for further worthwhile measures to help businesses and others.]

Q2. Do the CGBR/PSBR outturns mean a higher CGBR/PSBR for 1983-84?

A. That does not follow. Too early to speculate on possible implications for 1983-84. Some of the additional Supply expenditure may have implications for the underlying CGBR. The figures have to be analysed and discussed with spending Departments before we can take a view. CGBR and PSBR in 1983-84 also determined by other items of expenditure and revenue.

Q3. What does the higher PSBR outturn mean for the Budget judgement/MTFS?

A. Differences between forecast and outturn for the PSBR in one year do not mean that a forecast made for the next year is necessarily wrong. As FSBR says, there are very wide margins of error either way in estimating the PSBR (see Paras 5.03, 5.06 and 5.10). Chancellor also referred in Budget Speech to the uncertainties. [Average errors in forecasting the PSBR in past Budgets are \pm £1 billion for the outturn year and \pm £4 billion for the year ahead.] For 1981-82 the 1982 Budget forecast turned out to be excessive; for 1982-83 the Budget forecast turned out to be an understatement. The forecast for the 1983-84 CGBR and PSBR set out in the FSBR are our best estimates. They reflect the overall policy to continue bringing down borrowing as a percentage of GDP (see table below); and the Budget decisions were taken accordingly. Note that the estimated outturn produces a smoother downward path in the ratio than on the basis of the figures shown in table 2.5 of the FSBR with the forecast for 1982-83 at 2½% of GDP. No new forecasts due to be published until the Autumn.

PSBR/GDP Ratios

	1981-82 (outturn)	1982-83 (estimated outturn)	1983-84 (MTFS)	1984-85 (MTFS)	1985-86 (MTFS)
PSBR £ billion	8.7	9.2	8	8	7
as % GDP	3½	3½	2½	2½	2

Q4. Is the Chancellor still satisfied with the Budget judgement?

A. Yes.

Q5. Is public spending out of control? Has there been an over-run on public spending plans?

A. As the Chief Secretary said in the House on 14 April, there is no question of any failure of the public expenditure control system. There has been only one very minor breach of cash limits and we ended the year with a large part of the contingency reserve unspent. On total plans, there has been simply less underspending than was assumed in the FSBR.

Q6. It looks as though expenditure was accelerating at the end of the financial year. Does that mean that expenditure will be higher than forecast in 1983-84?

A. It is not clear that expenditure was accelerating in any on-going sense in the last

weeks of 1982-83. There were one or two items of expenditure that could have fallen either side of 31 March, but in the event fell on the earlier side. It would therefore be wrong to draw conclusions about the likely level of expenditure in 1983-84.

Q7. Are the Treasury still content with the figures for public expenditure shortfall and the Contingency Reserve for 1983-84 shown in the FSBR (The "all done by mirrors" question)?

A. Yes. 1982-83 figures still need to be analysed for relevance to 1983-84. But in any case 1982-83 outturn no necessary guide to conclusions about 1983-84 expenditure (see Answer to Question 6 above)

Q8. What are the implications for the higher CGBR and PSBR outturns for monetary policy?

A. Monetary conditions widely judged have been developing satisfactorily. The monetary aggregates are comfortably within the target range. Too early to say what the outturns imply for monetary growth. Depends on the extent to which higher PSBR is offset by other factors. Provisional banking-April figures are due to be published on 10 May.

Q9. Why is borrowing so difficult to forecast even with only a fortnight of the financial year left?

A. The borrowing requirement is the residual between massive flows of revenue and expenditure [approaching £200 billion for the public sector as a whole for the year] and the margins of error in forecasting are inevitably very large (see answer to Q3 above). As a proportion of GDP the error this time is not unusually large. The closing weeks of the financial year see large movements on both sides of the account and there is always a high degree of uncertainty as to whether particular payments or receipts will occur before or after the books are closed on 31 March. A year ago the PSBR was over-estimated by almost £2 billion in the FSBR; this year it was under-estimated by nearly the same amount..

Q10. What steps are you taking to prevent this happening next year?

A. Will be examining carefully how arose, and whether there are any further steps that can be taken to try to minimise the risk of over and undershoots for future years.

Q11. TCSC misled?

A. TCSC aware of necessary uncertainties in 1982-83 outturn, also publication of CGBR on 13 April.



Prime Minister

Mus 20/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

20 April 1983

Dear Secretary of State,
 PUBLIC EXPENDITURE SURVEY

Thank you for your further letter of 14 April which sets out clearly your approach to the Survey. As you will have gathered from my earlier letter we do not see eye to eye but I think it is best to leave the matter until our discussion of the issues later in the year.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

yours sincerely

LEON BRITTAN
 (approved by the Chief Secretary
 & signed in his absence.)

ELON POR: Public Expenditure & Coin Limits

PT 22.

20 APR 1953





gno
2
Prime Minister

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

Mus 15/4

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 8

14th April 1983

Leon

ms

PUBLIC EXPENDITURE SURVEY

Thank you for your letter of 11th April. I was surprised to learn from my officials that, notwithstanding the penultimate paragraph in your letter, the guidelines for the 1983 survey have in fact been issued, also dated 11th April! Nevertheless I think I should respond to the points you raise and record how I intend to proceed.

My concern is that in conducting the Public Expenditure Survey full regard should be paid to existing Government policy. In the case of defence our policy, collectively agreed and publicly stated, is to increase expenditure in real terms by 3% a year, with Falklands costs in addition. It is my responsibility to carry out that policy and I do not regard it as helpful or sensible to take as the basic assumption for the Survey that the funds to be allocated to Defence will be insufficient to enable the policy to be fulfilled. It is for this reason that, while I did not wish to cause you the awkwardness of altering the baseline for Defence, I suggested that the additional funds needed to meet our defence commitments should be treated in a different category from other bids. This special treatment, as you term it, derives directly from, and is justified by, our decision to accept a volume commitment in Defence - and not in any other programme.



As stated in my earlier minute, I accept the baseline and will make my bids for additional provision against it. But it is my expectation that my colleagues, including Treasury Ministers, will not seek to deny me the funds needed to fulfil our existing defence policy. Moreover, as previously indicated, I do not intend to identify possible programme reductions in 1986/87.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Yours
Michael Heseltine

Michael Heseltine

15 APR 1955

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Econ Pd ..

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copy 6 of 12

24
aj/nc



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Prime Minister

Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

MLs 13/4

12 April 1983

Dea Len

LONG TERM PUBLIC EXPENDITURE

will request if required

Thank you for your letter of 30 March which I have taken into account as far as I could in the time available in my response to the Prime Minister. I have however been reflecting on what you say and there appear to be some misunderstandings which I should like to clear up.

In looking at the longer term prospects for public expenditure, I believe that we should take a positive view of the priorities and search for ways of cutting back on the lower priority areas rather than simply go through a sterile process of setting out the disadvantages of cuts in each programme.

I have tried to identify reductions I would like to see in my own programmes, although it is only fair to point out that they will not be achieved quickly or easily and that there may be transitional costs. But any savings we can achieve will be needed to meet the growing demand for transport facilities.

It is a common fallacy to assume that the only growth industries are electronics, tele-communications, offshore equipment and so on. There has been a sustained increase in the transport sector, and there is every indication that it will continue. Since 1965, for example, personal transport has been increasing by 2.8% a year, compared with 1.6% for GDP.

The biggest increase has, of course, been in travel by car, which is related not only to economic growth but also to changing social habits. It is for this reason that I suggested a figure of 20% traffic growth even with low economic growth - the bottom of the range we use for assessment purposes assumes minimum values for social as well as economic factors, but I would regard this as quite unrealistic, even as a conservative assumption, as a basis for policy. We have one of the lowest rates of car ownership in the European Community and I would expect us to follow the trend set by our more affluent trading partners. A continuing increase in traffic, including freight traffic, which is closely aligned with the level of economic

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activity, will mean continued expenditure on maintaining and improving the road system, controlling traffic, testing drivers and vehicles, and providing other facilities.

The great bulk of transport expenditure is incurred by the private sector and whatever the Labour Party may intend to do we are certainly not going to stop people from using their own cars. But providing the infrastructure to meet this demand has always been a largely public sector function. We may be able to find ways of introducing more private provision, and I am pressing on with this, but the fact remains that for the foreseeable future, it is public authorities in one form or another which will have to meet the demand. In short, public expenditure on transport is demand-led and that means we cannot reduce the provision in real terms.

In your letter, you suggest that the completion of the major motorway and trunk road programme and of the first round of motorway renewal will give us some leeway. You also question the deterioration in road conditions. At the present rate of progress the motorway and trunk road programme will be completed in the mid-1990's. Reductions here would mean putting off the completion of badly needed and long-awaited by-passes until the end of the century. As the trunk road programme runs down, we shall have to shift resources to dealing with the problems of congestion in towns and suburban centres. Above all we must sooner or later face up to doing something about the total mess in London, for example in Earls Court, round the South Circular, and in East London. These must be some of the worst traffic conditions in the industrialised world and an enormous environmental blight with widespread social and political repercussions.

We are now catching up with a backlog of motorway renewal with a five year programme to deal with the worst 400 miles. But the motorway programme reached its peak in the early 1970's and a continuing renewal programme will be needed for these roads in the late 1980's. On all purpose roads we have tried to be as reassuring as possible about the results of the 1982 national road maintenance condition survey, but the fact is that there has been a significant deterioration in some classes of local roads in the last year or two. I now have a critical report on road maintenance from the Transport Select Committee recommending a 10% real terms increase in the provision for local roads.

I hope this explains why I believe it would be quite wrong to look at options for shifting resources away from growth and capital spending areas like transport. Moreover since our main concern is about the impact of growing public expenditure on the taxpayer, I should point out, unlike other programmes, we are concerned here with expenditure that has a corresponding growth impact on the revenue side. The services

SECRET

we supply to the public, such as driving tests, are fully covered by receipts, and the revenue returns from motor taxation will continue to outpace public expenditure on roads.

I am sending copies of this to the Prime Minister, the Lord President, the Secretaries of State for Scotland, Wales and the Environment, the Chancellor of the Duchy of Lancaster, and Sir Robert Armstrong.

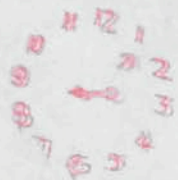
Yours
David

David

DAVID HOWELL

SECRET

2 APR 1983



*Econ Pol**Prime Minister**MUS 12/4*

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE

I have seen the Defence Secretary's minute to you of 30 March.

2. I was disappointed that he has not complied with your request to all spending Ministers to review their programmes against the background of public expenditure in the longer term. It will be even more difficult to decide how to meet our commitment to reduce public expenditure if all the possible options are not duly displayed. In 1985-86, on present plans, defence will account for about 14% of all public expenditure.

3. What I had hoped to see from the Defence Secretary was the more radical sort of approach that the LTPE exercise was intended to promote and which we discussed at your meeting on 1 February. For example - though this is neither particularly new nor radical - the opportunity could usefully be taken to look for more meaningful measures of defence contribution than the simplistic and inaccurate 3% "real" growth calculation. We are all well aware of the deficiencies in the current NATO aim and in the way it is measured: inter alia it measures input, not output; all "defence" expenditure normally counts - whether on stationery or postage, or on non-NATO commitments like Belize and Hong Kong; different countries use different yardsticks for measuring achievement and in our own case the present method of measurement has been demonstrated to be unreliable.

4. Moreover, the simplistic year-on-year arithmetic is very vulnerable to distortion; in 1982-83, for example, we spent on defence nearly £14.5 billion (a higher proportion of GDP and more in absolute terms than any major European ally) but might well, I understand, be reporting to NATO "real growth" of less than half

a per cent (partly because, contrary to the normal practice mentioned above, direct Falklands expenditure will be excluded). To anybody mesmerised by the 3% aim - very few NATO countries take it conscientiously, if their plans and achievements are any criterion - the 1982-83 UK defence effort will appear a puny one; nothing could be further from the truth.

5. Hitherto, defence provision has been largely immune from the economic pressures that have constrained other public expenditure programmes. But it will not be possible for defence spending to increase indefinitely; sooner or later it will have to take account of our wider economic objectives and progress.

6. Meanwhile we can take justifiable pride in our record to date. Defence is now, once more, the second largest programme; and this year defence expenditure should be some 23% higher, in cost terms, than when we came into office. There ought to be no problem in securing due credit for our defence spending levels achieved in the face of severe economic difficulties - either domestically, or among our major NATO allies.

7. I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretary of State for Defence, and Sir Robert Armstrong.

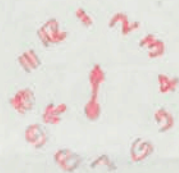
L. B.

LEON BRITTAN
12 APRIL 1983

~~EST TO PM~~

ECON POL : Public expenditure: Pt 22.

12 APR 1983



LONDON
MAY
COMMUNICATIONS



CC NO

Prime Minister 2

MS 11/4

Treasury Chambers, Parliament Street, SW1P 3AG

J B Shaw Esq
Principal Private Secretary to the
Secretary of State
Department of Employment
Caxton House
Tothill Street
London SW1H 9NA

11 April 1983

Dear Bernaby

With MCS?

PUBLIC EXPENDITURE SURVEY 1983

Thank you for your letter of 31 March, which I have shown to the Chief Secretary.

Perhaps it would help if I re-stated the purpose of this part of the guidelines. It is a fairly mechanical one. The aim is to establish a baseline for the final year of the 1983 Survey, purely as a starting point for subsequent Ministerial discussion. Of itself, the baseline does not imply any policy decisions.

Clearly, the Chief Secretary hopes that it would prove possible to secure some further reduction in public expenditure, particularly in 1986-87, a year for which there is ample time to make adjustments to programmes. He is therefore suggesting a baseline which will produce a public expenditure total in that year which is likely, in real terms, to be somewhat lower than that for the preceding year. (You speak of "a reduction of up to 2 per cent": but this of course depends on the course of inflation between now and 1987). He was particularly anxious that there should be no misunderstanding about his intention. The 3 per cent uplift on the previous years cash programmes is not intended to compensate in full for the effects of inflation, and it is emphatically not an inflation forecast.

Having established the baseline, it is then for individual departments to propose adjustments in the course of the Survey. And, when in the usual way Cabinet meets to consider the results of the Survey, it will be open to Ministers collectively to decide to add to, or indeed to subtract from, the figures for each programme thus established. In the case of the Department of Employment, I understand that there may indeed be quite substantial proposals for additional expenditure, over and above the baseline, in the final year. The Chief Secretary is not seeking to rule such proposals out of order at this stage. All he is doing is inviting the Ministers concerned to make proposals, which Cabinet collectively can consider, rather than having programmes automatically increased by some arbitrary percentage addition for inflation.

I hope that this explanation will help, and that your Secretary of State is now prepared to agree to the guidelines proposed. If there is any further difficulty, perhaps officials could discuss it before making a further submission to Ministers.

I am sending copies of this letter to the Private Secretaries to other Cabinet Ministers, the Minister for the Arts, and Sir Robert Armstrong, who received copies of the Chief Secretary's original minute.

Yours sincerely

J.G. Gieve

JOHN GIEVE

Private Secretary

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P 21

11 APR 1968



*Exc 19
in 1983*



Prime Minister

You have agreed the

Treasury Chambers, Parliament Street, SW1P 3AG

PES guidelines

"subject to colleagues"

Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

Await Mr. Heseltine's

11 April 1983

reaction to his

letter?

D. Gordon,

[Handwritten mark]

MCS 11/4

PUBLIC EXPENDITURE SURVEY

Thank you for your minute of 6 April.

I am unable to accord the defence programme the special treatment you seek. It would be unfair to colleagues to try to pre-empt collective decisions by allocating additional provision to defence before the Survey even starts.

I think it is wrong and unnecessary at this stage to anticipate or prejudge what those collective decisions might be; that will be the outcome of the Survey. My current object in setting the guidelines is to enable those decisions to be taken from a full choice of the possible options. Thus it is as helpful for the implications of possible reductions to be shown as for the implications of possible additions.

It follows that there must be a common baseline against which possible adjustments can be measured; and that all departments should follow an orderly procedure so that possible adjustments can be properly considered. That is what the Survey guidelines establish, and all I ask is that your department, like other departments, should follow them.

I quite recognise that, like other spending Ministers, you may wish to propose additions to your programme during the course of the Survey. At this stage I can undertake only to consider these proposals, not to accept them; almost inevitably there will be more PES claims on the public expenditure totals than we as a Government shall be able to accept.

I hope that in the light of the above you can reconsider your objections to the 1983 Survey guidelines, which I intend to be issued next week.

CONFIDENTIAL

I am copying this letter to the Prime Minister, the Chancellor
of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Leon Brittan

LEON BRITTAN

CONFIDENTIAL

1 APR 1953

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Prime Minister

You may wish to await
the Chief Secretary's reaction
to this before deciding
whether to comment.

CHIEF SECRETARY

mt

LM
7/4PUBLIC EXPENDITURE SURVEY 1983

Your minute of 28th March to the Prime Minister invited comments on your proposed guidelines for this year's Public Expenditure Survey. Two points are of particular concern to me.

2. First, the baseline provision that you propose undermines last year's settlement, which, Falklands costs apart, provided "in full for real growth of 3 per cent a year" (Cmnd 8789). On the basis of your own Budget forecasts of inflation the baseline figures for 1984/85 and 1985/86 would imply real growth, on average, of little over 2% a year, while you yourself acknowledge in paragraph 3 of your submission, that the unrealistic 3% uplift factor for 1986/87 will imply a real reduction in department's spending. I do not regard it as right in principle that I should be placed in the position of demandeur in order to secure the funds needed to carry out the Government's existing commitments. If it is our intention to consider reductions in the planned defence programme - to which I should be opposed - we should do so openly and not by stealth.

3. Secondly, I do not consider that it makes any sense to consider options for effecting reductions of 5% in defence expenditure in 1986/87. The issue for that year, as I have recently advised the Prime Minister, is whether or not to extend 3% growth. There can be no question of a reduction which would undo the Government's achievements in previous years.



4. I should prefer the baseline for defence to be amended to meet my concern. I do, however, recognise that this could cause you difficulty with other Departments. I am therefore, with reluctance, prepared to accept the baseline proposals on the understanding that in PES negotiations the additional provision needed, in the light of the latest forecasts of inflation, to honour our existing defence commitments will be treated as a "bid" for technical purposes only and will not be disputed. For 1986/87 I am prepared to argue the case for a 3% increase in real terms; but I am not prepared to identify options for reductions below the baseline.

5. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

WJH

Ministry of Defence
6th April 1983

ELON Pa

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Prime Minister
LONG TERM PUBLIC EXPENDITURE



ms
Prime Minister²

ms 31/3

1. In your minute of 4 February you asked for a report on possibilities for reducing public expenditure in the longer term.

2. In considering these possibilities I think it is important to bear in mind the changes in programmes that have already taken place over the last 4 years. The table below from the Public Expenditure White paper illustrates this. The final column which I asked my officials to calculate shows the percentage change in cost terms of each programme over the period of this Government. It illustrates very clearly that the major reductions that have been made are in the contributions to the EEC budget and in the Housing programme.

COMPARATIVE CHANGES IN DEPARTMENTAL PROGRAMMES IN COST TERMS 1978/9 - 1983/4

	1978-9	1979-80	1980-1	1981-2	1982-3	1983-4	% increase over 1978/9 outturn
Defence	11,486	12,077	12,374	12,606	13,406	14,163	23
Overseas aid & other environmental services							
Overseas aid	1,108	1,031	983	960	892	936	-16
Net payments to EC institutions	1,151	1,098	245	153	540	337	-71
Other overseas services	579	594	570	573	617	653	13
Agriculture, fisheries, food & forestry	1,246	1,318	1,491	1,372	1,660	1,554	25
Industry, energy, trade & employment	4,652	3,771	4,439	5,319	5,446	4,981	7
Transport	3,750	3,882	3,825	3,898	4,037	3,811	2
Housing	5,473	5,908	4,933	3,137	2,399	2,474	-55
Other environmental services	3,458	3,537	3,576	3,244	3,193	3,157	-9
Law, order & protective services	3,120	3,376	3,505	3,774	3,985	4,060	30
Education & science	11,883	11,709	12,065	11,828	11,747	11,127	-6
Arts & libraries	521	529	528	520	539	499	-4
Health & personal social services	11,378	11,648	12,576	12,751	12,911	12,942	14
Social security	25,187	25,415	25,963	28,510	30,207	30,471	21
Other public services	1,485	1,517	1,593	1,556	1,553	1,484	0
Common services	1,307	1,321	1,216	1,453	1,537	883	-32
Scotland	5,644	5,821	5,893	5,772	5,826	5,656	0
Wales	2,263	2,343	2,356	2,243	2,213	2,240	0
Northern Ireland	3,275	3,209	3,215	3,218	3,319	3,372	3
Government lending to nationalised industries	1,080	2,541	2,459	1,457	1,268	986	-9
Local authority expenditure not allocated to programmes (England)						801	
Adjustments							
Public corporations' net over- seas & market borrowing	679	-630	-683	260	-1,009	-259	
Special sales of assets		-1,308	-394	79	-500	-650	
Contingency reserve					250	1,300	
General allowance for shortfall					-900	-1,100	
Planning total(2)	100,726	100,706	102,728	104,684	105,123	105,930	
Planning total - rounded(2)	100,700	100,700	102,700	104,700	105,100	105,900	5

1. Cash figures adjusted for general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by some 7½% in 1982-3 and some 5% in 1983-4 as stated in the Autumn Statement 1982.

2. Totals do not always add because of rounding.

3. These are net PES figures. The cost terms change in gross housing expenditure between 1978/9 and 1983/4 plans is: capital 30%; current 60%; total 40%.

3. Notwithstanding what has already been achieved I fully support the need for further and radical efforts to reduce public expenditure in the longer term, and we have scrutinised every part of the Department's expenditure programmes closely. I have also looked more widely at the total of local authority expenditure for which I have a general responsibility. The attached report sets out a number of possibilities which I think would be worth considering further. Leon Brittan has seen this report. He has some reservation on particular points, which we have not been able to agree at this stage.

In forwarding the report there are several points I would like to emphasise.

4. First, capital spending. In 1983/4 60% of the gross public expenditure in my programmes is planned to go on capital. Capital spending on construction has been severely reduced in cost terms in recent years in both the public and private sectors incurring problems in the construction industry, and serious deficiencies of provision in the number of programmes.

5. In my own programmes the recent English House Condition Survey has shown that there is a growing problem of housing in disrepair in both public and private sectors; and we are rapidly becoming aware of a very major problem of structural and design faults in some parts of the system - built public sector housing of the last 60 years. In the water field recent events have highlighted the need for much greater emphasis on cost-saving investment, and here too there is a significant problem of replacing old and deteriorating pipes and sewers. There is also likely to be a continuing need for investment under the urban programme in many of the inner city areas over the next decade.

6. I think there can be no doubt therefore of the need over the next decade for a higher level of capital investment in the construction sector than in the last few years. I am equally convinced however that much of this investment will be better and more efficiently done if it is carried out by the private sector, rather than as public expenditure. The challenge for this Government over the next decade is to create the conditions in which the private sector contribution to the necessary construction activity can be maximised.

7. John Stanley and I have identified a number of ways in which this could be taken forward in the housing field (para 26 of the report) and we shall need to pursue these vigorously in the next Parliament. Equally I shall want to give greater emphasis in the urban programme to schemes involving a partnership between the public and private sectors where the public sector investment acts as an inducement to lever more investment on the private sector.

8. Even with all these measures to encourage more private sector involvement in construction work there will inevitably remain a substantial need for public sector involvement on capital work. My own provisional assessment is that we shall need to maintain public expenditure on capital investment at at least its present level over the next decade, though forming a smaller proportion of what ought to be an expanding scale of activity for the construction industry as a whole.

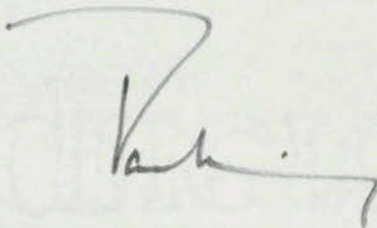
9. One major technical problem here is to find better ways of planning and managing our public capital expenditure programmes. Sensible planning and control requires a degree of flexibility at the year-end so that underspending or overspending in one year can be carried forward as an adjustment to the following year or years without disrupting the flow of the programme. The present rules contribute directly to the serious underspending which we have encountered in the last two years which is wasteful of resources, and undermines our general economic strategy.
10. Secondly, current expenditure. In my own programmes I see limited scope for reductions in the level of services to the public. But there is still enormous scope for increasing efficiency, and thus saving costs.
11. We have developed several lines of attack on this problem over the last 4 years which we shall need to take further over the next decade. First there is direct pressure on public sector bodies concerned to improve their efficiency. Within this Department the new costing and management information systems we have developed (MINIS and MAXIS) have played a key role here. They will need to be developed further and extended to sponsored bodies in our field, and possibly also to local government.
12. Secondly, there is the spur of competition. In local government direct labour organisations have been driven out of their cosy protected world by the requirement to keep proper accounts and tender against private competition. In a broader sense the wider publication of comparative statistics about all aspects of local authorities' performance and costs has enabled the public and authorities themselves to compare their relative performance and efficiency. These initiatives could be taken further.
13. Thirdly, we have taken steps to strengthen the audit of local government and other public sector bodies, and to give much greater emphasis to value-for-money audit. These initiatives will need to be developed over the next decade.
14. Fourthly, we need to look much harder at the scope for contracting out some services or privatising them altogether. Where private contractors can provide a service more economically than directly employed staff that in itself will produce useful savings. Where full-scale privatisation is possible, with a service being provided directly to the public for a charge, the whole cost of that service will be removed from the total of public expenditure.
15. Fifthly, we shall need to continue to look at the scope for introducing or increasing charges for publicly provided services or further reducing revenue subsidies. (The scope must however be limited by the difficulties of increasing charges faster than inflation.)
16. Sixthly, we should note that the total value of current expenditure on housing is some £5 bn per annum, spread across 3 Departments (see para 21 of the report). Aspects of this may need to be reviewed over the next decade.
17. Finally, on a point about PES conventions, it is impossible to ignore the confusion that arises in our public expenditure planning processes from treating local authority current expenditure (totalling £22½ bn in 1983/4) as though it were on all fours with central Government expenditure which can be directly controlled.

What we do control is the total of Exchequer grants to local authorities (general and specific) (£12 bn in 1983/4). But paradoxically the main Exchequer grants do not count as public expenditure. They are merely counted as financing items, while the total of local authority current expenditure is treated as public expenditure.

18. Paragraphs 12 and 13 of the report accordingly float the suggestion that it might be desirable to adopt a new PES convention whereby the Exchequer grant should score as public expenditure, and the rest of local authority current expenditure should not. This would be somewhat similar to the treatment of water authorities or nationalised industries in PES.

19. Leon Brittan has so far opposed this suggestion, but he recognises the presentational problem, and I shall be pursuing this issue further with him.

20. I am copying this minute and the report to the Chief Secretary, the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong only at this stage.



TK

31 MAR 83

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REPORT ON POSSIBILITIES IN DOE'S AREA OF RESPONSIBILITY FOR REDUCING PUBLIC EXPENDITURE IN THE LONGER TERM

1. This report sets out in summary form a number of areas within DOE's area of responsibility where public expenditure savings might be sought in the longer term. None of the possibilities here listed are fully worked up, and some of them could be difficult to pursue for political or other reasons. They are not therefore put forward as firm proposals. They are simply possibilities from which some might be selected for further and deeper examination.

2. The report deals first with issues concerning the totality of local authority current and capital expenditure for which DOE has a general responsibility, although large parts of this expenditure fall within other Department's public expenditure programme. It then goes on to review each of DOE's main public expenditure programmes.

I. Local Authority Current Expenditure

3. Between 1979 and 1983 local authority current expenditure in England remained fairly steady in cost terms as the following table shows.

<u>£m Cash</u> <u>England</u>	<u>Outturn</u>				<u>Budget</u>	<u>Plan</u>
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
LA Current (measured on RSG basis)	11,042	12,976	15,682	17,459	19,260	19,692 (Budget = 20,400)
<u>£m in</u> <u>1982-83 Costs</u>	(using local authority revaluation factor to deflate costs)					
LA Current	19,120	19,430	19,125	18,945	19,260	18,612 (Budget = 19,250)
Index	100	102	100	99	101	97½ (Budget = 101)

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Notes

- a. The increase in current expenditure at 1982-83 costs between 1981-82 and 1982-83 may be lower at outturn.
- b. using a GDP cost deflator the index would rise over the period.
4. Local authority manpower has declined by 4.6% from June 1979 to December 1982 but this positive achievement has been partly eroded by wage drift and other increases in the relative prices of goods and services to local authorities.
5. Standards of service have been maintained for most services in most authorities, but there are some signs that standards cannot be safely squeezed much further on some services in some authorities. At the other extreme there are some authorities which have continued to increase their expenditure in real terms regardless of Government pressures, and where some real savings in future years are clearly possible.
6. A full assessment of what can be achieved over the next decade on the totality of local authority current programmes must await a full analysis of replies by other colleagues with local government responsibilities.
7. It ought however be possible to achieve substantial further efficiency savings and some paring away of excessive expenditure in the higher-spending authorities, without involving serious diminution of standards of service. One key issue is how to ensure that services are actually pruned when client numbers decline (eg falling school rolls).
8. Measures to reduce Local Authority Current Expenditure The possibility of new measures to control local authority current expenditure are under discussion in ELF and are not considered further in this report.
9. Apart from any new measures there have been a number of developments under the present Government which will continue

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to exert a downward pressure on local government current expenditure over the next decade. The most important are as follows:

- (i) The structure of the new rate support grant introduced in 1980 can be arranged to make the marginal cost to local authorities of extra expenditure very high. Subject to any changes that may emerge from the ELF discussions these RSG pressures will continue to be available in the future.
- (ii) The Audit Commission which commences operations on 1 April 1983, will give a greater impetus and force to the audit of local government, particularly in the development of value for money audit which should over time lead to significant improvements in economy effectiveness and efficiency.
- (iii) The legislation introduced in 1980 to require direct labour local authority organisations to keep proper accounts and to operate in direct competition with the private sector has already had a significant effect in securing greater efficiency.
- (iv) There should be scope for extending the approach adopted towards DLOs in other areas: refuse collection/disposal, environmental health, recreational facilities, parks, office services. The scale of reductions in expenditure would depend on the potential savings achievable in provision of these services by contractors rather than by directly employed staff. Professional services - such as architectural, engineering and legal work - might be similarly approached.

10. More major reductions in expenditure might be achieved if responsibility for providing services were transferred wholly to the private sector, with the services financed by direct charges to consumers (eg refuse collection) rather than as a

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charge to rates - privatisation as opposed to contracting out. Short of complete privatisation the concept of mixed public/private enterprises set up outside local government (and by convention outside public expenditure) providing services to consumers on a charged basis - on the German model for refuse collection - might be pursued.

Defunding Local Authority Pensions

11. Pensions in local government, unlike those in the civil service and other parts of the public service, are paid out of a fund. This is fed by contributions from employees and employers; the latter's contributions count as public expenditure. Income at present is substantially in excess of scheme benefits. There would be substantial public expenditure savings initially if the scheme were changed onto a pay-as-you-go basis. Calculations made in March 1982 showed that the public expenditure saving in the first year would be over £400m; PSBR saving in the first year would be about £1000m. Savings would continue on a decreasing scale for a number of years; but there would be long term financial implications as by the early years of the next century public expenditure costs would be greater than for a funded scheme. Legislation would be required, and realisation of the funds would need to be spread over a number of years in order to minimise the consequences for the market. Several official studies in the past few years have recognised the anomalous position of this funded scheme within the public services, but considered that the arguments so far advanced did not justify a change. Although Ministers have endorsed those views, the importance of medium term public expenditure savings might make it worth reconsidering.

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Reclassification of Local Authority Expenditure

12. One other possibility affecting the whole of local government current expenditure is a classification change. Local authority rate borne expenditure might be excluded from public expenditure. Instead Exchequer grants to local authorities would be scored as being public expenditure. This would be comparable to the way in which water authorities and nationalised industries are treated in PES. Only their external financing requirements score as public expenditure; everything that is financed from their own revenue is ignored for PES purposes.

13. There are of course important economic and accounting conventions underlying the treatment which would need to be carefully examined with Treasury and other colleagues before any such change could be made. And there would also need to be careful consideration of how well such a change would fit with the general policy in relation to local authority expenditure as it is developing in ELF and elsewhere. Such a change would best accord with a policy of clarifying the separate responsibilities of central and local government. Central government would be seen to be planning for and controlling Exchequer grant, over which it has direct control. It could continue to make such plans and regulate the grants with a view to influencing the level of local authority expenditure as at present. But the total level of local authority current expenditure would no longer be treated as part of the Government's own plans, for which the Government should itself be treated as directly responsible and accountable. The total nominal level of public expenditure would be reduced by £10½ bn in 1983-84.

II. Local Authority Capital Expenditure

14. Local Authority capital expenditure has declined over the past five years in cost terms as the following table shows:

<u>£m Cash</u> <u>England</u>	<u>Outturn</u>				<u>Estimated</u>	<u>Plan</u>
	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>Outturn</u> <u>1982-83</u>	<u>1983-84</u>
Net	2882	3646	3512	2459	2049	2982
Gross (ie. inc. Capital Receipts)	3474	4261	4344	2857	4000	4732
<u>£m in 1982-83</u> <u>costs</u>						
Gross	5750	5735	4815	3090	4000	4500
Index	100	100	84	54	69	78

15. The decline in public expenditure on housing has been the most important element of this, but there have also been reductions in capital spending on local environmental services, education and other services. More generally total construction expenditure (public and private) has declined by about 20% in cost terms over the period, although there is some sign of a modest recovery this year.

16. Although the stabilisation of the population size means that there will be somewhat less need for net additions to the housing stock, or to roads and other public sector facilities than in the immediate post-war decades, there will remain a substantial problem of catering for the continuing growth of separate small households, replacement, maintenance and repair of housing (both public and private), and of other public sector capital assets. Present levels of construction expenditure are barely adequate to cope with this national task, and any substantial reductions in real terms could mean a growing problem of disrepair and dereliction. The construction industry would also be adversely affected by any further reduction in the total local

authority capital programme. A significant increase of construction activity over the next decade would therefore be desirable. So far as possible this should be concentrated in the private sector; but the public sector capital line, including in particular the local authority line, will also need to be maintained at least at its present level.

17. The problems have been exacerbated over the last two years by the substantial under-spending by local authorities, which have wasted resources that could have been put to good use in developing and improving the capital assets of local authorities, and acting as a counter-cyclical boost to the construction industry.

18. One important cause of the underspending lies in the public expenditure convention which prevents the carrying forward of underspending from one year to boost a later year's cash limit. The high level of capital receipts at the present time, which are difficult to forecast accurately, makes it particularly difficult for local authorities and for central Government to plan confidently to hit a precise cash limit target. A degree of end-year flexibility could make a significant contribution here. More generally a review of the capital expenditure control system, and the way it operates in relation to capital receipts, may be needed at some stage during the life of the next Parliament.

III. DOE Public Expenditure Programmes

19. DOE's main programmes as planned for 1983-84 - 1985-86 are as follows:-

	£m		
	1983-84	1984-85	1985-86
Housing Capital (Net)	1843	2117	2276
(Gross)	[3245]	[3417]	[3576]
Housing Current	949	871	834

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		£m	
	1983-84	1984-85	1985-86
Regional Water Authorities - net NLF borrowing	390	398	401
Local Environmental Services Capital (Net)	200	210	220
(Gross)	£624.7	£637.7	£648.7
Local Environmental Services Current	2062	2100	2170
Derelict Land	75	68	72
Urban Programme	261	296	308
Urban Development Corporations	67	82	85
Heritage Expenditure	76	80	83
Minor Other Environmental Services	328	324	335
PSA	-125	-103	-113
	<u>6127</u>	<u>6443</u>	<u>6671</u>

HOUSING

20. There is no room for cuts on capital: indeed, capital will certainly need to be increased. But there is scope for cuts on the current side, though any such cuts will necessitate difficult and disadvantageous policy decisions. Current and capital are considered in turn.

Current

21. There are four main components of current expenditure in support of housing, spread through three Departments. They need to be considered together in the present context. Their total value in 1983-84 is about £5bn, as follows:

1. Mortgage Tax Relief, value £2500m
2. Rent support in the public sector through UHB and the rent element of supplementary benefit, value £1700m.

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3. Rent support through DOE housing subsidies, to local authorities, new towns and Housing Associations, value £530m.
4. Rent Support through local authority rate fund contributions to the HRA, value £290m.

22. Taking each in turn, mortgage tax relief is for the Treasury in the first place. UHB and the rent element of supplementary benefit is for DHSS in the first place, but DOE could not contemplate a reduction in the housing element of supplementary benefit unless it were to form part of equivalent reductions across the whole range of supplementary benefit. As a result of the Government's rent and housing subsidy policies, a dramatic reduction has already been made in housing subsidy to local authorities, which, in cash terms, has fallen from £1420m in 1980/81 to an estimated £370m in 1983/84. In any case, the scope for getting rents up through use of the subsidy mechanism is increasingly limited because it is estimated that in 1983/84 almost four fifths of all local authorities will be out of subsidy. The only way in which further reductions of public expenditure could be achieved through the rent/subsidy relationship is therefore by primary legislation, which would effectively dictate both the levels of rents and the utilisation of surpluses on the HRA for the housing programme. Such legislation would be intensely controversial.

23. Rate fund contributions to the HRA are continuing at a higher level than is desirable, including by authorities whose rent levels are below the average rent levels in their regions. It would be possible, as an alternative to operating directly on rents, to introduce primary legislation imposing some constraints on rate fund contributions to the HRAs, but this would also be highly controversial, particularly if we continued to allow local authorities to do the reverse (ie. HRA transfers to the GRF).

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Capital

24. On the capital side, we start from the position that 82% of the Government's capital cuts have fallen on the housing programme. Housing capital outturn expenditure in 1982/83 is only 57% in real terms of what it was in 1978/9, whereas Health scores 123% and Transport 98%. (GB comparisons in net terms).

25. At the same time the new information that has become available in the last few months shows that without any question there is going to be great pressure over the next 5 years for an uplift in real terms in public sector capital expenditure on housing because of the following combination of factors:

(a) the rate of increase of net household formation, plus demolitions, means that approximately 225,000 dwellings need to be added to the housing stock in the 1980s to maintain the existing household/dwelling balance, let alone increase it. Though the majority of new households will be able to buy (and we want to do all we can to help them do so) there will still be a significant minority whose personal circumstances are such that it makes it impossible for them to do other than rent;

(b) it is now becoming apparent at this very moment that there is a serious situation developing in respect of various forms of industrialised prefabricated housing built up to the end of the 1950s, totalling about 400,000 of which up to 250,000 may have inherent structural defects;

(c) there are also extremely difficult design problems with many system-built and deck-access blocks which were built in the 1960s and early 1970s necessitating costly reconstruction if they are to remain lettable; in some cases they may even need to be demolished with replacement accommodation having to be found for the tenants.

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(d) in the private sector, the results of the 1981 English House Condition Survey have shown a sharp rise in the incidence of serious disrepair, which, if not tackled through home improvement grants, will inevitably lead to costly clearance programmes and the replacement of private by public sector housing.

26. These factors together are bound to necessitate an increase in housing capital expenditure unless there is to be a marked deterioration of housing conditions. The increase can be mitigated if we take more steps to support the private sector. For that we need:

(1) tougher measures to get a greater rate of public sector land release;

(2) a more positive approach to residential development through the planning system to ensure that the private sector housing contribution remains above 150,000 units throughout the 1980s;

(3) a bigger contribution from new build for rent through assured tenancies, with legislation to extend the assured tenancy scheme to cover conversion and improvement of existing property;

(4) a further look at statutory rent controls on new (but not existing) lettings in the private sector;

(5) a viable basis for carrying out shared ownership entirely in the private sector. This would be assisted if the policy on capital allowances were changed.

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Even with all the above, a substantial level of public expenditure will be needed in order adequately to maintain home improvement in the public and private sectors and also to meet the demand for rented accommodation. Although by the end of the 1980s home ownership in England will have reached perhaps 65%, the highest in Western Europe, about a third of households will still require rented accommodation. And because of the unhappy collapse of the private rented sector and its continued 'blighting' by the Labour Party, this will have to be met at least for the rest of this decade predominantly in the public sector.

Water

27. Since 1978/79, DOE public expenditure on water services (including water research but excluding land drainage financed by MAFF and Welsh Water expenditure) has been as follows in cost terms (£ million based on 1981/82).

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Water services	383	368	314	219	282	278
BWB	31	30	29	28	35	35

The main factor in the reductions shown has been a sharp decline in water investment. There is increasing concern about the low level of expenditure on renewal of sewers and pipes and with a resumption of economic growth investment requirements can be expected to rise over the next decade,

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particularly as recent events in the water industry have highlighted the need for an increased level of cost-reducing investment. Financial targets to achieve a reasonable rate of return on water industry assets have helped to finance a rising proportion of investment from internal resources, as has pressure on operating costs through performance aims and manpower targets. Capital investment should now increase again modestly to allow an adequate rate of renewal particularly of sewers and water mains (as recently recommended by the House of Lords Select Committee on Science and Technology) and to reduce manpower costs. This should be possible, assuming continuing and successful pressure for improvements in efficiency, with a gradually reducing external financing requirement and without unacceptable increases in charges.

LES Capital

28. This programme has been severely cut back in recent years: even in cash terms allocations to local authorities are now only two-thirds of net outturn in 1980/81. Any further reductions would impede local authorities in the delivery of essential services covered by the programme. The most striking case is refuse disposal, where some authorities now require to undertake major expenditure as local sites become filled and expensive processing plant has to be provided. Such expenditure cannot be deferred and is unlikely to be offset by the savings from private sector participation which we seek.

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LES Current

29. The programme for 1983-84 breaks down as follows:

Sub-Programme	<u>Gross</u>	<u>Receipts</u>	<u>Net</u>
(1) Town & Country Planning	420.3	175.7	244.6
(2) Recreation	670.2	200.0	470.2
(3) Refuse	634.5	78.0	556.5
(4) Other Local Services *	1127.1	336.4	790.1
	<u>2852.1</u>	<u>790.1</u>	<u>2062.0</u>

* Including administration costs not recharged to other services.

30. Significant measures have been taken under the present Government to reduce the net cost of the town and country planning system by stream-lining the planning process, simplifying the development control system and introducing charging for planning applications. There is probably not much scope for further simplification of the system but there may still be some scope for increasing the revenue from charges, and for reducing administrative costs, subject to the difficulty of increasing charges faster than inflation. On recreation no significant scope for reduction of gross expenditure is seen; and successive studies have concluded that charges could not be increased substantially without taking away custom, and adverse public reaction.

31. On other local services and refuse collection/disposal the main measures contemplated are the general pressures for improving efficiency referred to above (para 9) by extensions of the contracting out principle. Short of complete privatisation (para 10) reductions could be achieved by increases in charges for some services. Transfer of financing of services such as refuse collection from rates to user-related charges would have a greater impact, provided that a suitable regulatory framework could be devised to protect public health standards and ensure public acceptability.

32. Urban Development Corporations

Over the next five years the urban development corporations in London Docklands and Merseyside will clearly need substantial injections of public expenditure in order to fuel the major

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programme of regeneration, land reclamation, provision of new infrastructure, and redevelopment on which they are engaged to overcome generations of neglect. Thereafter with the consequent removal of negative land values, and regeneration of commercial and industrial confidence in the areas, the public expenditure component may be expected to begin to diminish.

33. Heritage Expenditure

This covers expenditure on protection and preservation of ancient monuments, grants to owners of historic buildings, expenditure on royal palaces and parks etc. The forthcoming creation of the new Historic Buildings Commission should enable this work to be managed efficiently and in a more commercial way, and to enlarge the possibility of generating additional revenue from the public. Significant savings might be achieved by reducing the standards of care, reducing opening hours, or restricting the number and level of grants to private owners. None of these measures would be politically attractive.

34. Minor Services

This category includes the Department's own expenditure, and that of a number of minor fringe bodies such as the Sports Council, Nature Conservancy etc. Continuing pressure on administrative costs by MINIS and other means should continue to produce useful efficiency savings throughout the decade; but major reductions are unlikely to be attainable for most of the bodies, without unacceptable diminution of services.

35. Derelict Land

Recent surveys suggest that between 1974 and 1982 there has been a net reduction of only 5% in the total amount of reclaimable derelict land. So the back of the problem is nowhere near broken, and although it would be feasible to cut down on the present scale of public expenditure on rehabilitation there are strong arguments for maintaining or even increasing the present programme. Under the present Government increasing importance has however been attached to linking derelict land rehabilitation schemes with positive steps to secure developers to make use of the restored land. This emphasis should be continued over the next decade.

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36. Urban Programme

In 1983/84 the urban programme breaks down as follows:

Partnerships	126
Programme Authorities	63
Traditional Urban Prog	52
Urban Development Grant	60
Merseyside special schemes	32
Other	25
	<u>358</u>

37. It might be technically feasible to reduce this scale of expenditure over the next decade by 25% or even more. If such a reduction had to be made there would be a choice between cutting back on partnership allocations, sharply cutting back the traditional urban programme, and a general decrease across the board. It is early to say, but it seems likely that we should want to protect the new urban development grant which shows every prospect of bringing forward new private sector capital and initiatives to join with the public sector in a wide variety of schemes in urban areas. The consequences of a substantial cut back (which a 25% reduction would be) would, however, be to cast severe doubt on our commitment to seeking solutions to the very severe problems, leading even to possible social breakdown, in the worst areas of our major cities.

38. PSA

The main reductions in public expenditure would come from reducing the amount of accommodation held by PSA. Under the Property Repayment Service (PRS) scheme the incentive is on Departments, who will now pay for accommodation, to economise, and the savings will accrue to them, not to PSA. The incentive can be sharpened by developing PRS towards a more commercial approach, eg by charging individually assessed market rents for all buildings. PSA can facilitate Departments' savings by taking opportunities to rationalise the estate following reductions in Departmental occupations, and by energy conservation measures, and reduce its charge to them for administrative costs by greater efficiency. It is not feasible to reduce their running costs by spending less on maintenance which is at an irreducible minimum, nor is there scope for significant cuts in the limited new works programme.

Department of the Environment

30 March 1983

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1 of 10



cf no
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Prime Minister

Prime Minister

LONG TERM PUBLIC EXPENDITURE

ms

MUS 31/3

In response to your minute of 4 February, I am enclosing a note on the scope for savings in the area of my Departmental responsibilities.

I have consulted the Chief Secretary on this. He is concerned that it does not propose significant reductions in the longer term that colleagues could consider and that some sections appear to be anticipating increases in provision. We must, however, resist the easy option of cutting capital expenditure. Similarly it would be short-sighted to cut back on the road maintenance much needed to protect our investment. We therefore need to concentrate on the more difficult task of cutting subsidies and on the scope for increasing the role of the private sector.

Public transport will continue to need support. We are considering separately how to get better value from the railways. In spite of the overspending, most local authorities give less subsidy per £ of fare box revenue than we do for many BR services. We need to get the balance right, with more investment and less subsidy, with more benefit for the traveller at less overall cost to the taxpayer, and with more private sector participation. We shall need structural changes which will take time to achieve and will involve transitional costs, but these should begin to pay off by the end of the period. Setting up a Transport Authority for London will give us the opportunity to make a start.

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I shall soon be putting forward my conclusions on private finance for roads. However I see this as essentially a means of increasing investment in road construction rather than as an alternative means of financing the existing programme although the Chief Secretary considers the presumption should be the other way. But I do see some scope for reducing public expenditure by introducing private risk capital into the public sector ports.

I understand that the possibility of transferring the vehicle excise duty on cars to local authorities is being considered as one of the options for relieving the rates. I have suggested to the Chief Secretary that we might consider going further and treating the duty as a genuine licence fee to meet the cost of maintaining local roads, which would take it out of the public expenditure figures altogether. I recognise the objections to creating a road fund in this way. But it would have the real advantage that motorists would feel that they were no longer paying several times over for using the road system, through rates as well as motoring taxes. They would see a direct link between the condition of local roads and what they paid to use them, and would put greater pressure on local authorities to improve efficiency.

I have not covered the Department's administrative expenditure, which is the subject of the separate exercise the Chief Secretary is undertaking, following the discussion at Cabinet on 16 December last.

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I am sending copies of this to the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Scotland, Wales and the Environment, the Chief Secretary, the Chancellor of the Duchy of Lancaster, and Sir Robert Armstrong.

David Howell

DAVID HOWELL

31 March 1983

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LONG TERM PUBLIC EXPENDITURE - POTENTIAL FOR CUTS

Road Investment (Trunk and Local) £1,300 million +

1. The motorway system will be largely complete by the late 1980's. The needs will be for local by-passes and to reduce traffic congestion in towns and major suburban centres, especially London. Given changing social trends, even with low economic growth, traffic will increase by 20% by the early 1990's. A big cut would mean more accidents, higher business costs, frustrating the hope of relief in many places that suffer acutely from heavy traffic, and dissatisfied road users.

Road Maintenance (Trunk and Local) £1,000 million

2. A 5 year programme is now under way to deal with the backlog of structural work on the oldest 400 miles of motorway. We will then need a continuing programme to deal with the 600 miles built in the early 1970's which will need renewal towards the end of the period.

3. Recent evidence suggests some very real deterioration in conditions on some classes of local roads. The Transport Select Committee have just issued a critical report recommending an increase in provision. Studies by consultants have shown little opportunity for reducing unit costs. The DLO legislation is ensuring private competition to keep costs down. Continuing pressure will be needed to offset the effects of continuing traffic growth. To cut provision significantly would be to put at risk the vital national asset of the whole network. It would rebound later necessitating much more spending.

Capital Investment in Local Transport: £280 million

4. The programme is virtually all renewal, mainly buses and LT tubes. Only a small element is for new schemes. Creation of a new London regional transport authority (LRTA) will probably require more investment to rationalise BR and LT networks and modernise the system, which is shabby by international standards, in order to achieve savings with longer run.

Local Subsidies for Public Transport: £300 million

5. Although local spending plans have come down from £800 million to £600 million with the help of the Transport Bill, they are still double the PES provision. Long term trends are unfavourable. In the last 10 years fares have gone up by 20% in real terms, services have been cut by 15% and unit costs have risen by over a quarter.

+ All figures relate to planned expenditure in 1985-86

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6. There is scope for efficiency gains through devolving responsibility within transport executives to smaller accountable units and promoting competition. In London the LRTA should make more efficient use of BR and LT resources. To reach and hold to the PES provision, let alone cut it, will require unit costs to be halved by the early 1990's if real fares are not to rise or services deteriorate further. If unit costs are just contained - halting the current 2% p.a. deterioration - real fares will have to be increased by half and services cut by a quarter.

7. Cutting subsidies below the PES provision would involve a greatly reduced role for public transport in the conurbations, leading to increased traffic congestion and a severe reduction in occupational and social mobility, and exacerbating inner city problems. It could not be achieved without taking direct control over public transport in the metropolitan counties as well as London.

Railways £1,080 million

8. The Serpell Report identified cost savings of some £220 million a year which might be achieved by 1986-87. Securing these savings will involve short-term transitional costs such as redundancy payments, the cost of lifting surplus track etc. These savings are being pursued with the Railways Board as part of the follow-up to Serpell.

9. The scope for further reductions will depend on decisions to be taken on the future organisation and financing of the railways. These might include privatising the manufacture of rolling stock.

10. Serpell also identified season ticket discounts for London commuters as a possible source of savings: the fares structure will be an early issue for the new London Regional Transport Authority.

National Bus

11. The NBC should be privatised by 1986-87, but this will have little effect on its call for public finance, which mainly consists of subsidies from local authorities.

Ports £120 million

12. Apart from redundancy payments at London and Liverpool, the provision is mainly for investment in public trust and local authority ports. Public expenditure could be reduced by £70m-£90m if this investment could be funded by private risk capital. But if the economy does not pick up, or trading patterns change, the problems at London and Liverpool could recur and some other ports could fail, leaving public sector liabilities.

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MUS 31/3

Robin Butler Esq
10 Downing Street
LONDON SW1

31 March 1983

Dear Robin

MS

LONG TERM PUBLIC EXPENDITURE

... I attach my Secretary of State's report on the review of long term public expenditure in the Department of Employment Group in accordance with the Prime Minister's minute of 4 February.

The Chief Secretary has made a number of comments ... (which I also attach). My Secretary of State has not been able to consider these, but will do so on his return from the Easter break.

Copies go to the Chancellor of the Exchequer, the Chief Secretary, and the Secretaries of State for Scotland and Wales.

Yours sincerely
Bumby Shaw

J B SHAW

Principal Private Secretary

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LONG-TERM PUBLIC EXPENDITURE - DEPARTMENT OF EMPLOYMENT GROUP

The Nature of DE Group Expenditure

1 As the Treasury paper which Cabinet discussed on 9 September 1982 noted, most of the Group's expenditure is related to the state of the labour market. In 1983/84 the Unemployment Benefit Service is estimated to cost £239m; the Redundancy Payments scheme £426m; the Special Employment Measures (SEMs) £849m; the MSC's Youth Training Scheme £922m; and the Training Opportunities Scheme (TOPS) and the Skillcentres £247m. These items constitute over 80 per cent of the Group's total expenditure (£2990). Big reductions could be made in the Group's expenditure only if some or all of these programmes were sharply cut back.

2 The figures for SEMs are gross costs. If people were not in the SEMs they would be drawing unemployment benefit. The net cost - the true measure of the public expenditure effect of any reduction in the SEMs - averages about 60 per cent of gross cost.

Unemployment

3 The Group's programmes are largely in response to unemployment, and largely therefore a function of its level. If the level continued broadly as at present the UBs would continue to cost about the same, although there are useful savings in prospect from more extensive use of computers (para 10 below). To reduce the SEMs would increase the number registered as unemployed. Big savings would have to come mainly from the Community Programme (CP) since this has the biggest net cost (£232m now, rising to £358m in 1984/85).

4 The Redundancy Payments Scheme is self-balancing in the long term, as the rebates to employers are financed by an allocation from ERNIC. Any reduction in the rebate would eventually be matched by a reduction in the charge. The scheme accordingly does not offer scope for reductions in expenditure which lead to reductions in the PSBR.

5 The Youth Training Scheme is to be a permanent feature of the training scene, although it also has a major direct impact on youth unemployment. If current levels of unemployment persist both purposes will remain important. TOPS has already been reduced in scope, and the Skillcentres are being hived off into an agency for greater efficiency; but at present levels of unemployment big cost reductions would add to the registered unemployed.

A Decline in Unemployment?

6 On the optimistic scenario in the Treasury's paper on long-term trends it was assumed that unemployment would fall to 2 million. The UBS expenditure would then decline, although probably not in quite the same proportion as unemployment. The effect on the SEMs would vary from scheme to scheme. There might well be a smaller up-take of the Job Release Scheme; on the other hand, so long as the number of long-term unemployed remained high (and it would probably not fall much until total unemployment had been falling for some time) the existing number of CP places might continue to be justified; and the Young Workers Scheme could still be useful to counteract any tendency for youth pay to rise. Overall, however, it should be reasonable to aim at a lower total register effect than the 350,000 produced by the present expenditure of £480m net on SEMs. Very broadly, the trade-off might be a reduction of £100m in net expenditure for about 70,000 extra on the register.

7 YTS could be affected by lower unemployment - not that the commitment to a new form of training for school-leavers would be less apt but that incentives to participation by employers (now in the form that two school-leavers they would have taken anyway are paid for if they take on three unemployed school-leavers) might be less cogent. Better job prospects would make TOPS and Skillcentre training more relevant, not less.

8 Lower redundancy payments would eventually be matched by a cut in ERNIC; in any event redundancies will continue at a high level even with more jobs in a healthier economy, because of continuing changes in the structure of employment.

9 In summary, lower unemployment should make possible substantial reductions in net SEM costs, though this would slow down the decline of registered unemployment. The UBS would cost less. Training, including YTS, does not afford much prospect of lower gross expenditure. However, a greater contribution by employers to the cost of training could reduce net expenditure; the report due this Summer of the study of long-term funding of training will bear on this.

Plans for Savings

10 The Group's five-year forward look and its review of Civil Service manpower already point to some useful savings, not dependent on the level of unemployment, within the same period as this more basic review of long-term public expenditure.

- DE manpower (mainly the introduction of computer terminals in the UBS between 1984/5 and 1986/7) - £14m. annually;
- Possible end of signing-on for UB (1987 at the earliest)
- £5m annually;
- MSC manpower - £14m annually;
- Skillcentres: possible privatisation (the MSC would remain a major customer, so not all of the current £106m expenditure would be saved).

NJ



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP
 Secretary of State
 Department of Employment
 Caxton House
 Tothill Street
 London SW1H 9NA

30 March 1983

Dear Secretary of State,

Thank you for your letter of 29 March enclosing a copy of your paper on Long Term Public Expenditure. You will appreciate that there is no time for me to consider the paper in detail before it has to go to the Prime Minister. The following comments are therefore very much a first reaction, confined to some of the more general issues.

I am sure you are right to draw attention to the large chunk of your department's expenditure which is related to the state of the labour market. However, this begs a number of important questions:-

- (i) How far can it be assumed that expenditure which has gone up as unemployment has risen, will necessarily come down again as it falls?
- (ii) The answer to this may be relatively straightforward in the case of redundancy payments or the UBS; but it is less so in respect of special measures. These tend all too readily to cease being "special" and to become a permanent feature of the landscape. It could therefore be over-optimistic to assume that the rising trend of expenditure on such measures can be decisively halted without specific, and perhaps unpopular policy decisions.
- (iii) In view of this, I was rather surprised that the paper does not consider the scope for reducing the unit costs of very expensive measures such as the Community Programme, which as you say might continue to be justified for some time to come.
- (iv) The relationship between expenditure on training and the level of economic activity is clearly very uncertain. This is especially so as regards the YTS which caters for employed as well as unemployed young people (and

indeed will substantially blur the distinction between these two categories). It may well be that the only real chance of preventing the scheme from becoming an open-ended expenditure commitment is to increase the contribution of employers, either implicitly or explicitly. You mention the current study of the funding of training which is obviously of great strategic importance. However, you do not mention the pressure which is already building up to extend the coverage of the scheme (to other unemployed 17 year olds for example). I think it needs to be made clear that we could not succumb to such pressure unless a way is found of reining back the degree of public funding.

- (v) Finally, the paper does not discuss the scope for savings in that part of your Department's programme which is not directly related to the state of the labour market. This may represent less than a fifth of the total, but it nonetheless amounts to around £300 million a year.

I know I have raised a number of substantial points, but the sums at stake are very large, and I hope you will agree that the broad-brush approach which you have adopted can only be a starting point.

yours sincerely

MB

for LEON BRITTAN

(approved by the Chief Secretary & signed in his absence).

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PRIME MINISTER

MS 31/3

ms

LONG-TERM PUBLIC EXPENDITURE:
ARTS AND LIBRARIES

- ... I attach a note I have drafted, in consultation with the Chief Secretary, in response to your minute of 4 February about public expenditure in the long term.
2. There is one other matter which could be of special importance in reducing public expenditure on my programme, but goes much wider. This is the advantage of introducing an American-style provision for tax relief on single donations to the arts. The Chief Secretary rightly observes that such a provision would be hard to confine to the arts and would have some implications for the PSBR which would need to be taken into account. But I am convinced that by this means further large sums of private money could become available to the arts. There would be a difficult period of transition but, once this was over, I believe there could be further savings in direct public expenditure.
3. I am sending a copy of this minute, and the enclosed note, to the Chief Secretary.

P.C.

31st March 1983



PRIME MINISTER

LONG-TERM PUBLIC EXPENDITURE
ARTS AND LIBRARIES PROGRAMME

1. Your minute of 4 February invited each Minister with responsibility for public expenditure to review his programme for the longer term critically in consultation with Treasury Ministers and to report to you. This response concerns the arts and libraries programme.
2. My Central Government expenditure - 40% of the total OAL programme - consists mainly of three large blocks: the National Museums and Galleries, the Arts Council, and the British Library. This £230m generates a considerable spin-off in terms of tourism and employment. There is also local government expenditure - 60% of my total programme - on local libraries and museums.
3. I believe that we should aim for more private money and for more efficiency in all these fields. These should lead to savings in public money. But in general I do not think that it would be consistent with our policy of providing underpinning support for the arts to consider more radical steps, which would inevitably mean, for example, reducing the standards of excellence in our national institutions, like the British Museum, or cutting substantially the overall support for the Arts Council with the damaging implications this would have for the big national institutions - such as the National Theatre or the regional organisations like, say, the Halle Orchestra.
4. On efficiency, we have started scrutinies of the Royal Opera House and the Royal Shakespeare Company. Lessons from these scrutinies can be applied elsewhere. What we must do is to prevent organisations increasing their level of activity on the assumption that if they run deficits they will be bailed out. I believe too that the box office return must be maximised

... / ...

in all artistic organisations, recognising however that this cannot cover the whole cost.

5. On the provision of more private funds, I believe that the growth of business sponsorship is very important. First, there is scope for a significant increase in business sponsorship of the arts. The sums involved here have roughly doubled over the past four years, with the help of the efforts put in by my predecessor and myself, from about £4m to at least £8m a year. Changes in the management of the Arts Council, together with the gradual changes in attitude on the part of the arts bodies as a result of our persistent pressure, should make possible substantial further advances. I cannot name a firm figure, but it would be disappointing if a further significant increase in business sponsorship were not achieved by the next Government. It will not happen overnight, however. It will require a lot more effort both from the OAL and from other central bodies, which I hope will pay off handsomely within the next few years. Care will be needed in presentation. Sponsors and recipients are very sensitive to the fear that sponsorship is achieving nothing but a saving to public funds, and we shall have to play down this aspect while emphasising the positive benefits of sponsorship in bringing the arts and the business community in close touch with each other's needs.

6. There is also the prospect of introducing private financing into some areas which so far have been financed solely from public funds. The British Library should offer significant opportunities for this. New developments in technology, together with changes which are likely in the next two to three years, in the Library's organisation and pattern of services, should open up some interesting possibilities of investment by publishers and/or other "information providers", particularly in the provision of services to industry and commerce. I would hope over a period of time to be able to reduce the public expenditure costs of running the British Library by some 5%. At present it costs about £50m a year net.

7. As regards the local library and museum services, the pattern of public expenditure will presumably reflect local authorities'

priorities within the total amount of money the Government think appropriate for local government to spend. From time to time there are suggestions that charges should be introduced for local library services that have traditionally been free. I believe this would arouse resentment and opposition out of all proportion to the income achieved, and I do not see it as a practical proposition. It would require legislation. However, my officials have put in hand research on other ways of generating income in local libraries, and I have every hope it will produce useful results.

8. I believe, therefore, that over the lifetime of the next Parliament, by a combination of attracting private funds and by increased efficiency - coupled with a special effort in the case of the British Library - it might be possible ^{to make modest real cuts} in public expenditure on parts of the arts programme without damaging effects. There would be inescapable needs relating to the capital cost of building the new British Library from the mid 1980s onwards. But within my small programme I believe I could, over the next Parliament, cut the real level of the Arts Council grant by a small amount. This will be much easier if sponsorship grows. I could also make savings in the running cost of the British Library, plus whatever savings in local library and museum services follow from our general policies on local government expenditure.

9. I am copying this minute to the Chief Secretary and the Secretaries of State for Scotland and for Wales.

P.C.

AR 1983





CONFIDENTIAL

CC N. 10 2
Prime Minister

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE *ms*

Another programme
where no savings are offered.

Ms 31/3

Your minute of 4 February asked Ministers to report to you on possibilities for substantial reductions in public expenditure in the longer-term future.

The Chancellor's paper of 3 September (C(82)30) foreshadowed an increase in public expenditure by 1990 of at least £12 billion. I recognise the need for this Department, in common with others, to scrutinise its costs very carefully. But we did not contribute to the estimated £12 billion increase, so that nothing we could do would have any significant effect on the overall figures.

I should stress one point of central importance. Economic recovery in this country, and indeed in the world as a whole, will be very much dependent upon export trade. In our own case a growth in our exports will provide a clear and obvious contribution to the expansion both of industrial output and employment opportunities. The fact is not lost on our overseas rivals, whose competition in the export field is becoming increasingly sharp. Against this background, there is a strong case - matched by industry's growing demands - for a substantial increase in our expenditure in support of exports. I might well, therefore, need in due course to make a bid for a significant increase in resources.

Our aid programme, as the Foreign Secretary has pointed out in his minute of 29 March, is important. Clearly, I particularly consider that where aid is given it should so far as possible be tied. But whatever the aid provision, there will be a real need for enhanced export assistance which is not specifically aid-related.

CONFIDENTIAL



.... More generally, I attach notes about the Department of Trade and
.... the Export Credit Guarantee Department - both of which have been
discussed with the Treasury. Exports aside, the following points
should be highlighted:-

(i) British Airways

Our objective remains to return the airline to
profitability and privatise it as soon as possible;
the PSBR benefits are obvious.

(ii) Other Privatisation Plans

Airports are an example; the expenditure consequences
may be relatively modest, but the impact on the
overall business climate is important.

(iii) Tourism

We expect some structural changes as a result of
Iain Sproat's review, but no substantial savings.
This is more a matter of reallocating resources in
a more cost-effective way.

(iv) Fee-Paying Activities

We will continue to ensure that so far as possible
fees cover costs. Indeed, there is a case to be
made for more resources provided the cost is met
by increased receipts from fees.

(v) ECGD

A great deal of its activities are conditioned by
factors outside its control; ie the state of the
world economy and international interest rates.
We will continue, for example through the Consensus
negotiations, to keep costs under control, but we
simply cannot act unilaterally in a way which would
prejudice the competitiveness of our exporters.

CONFIDENTIAL



I am copying this to the Chancellor, the Foreign Secretary, the Chief Secretary, and the Secretaries of State for Defence, the Environment and Scotland.

A.C.

Department of Trade
1 Victoria Street
London, SW1H 0ET

LORD COCKFIELD

31 March 1983

CONFIDENTIAL



LONG TERM PUBLIC EXPENDITURE

A Review of Department of Trade Expenditure Programmes

EXPORT PROMOTION

1. Market Entry Guarantee Scheme - Negotiations with a private sector party continue but the economics of this scheme make it unattractive unless the terms were altered in a way which made it less useful to the exporters, or the Government provided (paid for) the guarantee. Current expenditure is £1.8m a year gross with revenue of £0.5m.
2. Other possibilities - Administrative improvements continue to be incorporated into the joint venture activity and contracting out is not considered to be justified. The implications of using private sector sources for certain kinds of market information (Overseas Trade and Regulations) would be negligible.
3. Simplification of Trade Procedures Board (SITPRO) Work is continuing on the expansion of SITPRO's revenue earning capabilities, possibly as a preliminary to hiving off certain activities. The intention is to reduce the Board's reliance on grant-in-aid (some £510,000 in 1982/83) in future years. This will be reflected in the 1983 PES.

PROTECTION OF INNOVATION

4. Work is continuing on the possibility of contracting out the publication and distribution of patent specifications. Through HSMO an approach has been made to the four firms who are under contract to print UK patent specifications and direct approach has been made to the Licence Reference Library. No interest has been shown in taking over the Patent Office's responsibility for the sale and distribution of current and past issues but two of the printing firms have evinced clear interest in the initial distribution of patent specifications and estimates are being sought of their charges for this service. In addition we have received a tentative offer to carry out the task of photographically reproducing the specifications of granted UK patents which would otherwise be done in-house. However the indications are, so far, that it would not be cost-effective to have this task done by the private sector.
5. In the circumstances the effect on PES 1983 and later years cannot yet be quantified but, given the size of the operations in question, it is likely to be minimal.



REGULATION OF TRADING PRACTICES AND CONSUMER PROTECTION

6. Insolvency Service - The Report of the Insolvency Law Review Committee under the Chairmanship of Sir Kenneth Cork (published June 1982) is still under consideration. The Report suggests that its recommendations for dealing with insolvency, both for the individual debtor and company areas, would result in substantial reduction in the work of the Official Receiver. Doubts have been expressed about this. Indeed it is considered that implementation of the Report's recommendations could lead to a considerable amount of additional work for the department, possibly leading to a requirement for as many as 600 additional staff. The Report moreover strongly argues against the removal of bankruptcy from the work of the Insolvency Service (an arrangement that would save 500/600 posts). This was the provision which was contained in the Insolvency Bill which was withdrawn in the 1981/82 session following doubts expressed by the Lord Chancellor and other Ministers and representations from the accountancy profession and the Opposition based on the judgment that the withdrawal represented a denial of justice to the individual debtor. All these matters need careful consideration and it is not possible to speculate what the final outcome might be.

7. Companies Registration Office - Tentative discussions with a number of organisations have failed to elicit any firm proposals for privatisation of the public search service. A number of ideas designed to improve access to the record are being explored but it would be premature to seek to quantify any benefits in the Survey or later years at this stage.

8. Film Industry Controls - The review of these controls will not be completed until the end of June. Reduction in the number of controls is probable (screen quota has already been suspended) but it is not yet possible to be more specific. The expenditure consequences in the immediate future could be adverse although the amounts involved would not be significant. In any case the number of cinemas (who pay licence fees) is falling fast and the revenue would diminish even if the controls were retained.

PROMOTION OF TOURISM

9. Firm conclusions have not yet emerged on the various issues which arose during Mr Sproat's review of tourism policy. There are certainly some areas in which further savings are foreseen in the amounts of grant-in-aid paid to the British Tourist Authority and the English Tourist Board. However Ministers are also envisaging increased assistance to tourist projects under Section 4 of the Development of Tourism Act 1969 and it may be that the Department will wish to allow headroom for the British Tourist Authority, in particular, to increase its promotional spend in future years. The longer term expenditure consequences



may be expected to be broadly neutral and there is no intention to seek any increase in the total Departmental provision for tourism in the 1983 PES period. At most the Department would wish to retain the existing allocations, but to vary the shares enjoyed by the individual elements. The aim would be to make savings in the administration costs of the BTA and ETB - especially where there is scope for rationalisation between the two bodies - and increase, correspondingly, the assistance available at the sharp end, particularly in overseas promotion and support of individual tourism projects in England.

SHIPPING SERVICES

10. Reduction in involvement in seamen's conditions of service -

Consideration is being given to three repeals relating to: settling disputes about pay (Section 10 of the Merchant Shipping Act 1970); other complaints by seamen (Section 23 of MSA 1970); and the Deceased Seamen's Property Regulations. The first two items would require primary legislation; they could be included in the major Merchant Shipping Bill to be introduced in the Spring of 1984 or in earlier legislation if a suitable opportunity can be found. There would be no resultant staff savings or reduction in expenditure however. It is proposed to revoke the Regulations as soon as possible and this will achieve a saving of one post in 1983/84 and subsequent years.

11. Further devolvement of ship surveys and marine equipment approval to classification societies - This is being considered. If it is decided to proceed with the total delegation of statutory surveys to Lloyd's Register a reduction of some 80 professional and 40 support staff would be achieved in the longer term, some savings falling in the 1983 PES period. There would be no net reduction in public expenditure since the corresponding statutory survey fees, which are charged on a full cost recovery basis, would be lost.

12. Further devolvement of the actual setting and conduct of seafarer's examinations - This is also being considered. One possibility currently being pursued is the holding of written examinations at certain colleges rather than in the Division's Marine Offices. Some savings in accommodation costs would result but they cannot be quantified at this stage.

CIVIL AVIATION SERVICES

13. Implications of the Privatisation of British Airways - It would be difficult to make any provision in the immediate future to cover the implications of the privatisation of British Airways given the uncertainty both as to the timing of any flotation and as to the proceeds. The latter could be substantial, but it is too early yet to forecast their size.



14. Privatisation of CAA's Highlands and Islands Aerodromes - The Chairman of the Civil Aviation Authority has been requested to draw up detailed proposals for the disposal of these aerodromes, with a timetable for their implementation, by the end of March. The Department has been working together with the CAA and the Scottish Development Department to collate information on the aerodromes. Informal contacts have suggested that there are a number of potential buyers. The aerodromes have, with one exception (Sumburgh) never been in a position to cover their total operating costs unaided and the CAA currently receives a subsidy from the SDD. Privatisation would not have any foreseeable expenditure implications for the Department of Trade though the SDD hope that privatisation will lead to a reduced requirement for their subsidy which is given for social reasons.

15. Airports - A small working party of officials is being established to examine in more detail a range of options both for the privatisation of the British Airports Authority (BAA) and for a possible wider reorganisation/privatisation of the airports industry as a whole. No final decisions have been taken on these possibilities and present policy and expenditure plans are predecated on the continuation of the BAA and local authority airports as now constituted. However a sale of BAA assets could yield substantial proceeds though this cannot be quantified at this stage. The current Ministerial review of local government reorganisation might have implications for the Metropolitan County Councils which own partially or wholly a number of major regional airports but it is presently envisaged that responsibility would pass to Districts Councils or joint Boards of Local Authorities with no impact as such on the public expenditure provision for local authority capital expenditure.

Department of Trade
March 1983

EXPORT CREDITS GUARANTEE DEPARTMENT

ECGD administers four public expenditure programmes. These are

- (i) the cost escalation scheme which protects exporters against certain cost increases arising under export contracts for large capital goods;
- (ii) the mixed credit matching facility designed to enable UK exporters to match foreign competition offering concessionary terms;
- (iii) the payment of interest rate subsidies on unrefinanced fixed rate export lending; and
- (iv) the refinancing of fixed rate export lending undertaken by the banks under earlier export financing schemes.

COST ESCALATION SCHEME

Neither the cost escalation scheme nor the mixed credits matching facility offers scope for significant reductions in the longer term below the cost detailed against these schemes in the latest PES White Paper. This is primarily because the costs for both schemes are relatively small: £5-6m in each year for the mixed credit facility and, for cost escalation, £12.6m in 1983/84, £6.85m in 1984/85 and -£2.4m in 1985/86. Since the cost escalation figure relates to existing contractual commitments the only scope for reduction is if the level of inflation over the Survey period were to prove lower than the assumptions used in the Survey. Withdrawal of the facility (which has now been extended by Parliament to embrace new agreements entered into up to March 1984) would therefore have no impact unless inflation were to rise to a significantly higher level than had been assumed. Were this to happen it would lead not only to an unavoidable increase in expenditure on existing commitments but could also result in a much greater uptake of cover by exporters and a consequent increase in expenditure on those new commitments. Withdrawal of the facility would therefore effectively achieve only a contingent saving on additional public expenditure that might otherwise be necessary.

MIXED CREDITS MATCHING FACILITY

Whilst no expenditure has yet been committed or incurred on the mixed credits matching facility, its withdrawal would allow the £5-6m provision to be deleted

from future public expenditure plans. This modest level of expenditure does however seem insufficient to justify such action when this is set against the potential benefit offered by the scheme in enabling British exporters to rapidly match concessionary credit offers made by their foreign competitors.

INTEREST RATE SUBSIDIES

This is the largest single ECGD programme, which reached a peak of £587m in 1981/82. Because of the interest rate assumptions used in the Survey, expenditure on this scheme is expected to fall throughout the existing Survey period as follows:-

<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
£410m	£300m	£121m	£11m

As with cost escalation, much of this expenditure relates to existing commitments. A reduction in expenditure will arise only if actual interest rates in the UK and US prove to be lower than assumed. On new business, whilst the level of market interest rates is a crucial factor, expenditure will also be determined by the level of the fixed interest rates for export credit agreed under the terms of the international Consensus. In July 1982 these rates were increased substantially to between 10% and 12.4%, much closer to the level of average markets rates than had been the case before.

Ministers are agreed that efforts should be made to achieve progressive reductions in subsidy on a multilateral basis. It is impossible to predict the chances of international agreement or to put any figure on the savings that might accrue.

Thus, apart from savings resulting from a fall in interest rates, the scope for further long term reductions in expenditure on interest support is limited; although following a review of policy on export credit and related facilities, some new guidelines are to be introduced which are designed to contain the degree of subsidy risk.

Because of the high level of current Consensus interest rates ECGD is actively encouraging the greater use of export finance in low interest rate currencies such as DM, Swiss Franc and Japanese yen, for which no, or only limited, interest rate support is required from the Department. This process may be assisted by moves within the Consensus to expand the range of currencies which qualify for lower interest rate status even though official interest rate support is provided. To the extent that a switch out of the traditional financing currencies - sterling and the US dollar - is achieved, this could result in reduced expenditure on interest support. But once again, it is not possible to specify the level of such savings.

A fall in interest rates below those used in the Survey offers the only immediately realisable source of significant savings. A reduction on 1% in the assumed gap between Consensus and market rates occasioned by such a fall would result in the following substantial savings:-

<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>
£98m	£115m	£131m

REFINANCING

In the recent past, significant progress has been made in transferring outstanding refinancing obligations under earlier export credit schemes to the private sector but these are now running off. [There has been no entitlement to refinance in respect of new business since 1 April 1980]. There is therefore little scope for further transfers and, in any event, Treasury are thought to have their own monetary reasons for not wishing to pursue this option.

31 MAR 1983

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12 11 10 9 8 7 6 5 4 3 2 1

Prime Minister²

Mus 31/3

Prime Minister

LONG-TERM PUBLIC EXPENDITURE: HEALTH ASPECTS

1. Your minute of 14 February requested a report on the contributions that our programmes might make to a substantial reduction in public expenditure in the longer term and referred back to the work already done for the five-year forward look. My response to the forward look recorded the changes in demography and medical advance which give rise to pressures to maintain real expenditure growth on health services. I also described the initiatives I have already taken to contain these demands on public expenditure by securing more effective use of resources and better co-operation between health authorities and the private and voluntary sectors.

2. I have now, in consultation with the Chief Secretary and other Health Ministers, given careful consideration to ways in which we might provide further savings by raising income from charges, privatisation and encouraging the private sector through fiscal concessions. In carrying out this review we have necessarily looked at a number of very difficult and controversial measures. This report concentrates on options which we can be - and are - pursuing now, and those which I think should be ruled out altogether. There are other possibilities, notably in the general area of charges, on which detailed work could be quickly carried through if the necessity arose, but which are unattractive politically. I see little purpose in commissioning further work on these proposals at this stage, as the necessary political decisions could be taken and then implemented with little delay if and when the need for them arose.

3. Measures currently in hand, which I propose to take forward rapidly, include:

i. the independent review of the general ophthalmic services, announced last year. It will examine and review the structure, administration and financing of NHS ophthalmic services, and consider the role of the NHS in the provision of those services.

ii. a review of the scope for achieving savings on the drugs bill beginning with the recently announced review of the Pharmaceutical Price Regulation Scheme;

iii. issues of effectiveness and economy in prescribing by general practitioners and the possibilities of increasing generic substitution which are being pursued in the consultations now underway on the Greenfield Report;

iv. with the Inland Revenue I am looking at the possibility of fiscal help for private sector provision for the over 65s. Many people who were insured as working adults, perhaps through employer schemes, have to abandon such insurance when they retire because of the rapid increase in premiums required to cover their increased risk.

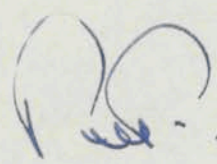
4. Another idea which I should like to follow up when I have been able to consider it in the light of Roy Griffiths' enquiry into NHS management, is that of an experimental contract for the private management of one or more NHS

hospitals. This is an approach which has been adopted in some hospitals in North America and in the private sector in this country. It would supplement the measures we are taking to make better use of resources within the NHS and which I set out in my December report.

5. I would rule out absolutely any attempt to levy charges on patients in hospital or for registration or consultation with a general practitioner. In practice they would subject the patient to charges at a point at which he would often be particularly unable to afford it, and they would act as a disincentive to seeking necessary treatment. Such charges could also require complex administration in operating a wide range of exemptions. Nor should I wish to pursue any idea of charging patients the full cost of treatment, whether in hospital or through general practice, with subsequent reimbursement. The evidence from France does not indicate any reduction in demand and with the administration costs this idea could actually increase public expenditure. These proposals as a whole are therefore of dubious practical value, but are politically very dangerous. The Chief Secretary wishes to keep the options open but I see no alternative to repeating the pledges against them which you gave in 1979 and 1980. Trying to keep our options open will merely arouse suspicions and feed allegations that we intend to introduce such charges.

6. Rising demand and public expectations make it unlikely that we will achieve substantial reductions in expenditure on the NHS overall, but we have to bear in mind that tight financial control has kept the level of health care spending well below that in other industrialised countries. The proportion of GDP which we spent on health services (public and private) in the UK in 1980 was 5.7 per cent compared, for example, to 8 per cent in France and Germany and 9.6 per cent in the United States. Next year the growth in resources financed by the tax payer will be 0.7 per cent or less depending on inflation and the Chief Secretary, and I have agreed on rough planning assumptions of about $\frac{1}{2}$ per cent a year for the future. If we keep expansion to this rate, we should be saving £1.4 billion at the end of ten years compared to the growth rate in this Parliament.

7. I am also copying this letter to the Chancellor and the Secretaries of State for Wales and Scotland.



31 March 1983

NF

Prime Minister

MS 31/3

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE: SOCIAL SECURITY

This minute, which responds to your minute of 4 February, deals with the social security programme. The proposals in it have been discussed with Treasury Ministers.

There are three broad routes by which we could make a major impact on social security public expenditure totals:

across the board reduction in the value of social security benefits;

? contracting-out more responsibility for income support;

redefining the scope of public expenditure.

Across the board reduction in the value of benefits

There is no technical difficulty about achieving a substantial reduction in public expenditure by an across the board reduction in benefits. This could be done as a one-off exercise or by altering the statutory basis of uprating legislation. For some benefits, principally contributory benefits, such as retirement pension, main legislation would in any event be needed.

Having considered this option carefully however my conclusion is that we should not go further than we have already gone in amending the basis of legislation and so hold back the value of benefits. We have already done much to constrain the automatic growth in the value of benefits by amending the legislation, so that we now uprate benefits in line with prices, rather than the better of prices and earnings, and also by going over ^{to} the historic method which will prevent unintended bonuses. The change to uprating by prices only already means a saving of £500 million a year in the programme. Moreover, if we had not done

E. R.

this the annual cost of the social security programme would be some £2 billion to £3 billion higher by the end of the decade.

But contributions would have been prohibitive.

Whilst we must keep a careful watch on the overall extent of social security spending, bearing in mind for example the development of the earnings related pension scheme, we must also recognise that if we do not uprate by more than prices we are already going to hold down the value of benefits compared to the standard of living of most (if not all) of those in work. We need to think carefully before we went any further in this direction. We would open up an unreasonably large gap between the living standards of pensioners and other long term beneficiaries and the rest of the community.

This already exists - authorities do not have price protected pensions

The only point for early decision is what we say about our intentions on price protecting pensions in the next Parliament. You have separate minutes from the Chancellor and me on this, which set out our differing views.

Contracting-out more responsibility for administering income support

There are two main possibilities for contracting-out more responsibility for administering income support:

- (a) through employers, following the examples of statutory sick pay (SSP), or contracting-out of the state pension scheme;
- (b) through local authorities, following the example of housing benefit.

A. To employers

In principle it would be possible to consider following the SSP pattern, where employers pay the benefit and recover the costs from contribution income. This would not save resources generally but would lead to staff savings.

However, the statutory sick pay scheme does not start until next month (April). It would be better to let this scheme settle down and resolve any teething troubles before we take further initiatives in this field. We must accept that some employers, especially small

E. R.

businessmen, will take time to get used to the scheme and may initially be rather hostile to it. In particular, they will be concerned about having to pay National Insurance contributions on the statutory sick pay.

If experience shows that employers are able to cope satisfactorily with the statutory sick pay scheme and even see advantages in it from their point of view, it would be possible to take further initiatives along similar lines. There are three possibilities at least, though I should not like to underestimate the difficulties of implementing any of them. They are:

replace the present maternity benefits (contributory maternity allowance, non-contributory maternity grant, maternity pay from the employer (reclaimed from the Redundancy Fund) and sickness benefit) by a single maternity benefit paid by the employer. This would reduce public expenditure by £200 million in 1984/85;

extend statutory sick pay to 28 weeks, thus abolishing sickness benefit. (After 28 weeks, invalidity benefit replaces sickness benefit.) This would reduce public expenditure by £300 million in 1984/85;

make employers responsible for the industrial injuries scheme. This would reduce public expenditure by £500 million in 1984/85. Possibly employers could themselves contract-out the administration to insurance companies, as they did with insured pension schemes.

The Chief Secretary and I have agreed that officials should study the possibilities in more detail.

B. To local authorities

It would also be possible to contract-out administration of social security benefits to local authorities, who will administer housing benefits from next month (April). But I could not recommend this course, since the main options would be non-contributory benefits like

No need. If employers already bear a big enough burden

E. R.

supplementary benefit. It would be much more difficult to control expenditure on these benefits if they were administered by local authorities. Similarly it would be more difficult to control staff numbers.

Redefining the scope of public expenditure

We are more rigorous than most countries in classifying transfer payments as public expenditure. We could make a number of changes in the classification of social security payments if we so wished. The possibilities are examined in the annex to this minute, though I ought to say that while the Chief Secretary is ready to consider any proposals we make, he does not regard this as a promising approach.

Conclusions

Of the three routes I have examined only the first would reduce the extent of transfer payments through the social security system. The second route would reduce the direct role of the state while the third route would primarily, though not solely, be a matter of presentation. While neither the second nor third route would reduce the resources involved, each could be valuable demonstrating that we were determined to ensure that limits were placed on the role of the state in direct income maintenance.

I am copying this to the Chancellor of the Exchequer, the Chief Secretary and Sir Robert Armstrong.

31 March 1983

N F

REDEFINING THE SCOPE OF PUBLIC EXPENDITURE

Definitions of public expenditure vary from country to country. Our community partners tend to be less strict - for example, some do not count contributory benefits as public expenditure.

If this route were pursued, there would be a number of possibilities for excluding social security expenditure from public expenditure totals:

- (a) exclude all National Insurance benefits (roughly 60 per cent of social security expenditure), but include the Treasury Supplement (13 per cent of contribution income);
- (b) If (a) were not done, exclude just the earnings related additional component to retirement pension on the grounds that it is the equivalent to an occupational pension;
- (c) exclude child benefit on the grounds that it is a tax credit;
- (d) treat all housing benefits (not just rate rebates) as revenue forgone rather than public expenditure. Supplementary benefit payments to owner occupiers in respect of other housing costs could be treated in the same way.

Redefining public expenditure need not be seen just as a matter of presentation. What is counted as public expenditure does have a significance in itself since the size of public expenditure in relation to overall Government income and outgo can alter the perception of the country's financial structure and policies. In relation to social security specifically, the apparent size of the central provision of income maintenance may also influence perceptions of financial structure and policies.

SEC NO

010



Prime Minister²

MUS 31/3

mf

in PM'S BOX

FCS/83/68

CHIEF SECRETARY TO THE TREASURY

1983 Public Expenditure Survey

1. I agree that, as proposed in your minute of 28 March to the Prime Minister, this year's Survey should be got under way and that we should aim for the timetable attached to the guidelines.

2. I have only one comment on detail: I note that Departments will once again be required to cost and set out Options for Reductions, ranging this time from 3% to 5% of their planned expenditure. If Options are considered necessary, I must put down a marker about their purpose. I shall put them forward entirely on an illustrative basis and without commitment: it should not be assumed that by so doing I agree to their application to any degree.

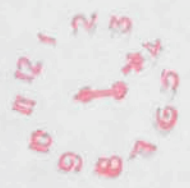
3. I am sending a copy of this minute to the Prime Minister.

(FRANCIS PYM)

Foreign and Commonwealth Office
31 March 1983

ECON POT: Public Exp

31 MAR 1983





Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Prime Minister ²

Mrs 31/3

John Gieve Esq
Private Secretary to
The Rt Hon Leon Brittan QC MP
Treasury
Great George Street
LONDON SW1

31 March 1983

Dear John

PUBLIC EXPENDITURE SURVEY 1983

My Secretary of State has comments on only one aspect of the Chief Secretary's minute of 28 March to the Prime Minister covering the guidelines for the 1983 Survey. That is the proposal to reduce the real content of programmes for 1986/87 by building into the survey an uplift of 3 per cent on 1985/86 when inflation in 1986/87 is expected to be more than 3 but less than 5 per cent.

My Secretary of State cannot understand how this proposal can be reconciled with the exercises on longer term public expenditure and manpower requirements between 1984 and 1988, the results of which the guidelines require us to include in the survey. These exercises will produce selective cuts. The Chief Secretary's proposal is for an across the board cut of up to 2 per cent in 1986/87. The relationship between the proposal and the exercises is not clear and if the proposal is additional my Secretary of State would wish to know the justification for proceeding on both fronts.

This department would, in any case, foresee considerable difficulty in accommodating its demand led programmes within a cash plan for 1986/87 reduced as your Minister proposes.

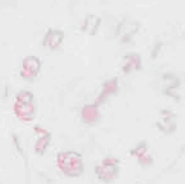
I am copying this letter to private secretaries to Cabinet Ministers, the Minister for the Arts and Sir Robert Armstrong.

Yours sincerely

Baroness

J B SHAW
Principal Private Secretary

31 Oct 1959





CONFIDENTIAL

CO NO

Prime Minister 2

ms

JU397

PRIME MINISTER

... In response to your personal minute of 4 February I attach notes covering forward projections of Department of Industry programme expenditure and of the financing requirements of nationalised industries sponsored by my Department. I have consulted Treasury colleagues.

2 Forecasting future industrial support is difficult while profits are still at a historically low level. It is our common experience, in discussions with both representative bodies and individual firms that many still do not have the resources to undertake new investment or the modernisation of their capacity and products which is necessary if they are to become more competitive. It is impossible to deny with any degree of conviction that the Government's policy of a tight control on money and high interest rates has led to a significant squeeze on profit margins - as has been consistently pointed out by the CBI at NEDC. I believe that the Treasury has been absolutely right it recognising this in recent budgets in allowing us to expand our programmes for innovation and new technology. It is right to point out that this growth has been considerably less than the substantial reductions over the years in the sums provided for the 'casualties of the past', thus allowing a significant reduction in the Department's overall spending.

CONFIDENTIAL



CONFIDENTIAL

3 The current forecasts for my programme support in 1985/86 assume no further support for such "casualties", and the further expansion for innovation and new technology that may be needed must imply increases in total expenditure even after allowing for reductions in regional support. My original forecasts of expenditure to 1990/91 were based on such premises, but I do recognise that if and when industrial profitability improves to more normal levels, we could expect to be able to phase down and eventually eliminate many of the special schemes of assistance which present circumstances make necessary. My agreement to this must only be conditional; the position is one of great uncertainty though as we come out of the recession and as the benefits of past rationalisation and improved productivity really begin to be felt, I would very much hope that this is the picture which will emerge.

4 For the present therefore, because I am fully appreciative of the difficulties which the Treasury face, I am prepared to hold my future total programme support at the 1985/86 level, thereby consolidating the 35% decrease in total support expected between 1982/83 and 1985/86. These forecasts should still allow for a significant switch of resources to priority areas. Of course if economic conditions and levels of company profitability improve significantly I would be prepared to accept reductions in this overall support.

CONFIDENTIAL



CONFIDENTIAL

5 I am copying this minute and the attached notes to the Chancellor of the Exchequer, the Chief Secretary and the Secretaries of State for Scotland and Wales.

PJ

P J

31 March 1983

Department of Industry
Ashdown House
123 Victoria Street

CONFIDENTIAL



CONFIDENTIAL

JU398

LONG TERM PUBLIC EXPENDITURE - DEPARTMENT OF INDUSTRY

BACKGROUND - PES PROVISIONS

The PES provisions which form the basis of Cmnd 8789, with adjustments for the Innovation Package, imply a sharp reduction in my Department's total programme expenditure - from £1.8 billion in 1982/83 to £1.2 billion in 1985/86.

2 The principle factors in this fall are reductions in finance for BL and Rolls Royce, in shipbuilding support, in the costs of the support scheme for redundant steelworkers, and in RDGs (this latter reduction being "technical" - RDG costs in 1982/83 being abnormally high with the ending of the deferment of payments). These various savings dominate an increase of over £100 million in Science and Technology Act support between 1982/83 and 1985/86 and a smaller increase in Section 8 support.

THE FIVE YEAR FORWARD LOOK

3 My report drew attention to particular initiatives including the Alvey programme of collaborative research in Advanced Information Technology, support for more professional management and a major revision of regional policy. High priority would be given to maintaining a steady expansion of our programmes for research and its applications and for management support. These increases might be accommodated within present levels of total Departmental spending provided that expenditure on the public bodies could be reduced and that savings in regional policy would result from the present review. The Department would be "doing its utmost to switch resources" between its activities.

DOI EXPENDITURE IN THE LONGER TERM

4 In the longer term the success of our macro-economic policies in providing the conditions for growth and the restoration of higher levels of profitability should have significant influences over my Department's total expenditure. Initially higher growth might lead to an increase in the demand for support for R&D projects and investment projects. Indeed it is important that we should have the funds to meet such a demand thus enabling as many companies as possible to take early advantage of an upturn towards continued higher growth. However, with the maintenance of improved economic conditions and significantly higher company profitability, it would be my intention to seek reductions typically in our project support, perhaps by reducing the levels of incentives available or even withdrawing some measures. A further consideration is that in such favourable economic conditions the financing calls of our public bodies should be much reduced.



5 On the assumption of a more modest economic recovery, forecasts of forward spend are as shown in the Annex. The principal features of this forecast are:

- a substantial reduction (nearly 30%) in regional policy support by 1990/91;
- a downturn in Section 8 investment support - this includes SEFIS-type schemes, innovation-linked investment support, follow-on support for major new technology initiatives like Alvey, expansion of small firms support, public purchasing initiatives, etc;
- maintenance of the momentum of R&D project support, spread over a wide range of industries and technologies, and including collaborative research projects;
- increased support for Advisory Services and Education-related developments, ranging from consultancy support under particular schemes to services like the Manufacturing Advisory Service and the Small Business Service, to the extension of the "Micros in Schools" approach to other advanced equipment in Higher and Further Education, and to encouragement of university/industry links;
- holding steady Aerospace support under the Science and Technology Act 1965 (i.e Aircraft and Aeroengine R&D support and support for Space Technology) but with some allowance for new launch aid projects where outgoings should be offset by receipts;
- no calls for finance relating to public bodies, except for some shipbuilding support.

6 As shown in the Annex total expenditure has been kept down to the 1985/86 figure of £1.17 billion in both 1987/88 and 1990/91 (with no allowance for inflation after 1985/86). It may be unrealistic however to assume such few calls from public bodies. In 1982/83 the combined calls from BL, Rolls Royce, shipbuilding and the scheme for benefits for redundant steelworkers totalled over £600 million. While our aim must be that future financing of these bodies should be small and infrequent, experience suggests that a fall from £600 million to much lower levels is unlikely to be achieved quickly. Accordingly it would seem sensible to follow the practice used last year and allow for some contingency element - perhaps initially taking the figure of £200 million used last year but reducing this figure to £100 million by 1990/91. (Our aim is that Rolls Royce should be returned to the private sector by 1988 and that equity in certain BL companies - Jaguar, possibly Unipart and Land Rover - should be put on offer to private investors by 1985).



7 On the above basis the Department would make considerable progress in the directions indicated in the Five Year Foward Look, with the expansion of support for priority areas and a "switching of resources" from other areas. Forecasts of total expenditure to 1990/91 would be in line with the forecast spend for 1985/86, and considerably below the current (1982/83) levels of support. Moreover, if the macro-economic conditions turned out to be more favourable and company profits moved to higher levels there would be sound prospects of some further savings as the need for particular levels of support or even some support measures became less justifiable.



POSSIBLE FORWARD EXPENDITURE ON THE DOI PROGRAMME

	<u>1982/83</u>	<u>1985/86</u>	<u>1987/88</u>	<u>1990/91</u>
Regional Support	660	550	450	400
Section 8 (investment support, etc)	120	150	150	130
S&T Act support, etc				
- R&D projects	140	240	280	330
- Advisory/Education	50	60	80	90
- Aerospace	100	100	100	100
Launch Aid, Other Air Support	75	(15)	25	35
Rolls Royce Financing	50	-	-	-
BL	360	-	-	-
Shipbuilding/Steel Redundancy Scheme	210	15	15	15
	<u>1,765</u>	<u>1,100</u>	<u>1,100</u>	<u>1,100</u>
Administration	50	70	70	70
	<u>1,815</u>	<u>1,170</u>	<u>1,170</u>	<u>1,170</u>
Possible Contingency		200	150	100

Notes

(i) No allowance for inflation has been made after 1985/86.

(ii) 1985/86 figures are as in Cmnd 8789 plus £80 million (in Section 8 and S&T Act support) from the Innovation Package.

(iii) The "possible contingency" would provide cover for any further financing calls from BL or Rolls Royce, any outgoings related to privatisation, as in the 1982 look at long-term public expenditure.



LONG TERM PUBLIC EXPENDITURE - DOI NATIONALISED INDUSTRIES

BACKGROUND - FORECAST EFLs

The current forecasts of External Financing requirements of DOI nationalised industries in 1982/83 and 1985/86 are shown in the first two columns below. The privatisation of BT will of course remove the possibility of further negative EFLs, but there could well be substantial dividends accruing to the Government in 1985/86.

	EFLs 1982/83	EFLs 1985/86	1987/88	1990/91
BSC	575	85*	Some contingency?	Some contingency?
BS	152	70	35	25
BT	(258)	Dividends?	Dividends?	Dividends?
PO/Giro	(56)	(37)	(35)	(35)

(* - a figure of £185 million is in the BSC's latest Corporate Plan which is still being examined)

FIVE YEAR FORWARD LOOK

2 Apart from the privatisation of BT this report sets out proposals for the progressive sale of BSC (peripherals businesses by 1984, joint ventures by 1984; privatisation of major steel making businesses when viable - probably after 1984), and of BS (privatisation of ship repair in 1983/84 and warship builders after the election).

EXPENDITURE IN THE LONGER TERM

3 The longer term performances of BSC and BS are particularly uncertain. The state of the economy and of world trade could have a marked influence on those performances, the size of the industries and the financing requirements. The steps towards privatisation could also affect financing requirements significantly. In such circumstances it would be sensible to allow for some contingency cover, perhaps £50-£100 million a year for BSC. For BS the financing needs might decline gradually over the period. Such possible outgoings could well be substantially offset by returns through dividends from a privatised BT.

SECRET

17

NBPM

CC NO 31/3

Copy No 2 of 17

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

31 MAR 83



Leon Brittan

PUBLIC EXPENDITURE IN THE LONGER TERM

Thank you for your letter of 30 march about my draft report to the Prime Minister.

On your general point about the strategy I believe that a fairly clear political message is emerging. So far as capital expenditure is concerned (which accounts for some 60% of my programmes) there is a clear need, which I am glad to see you accept, for maintaining and even increasing the level of capital and construction expenditure in the economy as a whole. As much of the growth as possible should be steered towards the private sector, but there is bound to remain a significant public sector component, and we must as you say ensure that we get maximum value for money from this.

On current expenditure the main thrust of my strategy is that we should make even greater efforts on promoting efficiency throughout the public sector, and particularly in the local authority sector for which I have a general responsibility. Financial pressures, publication of information, strengthened audit arrangements, more extensive privatisation all have a part to play here.

I note your opposition to changing the public expenditure convention about the treatment of local authority current expenditure. I should like to consider this further with you as I believe that there could be considerable advantages both in substance and in presentation in making such a change. I am less attracted by the two minor changes you suggest, which by themselves would not change the substance of the position and could cause us other presentational difficulties. But I would hope that we could consider this in more detail during the next few months. Meanwhile I have floated the proposal in a rather more open-ended way in my report to the Prime Minister.

On the level of local authority current expenditure in cost terms I agree that our officials should consider the figures and the methodology in more detail. Meanwhile I have annotated para 3 of the report to the Prime Minister to indicate the existence of the different approach which you suggest.

On the urban programme and on housing I shall of course be glad to consider the issues and problems with you in more detail in the coming months.

In the light of your letter I have modified my letter to the Prime Minister and the report to indicate your general reservations and your particular points about local authority current expenditure. I now attach a copy of the report as I have today sent it.

Copies go to George Younger and Nick Edwards.

Tom King



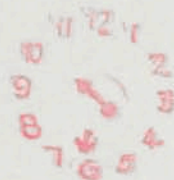
4. I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Chief Secretary to the Treasury and to Sir Robert Armstrong.

WMA

Ministry of Defence
30th March 1983

CONQUEROR

31 MAR 1987.



CONDIMEROL

SECRET



see NO 15

2
Prime Minister

PRIME MINISTER

ms

MUS 30/3

LONG TERM PUBLIC EXPENDITURE

I am replying to your minute of 4 February about the scope for substantially reducing public expenditure in the longer term.

I have agreed with Leon Brittan that I should not embark on a separate Northern Ireland consideration of national policy to achieve this objective. There is no scope for making significant distinct savings separate from those which might be achieved in our national programmes. I have asked my officials to keep in touch with their Great Britain counterparts as the work develops, and when the national programmes have been established, I shall consider their impact on the Northern Ireland position and be ready to consult colleagues as necessary.

Leon Brittan has asked me also to consider whether we may need to review the existing population based formula for setting the Northern Ireland Public Expenditure total. The present arrangements work well and are well understood, and I should be reluctant to change them. But I agree we may need to do this if the results of the present review leads to expenditure levels for Northern Ireland getting too far out of step with the accepted needs of the Province.

In the meantime, I am separately undertaking a review of Civil Service manpower posts April 1984 and I am also following up in Northern Ireland the Financial Management Initiative.

I am copying this minute to the Chief Secretary and to Sir Robert Armstrong.

JP

J P

30 March 1983

SECRET

30 Nov 1983



010

cc N.O. 14

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

SECRET

PRIME MINISTER

Prime Minister ²

No savings of any
consequence.

ms 30/3
30 March 1983

LONG TERM PUBLIC EXPENDITURE

In your minute of 4 February you asked me to report on the possibilities for savings in public expenditure in my area of departmental responsibilities.

--- I attach an annex describing the make-up of programme 3 (agriculture, fisheries, food and forestry) under six main headings. The table in the introduction shows the planned deployment of funds in 1983-84. Drawing on the ministerial information system I have introduced, administrative resources have been broadly allocated to these six programme categories, so showing the deployment of the total resources available.

The total provision for my programmes in 1983-84 excluding local authority current expenditure over which I have no control is £1680 million or only about 1.5% of total public expenditure. Of this about 60% is spent on market regulation and production support and essentially flows from participation in the CAP. Most of this category of expenditure is 100% FEOGA funded and it must be right to secure as large a proportion as possible of FEOGA expenditure for the UK. About a quarter is directed to improving the efficiency and productivity of our agriculture. The balance of about 15% is divided between four blocks which are much smaller but no less politically sensitive since they take in support for hill farming, safety and welfare and fisheries.

Expenditure under my programmes is primarily of direct benefit to important private sector industries. My programmes help to maintain the competitive position of UK agriculture relative to other member states in the Community. These programmes incorporate a co-ordinated drive to improve efficiency and productivity and they act directly on the supply side of the economy. The resources we are deploying to this end are nevertheless modest by European standards: France in particular gives assistance which is proportionately about three times ours.

/Our agricultural

Our agricultural production can hold its own with anyone in the Community and our marketing is fast improving. This is a sector of our economy where expansion is both possible and sensible. We must ensure that our competitors in the Community do not find ways of seizing from us these opportunities for expansion.

Our most recent White Paper shows that since 1977 agricultural output has risen by 34% and labour productivity by 36%. In the same period our self-sufficiency in the kinds of food we can produce ourselves has risen from 67% to 76%. This is a positive contribution to exports of food and feedstuffs, which have risen from about £250 million at the beginning of the 1970s to about £2.5 billion in 1982, and to import saving which has benefited our balance of payments. The industry has also contributed to holding down inflation. Since 1979 the food price index has risen by 35% (and farm gate prices by only 23%) compared with the 51% rise in the retail price index. These figures show clearly that the money and effort invested in improving our agricultural industry's capability and performance has paid off handsomely.

Turning to our fishing industry, having achieved agreement to a Common Fisheries Policy our next objective is to promote the restructuring of the industry which along with improved marketing is essential if it is to have a viable future. We are now consulting the industry about this. We must be ready to deploy sufficient resources in the next few years within the CFP framework to achieve this most important economic and political objective. £57 million has been included in my programmes for restructuring measures under the CFP.

Where possible I have made savings in my expenditure programmes which have been most rigorously scrutinised in recent Survey exercises. Two major programmes - the Thames Scheme and brucellosis eradication - are nearing completion and expenditure is running down. Where appropriate I have placed the main cost burden of new measures on the industry as in the case of protection against Newcastle disease and the eradication of Aujeszky's disease. And I am transferring some activities to the private sector - for example the Land Settlement Association and the artificial insemination service - so that we can concentrate our resources on our main objectives.

I shall continue to take any further opportunities of this kind which may emerge but I cannot identify any acceptable possibilities for major savings which would not directly damage the effectiveness of my main programmes. Indeed in certain areas I see the need for some enhancement of my programmes.

Our present "hill line" excludes the so called marginal land - areas in which farming suffers from significant natural disadvantages and needs additional support. We currently have an application to the

/Community to include

Community to include this marginal land in the area of the UK which is designated under the Community less favoured areas directive. Large areas of England and Wales are involved and this extension would also be very important to Northern Ireland.

Our glasshouse industry will have to achieve substantial investment and restructuring if it is to have a viable future. This is a sector containing many small businesses to which other small business measures might well contribute as well as my programmes. It is important that we should be seen to be helping these small businesses with their problems. Finally, I am being urged to devote increased resources to R & D on food. I am still examining these new requirements and will bring my conclusions into this year's Survey.

I have consulted the Chief Secretary on this minute and report, as you requested. He has asked me to record his dissent both from the conclusions which I reach and from the detailed assumptions and arguments advanced in support of them. I shall be discussing this with him further.

I am copying this to the Secretaries of State for Scotland, Wales and Northern Ireland and to the Chief Secretary.

Robert Lona

f PETER WALKER

(Approved by the Minister
and signed in his absence)

LONG TERM PUBLIC EXPENDITURE

REVIEW OF PROGRAMME 3 - AGRICULTURE, FISHERIES, FOOD AND FORESTRY

Introduction

1. Expenditure on this programme in 1983/84 (on the basis of Cmnd 8789) excluding local authority expenditure will total about £1680 m. The equivalent figure for 1982/83 is £1702 m and the planned total (in the 1982 Survey) for 1985/86 was £1645 m, representing a moderate fall in cash terms but a larger fall in real terms. The 1983/84 total breaks down into the following main categories:-

	£ million	(DAFS WOAD)
Market Regulation and Production Support	1024	(52)
Improvement of Efficiency and Productivity in Agriculture	392	(97)
Support for Special Areas	43	(75)
Safety and Welfare	95	
Fisheries	66	(20)
Forestry	60	
Total	<u>1680</u>	

Expenditure under the CAP (first category) mainly relates to the UK as a whole but other support for agriculture and also for fisheries mainly relates to England and Northern Ireland. Expenditure in Scotland and Wales is shown in brackets for completeness. Administration costs have been broadly allocated to the main categories using for MAFF the data contained in the Ministerial Information System introduced under the financial management initiative.

Objectives

2. The Public Expenditure White Paper (Cmnd 8789) states that the Government seeks to ensure that British agriculture develops its competitive efficiency, produces all that it is in the national interest to produce in this country, and markets it efficiently. The range

of measures and other services falling under the first two categories in the above table are directed to the achievement of these general objectives. Measures under the third category have the objective of maintaining agricultural employment in less favoured areas of the UK. The fisheries programme has the general objective of making economic use of our available fisheries resources so as to help to assure a regular supply of fish to consumers. In the case of forestry the main objectives are the establishment and maintenance of adequate resources of growing trees, the production and supply of timber, and the development of the recreational potential of the forests managed by the Forestry Commission.

Market Regulation and Production Support

3. Apart from the wool and potato guarantees, the measures in this category form part of the CAP. Administration costs apart (about £34 m) almost all the expenditure is 100 % funded by the EC with the UK receipts recorded under programme 2.7: the net public expenditure cost is thus substantially less than the figure shown above. EC receipts of about £750 m relating to this category are expected in 1983/84.

4. Constraint on the level of CAP support prices is a major UK negotiating objective. Within this general aim it would however be wrong to deny the UK receipts from the Community budget or to put UK producers at a competitive disadvantage within the Community. We have in fact succeeded in virtually doubling the UK share of CAP expenditure since 1979, from about 5.5% to over 10%. We should not therefore look for savings in this area. Indeed as UK producers increasingly take advantage of the policies of the present Government and show their competitive edge within the Community by expanding production some increase in expenditure is likely.

5. The national price guarantees for potatoes and wool are already being managed with the aim of substantially reducing Exchequer liability by virtually freezing the level of guarantee prices for several years. The Wool Guarantee arrangements are to be reviewed in the context of the 1984 Survey.

Improvement of Efficiency and Productivity in Agriculture

6. This heading takes in three main groups of services - improving the basic factors of production through, for example, grants for improving land and buildings and for training agricultural workers; research, development and advice covering both production and marketing; and co-ordinated action to deal with animal and plant diseases and pests. These services are vital to the efficiency and performance of agriculture, the more so as our industry is essentially composed of small businesses. Such requirements as the breeding of higher yielding and disease-resistant strains of cereals, the eradication of major animal diseases, improving husbandry practices, research into marketing needs and opportunities cannot be effectively tackled by farmers in isolation. Any cut-back in this group of services, which have as a major feature the rapid transmission of new developments in the industry, would weaken the long-term capacity of UK agriculture.

7. If developing needs and opportunities in this area are to be effectively tackled the detailed composition of this block of services will need continuing adjustment. Thus the brucellosis eradication campaign is nearing fulfillment while programmes for eradicating Aujeszky's disease and reinforcing protection against Newcastle disease (the main cost burden of both being borne by the industry) are just starting. Pump priming aid is being given to Food From Britain and for restructuring the orchard industry. Other needs recently identified and now being studied are additional food research as recommended in a recent ACARD report, the encouragement of multi-purpose co-operatives, and the promotion of necessary restructuring of the glasshouse sector. The extra funds needed for these three requirements are likely in total to be modest but essential to maintaining the impetus and effectiveness of this major block of activities.

8. Since R & D, regulatory and advisory services are a major component of this category, administrative resources form an important element of the total expenditure shown. As a result of the manpower economies which are being implemented, the administrative resources available for this category generally are tightly stretched but nevertheless have to respond to frequent new requirements which generally relate to statutory responsibilities or are politically sensitive.

Support for Special Areas

9. In parts of the United Kingdom, particularly in hilly and mountainous areas, climate, terrain and the poverty of the soil impose severe natural disadvantages. Yet livestock husbandry, along with forestry and tourism, is the mainstay of the rural economy. The choice is between providing special support or allowing these areas to become desolate. The former is the only realistic option. The pressures in such areas must be expected to continue, with consequent implications for public expenditure. In addition substantial areas not included within the present "hill line" have come under the same kind of pressure and there is a strong case for giving them support of a similar nature. A UK application for an extension of our designated areas is currently being scrutinised in Brussels. Some addition to public expenditure would be required to provide support to farming in these newly designated areas.

Safety and Welfare

10. The main expenditure in this block is on assistance towards capital expenditure on urban flood protection. This area of policy (along with investment in rural flood protection which is included in the previous category) is currently subject to an interdepartmental review. A significant run down of expenditure under this heading has already been provided for following the completion of the Thames Barrier. The food contribution to civil defence, in this category, is another area where savings are already being achieved through selling a substantial part of the food stockpile. The category also includes a wide variety of statutory regulatory work, for example on food standards, meat hygiene, environmental pollution and animal welfare. This is generally a category within which the Ministry is frequently subject to public pressures to increase rather than diminish activity and, following the completion of the Thames Scheme, a roughly stable level of expenditure should be expected.

Fisheries

11. With the recent successful conclusion of negotiations on a Common Fisheries Policy, the way is open for the industry to undertake a major

Restructuring within the framework of EC measures and to exploit the opportunities which lie ahead. It must clearly be given full support in its recovery from the uncertainty which has beset it for so long. The planned provision for fisheries includes £57 million for restructuring under the Common Fisheries Policy. The implications for expenditure are inevitably a little uncertain at this stage but there is much to be done and if our objectives are to be achieved there cannot be any cut back in the planned resources for supporting and restructuring the industry, for fisheries inspection and protection and for research and development.

Forestry

12. The Forestry Commission is largely organised as a trading fund and is subject to commercial pressures. The main prospect for savings lie in disposals of land, but very little interest has so far been shown in the estates put on the market. In view of this and the relatively small scale of expenditure it seems right to assume no change.

JUL 27 1955





CC - No. 13
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

SECRET

Prime Minister

Mus 30/3

Prime Minister

1. In your minute of 4 February you asked for a report by 31 March on the possibilities of securing a substantial reduction in public expenditure in the longer term. As you will appreciate, much of the expenditure for which I have responsibility has to be considered in consultation with my colleagues with parallel responsibilities since some of the issues which arise can only be considered on a GB or UK basis. I have seen in draft the responses of some of these colleagues. Because I wanted to see as many of these as possible it has taken me a little longer than I would have wished to respond to your minute.

2. The Scottish programme amounts in total to £6,384m in 1983-84 (figures as given in Cmnd 8789). Of this total 54% is expenditure by local authorities and 27% is expenditure on the NHS. The balance includes expenditure on services such as agriculture, assistance to industry, new towns, trunk roads, prisons, higher education (other than universities), the Highlands and Islands - and much else.

3. I shall continue to examine critically the purposes and projects to which my public expenditure is directed and to ensure that maximum value for money is obtained; but I see great difficulty in achieving a radical reduction in the total. In Scotland in particular we suffer from disadvantages of remoteness, sparsity of population and - for some purposes - an inhospitable environment. I have always believed that these disadvantages should be to some extent offset through public expenditure; and this has been reflected in our policies. Unless I were to abandon this approach I see little prospect of substantial reductions in my programmes.

4. My comments on the main elements of my programme are as follows. There will of course be opportunities for economies. There may also be scope for major policy changes in some of the smaller programmes: I will pursue these in the course of the annual reviews of public expenditure.

Agriculture

5. My programme in 1983-84 totals £166m broken down as follows:

	<u>£m</u>
Market regulation and production support	26
Improvement of efficiency and productivity	75
Support for special areas	45
Fisheries	<u>20</u>
Total	166

I agree generally with Peter Walker's response. I would add only that this programme exemplifies well the arrangements mentioned above for redressing the natural disadvantages of many areas of Scotland. About half the total GB expenditure on support for agriculture in special areas comes to Scotland. This is an important ingredient in the rural economy and is an area of expenditure generally where I foresee a need over the coming years for greater rather than fewer resources to be directed. In particular I have in mind that we await the proposals of the European Commission on an Agricultural Development Programme for the Highlands and Islands.

6. I have a particular interest in fisheries. Assistance to the industry will now fall to be given within the Common Fisheries Policy and we must not lose the opportunity to put the industry on a viable footing by way of assistance for restructuring measures.

Roads and Transport

7. On this I agree with the general point made by David Howell - reductions in expenditure must mean tackling transport subsidies. We have, as in England, a published roads programme for much of the 1980s. Both new construction and maintenance have economic and environmental advantages. Rail and road transport will require continued support, particularly in the more remote areas of mainland Scotland, if we are not to be faced with acute problems of depopulation. It is tempting to look for savings in services where direct costs and revenues are widely out of line, but experience suggests that the political repercussions of doing so are disproportionate to the number of people directly affected. The implications for this in terms of public expenditure will depend on the

results of further work on the Serpell Report, and on what is to be done about the bus operations of the Scottish Transport Group, which provides almost all the services in our countryside. I also have a direct involvement in the offshore shipping services provided by a number of operators and which are supported financially by me. Continuing support will be necessary, not only from year to year on fares but also over the next few years on new ships and improved piers.

Housing

8. On housing there is one major step which I wish to take. I would propose to take power, in the next Parliament, to control the amount of the rate fund contributions (RFC) Scottish local authorities can make to their housing revenue accounts. I see this as a most important step in our objective of curbing local authorities current expenditure on housing: even with the moderating influence of our housing expenditure limits machinery the RFCs of Scottish local authorities have in total continued to rise, in cash terms and even more so in relation to overall housing expenditure, to the extent that they seem likely in 1983-84 to amount to about £125m ie about one-fifth of total PES resources available for the Scottish housing programme. My aim is eventually to eliminate RFCs; this is unlikely to be possible for all authorities in the very short term, but I want to start by establishing a limit on RFCs which would force authorities either to adopt more realistic rent policies or to secure economies in expenditure in the management of their housing stock.

Education

9. In general I agree with the assessment which the Secretary of State for Education and Science makes of the possibilities for savings in education. In particular, I agree that teaching costs, being much the largest single element in education expenditure, is the most likely area in which to look for significant savings. The two assumptions which he proposes (keeping pupil-teacher ratios at 1980-81 levels and holding the real value of teachers' pay at current levels) would each produce savings of about £30m (at 1980-81 costs) in the level of expenditure in Scotland in 1990-91 which would otherwise be forecast on present policies. A return to 1980-81 PTRs would entail a real reduction in staffing standards because no allowance would have been made for diseconomies of scale; and my present powers would not enable me to determine the real value of teachers' pay. Significant savings in higher and further education would imply both the containment or

reversal of the present trend towards increased participation rates and the abandonment or reversal of some current policies, particularly those relating to vocational training for the 16-18s. I shall continue to examine the scope for efficiency savings and for faster than previously planned reductions in expenditure on areas such as school meals, but I doubt whether we can find any major additional savings by these means.

Law, Order and Protective Services

10. We may achieve some constraint on growth of expenditure on the police and prison services, but I do not envisage scope for significant reduction of public expenditure as long as it is our policy to strengthen the administration of law and order generally. I am examining with the Law Society of Scotland possible extensive changes in the various legal aid schemes (which have developed piecemeal) with the aim of improving their administration. This should help to contain costs and to bring about tighter overall control on expenditure.

Health

11. For the Health programme, Norman Fowler is considering carefully what measures might be put forward as practicable possibilities for implementation after the election to reduce long term net expenditure on the NHS. We examined this matter in H Committee last year, after receipt of a report on Alternative Methods of Financing the NHS, and we identified then a number of possible lines of action. We recognised also that most of the options available for reducing expenditure would require careful assessment of their political consequences as well as their administrative difficulties. Although the NHS in Scotland operates against a different background - there is for example still only a negligible private health service - any new measures would have to be introduced in a UK context. I am therefore content that Norman should take the lead in this matter, but of course I would want to look carefully at any specific proposals he may put forward in his response.

Copies of this minute go to the Home Secretary, the Secretaries of State for Transport, Environment, Education, Social Services, Wales and Northern Ireland, to the Minister for Agriculture Fisheries and Food, to the Lord Chancellor and to the Chief Secretary to the Treasury.

GY.

GY

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1988 MAR 03

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cc N.O.

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2



Prime Minister

No savings here.

MUS 30/3

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PRIME MINISTER
LONG TERM PUBLIC EXPENDITURE

In your minute of 4 February you asked for a report on the possibilities in my area of responsibility for contributing to a substantial reduction in public expenditure in the longer term. In the peculiar circumstances of a territorial department it was important for me to see the reports of my colleagues with responsibility for comparable services in England before responding.

The report by officials (circulated as C(82)32) which underlies this exercise assumed that expenditure within my programme but outside my block would remain broadly at its 1982/83 level in cost terms, and that expenditure within my block would be governed by the existing arrangements under which incremental changes to the block total are made each year by applying a population based formula to the net changes in comparable expenditure in England. On this basis, the predicted range of increase in my programme between 1982/83 and 1990/91 (in 1980/81 cost terms) was estimated at £234m to £274m, compared with a range of increase in Scotland of £607m to £727m and in overall programme expenditure of £12bn to £13bn.

The first question I have asked myself is whether my programme would show a substantially lower level of increase if the block/formula arrangements were replaced by bi-lateral bargaining with the Chief Secretary in each survey. My assessment is that the arguments of relative need in Wales are such that the increase would not be any lower, and could well be somewhat higher. Such rigorous assessment of need as exists (in the Needs Assessment Study carried out prior to the devolution referenda) tends to bear this out. We stay with the block/formula arrangements because the possible marginal loss is compensated by the advantages of speed in consequential survey decisions and the flexibility I have in allocating my total block resources between programmes. For the purposes of the present exercise, therefore, I conclude that no contribution would be made by abandoning the block/formula arrangements for Wales.

I looked next to see whether there was any area of my responsibilities in which I could make a distinctively Welsh contribution. The distinctive contribution I have already made to the reduction of public spending is in the area of local authority current expenditure. Since introducing the separate Welsh Rate Support Grant we have come markedly closer to our spending plans in each year than has been the case in England and Scotland. The decision to increase the plans for England by an "unallocated margin" to bring them closer to the amounts actually spent by the local authorities with no consequential increase in the plans for current spending in

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Wales has caused me embarrassment. The result is Government endorsement of higher levels of service in England than in Wales: in cash terms, the Welsh level of service provision for 1983/84 is some £52m less than the normal consequential arrangements indicate it should be. Clearly this disadvantage cannot be allowed to continue if we are to retain credibility. However, provided justice is seen to be done on this score and no local government finance measures are imposed which are seen to be clearly inappropriate to Welsh circumstances I am confident that we can continue to moderate local authority spending in Wales. This is the most significant single contribution it will be possible for me to make.

For the rest, I have reviewed the position in respect of each of my services in the light of the reports which have been submitted to you by colleagues with matching responsibilities in England. I comment below in the order of the size of service provision.

Health and Personal Social Services

This is the largest service provision within my block. The morbidity rate in Wales is high, and demographic factors are against us so the demand for health services in Wales is high and increasing. There is a very great deal to be done: an example is provided by my recent initiative regarding the care of the mentally handicapped in the community. I am therefore faced with the need to find considerable savings in present health expenditure if we are to do all the things I see need to be done, for example, in the extension of care in the community and cardio-thoracic services.

To take capital expenditure first, this accounts for £40m out of the £796m provided for the NHS in Wales in 1983-84. Our present District General Hospital building programme is due to be completed in 1988. Much of the remainder of our capital stock is dilapidated, however, and will need a substantial renovation programme extending indefinitely. In view of our unhappy experience with hospital building in recent years (long planning lead times, unsatisfactory supervision of construction, and subsequently discovered structural and other faults) I think we should experiment with more rapid private sector construction methods. I am asking my officials to investigate the possibilities. It remains to be seen whether this would cut initial construction costs but my intention is that it should save us subsequent renovation spending.

As regards current expenditure, I am particularly in favour of an attack on the size of the drugs bill, through both the recently announced review of the Pharmaceutical Price Regulation Scheme and the extension of generic prescribing. I am sure there is much to be saved in this area. I am also firmly of the view that Health Authorities should be able to find the greater part of the additional cash they will need by

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savings through improvements in their own efficiency. I am often told this is very difficult if not impossible, but I do not believe that. I shall therefore continue to exert the utmost pressure on my Health Authorities to find such savings.

Education

I am responsible in Wales for schools and higher and further education (but not Universities or teachers pay). Because of a declining school population, expenditure on this service is set to fall in real terms in the medium term. It will be difficult enough to achieve the reductions there should be. The closure of schools with falling rolls, whether in the country or in urban areas, is an act of considerable political difficulty as you know. The education lobby is well-organised and vociferous, and parents can be counted as one of the most unreasonable of pressure groups. There are also respectable arguments for increased expenditure on equipment and buildings. I therefore agree with the Secretary of State for Education that we must continue to exert all the pressure we can to enhance the efficiency of the service and deliver the planned reduction in real terms spending on it. In particular I am sure we must tighten pupil/teacher ratios in both schools and higher and further education. Beyond that, the only scope I see for substantial savings would be to change the relative legislative provisions to set maximum standards. It seems highly unlikely that such a change would get through the House.

Roads and Transport

The bulk of Welsh spending in this area is on capital construction and road maintenance. We have a major and important trunk road and motorway programme to complete, which was begun some years later than the comparable construction programme in England. There is a great deal of improvement needed to local authority roads in Wales to complement the main arteries we are providing. This is essential infrastructure work and it would make no sense to curtail it. There is very little current spending of the sort that worries the Secretary of State for Transport in England: in 1983/84 total planned expenditure in Wales on passenger transport subsidies is £10m and on concessionary fares is £6m. Such current expenditure in Wales is supported by RSG not TSG, which is confined to capital expenditure. The full block grant mechanisms therefore apply to influence local authorities to keep to our plans.

Other Environmental Services

This includes the Urban Programme, the latest development in which is the new system of Urban Development Grants. I attach great importance to the Urban Programme generally and in particular to UDGs, which provide the spur to private sector investment in run-down urban areas at minimum public sector cost. The initial response to the UDG scheme in Wales has been very promising. The borrowing requirement of the Welsh Water

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Authority (which is presently scored against this provision) will reduce in the medium term as the Authority moves towards self-financing; but it must be admitted that this is something of a moving target because of the increasing need for replacement of under-ground waterpipes and sewers. I see no prospect of an additional contribution from either a cut in the Urban Programme or an imposed cut in the Water Authority's borrowing requirement. The remainder of this provision goes in small amounts to various purposes which offer no possibility of substantial savings, and to Local Environmental Services (LES).

LES is itself a rag-bag of things, and in 1983/84 amounts in cash terms to £39m capital and £163m current expenditure. This current expenditure (which is by local authorities) can be influenced only indirectly through the RSG system. Better results should be achieved by a determined effort to increase the level of competition in the provision of the services concerned (which include leisure services and refuse collection) through contracting out.

Housing

I agree with the Secretary of State for the Environment that there is no room for cuts on capital. The condition of the housing stock in Wales is still particularly bad, as a recent survey has shown. One of my problems in allocating resources within my block is how to find the provision I am sure is needed. As to current expenditure on housing, this comes to only £22m in cash terms in Wales in 1983/84. The major part of this is subsidies of £11m: the rate fund contributions to the local authority housing account amount to only £4m. I expect both amounts to decrease somewhat in the medium term if current policies continue. But, as I have previously argued, what is really needed is the re-creation of a private rented sector to reduce the present overwhelming dependency on public sector housing by those who for whatever reason cannot buy a home of their own. Our policies aimed at the extension of home ownership, such as right to buy, are very worthwhile but they will never solve the whole problem. In my view action to revitalise private renting will be essential.

Industry

My Industry provision has already fallen from its peak in 1981/82 (£95m cash out-turn then to a planned £79m cash in 1983/84). It is very difficult to forecast with any certainty what the calls upon it will be in the medium term. I am seeking the whole time to use the funds as catalyst for private investment whilst turning over the assets of the development agencies. Ideally I should like to see the WDA become fully self financing in the longer term as our policies succeed and the economy recovers.

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Agriculture

I have seen the Minister of Agriculture's response and I endorse what he says. In particular the extension of support to marginal land is very important in Wales.

Tourism

The provision for this service in Wales is small (£6m cash in 1983/84). It is an important aid to the tourist industry, which in turn is important to Wales. There is no scope for substantial reduction.

Other Public Services

This is essentially Welsh Office running costs. I have said elsewhere that a continuation of the 1 April 1984 staffing level (on which this provision is based) will make the running of the Department very tight. It follows that I see no prospect of reducing this provision if we are to carry out our full range of functions.

In conclusion, I should like to register my support for colleagues who have entered pleas for early action to provide end-year flexibility for capital spending programmes. The present rules lead to waste, either in terms of planned expenditure unspent or in terms of inessential spending incurred to use up funds at the end of the year. I know that the objection to doing anything on this score last year was the expected public expenditure cost in the year following introduction. This could be an argument for indefinite delay, and I hope it will not be allowed to be an obstacle this year.

I am sending a copy of this report to the Secretary of State for Scotland and the Chief Secretary, who saw it in draft, and to Sir Robert Armstrong.

JHRoberts

30 March 1983

R N E
(Approved by the Secretary
of State and signed in his absence)

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Prime Minister

2

PRIME MINISTER

Mus 30/3

LONG TERM PUBLIC EXPENDITURE

I am replying to your minute of 4 February about the possibilities for a substantial reduction in public expenditure in the longer-term.

GENERAL VIEW

Public expenditure across the energy sector is expected to total around £930 million in 1983-84. Without the external financing requirement of the National Coal Board there would probably be a slight surplus. Key figures are attached: both they and figures below are in 1980-81 cost terms.

I see three areas which could produce major changes in public expenditure in the energy sector in the period up to 1990-91:-

- i) a major reduction in the deficit and in the external financing requirement of the NCB;
- ii) a large growth in payments by the nationalised gas and electricity industries to the Exchequer, through increasingly negative external financing requirements;
- iii) the payment to the Exchequer of substantial proceeds from the privatisation of substantial parts of the gas and electricity industries, possibly involving a programme of part-sales, or the sale of tranches of equity in these undertakings over a period.



This might be accompanied by progressive diversion of the industries to private capital for their investment requirements.

The path will of course be uncertain and by no means necessarily smooth. A recovery in the real oil price could make a considerable difference to how it looked. I do not at present see major changes coming from outside the areas listed above.

Operating in the other direction there may be demands for expenditures to meet rising environmental standards. We have seen the large amounts at stake in connection with 'acid rain', nuclear safety and the disposal of coal-mining spoil. Such costs will normally fall on the consumer but one cannot exclude that they may sometimes affect External Financing Limits (EFLs) or the Exchequer. These costs are difficult to control and I think it would be a mistake not to recognise the possibility of new demands.

MAIN AREAS OF EXPENDITURE

I attach a note which summarises the main elements of the energy expenditure programmes. Our policies are already designed to produce a substantial decline in the longer-term although a hard core of expenditure on nuclear and other research and development and on the coal industry is likely to remain.

You are familiar with the steps we are taking to reduce the NCB deficit by closure of uneconomic pits. The other major factors here are the evolution of the national demand for coal; what happens to world prices of coal and competing forms of energy, especially oil; and productivity in the coal industry.



On negative EFL's in electricity and gas, the key factors are the scale of investment needed and prices to consumers. Raising prices beyond what marginal costs justify would mean taxing gas and electricity. Industry would certainly resist that and of course there would be a further constraint on the extent to which we could add to consumer costs if we were obliged to charge VAT on energy. Gas prices are likely to rise in real terms without any increased contribution to the Exchequer because of the need to pay higher prices for imported gas, or for new and probably more marginal discoveries on the UK Continental Shelf.

Privatisation of the main structures of the electricity and gas industries could yield very large sums in this period. I would also hope to see smaller but still important disposals eg BNFL, opencast coal. As privatisation proceeded however, the scope for revenue from these industries (in the form of negative EFL's, a contribution to reducing the NCB deficit, or BNFL dividends to the Exchequer) would also be reduced. It might be necessary to consider too whether the significance of the PSBR was changing somewhat, either because the proceeds were so large in some years that transfer of assets obviously played an exceptional part in the Exchequer accounts; or because financing of the investments of these "regulated utilities" was now outside rather than inside the PSBR, but still represented a major demand on savings within our monetary targets.

CONCLUSION

It does not seem to me possible to quantify in any meaningful way the net effects by 1990/91 of changes in these main areas. We shall clearly strive very hard to eliminate the present NCB deficit of £500m a year. The Report by Officials (LTPE(82)5) which we considered last September indicated that the EFL's of the nationalised energy industries, together with

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Departmental expenditure, could decline from £960m in 1983/4 to between £450m and £680m, according to economic circumstances. Negative EFL's for electricity and gas could reduce this further, but some of the environmental possibilities could operate the other way. Privatisation would have different effects in different years until completed, when it would remove the possibility of negative EFL's.

Perhaps the best guess we can make is that in favourable circumstances we might reduce energy public expenditure by 1990/91 by £ $\frac{1}{2}$ billion to £ $\frac{3}{4}$ billion in 1980/81 cost terms.

I have consulted the Chief Secretary about this note as you asked and am sending a copy to him.

Secretary of State for Energy.

30 March 1983

A handwritten signature in dark ink, appearing to be 'JL', is written to the right of the typed name.

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S E C R E T

Enclosure

MAIN ELEMENTS OF ENERGY EXPENDITURE PROGRAMMES

A table summarising the main elements of energy expenditure programmes projected for 1983/84 and 1990/91 is attached. The figures for 1990/91 are drawn from LTPE(82)5, the report considered by Ministers last September.

GAS

2 The projection in LTPE(82)5 of a financing requirement for the British Gas Corporation (BGC) ranging from zero to negative still appears the best judgement to make, on the assumption that the Corporation remains in substantially its present form. Privatisation of BGC's main stream operations would remove both costs and revenues from the public sector, leaving at most only a 'rump' which should be largely self-financing.

ELECTRICITY

3 The expectation last September was that the electricity supply industry in England and Wales would have a zero financing requirement by 1990-91. The assumption that there would be a real increase in capital investment has now been reversed and the financing requirement should range between zero and substantially negative.

4 The effect of privatisation will depend on its scale and character. Full privatisation would provide a major once-for-all benefit to the Exchequer although surpluses would thereafter be lost.

COAL

5 The most significant contribution to a reduction in the present level of public expenditure within my responsibilities will flow from success in staunching the losses of the coal industry. Last September's report envisaged the NCB's external financing limit declining from about £900m in 1983/84 to £200m - £400m in 1990/91.

6 The outlook for sales of coal has worsened in recent months and achievement of the figures for 1990/91 looks a still more ambitious target. Certainly it would not be realistic to expect a better outcome by the end of the decade.

7 Privatisation of the profitable parts of the NCB, for instance opencast, is a matter of considerable sensitivity. If achieved it will increase the Board's external financing requirement but benefit the Exchequer substantially through the proceeds.

8 The Redundant Mineworkers' Pension Scheme is not seen as an area for major savings. The planned reduction in the NCB's deficit will inevitably mean substantial redundancies in the industry and a consequent increase in public expenditure on the Scheme.



RESEARCH AND DEVELOPMENT

9 Nuclear research and development is projected to cost £135 million in 1990/91. This assumes the reduced fast reactor programme based on international collaboration which we have agreed plus further savings in other programmes including increased Generating Board contributions to thermal reactor R & D. To make a significant further reduction would entail policy decisions to eliminate or severely curtail specific programmes. Sir Peter Hirsch has been asked to take a fresh look at the way in which the UK Atomic Energy Authority formulates and manage their programme. If the beneficiaries of the Authority's research, mainly the Generating Boards and the electricity consumer, were persuaded to meet the bills for a much higher proportion of its work, the Department's expenditure on nuclear R & D might fall well below £135 million; but this may not prove realistic.

10. The figure of £40m for non-nuclear research and development in 1990/91 allows for some real increase over the present level of expenditure but contains no provision for large-scale demonstration of renewable energy sources, combined heat and power schemes or high technology projects for exploitation of North Sea resources. To plan for a reduction in real terms in this area would require decisions which would be difficult to defend, for instance, to the Select Committee on Energy.

LONG TERM PUBLIC EXPENDITURE ON ENERGY
 (£m 1980-81 cost terms : figures rounded)

	<u>1983-84</u>	<u>1990-91</u> projection (as in 1982 exercise)
NCB external finance	952	200-400
BGC external finance	- 24	zero/negative (Scenario A) substantially negative (Scenario B)
Electricity (England & Wales) external finance	-319	0 (Note 1)
Nuclear R & D	167	135
Non-nuclear R & D	31	40
Redundant mineworkers payment scheme	74	50- 80
Offshore supplies interest relief grants	17	0
Departmental administration, energy conservation etc	31	25 (Note 2)
	<u>929</u>	<u>450-680 (or less - Note 3)</u>

NOTE 1 : Now considered to range from zero to substantially negative.

NOTE 2 : Now needs to be increased by £10m to cover repayment services.

NOTE 3 : Bottom end of range would be lower if BGC and Electricity external finance is negative

NOTE 4 : Nuclear R & D could be well below £135 million if a large proportion of the AEA's R & D were paid for by consumers, mainly the Generating Boards.

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

30 March 1983

Dear John,

PUBLIC EXPENDITURE SURVEY 1983

The Prime Minister was grateful for the Chief Secretary's minute of 28 March about the Public Expenditure Survey 1983.

Subject to the agreement of colleagues, the Prime Minister agrees to the Chief Secretary's proposals.

I am sending copies of this letter to all members of the Cabinet, the Minister for the Arts and Sir Robert Armstrong.

Yours sincerely,

Michael Scholar

John Gieve, Esq.,
Chief Secretary's Office,
HM Treasury

CONFIDENTIAL

*file Bre
cc: Nick Owen*

*Copy
PWA*

BGP

~~CONFIDENTIAL~~



our alt should call me in case you
or call me
ADV if nec: Mr Pickers
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
(3) CCab

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

RECEIVED IX
29 MAR 1983
PRIVATE OFFICE

Says to see
CPS/M Stanley
PS/Law Bellum
Mr McIndoe
→ Mr Keiser Mr Pausford
Mr Osborn

29 March 1983

Dear Leon,

I write to bring to your attention the conclusions I have been drawing from a review of the likely outturn in the current year on my cash block SO/LA2 (capital expenditure on housing). Though the evidence is by no means fully up-to-date, and conclusions should not therefore be regarded as firm, it looks as if we shall finish up with an underspend of about £50 million on a cash limit of just over £450 million.

This has happened in spite of a letter sent by the Prime Minister last Autumn to the Convention of Scottish Local Authorities urging them to spend up to their allocations, and to use all the available receipts; in spite of the sustained efforts of the Scottish Special Housing Association and the Housing Corporation in Scotland (now both under our appointees) to spend their available resources (including receipts); and in spite of our removing (with your agreement) all restrictions from expenditure by local authorities on improvement and repairs grants this year.

I regard it as very disappointing that notwithstanding all our efforts there should still be underspending, and I have been reviewing the causes with my officials. Because of the steps taken, as described above, and because of the generally favourable weather, I have come to the conclusion that what we are witnessing is not an isolated, and perhaps accidental, phenomenon; it looks much more like an inherent defect in the system. And I take it extremely seriously, because it seems so clear that what we have done is to produce the same effect as we would have produced if we had set out to impose an additional cut of £50 million from the outset. And in relation to the generality of our PES procedures, and to the degree of unemployment in the construction industry, that all seems such a nonsense.

1264/3

There are two particular causes of the trouble in my mind. The first is the earnestness with which, for reasons that were borne in on us very strongly at the time, we decided a year or two ago to attach dramatic and overwhelming emphasis to the importance of avoiding overspend in all circumstances. Having been found to be less than wholly blameless in the past myself in that respect on SO/LA2, I took steps, in the detail of which you and your officials took a good deal of interest, to bring home to those concerned that there must never be overspend again. The result is that virtually all the Scottish housing authorities separately, and the appointed bodies, set out to underspend by at least a small margin: this produces cumulatively, a massive underspend.

The second particular cause of trouble is the extent of the uncertainty which we have passed to local authorities over the amount and timing of net receipts for house sales that will accrue to them. My department made very clear before net allocations were imposed on us for 1982-83 (a year later than in England) that we foresaw trouble, but the Treasury view was that the advantages of removing the uncertainty from our net figuring were overriding. The percentages of private finance which some of our authorities have been able to attract have been gratifyingly high - certainly higher than we had foreseen: but the public expenditure benefit we derive has to be set against the damage that substantial underspend does to the effectiveness of our allocation system and the working of the right to buy.

I have been considering what might be done, within the obvious need to retain a proper control of expenditure (a major achievement of this Government which cannot be allowed to slide), to tackle this problem. It seems to me that there are two possible palliatives which I should be grateful if you would consider:-

- (a) a recognition, in carefully worded terms, that Departments operating systems with a built-in tendency (of the kind I have described) to underspend should be able, with Treasury agreement, to build in a prudent measure of deliberate over-allocation to their management systems (and to pass something of that discretion on to their NDPBs as they see fit); and
- (b) a concession, specifically related to circumstances where significant volumes of receipts come to hand, often quite late in the financial year, for a degree of carry forward from one year to the next. Without wishing to open up all aspects of annuality, I do wonder whether there is not something that we could do in the housing field?

I am sending copies of this to Tom King, Nick Edwards and Jim Prior.

Yours truly,
C. G. G.



Prime Minister

MS 30/3

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE

Your Personal Minute (M6/83) of 4 February 1983 asked all Ministers with responsibility for public expenditure to review their programmes critically and to send you a report on the possibilities in their departments for contributing to a substantial reduction in public expenditure in the longer term.

My departmental vote covers not only the Management and Personnel Office itself, but also your Office, the Whips' Offices and the Office of the Parliamentary Counsel. Over the next 5 years the net expenditure in cash terms is estimated at (£M):

1983-84	1984-85	1985-86	1986-87	1987-88
31	32	33.2	34.5	36

This relatively low level of increase is based on tight management control which, starting in 1983-84, will be sustained by a closely linked system of planning, resource allocation and financial monitoring, introduced under the Financial Management Initiative.

I have reviewed the programmes in the MPO itself very carefully. The comparison between the numbers of staff at May 1979 and April 1984 engaged on the work which the MPO now does will show a reduction from 1613 to 1219 (24.4%). This reduction has only been possible by a vigorous review of activities and concentration on priority tasks. Yet there are strong demands on us (especially in connection with the FMI and our overall policy of improving management in the Civil Service) to expand the MPO's work in the years ahead. I therefore see little scope for us to make a further direct contribution to public expenditure reductions. Rather, I intend that we should concentrate on consuming our own smoke by making savings in some areas in order to fund additional work in others. Training and management audit are two such areas where extra resources will be needed.

As part of my continuing direction of MPO's activities, I have arranged for important aspects of each of our three main 'executive' operations (the College, the Commission and the Medical Advisory Service) to be examined in 1983. These operations together account for about 40% of MPO's net expenditure. The plan is:-

- i. a study to see to what extent it is practicable and efficient to arrange for some training at present done by the College to be undertaken either by 'outside' institutions or by individual departments for themselves;

ii. a scrutiny in the Commission which will seek ways of further improving cost-effectiveness and better meeting the needs of departments. The Commission will also participate in the multi-department review of administrative support services;

iii. a comparative study of the MPO's Medical Advisory Service and the separate MOD PE Civilian Medical Services (perhaps undertaken by an independent evaluation unit funded by the EEC Health and Safety Directorate). Proposals have been put to MOD.

I expect a report shortly about contracting-out the hotel and catering operation at the Civil Service College, Sunningdale to the private sector. I am keen to do this. It could save up to 50 posts and there may be a modest financial economy as well.

The various studies which are planned may reveal further ways of saving costs through greater efficiency and every opportunity will be taken to do so. But for the reasons I have given, I cannot predict any net reduction in expenditure by the MPO for the longer term.

Janet Young

BARONESS YOUNG

29 March 1983

Elon PA
Post de PA

3 0 MAR 1963



CONDOR



Told Mr. Mansfield MP
and decides to hold back this
comment until later HCS 30/3 PA
Prime Minister²
See no reason

PM/83/29

PRIME MINISTER

to increase F.O. expenditure Mr. Pym argues for an
increase in expenditure.
We have a good
engagement with the British I will resubmit with the
Council which I think I expect collection from other
honours. We have already added to them Departments.

Long Term Public Expenditure

budget for overseas HCS 29/3
from

1. In your minute of 4 February you asked Cabinet colleagues to consider how individual Departments can contribute to our aim of substantially reducing long term public expenditure.
2. Foreign policy expenditure must be seen in the round. Diplomacy, defence, intelligence and aid are inseparable, as the Falklands reminded us. Diplomacy accounts for about 3% of the cost of our total effort in all these fields and we should never forget that a pound spent wisely on diplomacy can save ten on defence later. Aid amounts to a further 7%, much of which returns to the UK in the form of spending on British goods and services. Further real cuts in expenditure on our overseas effort, at this of all moments, would send the wrong signal to friends and adversaries alike. It would also give a weapon to political opponents at home, and to the so-called peace movement, if we were seen to be cutting down on diplomacy and aid while spending more on conventional and nuclear defence.
3. The productivity of diplomacy is of course hard to measure. But it is a fact that our essential tasks have increased enormously in the last ten years, while our staff levels have dropped by nearly 20%. The number of sovereign states has increased from 141 to 166; our exports in real terms have gone up by 68%, and the

/number



number of British visitors abroad, which affect our consular work load, has more than doubled. All this takes no account of other factors such as the growth of multilateral and specialised diplomacy and the increasing expenditure on peace-keeping forces (which under present arrangements is charged to the FCO Vote).

4. We could of course make further savings, even on a small budget where the bone is close to the surface (the cost of the Diplomatic Service proper is £283 million out of the £554 million for the FCO Vote as a whole - see attached table). But I am more than ever convinced that such savings could not be made without damaging our national interests. There is no more scope for saving candle-ends. We have reached the point where we must decide whether or not effectively to pursue British interests worldwide. We could close more missions in Africa, Latin America or Asia; or we could withdraw from international organisations, or reduce expenditure on the Commonwealth. But I do not believe that British interests would be served by such changes, even where domestic opinion and our international obligations would allow it. Alternatively we could cut down further on the range of export promotion services offered, or even cut out export promotion altogether in certain markets; or we could radically reduce consular assistance to British citizens abroad. Any of these courses would cause political and public controversy and damage disproportionate to the savings achieved.

5. We should also take account of the overseas efforts made by our main friends in the West, not to speak of the communist countries. The French, for example, spend 10% more on diplomacy and export promotion than we do, and eight times more on cultural activities abroad.

/6.



6. As far as aid is concerned, the current PES exercise shows the programme declining slightly in real terms over the period 1983/84 to 1986/87. In this period and beyond, the main feature is significant growth in the share of Community aid (the UK share of Community aid is debited against our aid programme) and other multilateral aid such as World Bank contributions. At the end of the decade multilateral aid will consume about half of the total programme compared with around 40% now. We shall do our best to resist the trend although in doing so we shall incur ill-will (and consequent loss of influence) with other main donor and Community partners. But, even allowing for this, growth in multilateral contributions of this order seems inescapable given our Community and other obligations.

7. The consequences are clear. With little growth in prospect for the total aid programme, our country programmes (which have already been reduced by more than 36% in real terms over the last three years) will decline further. The Aid and Trade Provision will also be squeezed, as will contributions from the aid programme to valuable institutions such as the Commonwealth Development Corporation and the British Council.

8. I do not regard these developments as acceptable. As we saw in the matter of overseas student fees, our bilateral relations with developing countries can be significantly damaged if we are not sensitive to their problems. Like you, I believe our interests - political and commercial - are best served by direct bilateral aid. Some multilateral agencies, such as the World Bank and IDA, are extremely effective and valuable and serve our broader interests. But unless we relieve the pressure on bilateral aid, our ability to pursue our national interests through the aid programme will be severely curtailed.



9. My conclusion from all this is that, far from scaling down our current overseas efforts, there is a strong case for a sensible increase in certain areas. In foreign affairs, results are notoriously difficult to quantify. But there are areas where we are clearly being hampered by inadequate resources. There is a strong case for increasing the amount we spend on the central tasks of diplomacy, from the basic study of foreign countries to the projection of British foreign policies abroad. My recent visit to the United States also reminded me of the value and importance of our work on export promotion given the UK's dependence on trade. (A recent survey by independent consultants concluded that the Export Intelligence Service operated by our posts abroad added some £1 billion per year to our exports.) The British Council and BBC Overseas broadcasting are two other areas where we are outstandingly effective and where we should invest in success: the English language gives us an advantage which we should exploit to the full. Aid is a vital component in our diplomatic, commercial and cultural policy and an increase would certainly allow us to pursue our aims more flexibly and effectively.

10. One thing we can be sure of is that foreign policy tasks will not decline. Indeed they are likely to increase. Britain is a force for sanity in the world, and to abdicate any of our international responsibilities would dismay our allies and gladden our adversaries. The yield from our present overseas efforts is out of all proportion to the expenditure and to our current international economic standing. I agree wholeheartedly that long-term public expenditure should be subject to rigorous scrutiny. But,

/in view



in view of the fact that vital British interests are at stake, I am convinced that this current exercise should not simply lead to cheese-paring cuts across the whole range of public expenditure. As I asked in Cabinet some months ago, a more discriminating approach is surely called for. In the case of the FCO, any financial savings would be short term, illusory and the opposite of cost-effective. A sensible increase in expenditure could reap significant rewards.

11. I am sending copies of this minute to the recipients of yours and to the Secretaries of State for Defence, for Trade and for Industry.

A handwritten signature in dark ink, appearing to be 'FP', with a horizontal line underneath.

(FRANCIS PYM)

Foreign and Commonwealth Office

29 March 1983



FCO DIPLOMATIC WING

£ million

Financial provision: 1983/84 544.6

Of which: £ million

a. BBC External Services 77.2

Broadcasting Relay
Stations (on behalf of
the BBC) 9.6

British Council 40.2

Subscriptions to Inter-
national Organisations
and special payments 71.5

21.3

219.8

b. Passport Office 19.4

GCO Information Services 1.1

Grants to non-Govern-
mental Bodies and General
Services 8.0

Military Aid (courses
here and training teams
abroad) 13.4

41.9

c. Official and Residential
Accommodation at home and
abroad 79.8

282.9

d. The Diplomatic Service at
home and abroad (pay,
travel, allowances, etc) 203.1

THIS IS A COPY. THE ORIGINAL IS
RETAINED UNDER SECTION 3 (4)
OF THE PUBLIC RECORDS ACT

544.6

NO



Prime Minister

PRIME MINISTER

Agree, subject to

colleagues, to this
procedure?Yes
not

Mus 29/3

PUBLIC EXPENDITURE SURVEY 1983

As usual at this time of year, we need to settle guidelines for the next Public expenditure Survey. Proposals are set out in the annex to this minute. They are largely procedural and have been discussed at official level. Unless colleagues see any difficulty, work on these lines should now be set in hand.

2. The 1983 Survey will take us to the year 1986-87. Relevant to it are both the work you have commissioned on public expenditure in the longer term, and the review of manpower requirements between 1984 and 1988. Paragraph 3 of the guidelines suggests how these and other exercises should be related to the 1983 Survey. About the longer term you may perhaps want to take a paper in Cabinet in June or the first half of July.

3. It is necessary to establish a baseline for the Survey, from which proposals for increases or decreases are measured. The baseline is not necessarily the same as the objective, for which I shall make a proposal later, in July, in the light of the factual material and any bids produced in the first stage of the work now to be set in hand. For 1984-85 and 1985-86 the baseline will be the cash plans in Cmnd 8789, as modified by the Budget and other agreed changes. For 1986-87 it will be the cash figures for each programme for the previous year 1985-86 plus 3% uplift (except for the local authority unallocated margin). The guidelines paper does not give a quantified assumption for inflation in 1986-87, but it states our intention that inflation should continue to decline. It should be understood that on these assumptions the cash baseline implies some reduction in the real content of programmes for 1986-87 compared with 1985-86.

4. The intended timetable is much as in previous years. The factual material brought together by officials in a Survey report would be the basis of proposals which I should bring to Cabinet in July concerning overall objectives. Detailed bilateral discussions would then follow, leading to final Cabinet decisions and announcement in an autumn statement. The precise timetable for these later stages can be established later.

5. The procedure for handling local authority expenditure will follow the lines successfully introduced in 1982. Again as last year, the results of the nationalised industries' Investment and Financing Review will be for consideration by E Committee in the first half of July.

6. I draw attention to:-

- (a) paragraph 7 of the guidelines, which suggests that departments aim to build a measure of flexibility into their physical planning so that (within the cash plans) the real content of programmes can be adjusted - either upwards or downwards as necessary - to deal with the inevitable uncertainties;
- (b) paragraph 12, which invites departments to consider the scope, within the existing plans, for switching from current to capital expenditure. The level of capital spending may be one of our preoccupations in this year's Survey.

7. Accordingly I now seek colleagues' agreement that:-

- (a) officials should produce the annual survey report in the form and to the timetable specified in the guidelines annexed to this minute;
- (b) officials should produce a report on options for reductions to produce programme savings in cash of 3 per cent from the baseline in 1984-85, 4 per cent in 1985-86 and 5 per cent in 1986-87;

- (c) representatives of the local authorities should, as last year, be consulted through the machinery of the Consultative Council on Local Government Finance;
- (d) the results of the Investment and Financing Review of the nationalised industries should be considered within the framework of the Survey as in paragraph 5 above.

8. I am sending copies of this minute to Cabinet colleagues, to Paul Channon and to Sir Robert Armstrong. It would be helpful to receive any comments not later than 6 April.

L.B.

LEON BRITTAN
28 MARCH 1983

DRAFT

PESC(83)

PESC (WM) (83)

COPY NO

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

GUIDELINES FOR THE 1983 SURVEY

Note by HM Treasury

Introduction

1. This paper sets out guidelines for the conduct of the 1983 Public Expenditure Survey, and for the preparation of a) the 1983 PESC report and b) a separate report (not for circulation) on options for reductions. A separate PESC(WM) paper will be issued requesting running tallies.

Timetable

2. Departments are requested to undertake the work required for the production of the two reports according to the timetable at Annex A, which would require amendment if an election is called before July. A timetable for the remaining stages of the survey will be circulated later.

Longer-term and other related exercises

3. In preparing chapters for the PESC reports, departments should take into account the results of related exercises (eg policy reviews, the "forward look", Rayner scrutinies, the review of manpower prospects from 1984 to 1988 and the running costs exercise). It is intended that the 1983 survey should also be influenced by the results of the exercise on public expenditure in the longer term. Draft chapters should, therefore, show the effect - particularly in relation to 1986-87 - of the possible reductions listed in Departments' contributions to that exercise. These will be subject to collective discussion by Ministers during the summer, but it is important that the PESC reports should give, from the outset, a comprehensive account of the range of policy options available in the survey period.

4. Civil Service manpower numbers are the subject of the separate review of manpower prospects from 1984 to 1988, which is intended to provide a new series of manpower targets which will be reviewed year by year during each survey. When Cabinet decisions on manpower have been taken, survey figures may need to be amended to reflect them. (See also paragraph 14.)

Baseline (to 1985-86)

5. Annex B gives detailed information on the construction of the baseline to 1985-86. Certain returns are required by 29 April.

Construction of initial figures for 1986-87

6. Baseline figures for 1986-87 will be calculated by the Treasury by adding 3 per cent to the figures for 1985-86, adjusted as in Annex B. In the case of local authority current expenditure this will apply only to the aggregate service provision: this is explained further in Annex B. Proposals to alter the provision to meet the cost of existing policies should be put forward as in paragraph 9 below and Annex C. Any reduced requirements should be identified as in paragraph 1(vi) of Annex C.

Flexibility within the Cash Plans

7. In planning the physical content of their programmes and the levels of service envisaged, Departments should consider carefully the implications of their present cash plans, ie the cash figures in the baseline, for all the years covered by the survey. In recent years attention has tended to concentrate on the first forward year. In drawing up the cash plans, the later years of the survey also need to be properly reviewed. Within their cash plans, Departments should aim to ensure that the content of programmes contains some margin of flexibility and can be adjusted - either upwards or downwards as necessary - to deal with the inevitable uncertainties, eg concerning inflation, employment and changes in demand. The assumptions and forecasts in the Financial Statement published with the Budget provide some quantified indications for the GDP deflator: for 1983-84 5½ per cent, for 1984-85 5½ per cent, for 1985-86 5 per cent. For 1986-87, the Government intend that inflation should continue on a steady downward path. The figures for the GDP deflator must be used with caution. The margins of uncertainty are wide. Departments must make adequate allowance for this in their planning so that the cash plans can be held even if there is some divergence from the indications given in the FSBR.

Economic assumptions

8. Where they are needed, specific economic assumptions will be issued directly to the Departments concerned. The assumptions to be adopted for the uprating of pensions and social security benefits will be decided in further discussion with DHSS.

Form of the main PESC report

9. The chapters of the main report should be cast in the following standard form:
- a) Programme statistics, including reduced requirements.
 - b) Statement of how the Department would organise its programme at the baseline level, indicating clearly (i) the programme's main and subsidiary policy objectives; (ii) the likely level of service which could be achieved; and (iii) any significant policy changes which would be necessary.
 - c) Departmental case for any adjustment to the programme, justified, so far as possible, by quantified measures of output related to the objectives of the programme.
 - d) Treasury comment on (b) and (c) where appropriate.

Departments and Treasury divisions are, as usual, asked to ease the substantial task of editing and reproducing the reports by adhering to the standard conventions in Annex F. Compatible word processor copy should be provided if possible (see Annex).

10. More detailed information on the preparation of chapters for the main PESC report is in Annex C. Programme statistics (see para 9a), programme statements (para 9b) and adjustments to programmes (para 9c) should be presented in the form set out in the Annex.

Options for reductions

11. As last year, this material will be contained in a separate (uncirculated) report. Departments should set out and discuss, for each programme, policy or other changes designed to produce programme savings in cash of 3 per cent from the baseline in 1984-85, 4 per cent in 1985-86 and 5 per cent in 1986-87. In the case of Defence this requirement applies only to 1986-87. For social security benefits the reductions should be applied from the November uprating dates. Where such changes would involve reductions in civil service manpower which have already been noted as possible options under heading 3 of the Annex to the Treasury letters of January 1983 about manpower prospects, this relationship should be shown. There is no decision that such reductions will be made. The purpose of these options is to provide material for considering the scope for reductions in some programmes to offset possible increases in others, in particular for possible increases in capital expenditure (see para 12 below). More detailed instructions for the preparation of this report are in Annex D. In particular the options should be ranked in order of acceptability.

Capital expenditure

12. Departments are reminded of the concern which has recently been expressed, in Parliament and elsewhere, about the declining share of capital expenditure within the

Overall total of public expenditure. It seems likely that within the agreed totals, Ministers will in the 1983 Survey wish to consider the possibilities for switching expenditure in the survey period from current to productive capital investment. Departments are therefore asked to indicate what scope they see for worthwhile additional capital expenditure. It would be helpful if they could provide for consideration illustrative lists of major capital projects similar to those which will appear in the new Works Services Annexes to the Estimates.

Supporting analyses

13. The PESC report will include supporting material broadly on the lines of Annexes A to F of the 1982 report. To enable Ministers to see the economic effects of changes proposed and made in the survey, an analysis of all significant proposed increases, identified savings, and options cuts will be needed. A technical note will be issued explaining the analysis required in detail.

Civil service manpower

14. As indicated in paragraph 1(vii) and (viii) of Annex C, figures for civil service manpower should be shown separately. For the years to 1 April 1986, the baseline (para 1(vii)) will be the figures agreed by Cabinet in the 1982 survey. The baseline for 1 April 1987 should be assumed to be the same as for 1 April 1986. Proposed changes from the baseline (para 1(viii)) should be consistent with Departments' proposals under headings 1 and 2 of the Annex to the Treasury's January 1983 letter to Departments asking them to assess and report on their manpower prospects from 1984 to 1988. Where a Department wishes to seek higher manpower figures in any year, a brief explanation should be provided.

Pay

15. In considering the adequacy of existing plans, Departments should bear in mind any knock-on effects of settlements in the current pay round. Further consideration will have to be given at a later stage to how to treat public service pay in 1984-85 -in particular whether to have a pay factor as for 1983-84 and, if so, whether to make any corresponding adjustments to existing plans, upwards or downwards.

Smaller Departments

16. For the 1983 PESC report a new chapter will be introduced for the Departments of the Chancellor of the Exchequer. A separate paper will be issued giving guidance to those Departments and to the other Departments included in Chapter 29 of the 1982 survey report. (Annex E gives a list of spending Departments.)

Further Information

17. Any questions arising from this note should be addressed to the secretaries, Mr Donovan (233-4801) or Mr Davis (233-4607).

- APRIL Friday 29 April. Last date for Departments to send forms to GE Data Unit putting in Budget changes and any other agreed net additions or reductions to the White Paper figures (including classification changes, agreed switches, and revised outturn for past years).
- MAY Friday 13 May. Last date for Departments to send draft texts of PESC report and any other supporting material to Treasury Divisions.
- Friday 20 May. GE Data Unit circulate to Departments resulting tables showing White Paper figures (and 1986-87 figures), adjustments and resulting baselines.
- Mid-April to end-May. Possible manpower bilaterals.
- JUNE Friday 3 June. Last date for Treasury Divisions to send agreed texts to GE (10 June if they can provide a fair copy of the text and compatible word processor tape).
- Thursday 9 June Cabinet on Manpower after 1984
- Wednesday 15 June. Last date for Departments and divisions to send GEPl agreed special analyses.
- Thursday 28 June. Draft report circulated to PESC.
- Summer forecast available late June/early July
- JUNE/JULY Ministerial discussion leading to July announcement of main provisions for local authorities.
- JULY Tuesday 12 July. Final PESC meeting.
- Friday 15 July. Final copy to printer.
- Early July. E Discussion of nationalised industries, including provisional decisions on totals.
- 21 or 28 July. Cabinet to consider overall objectives, to be followed up in bilateral and other discussions in the autumn.

CONSTRUCTION OF THE BASELINE (TO 1985-86)

The starting point for the 1983 survey will be the cash plans published in Cmnd 8789, adjusted for Budget and other changes, with figures for the additional year 1986-87 constructed as in paragraph 6 of the main paper and paragraph 2 below. The adjustments will be shown separately in the PESC report from the White Paper figures, as in last year's report, but included in the baseline. The presentation of information on the nationalised industries is to be changed to show more clearly the public expenditure accounted for by each industry. A separate technical note will be issued.

2. The baseline for local authority relevant current expenditure in 1986-87 will be the service figures for 1985-86, plus a reserve. This reserve will be calculated by the Treasury and will be equal to 3 per cent of the aggregate service figures in 1985-86 (not including the unallocated margin of £250 million). Decisions on the service distribution of the reserve will be made by Ministers later in the Survey. The baseline will not include an unallocated margin.
3. With Treasury agreement a Department's baseline figures may be switched between sub-programmes within the same programme in any of the years 1984-85 to 1986-87 except that switches out of local authority current expenditure will be allowed only where explicit policy changes will ensure delivery.
4. Except where otherwise agreed between the Department and the Treasury, proposals for switches of expenditure between programmes should be identified in the PESC report as matters still to be decided.
5. The Treasury will be in touch with Departments separately about sending in running tallies to enter the Budget changes. These and any other agreed changes to the baseline from 1983-84 up to 1985-86, including adjustments to expenditure related to civil service manpower, will need to be sent to the Treasury by 29 April. Classification changes (applying to all years of the survey, 1978-79 to 1986-87) and estimating changes for past years up to 1982-83 should also be sent in by 29 April.

PREPARATION OF PESC REPORT CHAPTERS

(a) Programme statistics (para 9a).

Each PESC report chapter will include tables showing the figures at (i) - (viii) below. Those in (i-iv) will be supplied by GE data unit; in (v-viii) by Departments. The figures to be included are:-

- i. the Cmnd 8789 figures, up to 1985-86, and for 1986-87 the figures as calculated in paragraph 6 of the main paper;
- ii. the various agreed changes mentioned in paragraphs 1 to 4 of Annex B plus classification changes;
- iii. the resulting baseline;
- iv. any other agreed changes;
- v. any switches out of programmes involving local authority current expenditure which the Treasury has not agreed as part of the baseline;
- vi. proposed adjustments to programmes other than those at (ii), including reduced requirements and switches to be identified (paragraph 4 of Annex B);
- vii. the manpower numbers implied by the expenditure baseline (showing civil service manpower separately - see paragraph 14 of the main paper);
- viii. proposed additions to or reductions in manpower numbers (showing civil service manpower separately) (again see paragraph 14).

2. Items (v) - (viii) above apply to 1984-85 and later years. Increases for 1983-84 should not be proposed in the survey; any such proposals will be dealt with as they arise through the year as part of the operational control of the contingency reserve and the in-year controls on civil service manpower. Expected reductions in 1983-84 in expenditure or manpower should however be included.

(b) Programme statement (para 9b)

3. The programme statement should contain as much information as possible on the level and standard of service likely to be delivered. Departments may if they wish refer to cost terms equivalents (using the GDP deflators assumed in the Budget and FSB, ie 7 per cent

for 1982-83, 5½ per cent for 1983-84, 5½ per cent for 1984-85 and 5 per cent for 1985-86), and also discuss the implications of the cash plans taking into account their views of the prospects for pay and prices relevant to the services concerned.

c) Adjustments to programmes (para 9c)

4. Where a Department finds it necessary to propose an increase in expenditure, it should demonstrate, with quantified output data where available, the consequences for the level of service it provides, of maintaining the present cash programmes unchanged, and say why these consequences are thought unacceptable. Where the case for any increase is related to price movements, Departments should demonstrate that their own costs have moved faster than the provision made (with a consequent effect on levels of service in future years); or that they will move faster than the likely trend of prices generally (as measured by the GDP deflator). They will need to show that the price increases cannot be restrained and that the increased costs cannot be absorbed by increased efficiency.

5. The criteria set out in paragraph 4 should be applied to estimating increases as well as to any increases attributable to changes in policy; estimating reductions, provided that Treasury divisions accept them as sufficiently certain and durable, can be counted as savings. Wherever possible the text should distinguish adjustments arising from changed economic or demographic assumptions (if any) and should indicate increases which Departments and the Treasury have agreed would be necessary for the maintenance of standards provided in existing plans. The text should indicate the spending authority concerned and whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control. Departments should not take credit for proposed reductions in local authority current expenditure unless they can ensure that they will be delivered. Consequences for public service manpower should be stated.

REPORT ON OPTIONS FOR REDUCTIONS

A consolidated list of options should be produced for each department ranked in order of acceptability. Efficiency savings (including savings in accommodation etc) and the scope for switching from current expenditure to capital, should receive particular attention. Savings on local authorities' relevant current expenditure should not be put forward as offsets to increases on other kinds of expenditure. New or increased charges may be put forward as possible savings on the same terms as in the 1982 survey.

2. To make it easier to use the separate report, the table at the head of each contribution should list any proposals for net increases (as set out in the PESC report). The texts should be kept brief, and should indicate as appropriate:

- the responsible Department and spending authority
- whether main or subordinate legislation would be required, and whether legislation in which the change could be included is already planned
- the specific areas where the reductions would fall, and their implications
- consequences for civil service or local authority manpower
- any specific effects on employment and industry.

Example of table required

Department	£ million cash		
	1984-85	1985-86	1986-87
1. Baseline	-	-	-
2. Net increases proposed	-	-	-
3. Options for reductions required	-(3%)	-(4%)	-(5%)
4. Items identified in order of acceptability			
(i) —	-	-	-
(ii) —	-	-	-
(iii) —	-	-	-
(iv) —	-	-	-
(v) —	-	-	-
5. Total options for reductions identified	-	-	-

Followed by notes on each option as in para 2 above.

Major spending Departments

Ministry of Defence
FCO (Overseas Development Administration)
FCO - other
EEC Budget
IBAP
MAFF*
Forestry Commission
Department of Industry
Department of Energy
Department of Trade
ECGD
Department of Employment
Department of Transport
DOE - housing
DOE - PSA (remaining net programme)
DOE - other
Home Office
Lord Chancellor's Department
Department of Education and Science
Office of Arts and Libraries
DHSS - health and personal social services
DHSS - social security
HM Treasury - civil superannuation
Scottish Office
Welsh Office
Northern Ireland Office and Departments
Nationalised industries' total net borrowing

Local authority current expenditure relevant for RSG

*The presentation of the agriculture expenditure of MAFF, DAFS and WOAD should be as in the 1982 survey report.

Departments of the Chancellor of the Exchequer:

Central Office of Information
Customs and Excise
Friendly Societies Registry
Government Actuary Department
H M Stationery Office
H M Treasury - Administration, note issue, etc
H M Treasury - Rating of Government Property Department
Inland Revenue
National Investment and Loans Office
National Savings Department
Royal Mint

Other Departments

Cabinet Office
Charity Commission
Commonwealth War Graves Commission
Crown Office
Exchequer and Audit Department
House of Commons
House of Lords
Land Registry
Management and Personnel Office
Northern Ireland Court Service
Office of Fair Trading
Office of Population, Censuses and Surveys
Ordnance Survey
Parliamentary Commissioner
Paymaster General's Office
Privy Council Office
Public Record Office
Public Trustee Office
Treasury Solicitor's Department

NOTE ON THE PREPARATION OF DEPARTMENTAL TEXTS

It is extremely helpful to have the Departmental texts etc provided in the correct format. Since the PESC report is now produced on a word processor, Departments with compatible equipment are invited to submit texts on floppy disk together with one typed copy; and the timetable makes allowance for this (see Annex A). Departments are asked to check for compatibility with Mrs P Spragg (01-233-4913) before adopting this approach. Otherwise, typescript should be submitted in the normal way. The conventions to be observed on format are the following:-

1. Texts should be attached to, not incorporated in, a covering note. Typing should be on white A4, 1½ spaced, 1½ inch margin. There should be no heading of the kind "Draft passage for PESC report". To facilitate reproduction a top and one spare copy should be sent to GEP 1 division of the Treasury.
2. Avoid the use of capital letters as far as possible.
3. Refer to: the "survey" (small s)
 the "survey report" (small r)
 the 1983 White Paper as "Cmnd 8789"
 in relation to changes refer to "Cmnd 8789".
4. It will be understood that all figures in the report are in cash, unless otherwise stated.
5. Write: "per cent" not "%"
 "1983-84" not "1983/84" or "1983-4"
 "a year" not "per annum" or "pa"
 "f million" not "fm".
6. Avoid abbreviations except where these are very familiar eg "NATO". Give an initial explanation of unfamiliar abbreviations, thus "Commonwealth Development Corporation (CDC)".
7. In the top right hand corner of each page type the name of the Department in block capitals eg: HOME OFFICE
8. Number the paragraphs, or, if the particular piece of text will follow another relating to the same Department, leave spaces for paragraph numbers.

SECRET

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE

In your minute of 4 February you asked me to report on the scope for substantial reductions, in the longer term, in public expenditure within the area of my responsibility ie education (England only, except for universities) and science (UK). (The Minister for the Arts is considering his programme separately). My starting point is last year's report by officials on public expenditure up to 1990-91 (C(82)32) and I have taken account of the suggestions made in C(82)31 and in our subsequent discussion on 15 December.

2. The bulk of my programme is devoted to schools and higher education, which take 55 per cent and over 20 per cent respectively, and, on present policies, the proportions in 1990-91 will be similar. Of the remaining significant areas of expenditure, substantial reductions in expenditure on science would seriously reduce our ability to further scientific knowledge and to preserve that capacity for scientific research which is essential for our economic and social policies. Expenditure on school meals has been cut by 25 per cent in real terms and our plans already allow for further reductions. I doubt whether there are additional major savings to be made in this area, but I shall continue to examine the possibilities. The savings which I hope to achieve through improving the efficiency of non-advanced further education will be needed to strengthen its role in technical and vocational education, where we lag behind our competitors. The rest of this minute therefore considers the scope for savings in the areas of schools and higher education.

SECRET

CF/ I'll make a
collection of
31/3
MUS 28/3

Prime Minister

2

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cc N.O.

There will be a series of
these. I will collect them together
for resubmission with advice.

MUS 25/3

3. Substantial savings have been achieved or are planned in both: in schools from the progressive removal of surplus places and from a reduction in teacher numbers as pupil numbers fall, and in higher (and further) education from the tightening of staffing ratios.

4. Savings from these measures were taken into account in C(82)32, which showed that expenditure on education, science and arts was expected on present plans to fall in 1980-81 cost terms from £11 billion in 1979-80 to £10.2-£10.4 billion in 1990-91. However, these figures rested in part on an assumption of a sharp decline (which is at variance with our subsequent experience (see paragraph 7 below)) in participation in higher education (including universities) up to the mid-1980s. They may also be outdated in other respects. There is a case for extra spending in the schools area on eg technical education, primary school teachers and wider parental choice; in higher education the introduction of loans for student maintenance, if agreed, would result in some additional costs; and there may be other areas where some modest extra spending will be desirable. Capital expenditure to replace obsolete buildings and equipment is an example.

5. Almost the whole of schools and a good deal of higher education expenditure falls to local authorities. Most authorities have shown themselves willing over the past three years to cooperate with us in checking expenditure on education and the budgets of the shire counties in particular (much of whose spending is on education) for 1983-84 are very close to our targets. Further substantial reductions below the level envisaged in C(82)32 would almost certainly involve legislation (eg to control the spending of individual authorities, which is under consideration in E(LF)).

6. The Annex discusses the scope for further savings in teacher costs, the one area which we identified for further examination at

our meeting on 15 December. My conclusion is that in 1980-81 cost terms savings of about £150m in 1990-91 might be achieved by reducing the assumed level of teachers' pay or (at some risk to our policies for the schools, eg making the curriculum more practical) by worsening pupil-teacher ratios to the 1980-81 levels. Savings much in excess of this would be seen to pose a serious threat to standards and would almost certainly require statutory controls of a kind which would involve me in a detailed oversight of local authorities.

7. On higher education, the assumption in C(82)32 was that expenditure would fall in 1980-81 cost terms from about £2.3 billion in 1980-81 to about £2 billion in 1990-91, mainly because of smaller age groups and a lower participation rate. We should note however that since the preparation of C(82)32 the participation rate, far from falling towards 11 per cent, has increased to over 13 per cent. We have yet to determine our policy response to this development, but it must in the meantime cast some doubt on the validity of our original assumption. We noted on 15 December that the proposals which I am considering for different methods of financing selected universities were unlikely to yield public expenditure savings.

8. In short, I do not think that we can expect to improve significantly on the forecast decline in my programme to 1990-91 to which I refer at the beginning of paragraph 4. We must, however, continue to exert all the pressure we can on unnecessary and ineffective spending on education in order to enhance the efficiency of the service and to produce the "bias towards economy" which we have agreed is necessary.

9. I am sending copies of this report to the Secretaries of State for Northern Ireland, Scotland and Wales, who saw it in draft, to the Chief Secretary, Treasury, whose comments on an earlier version I have taken into account, and to Sir Robert Armstrong.

KJ

Teacher costs in Schools

1 The 1982 inter-Departmental report on long term trends in public expenditure assumed current expenditure on primary and secondary schools falling from £5.1 billion in 1980-81 to £4.6 billion in 1990-91, both figures in 1980-81 cost terms. Teacher costs, broadly the product of teacher numbers and teachers' pay, takes about 70 per cent of schools' current expenditure. On this basis the inter-Departmental report is consistent with teacher costs declining from £3.6 billion in 1980-81 to £3.2 billion in 1990-91.

- 2 These figures are consistent with
- (i) pay increases for teachers giving them on average throughout the decade 1/2 per cent annually above the increase in prices;
 - (ii) a decline in teacher numbers between 1980-81 and 1990-91 matching three-quarters of the age-weighted decline in pupil numbers over the same period.

The first of these is the assumption made for all public service pay in the more favourable economic scenario in the inter-Departmental report (on the less favourable scenario it would be 1/4 per cent). The second would yield an overall improvement in pupil-teacher ratios from 18.6 to 17.8, an improvement which would help to overcome the diseconomies of scale and to maintain educational standards during contraction.

3 A saving on the £3.2 billion figure for 1990-91 could result from reducing the assumed level of teachers' pay, reducing the assumed teacher numbers, or both.

4 If the 1/2 per cent assumption in 2(i) were replaced by zero, so that teachers' pay stayed in line with price inflation, this would effect a saving of approximately 5 per cent by 1990-91, or approximately £150 million in that year. It may be considered unrealistic to look for any greater saving on this basis.

5 If the assumption in 2(ii) were replaced by achieving in 1990-91 the same pupil-teacher ratios as in 1980-81, this would amount to a saving of about 5 per cent on numbers and therefore again about £150 million. This would make it very difficult, if not impossible, for local authorities to achieve our policies for the schools, by for example making the curriculum more practical and enriching it with a technical and vocational element.

6 To effect a saving of £1 billion as a result of keeping teachers' pay in line with inflation as in paragraph 4 and reducing teacher numbers by about 25 per cent below the level assumed in 2(ii) would involve increasing pupil-teacher ratios from 21.7 and 16.1 for primary and secondary schools respectively in 1980-81 to about 27 and 20 in 1990-91. Average primary class sizes would rise above 30. It seems clear that this could not be achieved without taking powers to control the employment of teachers by local education authorities and the governors of voluntary schools. A significant reduction could be expected in educational standards.

25 March 1983

25 MAR 1963





26 AH

10 DOWNING STREET

From the Principal Private Secretary

21 March 1983

RESTRICTED

Dear Margaret,

FORWARD LOOK : PUBLIC
EXPENDITURE

Thank you for your letter of 17 March, covering a note by officials costing the Ministerial contributions to the Forward Look exercise.

The Prime Minister has seen this note, and finds it useful. I have arranged for it to be sent to Mr Cropper on the same basis as previous papers in the series.

Yours ever,

Robin Butler

Miss Margaret O'Mara,
HM Treasury.

AH

covering SECRET



Zice AH
7

10 DOWNING STREET

From the Principal Private Secretary

21 March 1983

Dear Alex,

✓ I enclose a copy of a letter from the Treasury about the costing of proposals in the five year Forward Look papers of which I sent you copies for Mr Peter Cropper's use. Could you please arrange for Mr Cropper to see the attached note on strictly the same basis as previous papers.

Yours sincerely,

Robin Butler

Alex Galloway Esq.,
Office of the Chancellor of
the Duchy of Lancaster.

covering SECRET



Prime Minister

weekend box

✓cc NO

6

This is a useful costing of the proposals in the 5-year forward look.

If you agree, I will arrange for Peter Cropper to see it on the same basis as he saw the earlier paper.

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

17 March 1983

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Yes - Hartigan

TERB
18.3.

Dear Michael,

FORWARD LOOK: PUBLIC EXPENDITURE

I enclose, as promised, a note which has been prepared by officials here costing the Ministerial contributions to the Forward Look exercise.

Given the nature of the responses, this has to be an interim assessment. As you will see, we hope to provide you with a much more thorough analysis in a few weeks' time when we have Departments' "Long Term Public Expenditure" and "Manpower after 1984" returns. Nevertheless, the main message seems pretty clear. Under the proposals we have seen, expenditure would rise by about 5 per cent in real terms over the 5 year period. This would, of course, compound the problems of reducing taxation and borrowing identified in the Long Term Public Expenditure report last summer.

*Yours sincerely,
Margaret O'Mara*

MISS M O'MARA
Private Secretary



FORWARD LOOK: PUBLIC EXPENDITURE

This Report is based on Ministerial replies, analysed by Treasury Divisions without discussion with Departments. The new initiatives proposed seem to involve about £6 billion per annum extra expenditure (in today's prices) by the end of the decade. However, it is difficult to produce a proper estimate of the total, as many of the bids are unquantified. There are few offsetting savings. There are some unquantified windfall receipts from sales of assets and some administrative savings from computerisation or privatisation. But overall, manpower requirements would increase.

2. The most striking feature is the lack of any major proposal which would actually reduce expenditure.

3. On these figures, expenditure would rise by about 5 per cent in real terms over the 5 years. This figure is probably lower than the increase in GDP over the period, so that the ratio of expenditure to GDP would fall slightly. But there is no sign of a major structural change in the size of the public sector. In Education, the measures proposed (vouchers and loans) could lead to a shift, but not elsewhere. Even in Education, the shift would not occur within 5 years.

4. This 5 per cent rate of growth is faster than was feared when the first report on Long Term Public Expenditure (LTPE) went to the Prime Minister last summer. The Ministerial replies are not detailed enough to indicate exactly how much faster programmes would be increasing. But it should be noted that the LTPE was essentially a projection of current policies which did not cater for the new developments now put forward.



5. The Prime Minister will remember that the LTPE report itself gave cause for alarm. On the low-growth scenario (roughly projecting forward the economy's growth rate of the last 8 years), the report showed public expenditure rising from 44 per cent of GDP in 1982-88 to 47 per cent in 1990-91. On the high growth scenario (roughly equal to our best post-war performance), public expenditure fell to only 39.9 per cent of GDP in 1990-91. The latest Forward Look projections would add another one or two percentage points to the ratio in the low-growth case, further compounding the problems of reducing taxation and borrowing. In the high-growth case, expenditure would just about keep pace with the increase in GDP, maintaining a roughly constant ratio.

6. The forward looks make no attempt to tackle local authority current expenditure and proposals on specific services like education would increase it. Privatisation will have only a small impact on the overall financing requirements of the nationalised sector. They depend far more on Government policies towards railways and coal, since these industries currently absorb most of the finance going into this sector. There is no reference to any reduction of the UK share of the EC budget. The main increases come from:-

- | | | |
|-----------------|---|--|
| Social Security | - | Up to £3,400 million pa. Improved benefits and a new child benefit/FIS system. |
| Employment | - | £200 million pa for continued employment measures up to the end of the decade. |
| | - | £400 million pa for Youth Training. |
| | - | £100 million-£900 million pa on the Job Release Scheme. |
| Defence | - | £900 million pa by 1987-88 for running on the NATO 3 per cent commitment. |



- | | | |
|--------------------|---|---|
| Education | - | £500 million pa on vouchers. |
| | - | £50 million pa on student loans (though this would turn round in the following decade). |
| Law and Order | - | £80 million pa. |
| Urban Renewal | - | £200 million pa. |
| Industrial Support | - | About £60 million pa, plus very large unquantified bids for fuel subsidies. |
| MAFF | - | £20 million pa on various items. |

Of these, Education, Law and Order, Urban Renewal and Industrial Support would tend to carry regional consequentials which have not yet been costed.

7. There are (oddly) no quantified extra bids for Health. Most of Mr Fowler's proposals (like more contracting-out) are aimed at economy but the savings would be ploughed back.

8. Some returns are neutral in expenditure terms, notably those for the FCO/ODA (with warnings about the hard choices this would entail) and those for the Department of Transport.

9. This has, of necessity, to be an interim assessment. It will be possible to make a much more thorough analysis in about a month's time, once the "Long Term Public Expenditure" and "Manpower After 1984" returns, due on 31 March, have been submitted. There may, of course, be considerable inconsistencies between the "Forward Look" proposals, which were prepared in a very restricted circle in Departments, and the more detailed LTPE returns.

PUBLIC EXPENDITURE SUMMARY

<u>Dept</u>	<u>Public Expenditure Cost</u>	<u>Manpower Cost</u>
DEn	Some receipts, say £200m pa, plus increases on nuclear programme	Minimum
ECGD	None	minimum, or if public corporation status -1800 approx from CS staff count.
DOT	negligible	negligible
DOI	£60 m pa plus fuel subsidies	some
DOE	£200 m (plus) pa on Urban Renewal Agencies	-
N. Ireland/ Scotland	negligible+++	negligible
Wales	negligible+++	negligible
DEm	£100 m pa on Job Release Scheme* £140 m pa on Enterprise Allowance £50 m pa on Job-Splitting Scheme £400 m pa on Youth Training Scheme	- - - -
DTp	apparently negligible	-
HO and LCD	£80 m pa	some
DES	£500 m pa on school vouchers £50 m pa on student loans	? negligible
MOD	Perpetuate 3% pa real growth after 1985-86 (eg £500 m in 86-87, £900 m in 87-88)	-
MAFF	marginal lands £15 m pa glasshouse industry £5m pa	- -
DHSS	Cash benefits for disabled** £500 m pa approx	?
	Flexible retirement age £500 m pa approx	?
	Abolish Household Duties Test £275 m pa (max)	negligible
	Industrial Injury Scheme £40 m savings (longer term)	?
	Computerisation £110 m pa	some addition in medium term
	CB and FIS ⁶ £2 billion (approx) pa	significant additions
	National Health Service	Unquantifiable
TOTAL	5,200 m - 5,900 m (approx)	

* Rising to £900 million by end of decade

**Not likely in medium term

⁶Tentative

+++ No allowance for carry-through of English policies.

FROM:

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

ec. N.O.



HOUSE OF LORDS,
SWIA 0PW

2

S E C R E T

Prime Minister

Prime Minister

MS

*We will collect
all these responses together.*

ms 17/3

Long Term Public Expenditure

In your minute of 4th February you asked for a report on the possibilities within my area of responsibility for contributing to a substantial reduction in public expenditure in the long term.

As you know I have recently given some careful personal thought to the future programme of my Department, and my conclusions were fully set out in the minute on the 'Forward Look', sent to you as recently as 22nd December last. As you may expect, therefore, what I have to say now largely reflects those conclusions, together with some associated thoughts which figured in my earlier submission on the subject of privatisation and contracting out, submitted to the Chancellor of the Exchequer on 11th October.

By far the most radical improvement in the finances of my Department would be some reduction in the volume of crime, divorce, or even (to compare small things with great), civil litigation. But these are castles in Spain and, in this minute at least, I must seek to confine myself to reality. Within the central function of the Department in the administration of justice there is little scope for any radical change in the nature of our responsibilities which might lead to significant cost savings; though, naturally, the search for minor economies in jurisdiction, procedures and methods of execution must be continuous and unrelenting.

You are familiar with my ideas about possible changes in the jurisdiction of the courts. Under consideration are proposals

S E C R E T

for a possible merger between the High Court and the County Courts, and for the possible combination of the 'family' jurisdiction of those courts into a single 'Family Court'. These could, if they reach fruition, lead in time to some - though, without some reduction in demand, not dramatic - savings in resource costs.

Another area for economy is that of the various private money offices. I am hoping that the schemes under development for a single Estate Management Office will eventually provide a more rational system, with operating economies and staff savings. Similarly, it is to be hoped that the current Rayner scrutiny into the investment activities of the Associated Offices will increase efficiency and lead to economies.

The Treasury is taking a welcome lead ^{a review of} in / banking practices in Departments. If its recommendations lead to switching suitors' funds from the PMG to the clearing banks, this could promote a more efficient service in the county courts. But the actual savings in manpower would accrue to the PMG.

Last but not least, there is legal aid, civil, criminal, and "green form". This, of course, is demand-led and I have been concerned at the rate of growth in recent years. We are engaged in a systematic and determined effort to bring this under tighter control and I expect this to bear fruit over the next few years. I do not believe it is politically possible or socially desirable to contemplate restricting the scope or availability of the three schemes. At best, the measures I have in mind would be aimed at containing growth rather than reducing expenditure. Nevertheless there is much that can be done. I have already made a start with the Legal Aid Act 1982. I hope to bring these provisions into force during 1983. This will provide a firm base from which to consider further movement. The Act of 1982 was confined to criminal aid. But on the civil side, too, there are a number of areas to which I intend to pay attention. The rapid growth of the advice and assistance (the "Green Form") scheme marks this out as a candidate for review; we must also look closely at the arrangements for legal aid in matrimonial cases.

S E C R E T

I also intend to mount soon a thorough examination of the administration of the legal aid scheme, in association with The Law Society. All these exercises will, I hope, lead to greater efficiency.

These are my initial thoughts. We will, of course, be able to form a better idea of the nature and extent of possible savings in the above areas when we carry out the PES 1983 exercise.

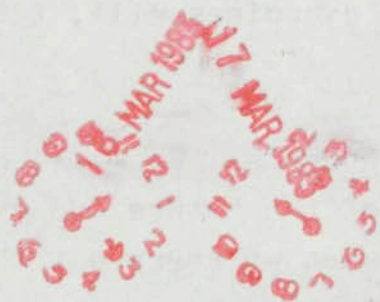
I am sending a copy of this minute to the Chancellor of the Exchequer, the Chief Secretary to the Treasury, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

H: of S^r M

16th March, 1983

Een Pol. ~~ag~~ Politic Exp

Pt 21



PRIME MINISTER

2

H Committee: Law Centres

You expressed some disquiet about the Lord Chancellor's proposals for the funding of law centres. H Committee shared your doubts (minutes attached). Apart from the public expenditure implications, the Committee agreed that it would be wrong for the Lord Chancellor to be responsible for the provision of a service which gave advice to litigating parties; the Secretary of State for the Environment was thought to be the more appropriate Minister. More general doubts were also expressed about law centres themselves. Many of them were politically motivated and associated with the Far Left. (This is true certainly of the London law centres) and, in any event, it was not a proper function of local authorities to provide subsidised legal help for their residents. On the other hand, good law centres do provide a valuable service. The Committee invited the Lord Chancellor and Secretary of State for the Environment to make further proposals.

TIM FLESHER

16 March, 1983

SECRET

Main copy filed on Home Affairs: Policy towards Prison Service Pt 2.



Thinking on... we should... advise the Home Office... to release... on

QUEEN ANNE'S GATE LONDON SW 1 1AT

March 1983

HA

Dear Sir... in the Prison... in the Prison... with

PRISONS MANPOWER AND LONG TERM EXPENDITURE

Within the Home Office the detailed review of Civil Service manpower after 1984 requested in your letter of 7 January is now nearing completion. I shall be taking stock of the results myself within the next few weeks, and shall write to you before the end of the month, as you have asked. But there is one major issue on the horizon, of which I feel I ought to give you the earliest possible notice. And this letter also gives me the opportunity to consult you about my response to the Prime Minister's minute of 4 February about long term expenditure.

PRISONS MANPOWER

In last year's Public Expenditure Survey, although you were able to accept an increase in prisons manpower in 1983-84, for a number of years thereafter, we agreed to state wherever the need arose in the public expenditure in later years. I have recently reviewed the situation in the light of our political acceptance that no significant change could be expected in sentencing practice. We now have to plan in the light of the fact that the prison population will remain at present levels, 45,000-50,000, for a number of years.

I am convinced that substantial increases in prisons manpower will be necessary. There is a minimum essential requirement for the staffing of new prisons due to become available in the latter part of the decade. There is also, as you know, a deep seated problem arising from the service's dependence on undesirably high levels of overtime. I noted the existence of these requirements in my "forward look" for the Prime Minister before Christmas.

I realise that, since prison officers count as civil servants, this will go against the drift of our policy on Civil Service numbers. But I believe that the combination of continuing pressure and known additional commitments leaves me with no choice. I propose that, if you agree, our officials should meet urgently to discuss how best to take the matter forward, on the basis of a note which Sir Brian Culbert will be sending to Sir Anthony Rawlinson within the next few days. I would hope that we could carry the results of these discussions into both your manpower review and, in due course, this year's Public Expenditure Survey.

LONG TERM PUBLIC EXPENDITURE

The existence of this important prisons requirement, and the general priority which I believe we must continue to attach to law and order, are

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2.

bound to condition my response to the Prime Minister's minute. Over 80% of the expenditure for which the Home Office carries PES responsibility is on law and order. I see no prospect of major strategic changes which would enable me to contribute to the substantial reduction in public expenditure which was discussed in Cabinet on 9 September.

In my "forward look" I identified two areas - police and prisons - where some further growth seemed necessary. There may be others. But, even with the major prisons requirement which I have signalled in this letter, I do not see the Home Office programme growing in real terms by more than a few percentage points between now and the end of the decade. If that could be achieved, it would represent considerably less rapid growth than was postulated by the report by officials which we considered on 9 September. But I can see no prospect of being able to contribute to a substantial reduction in public expenditure from present levels.

That does not mean that my mind is closed to the possibility of reductions at the margins in areas other than law and order, although these by their nature would not make any significant contribution to the Prime Minister's exercise. And even here one finds that the money is supporting policies (such as civil defence, immigration control and support for the victims of crime) to which we attach high priority. I shall, however, be looking critically at these areas in the context of this year's Public Expenditure Survey.

I am copying this letter to the Prime Minister and to George Younger.

Agnes

Walker

SECRET

Mr. WM 14/3

TF

ACTION

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

H(83)16

COPY NO **2**

7th March 1983

Y. Libe
in procedure
with to do without
another
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we have been
until now

CABINET
HOME AND SOCIAL AFFAIRS COMMITTEE

Prime Minister
The highlighted passages
in paragraphs 7, 8, & 9
summarise the Lord
Chancellor's proposals
for joint central and local
government funding of
law centres.

THE FUNDING OF LAW CENTRES

Memorandum by the Lord Chancellor

1. I am in the process of assembling a response to the recommendations of the Royal Commission on Legal Services (The Benson Commission) which reported in 1979. There is a range of matters on which decisions will be required. One of these is the question of future arrangements for the funding of law centres. We shall also need to have a coherent policy to announce as part of our election manifesto.

2. The annex to this paper contains a brief account of law centres, lists the law centres at present in existence, and shows the disparities in the arrangements for their funding. It will be seen that 7 are supported entirely by the relevant local authority, 28 receive assistance under the Urban Programme from the Department of the Environment while 7 are supported by direct grants from my Department.

3. The present financial arrangements are inconsistent and unsatisfactory. There is no justification for the more generous financial arrangements enjoyed by the 7 centres which my Department funds. The grants under the Urban Programme are not intended to provide continuing revenue support but can only be used as essentially temporary, pump-priming measures. If and when these grants are withdrawn there is likely to be pressure that the centres affected should be added to those that receive direct assistance from my Department. In the absence of any settled policy I would be most reluctant to offer this and in any case I have no specific statutory authority for paying these grants. If the grants were to be consolidated under my aegis on a permanent basis, or even continued for long, I would need to seek Parliamentary approval. Also, I understand that DOE have received a number of applications for assistance under the Urban Programme for new law centres, and that these are being held in abeyance until the policy is settled.

4. I do not share the previous Government's unqualified enthusiasm for law centres. Nevertheless I recognise that they do have a role to play in helping

to alleviate tension particularly in Inner City areas and in providing legal services where there are insufficient practising solicitors. They can enable those in need of representation in such places to have access to the due process of law in disputes such as those between landlord and tenant. Apart from the inherent justice of this, such access would reduce the risk that disaffected people might seek to take the law into their own hands. I am sure, therefore, it would be wrong for the Government to turn its back entirely on law centres. In any case if we did so there would be a considerable and justified public outcry.

5. The Benson Commission recommended that all law centres should be supported entirely by grants from central funds, and that a new Quango should be established to administer the grant arrangements. Not surprisingly this view is shared by the Law Centres themselves, though not by me.

6. This recommendation was examined by a working party of officials, which reported early last year. This took a different view and recommended that funding should be the responsibility of local authorities. In principle I share this opinion. I see law centres essentially as providing a local service. The local authority is best placed to judge both the services required in its own area, and the priority which law centres should receive in relation to other programmes. But there are serious difficulties in making the local authorities the sole source of finance. Given current pressures, they would say we were being inconsistent in urging them to reduce expenditure while we were adding to their obligations. The law centre movement, probably rightly, would regard a move to wholly local authority funding as the kiss of death. There would be a great outcry as centres closed, and close they surely would.

7. I would therefore like to propose a compromise. This would treat law centres as an essentially local service, but would allocate some measure of financial support from central Government in the form of a specific grant representing an agreed percentage, say 50%, of the net cost. Whether or not a centre should be provided in a particular area would be for the local authority to decide, subject in a particular case to the availability of Government support. The local authority and not the Government would therefore be responsible for the provision of centres although they would be required, as a condition of receiving the specific grant, to conform to the guidelines which I presently lay down for all law centres. (Amongst other prohibitions these include a ban on any political activity). I am of course aware of the theoretical objections to specific grants. In this instance I believe the advantages outweigh them.

8. The introduction of a scheme of specific grants need not entail provision for any additional public expenditure. I would transfer to the new programme my existing provision in respect of the 7 centres which I fund, and I would trust that DOE would similarly transfer the appropriate proportion of their provision for Urban Programme grants. So far as local authority expenditure goes, the new regime need not entail any additional expenditure; in any case, as the figures in the annex show, the sums involved are trivial in relation to the totality of local authority expenditure. Legislation would be needed to provide for the new scheme, but should not be either difficult or controversial.

Ministerial Responsibility

9. The other unsettled question is which Minister should have responsibility for grants to law centres. This is not a matter for this Committee, but hitherto the absence of any settled Government policy towards law centres has made it difficult to decide it. In my view it is constitutionally improper for me, as the Minister responsible for the administration of justice, to have direct responsibility for the provision of a salaried professional service. It is also highly undesirable on practical grounds and, over a period of years in the hands of a Lord Chancellor who did not maintain a sufficiently firm grip on it, might prove unpleasantly expensive. Although it would not wholly eliminate it, the provision of funds through local authorities, assisted by specific Government grants, would at least reduce the force of this objection. If my colleagues can agree to my suggestion for the introduction of a scheme of specific grants and if the Prime Minister were to consider it desirable I would be prepared, without much enthusiasm, to accept Ministerial responsibility for it.

10. What I am sure of is that this is no sleeping dog and we cannot let it lie. We must solve the problem before we face the electorate.

H of St M

Lord Chancellor's Department

7th March 1983

LAW CENTRESAIMS AND GUIDELINES

Law centres exist to provide access to professional legal advice for the general public in the areas which they serve. Most of them are situated in the poorer areas of large cities, and their bias is towards providing legal assistance to lower income groups. Their major areas of activity are housing, welfare rights, employment and immigration matters. There are restrictions in the services they can provide in other areas, eg they may not undertake conveyancing, probate or divorce work and they may only act in criminal matters for juveniles. For the most part, they offer their services without charge, though they claim legal aid on behalf of their clients where appropriate. Though individually independent, the centres operate under the general umbrella of the Law Centres Federation. Centres receiving aid from LCD and DOE are obliged, as a condition of their grant, to abide by the following guidelines, which were issued by the then Lord Chancellor in 1978.

1. A law centre shall be independent - from its funding agent, local or central Government and the Law Society.
2. "Independence" means freedom to choose its own areas of work and freedom from interference in the advice given by the law centre to those who consult it.
3. A law centre shall be under the control of a management committee, the majority of whose members should normally represent the interests of the recipients of the law centre's services. No local or central Government representatives should be ex officio Chairman, Vice-Chairman or Secretary of the Committee.
4. A law centre's primary objective should be to provide a legal service for people living or working within its catchment area. In performing this service it is entitled to identify those who are either not aware of their legal remedies or who may have a fear of law and lawyers.
5. A law centre in receipt of public funds should not engage in party political activity. It should not, for example, display in its premises posters indicating support for, or hostility towards, any political party or ideal. Neither should it participate in any campaign of a party political nature or allow its premises to be used for that purpose.

6. While a law centre must enjoy freedom from interference from its funding agent, it must do its utmost to maintain the confidence of its funding agent. That confidence calls for a continuing partnership and mutual respect between the funding agent, the Management Committee and the staff.

SOURCES OF FUNDING

Although there is no statutory or universally recognised definition of a law centre, the following agencies in England and Wales are generally recognised as law centres:

Funded by the Lord Chancellor

	<u>Annual Grant 1982/83</u>
Adamsdown Community Advice Centre	£ 66705
Cambridge House and Talbot Advice Centre	£ 30625
Harehills and Chapeltown Law Centre*	£ 68740
Newham Rights Centre	£ 83575
North Kensington Law Centre	£128630
Saltley Action Centre	£ 52945
Tower Hamlets Law Centre	£ 98990
	<hr/>
	£530210

Funded under the Urban Programme

	<u>Annual Grant 1982/83</u>	<u>Grant due to expire</u>
Benwell Community Law Project	£ 59000	1984
Bradford Law Centre	£116400	1986
Brent Community Law Centre	£ 95400	1984
Central London (Westminster) Law Centre	£ 80000	1985
Coventry Legal and Income Rights Service	£ 45000	1985
Gateshead Law Centre	£ 44000	1986
Hammersmith and Fulham Law Centre	£118000	1984
Handsworth (Birmingham) Law Centre	£ 25000	1983
Harehills and Chapeltown Law Centre*	£ 60000	1985
Hounslow Law Centre	£ 75000	1986
Hyson Green (Nottingham) Law Centre	£ 36000	1986
Leicester Law Centre	£ 48700	1984
Middlesbrough Law Centre	£ 17000	1987
North Lambeth Law Centre	£ 83700	1984
North Lewisham Community Law Centre	£111700	1983
North Manchester Law Centre	£ 53250	1985
Plumstead (Greenwich) Law Centre	£ 87500	1984
Sandwell Law Centre	£ 48250	1986
Small Heath (Birmingham) Law Centre	£ 29000	1983
Stockton-on-Tees Law Centre	£ 43000	1987
South Islington Law Centre	£102600	1984
South Manchester Law Centre	£112000	1984
Southwark Law Centre	£ 90000	1987
Stockwell & Clapham Law Centre	£ 84200	1984
Thamesdown Law Centre	£ 47000	1987
Tottenham Law Centre	£ 95000	1987
Vauxhall (Liverpool) Law Centre	£ 23400	1985
Warrington Law Centre	£ 49400	1987
	<hr/>	
	£1879500	

The figures for annual grant represent the total sum which will be paid by the local authority to the law centre. The authority itself meets 25% and the remaining 75% is paid to the local authority by the DOE under the urban programme.

Grants normally expire on 31st March of the year shown.

Funded by Local Authorities

(figures for annual grants not available)

Camden Community Law Centre
Hackney Law Centre
Hillingdon Law Centre
Lambeth Community Law Centre
North Islington Community Law Centre
Paddington Advice and Law Centre
West Hampstead Community Law Centre

Funded by Charities and other grants

(figures for annual grants not available)

Bristol Resource Centre
North Wales Employment Resource and Action Centre

7th March 1983

CONFIDENTIAL

CENO (6)



RECEIVED
- 7 MAR 1983 -
PRINTING OFFICE

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

80% to see
- PS/A Stanley
PS/Low Bellin

The Rt Hon Leon Brittan QC, MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
SW1P 3AG

7 March 1983

Mr Pausford
Mr Osborn

Dea Lem

Mr Owen
C. L. Heise
Mr Pithers CA. G. White
F. White

PUBLIC EXPENDITURE 1983-4

I was concerned by your letter of 24 February. It is not enough to agree about the priority that should attach to capital spending - we must be ready to do what is needed to make that priority effective. And that I fear is just what we are not set up to do. Unintentionally or not, the outcome of present trends has been to depress seriously investment in the infrastructure. If we go on failing to get the level of investment the plans provide for, we shall eventually pay a heavy price, when the economy starts growing again at a reasonable rate. I had hoped therefore that you would be prepared to look rather more favourably on the limited kinds of action I proposed. They did take account of the reality that capital spending is not something that can be turned up quickly, when belatedly it is realised that the planned figures (themselves so far down on what used to be spent) are not being achieved.

I shall of course come back to you, if the shortfall I fear seems to be materialising.

I am sending copies of this letter to the recipients of yours.

Yours
David

DAVID HOWELL

CONFIDENTIAL

Michael

Peter / I told Jeremy
Yes - it stays ^{Mark} Secret 17/12
MCS 17/12

- J/En. have asked if they may change the classification on the PM's minute re long term public expenditure.

- They want to change it from 'Secret' to 'Confidential' on the grounds of:

1. previously classified confidential
2. He used to copy it extensively with the Dept. in order to prepare full answers.

I have said I thought it unlikely that we would agree to this but you may feel PTO

differently. Content for me
to say the present classification
must stand.?

Petes

16/2

SUBJECT

SECRET



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M6183

ALL MINISTERS WITH RESPONSIBILITIES FOR PUBLIC EXPENDITURE

Despatched to:

LPS	Ch / Duchy Lancaster
DHSS	Cab. Office
Transport	NIO
Energy	DES
Lord President	FCO
Employment	Lord Chancellor
Industry	Home Office
Welsh Office	
Trade	
Scotland	
Environment	
MAFF	
MOD	
CST	

ECON POL

Long-Term Public Expenditure

At their meeting on 9 September, the Cabinet invited all Ministers with responsibility for public expenditure to review their programmes critically with a view to contributing to a substantial reduction in public expenditure in the longer-term; to discuss their proposals with Treasury Ministers and other colleagues as appropriate; and to report (CC(82)41st Conclusions, Minute 4).

I should be grateful if you would accordingly send me a report on the possibilities in the area of your Departmental responsibilities. It should be prepared in consultation with Treasury Ministers, and any other colleagues whose responsibilities are affected, and reach me by 31 March with copies only to Treasury Ministers and any colleagues whose responsibilities may be directly affected by the suggestions in it. It should be prepared under your personal supervision. No doubt you will wish to draw on the work you have already done for the five-year forward look.

BF

/ I

SECRET

SECRET

- 2 -

I have it in mind that the results, after any further discussion that may be appropriate, should be incorporated in the 1983 Public Expenditure Survey.

I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, Treasury, the Lord President, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

Raymond Storer

4 February 1983

SECRET

SECRET

14



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M6183

ALL MINISTERS WITH RESPONSIBILITIES FOR PUBLIC EXPENDITURE

Long-Term Public Expenditure

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Raymond Storer

4 February 1983

SECRET



Mr B. P. ...

To be aware (Sir R

Ref. A083/0376

MR SCHOLAR

Armstrong ~~said~~ asked me to submit a draft record to him ; with some qualms , I readily agreed to

Thank you for showing me an advance copy of your letter (do so.) to Mr Mottram, recording yesterday's discussion about the long-term prospects of defence expenditure.

MUS 2/2

2. I think that your letter will do very well. You should, however, be aware that I had an exchange of manuscript notes with the Secretary of State after the meeting about its outcome; and that the Secretary of State took the notes away and is therefore liable to quote them in future. I had said to the Secretary of State that I thought that no decision had been taken by the meeting. He had no authority to plan beyond the existing commitment, as recorded in the first sentence of the second paragraph of your letter; on the other hand there was no explicit and positive decision that planning should be limited to the commitment. In that sense, the meeting had left all to play for.

REA

ROBERT ARMSTRONG

2nd February 1983

SECRET file bc: John Coles Bre



3

10 DOWNING STREET

From the Private Secretary

1 February 1983

LONG-TERM PUBLIC EXPENDITURE: DEFENCE

The Prime Minister had a brief discussion this afternoon about the long-term prospect for defence expenditure. Apart from your Secretary of State, the Home Secretary, the Chancellor of the Exchequer, the Chief Secretary and Sir Robert Armstrong were present.

It was noted that the Government's existing commitment in the public expenditure plans was that the 3% annual rise in defence expenditure in real terms went up only to 1985/86. Thereafter, the expenditure plans showed the programme constant in real terms. The Government had indicated that it subscribed to the NATO guidance up to 1988 but it was noted that the terms of this guidance were vague at crucial points; that it was drafted in terms of aspiration; and that there was a proviso about countries' economic circumstances. It was a weakness in the NATO guidance that it was framed in terms of inputs - expenditure - and not of outputs. There was also some flexibility in what kinds of expenditure could be counted: although some of the Falklands expenditure could, clearly, not be so counted, some could.

Summing up the discussion, the Prime Minister said the Government must now present our defence spending plans in the most positive way, so as to make the most, in the eyes of our allies and the Government's supporters, of the substantial expenditure to which the Government was committed. Falklands apart, defence spending in 1985/6 might well be 20% higher in real terms than it was in 1978/9, taking up nearly 6% of GDP. If this growth rate continued, defence would grow further as a percentage of GDP, crossing over once more with other expenditure programmes, for example, health and education. She feared that such a growth would swing public opinion against defence, and in particular against the Trident programme. It would be important, in interpreting the NATO guidance to take full account of this factor.

I am sending copies of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and Sir Robert Armstrong (Cabinet Office).

M. C. SCHOLAR

SB.

Richard Mottram, Esq.,
Ministry of Defence

SECRET

covering Secret



10 DOWNING STREET

Sir Robert Armstrong

I'd be grateful for any
comments on the attached
record.

MCS 1/2



10 DOWNING STREET

From the Private Secretary

1 February 1983

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I am sending copies of this letter to John Kerr (HM Treasury), John Gieve (Chief Secretary's Office) and Sir Robert Armstrong (Cabinet Office).

M. C. SCHOLAR

Richard Mottram, Esq.,
Ministry of Defence

SECRET

Pl copy to BT

PUBLIC EXPENDITURE

Public expenditure is under firm control and the planning totals have been held. There has been a further reduction in the planning total between the autumn statement and the White Paper. But this should not be taken as indicating in any way any particular change in the fiscal adjustment from that shown in the autumn statement. There have been a number of changes of considerable importance since the autumn which work in both directions, including, for example, the exchange rate and oil prices. A new forecast will be produced for the Budget. Meanwhile, no decision has yet been taken on the appropriate PSBR for 1983/84. This White Paper is, however, evidence of the benefits of reducing the rate of inflation and of our determination to release to the private sector resources which would otherwise have been consumed by the public sector.

1 February 1983

MR INGHAM

cc Mr Scholar
Mr Vereker

PUBLIC EXPENDITURE WHITE PAPER

I have belatedly seen the Treasury's briefing for publication. It seems far too complacent. "Quiet satisfaction at the achievement of one of the Government's central economic objectives" is scarcely the way to describe it. The ratio of public expenditure to GDP is falling and would fall further with an end to the recession, but the ratio is still considerably higher than in Labour's last year.

Surely the line ought to be more energetic: "We have at last got public expenditure under control, and we intend to strengthen that control. But there is a long way to go before we shall be satisfied".

FERDINAND MOUNT

fm



10 DOWNING STREET

Prime Minister

Defence: Long Term Expenditure

This is a copy of Leon
Brittan's brief for this meeting.



MUS 31/1

see MCS to PM
13/12/82

1 M/S

2 FOR CABINET FOLDERS



NB

PM's

decision

below

WR
1/2

10 DOWNING STREET

M/S 21/2

Prime Minister

You wished to follow up
Cabinet's discussion of long
term public expenditure
by minuting spending
ministers. Sir Robert
Armstrong has drafted
the attached minute.

for your signature

WR
28/1

Will return on
Thursday



✓ JV

Ref. A083/0246

MR SCHOLAR

Long-Term Public Expenditure

A420

The Prime Minister has told me that she wishes to follow up the Cabinet's discussion of long-term public expenditure (CC(82)41st Conclusions, Minute 4) by sending a minute to spending Ministers, proposing a timetable and consultation with the Treasury. I attach --- a draft of such a minute, which reflects discussion with Treasury officials.

2. I should draw the following points to your attention.

- (a) The minute should go to all Ministers with responsibilities for public expenditure. This means all members of the Cabinet except the Lord President of the Council and the Chancellor of the Duchy of Lancaster; but obviously there is no need to send minutes to the Chancellor of the Exchequer and the Chief Secretary, Treasury. I suggest that the Lord President and the Chancellor of the Duchy of Lancaster should receive a copy of one of the minutes, for information.
- (b) The minute can go to the Secretaries of State for Education and Science, Defence and Social Services, even though the Prime Minister is seeing them separately. You will wish to tell their Private Offices that the minute is being sent mainly so that their Departments are aware of the timetable (and because it could be embarrassing if other Departments learned that they were receiving separate treatment); it does not cut across the Prime Minister's separate discussions.



- (c) The Treasury envisage that on the basis of the reports they will prepare a paper for Ministers which, after any necessary bilateral discussions, would be taken by the Cabinet in about the third week of May. The results would be incorporated in the 1983 Public Expenditure Survey. The draft of the Prime Minister's minute refers to the latter but does not go into further details about the handling of the reports.

RA

ROBERT ARMSTRONG

24th January 1983

CONQUEROR

*Pl type for RM*

~~DRAFT FROM PRIME MINISTER TO ALL MINISTERS WITH RESPONSIBILITIES FOR PUBLIC EXPENDITURE~~

Long-Term Public Expenditure

At their meeting on 9th September, the Cabinet invited all Ministers with responsibility for public expenditure to review their programmes critically with a view to contributing to a substantial reduction in public expenditure in the longer-term; to discuss their proposals with Treasury Ministers and other colleagues as appropriate; and to report (CC(82)41st Conclusions, Minute 4).

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I have it in mind that the results, after any further discussion that may be appropriate, should be incorporated in the 1983 Public Expenditure Survey.

I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, Treasury and Sir Robert Armstrong, ^(J. - CBZ) and ~~am writing in similar terms to other members of the Cabinet with responsibilities for public expenditure.~~

PART 21 ends:-

MCS to CST's office 24.1.83.

PART 22 begins:-

RTA to MCS 24.1.83.

