

PREM 19/2106

PART 39

CONFIDENTIAL FILING.

Public Expenditure and Cash Limits

ECONOMIC POLICY.


PT1: May 1979

PT39: April 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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 PART 39 ends:-

PG - NOTE FOR THE FILE 30.6.88

PART 40 begins:-

PG to R. WILSON 5.7.88

SUBJECT

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NOTE FOR THE FILE

6A-B

Rice

1988 PUBLIC EXPENDITURE SURVEY: INDIVIDUAL PROGRAMMES

In the course of the Prime Minister's discussion with the Chancellor and the Chief Secretary on 29 June various points were made on the handling of individual public expenditure programmes in this year's survey.

Defence

The Chief Secretary said that there were a range of ways in which efficiency and value for money in the programme could be improved. The Prime Minister said that Mr. Younger (and she herself) would be worried about the implications of defence spending as a proportion of GDP falling below 4%.

Education

The Prime Minister said that the Secretary of State's programme had been "supported more than anyone else's", and that there was no case for further generous treatment.

Health

It was agreed that the case for extra capital expenditure on the health programme was weak. This would merely generate demands for extra current expenditure in the future. And, following the heavy capital spending in recent years, there was in fact no present shortage of facilities.

Social Security

The Prime Minister agreed that it would be appropriate to have a further years freeze on child benefit, which was not pledged.

The Chief Secretary said he would want to look for some further savings on housing benefit, but the Chancellor and the Prime Minister said there was not a lot that could be done in this area given its recent sensitivity. The Chancellor

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said that, long term, further thought should be given to raising the retirement age, as had been done by some other countries.

The Chancellor and Chief Secretary drew attention to the recent growth in paper of disability benefits; the Prime Minister said this was one of the areas of social security spending for which she had greatest sympathy.

It was noted that, with the exception of a freeze on child benefit, nearly all the other conceivable options for savings would require legislation; which would both be difficult to fit in to the programme, and would in any event mean there was a time lag of several years before savings came into effect.

Capital Programmes

There was general agreement that, with the present high degree of pressure on the construction and civil engineering industries, it would be important to avoid adding significantly to public expenditure in this area. Large additions would merely have the effect of driving up prices. This was particularly relevant to the bids for roads, and, to a lesser extent, prisons.

Employment

The Chief Secretary said that, with falling unemployment, there was scope for substantial savings, for example on the Employment Training Scheme and the Youth Training Scheme. The Prime Minister agreed it would be appropriate to be "very tough" on this programme.

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PAUL GRAY

30 June 1988

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 June 1988

Dear Moira,

THE 1988 PUBLIC EXPENDITURE SURVEY

The Prime Minister discussed yesterday with the Chancellor and the Chief Secretary the paper attached to your letter of 28 June on the prospects for the 1988 Public Expenditure Survey.

In discussion, it was noted that a very difficult round was in prospect. It was agreed that the remit to be set by the Cabinet at its 14 July discussion should be a tight one, but equally one that could be achieved in the subsequent negotiations. It was also agreed that a similar formula should be adopted as used in 1987, stressing both the need to keep as close as possible to the existing planning totals and ensuring a steady decline in the ratio of public expenditure to GDP. It was important, however, that the precise words should point to a further decline in the GDP ratio from the out-turn figure for 1988-89 and should not be tied to the figures set out in the 1988 Public Expenditure White Paper.

The Chancellor and the Chief Secretary agreed to let the Prime Minister see, during the course of next week, drafts of the papers they would be putting to Cabinet both on the Public Expenditure and overall economic prospects.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

Yours
Paul

PAUL GRAY

Miss Moira Wallace
H.M. Treasury

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CCB/UP



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON SW1

28 June 1988

Dear Paul,

1988 SURVEY

As promised, I attach a paper as background for Wednesday's discussion of the prospects for this year's Survey.

Yours,

Moir.

MOIRA WALLACE

PROSPECTS FOR 1988 SURVEY

Progress to date

1. Our firm grip on public expenditure over recent years has allowed us gradually to reduce general government spending as a share of GDP, to its lowest level since the early 70s, and to balance the Budget, while reducing both the higher and basic rates of income tax. But the overall burden of tax, at 37.7 per cent of GDP (even excluding the North Sea) still remains well above the 34.3 per cent figure we inherited in 1979. There thus remains a major task ahead of us if we are to get below the burden of tax we inherited, which will require more years of public expenditure declining as a share of GDP.

The existing plans

2. To reduce the burden of tax we need in effect to keep the growth of departmental spending (ie the planning total, including the reserves, but excluding privatisation proceeds) below the growth of GDP. The existing plans imply real increases of around 2½ per cent a year, compared with a assumed trend growth of GDP of 2½ per cent, and are thus consistent with a steady reduction in the tax burden in the medium-term, offering the prospect of getting the basic rate down to 20p in the next Parliament, if not in this. But this is very close to the maximum rate of growth consistent with that objective.

Prospects for the 1988 Survey

3. It is against this background that we have to assess the bids in the current Survey. These already total £8½ billion, £12 billion and £17 billion for the three Survey years, with the

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threat of more to come - not to mention the pressures to do more for particular groups that will inevitably emerge in future Surveys. A proportion of these bids consists of estimating changes that will be difficult to resist; but a much larger proportion this year represents proposals for new policy initiatives. The size of these bids clearly puts our objectives at risk.

4. If we adopted the same pattern of reserves as we did last year (£3.5/7.0/10.5 billion), there would be room in this Survey to draw down the reserves for each year by £3.5 billion, though at the end of the day it may well be prudent to provide slightly higher reserves than this. Hence we can at most add £3.5 billion in each year to programmes without exceeding the planning totals in the White Paper, and possibly less.

5. The bids are thus far in excess of what we can accommodate by drawing down reserves. The Annex shows what the consequences would be if they were accepted in full. Even if we cut the bids back by the same amounts as we did last year, (£3 billion, £4.5 billion and £6 billion), that would imply that:

- departmental programmes would grow at over 3 per cent a year in real terms - faster than the trend growth of the economy.
- General Government Expenditure (excluding privatisation proceeds) would grow faster than its average rate of growth since 1978-79, thus marking an end to the progress we have made in reducing the real growth rate of public spending.
- the fall in the ratio of General Government Expenditure to GDP might slow to a virtual halt around the end of the Survey period;
- there would no longer be a prospect of a decline in the tax burden (excluding the North Sea);
- we could make at best only very slow progress towards a 20p basic rate.

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This would provoke criticism both from our supporters and from the markets. They would say that we had built in massive spending commitments for the period up to 1991 on the basis of a rate of economic growth in 1987 and 1988 which might not be sustained; and that we had lost our grip on public spending, when the battle against inflation clearly requires restraint; compromised the attempt to shift the balance between the public and private sectors; undermined our policy of sound finance; and jeopardised our chances of continuing the tax reductions which have given the British economy its new-found vigour.

Conclusion

6. Clearly we must do better. The bids for health (£1.9 billion in the first year, rising to £3.5 billion in the last) include large bids for capital expenditure which must be scaled down: they are out of proportion to the rest of the programme and would only lead to unsustainable running costs demands in later years. Social security bids total £2.7 billion in the last year: difficult decisions will be needed eg on disability benefits, which are now being reviewed. The bids for education, the Home Office, and Transport represent extraordinary increases (18 per cent, 24 per cent and 26 per cent of the respective baselines in the last year) and will have to be dramatically scaled back. Tough decisions will be needed on defence too. We will have to find savings on industry and agriculture - and, with unemployment falling fast and at its lowest since 1981, we should look for net reductions on the employment programme where, far from savings being offered, increases are sought.

7. Within the total bids, those for running costs are also high. They would supply a rise in civil service costs of 5% in real terms in 1989-90, and an increase in civil service numbers to over 600,000 by 1991-92.

8. A number of the bids are for increased construction spending. The construction industry is now very stretched and prices are rising faster than inflation for the first time for a number of years. We must in particular avoid adding to the pressures in this sector.

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● If we are to maintain the policies which have brought success, we will have to put to Cabinet next month the need for determined efforts in all areas.

PUBLIC EXPENDITURE AND TAX 1978-79 TO 1991-92

	General Government Expenditure excluding privatisation proceeds			Non-oil tax burden
	1	2	3	4
	<u>Total</u> <u>(fbn)</u>	<u>Real growth</u> <u>%</u>	<u>Proportion</u> <u>of GDP (%)</u>	<u>% of GDP</u>
1978-79	74.8		43.2	34.3
1979-80	90.1	3.1	43.2	35.2
1980-81	108.9	1.8	46.0	36.2
1981-82	121.0	1.1	46.4	38.7
1982-83	133.0	2.6	46.8	38.2
1983-84	141.3	1.5	45.9	37.8
1984-85	152.3	3.3	46.2	37.9
1985-86	161.0	-0.3	44.5	37.0
1986-87	169.4	1.9	43.9	37.5
1987-88	176.4	-0.6	41.7	37.7
1988-89	187.9	1.7	41.2	37.7
1989-90	202.8	3.8	41.7 (40.7)	37.9
1990-91	214.6	2.2	41.6 (40.0)	38.2
1991-92	227.1	2.7	41.7	38.5

Notes

1) Figures assume concession of all bids; everything else as in FSBR.

2) Figures in brackets in column 3 show the ratios of GGE to GDP shown in the FSBR.

PRIME MINISTERHANDLING OF PUBLIC EXPENDITURE AT CABINET: MEETING WITH THE CHANCELLOR AND THE CHIEF SECRETARY

The purpose of the meeting is to discuss the handling of the regular Cabinet discussion on public expenditure, scheduled for 14 July.

The Treasury have sent in a background paper (Flag A). This is less forthcoming than I would have hoped, but it provides a starting point for the discussion. You may also like to have to hand the earlier internal Treasury note at Flag B (sent to me privately) which summarises the size of the departmental bids.

You will not be discussing tomorrow the Chancellor's economic prospects paper for the same Cabinet. The Treasury are still finalising the June economic forecast, which we should have available towards the end of next week. But whatever it shows in detail, it is already clear that a crucial element in the strategy must be the tightest possible public expenditure all round.

The Prospects

The Annex to the Treasury paper at Flag A shows what would happen if all the departmental bids were conceded. That is not particularly helpful, as we need to focus on what is actually likely to happen. On this the Chancellor has not revealed his hand. But I have obtained some further information unofficially from the Treasury, both on their views about the prospects and on the sort of formula for the July Cabinet the Chancellor will put forward. (Please protect my sources!).

The table attached summarises the figures given at Budget time for the existing public spending totals, both in cash terms and as a proportion of GDP. Points to note are:

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- Even if there is some over-run in cash terms on the 1988/89 public spending total, it is almost certain to come out as a smaller proportion of GDP than the current 41¹/₄ per cent. This is because GDP growth - both the real and the inflation elements - will be higher than forecast. I would guess that the proportion might fall to 40¹/₂ per cent or slightly less.
 - That means that the existing planned GDP proportion for 1989/90 - the first year of the ^{new} ~~first~~ survey - is higher (40³/₄ per cent) than the likely out-turn for this year. So to maintain the steady downward path we must end up with a reduced figure for 1989/90.
 - Based on what I have gleaned from the Treasury and my own rough assessment of the likely outcome for departmental bids, I would guess the cash public spending totals for 1989/90 and 1990/91 might at the end of this survey have to be raised by, say, £2 billion and £3¹/₂ billion respectively. Given the carry through effect of higher GDP in 1988/89, that should be consistent with continuing reductions in the GDP proportion below the new 40¹/₂ per cent figure for 1988/89 - hopefully breaching the 40 per cent mark in either 1989/90 or 1990/91.
 - But even to achieve that outcome, it will be necessary to take a very tough line on the "discretionary" bids for programmes like education and transport. *And defence - NB you meeting with the Defence Chiefs.*

Handling

Against that background, the key issue is what remit should ~~a~~ Cabinet set for the Chief Secretary's bilateral negotiations?

I also attach to this minute the formula that I think the Chancellor will put to you. (Again, I should be grateful if you would not reveal you have seen this!) It is similar to the formula adopted last year:

- "keep as close as possible to existing planning totals" is virtually identical;
- "ensure that the ratio of total public expenditure to GDP continues to decline steadily over the three Survey years" differs from last year's specific reference to "^{the path} in the previous year's White Paper". This is because, as explained above, we need to achieve ^{lower} GDP proportions for the Survey years than are currently set out in the plans.

You will want to consider the Chancellor's proposed approach. One question is whether it would be credible to go back to the 1986 approach of "working within the existing planning totals". That would set a tougher framework for the negotiations. As such, it ^{has} ~~is~~ a great attraction but, regrettably, I doubt if it is credible. Principal Finance Officers in Departments are sufficiently familiar with the way the Survey arithmetic works to be able to brief their Ministers that this outcome cannot be achieved, and that could lead to a much more difficult Cabinet discussion than broadly following the 1987 precedent.

Next Steps

Subject to the outcome of the discussion, you will want to press the Chancellor and the Chief Secretary to let you see, during the course of next week, a draft of the Public Expenditure Paper for Cabinet along with the separate material on the wider economic prospects.

Robin Butler has already told the Chancellor about your decision on the "Chairmanship of the Star Chamber". But you may want to mention this tomorrow.

PRCG.

PAUL GRAY

28 June 1988

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FSBR

	<u>General Government</u> <u>Expenditure (excluding</u> <u>privatisation)</u>	<u>% of</u> <u>GDP</u>	<u>Possible Effects</u> <u>of Higher GDP</u>
1987-1988	176.4	41 ³ / ₄	
1988-1989	187.9	41 ¹ / ₄	40 ¹ / ₂ 40
1989-1990	197.9	40 ³ / ₄	
1990-1991	206.8	<u>40</u>	
1991-1992	215.0		

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JULY CABINET REMITS1986

The Cabinet agreed that "the Chief Secretary, Treasury, should hold bilateral discussions with colleagues, working within the existing published planning totals for 1987-88 and 1988-89, and within a new planning total of £153 billion set for 1989-90."

1987

"The Chief Secretary, Treasury, said that the Government's objective, based on its Manifesto commitment, must be to ensure not only that the level of public expenditure should be held as close as possible to the existing planning totals, but also that its share of national income, without allowing for privatisation proceeds, should not exceed the path in the previous year's White Paper."

"The Prime Minister, summing up the discussion, said that the Cabinet endorsed the proposals by the Chief Secretary, Treasury ... Meanwhile, in reply to questions, she would explain that the Cabinet ... had reaffirmed the policy that public expenditure should continue to take a declining share of national income, as set out in the last Public Expenditure White Paper ..."

1988*(possible proposal)*

We must keep as close as possible to the existing planning totals, and ensure that the ratio of total public expenditure (excluding privatisation proceeds) to GDP continues to decline steadily over the three Survey years.

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

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27th June 1988

Dear Nick,

1988 SURVEY: CHURCHES

We have discussed my letter of 20 June, in which I argued that it would be premature to take decisions now on either of your two PES bids for additional expenditure on church buildings, which you argued would be a card that you would like to play now in the context of the forthcoming Lords debates on the Local Government Finance Bill.

In the light of the additional factors which you explained to me, I am now content for you to offer these concessions to the churches. This is on the condition, which you accepted when we spoke, that you would contain the additional expenditure within your provision.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

*Yours Ever,
John*

JOHN MAJOR

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Norman Fowler MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NF

25th June 1988

Dear Norman,

1988 PUBLIC EXPENDITURE SURVEY: EMPLOYMENT

Thank you for your letter of 26 May, setting out your proposals for the 1988 Public Expenditure Survey.

Those proposals involve substantial additions to both programme and running costs, rising from £200 million in 1989-90. I find such large bids difficult to justify against the background of the markedly improved labour market we now see. Indeed I see a strong case for looking for reductions rather than increases.

The employment programme has expanded at a quite exceptional rate over the past 10 years - 78 per cent in real terms, compared with 13 per cent for the planning total - a rate unmatched by any other major programme. That reflects the high priority which we have given to tackling unemployment. Unemployment is now falling rapidly - by some 40,000 a month - largely due to the success of our economic policies. It is now back to levels last seen at the beginning of the decade - and then the employment programme was more than £900 million lower in today's prices than the level now planned.

I recognise that you have already begun to change the direction of your programme to take account of falling unemployment. But we also need to take a fairly fundamental look at the scale of the programme, and to ask our officials to establish urgently the needs to be met and the scope for

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NBF
at his desk

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reductions. We can then consider all the options in our bilateral discussions in due course.

We will of course not get significant savings without looking closely at the two largest programmes, Employment Training and the Youth Training Scheme. On the former, the inflow into the target groups is bound to be affected by the improving unemployment situation. The fall in long-term unemployment is particularly relevant: at more than 20 per cent over the past year, and fairly evenly spread across all regions except Ulster, it is now faster than for unemployment generally. The announced opposition of major unions is also likely to have some effect on take-up. There are moreover questions about the rate at which we need to aim to cover the stock of 18 - 50 year olds unemployed for over two years, and about the length of time for which participants remain in the programme. In the light of all these considerations I think that we will need to review the assumptions underlying the estimate of some 600,000 beneficiaries in the February White Paper.

It may be argued that we need more experience of the new scheme before we can modify the assumptions with any confidence. But I do not believe that the newness of the scheme reduces the need for taut estimating. The number that it needs to cover is bound to grow less as unemployment falls. How much less is something which we will have to decide, but I think that officials should now examine the effect of a range of assumptions.

YTS will be profoundly affected not just by the decline in unemployment, but also by the dramatic decline in the size of the relevant age group which is already taking place. Over the PES period, we can expect a marked tightening of the relevant labour market, to an extent which calls into serious question the need for Government intervention on a national basis. The opportunities currently offered by YTS will increasingly become available without Government subsidy. I do not overlook the important training aspect of YTS; but here again there is likely to be dead weight in subsidising training which employers would have had to do anyway. Against this background there is a strong case for selectivity, and for not treating all training (even for occupations in which the real skill content is very low) as if it were of equal value.

I therefore think that officials should explore options to reduce dead weight and the resulting unjustified element of subsidy to employers. It is after all our policy that employers should bear a fair share of the cost; and you have told the Commission that employers will have to increase the contribution they made to the cost of the YTS over the PES period. One initial step would be to pay no more than the trainee allowance outside inner cities and assisted areas (for similar geographical areas). That would reduce (though not eliminate) the subsidy to employers which is inherent in the scheme at present and is becoming increasingly difficult to justify. The new funding structure which is the subject of your letter of 27 May (which has reached me only last week and to which I will be replying separately) may also provide some flexibility for moderating the level of subsidy.

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I also think that officials need to look closely at the estimation of provision for YTS. Even allowing for the ending of income support for the relevant age group, the present provision looks as if it could be a good deal too high. There must be a strong probability that, as the labour market tightens, young people will go straight into paid employment rather than YTS, which may increasingly look a less attractive alternative to them.

Much of what I have said about the general case for reductions applies to other elements of your programme. There are a number of small schemes, notably Jobstart, which might be dropped altogether. Then there may well be a case for being more selective, perhaps on a regional basis, with both the Enterprise Allowance Scheme and the Business Improvement Initiative. On the former, savings might also be made (and value for money improved) by adopting some of the suggestions in the scrutiny report produced last autumn, such as tighter eligibility criteria. On the latter, the shift in funding from training to consultancy ought to mean a reduction in provision. Restart is another potential area for savings: the courses should no longer be needed now that we have ET. Then there is publicity, on which your Department's spending is very high as a proportion of the total programme. The need to secure higher visibility for your programmes must now be a good deal less than it was.

Outside the immediate field of employment and training measures, there appears to be further potential for savings. You have initiated a review of tourism policy. I think that we will need to consider very carefully whether any Government support is justified for an increasingly prosperous industry like tourism. An evaluation of the Small Firms Loan Guarantee Scheme is now drawing to a conclusion, and we will have to decide whether the scheme should be extended beyond next year. I think that we will need to consider very carefully whether such a scheme continues to be justified.

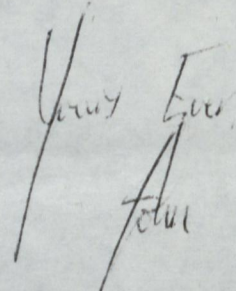
The major element of your running costs bid is for pay and prices. I would have hoped to see a greater contribution to offsetting this from efficiency savings. Another major element relates to the stricter benefit regime, the case for which is also argued in your letter of 6 June. I can see why you wish to give this some priority, but I think that more attention needs to be given to the scope for offsetting savings. In this connection the role of the Jobcentres seems to me to be an area worth examining. They have a role to play, but in the improving labour market I question whether it should include their employment agency function for job changers, which would be better carried out by the private sector. I hope that officials can identify options for us to consider here.

This letter has raised a wide range of questions about your programme. They are not questions on which I have yet taken a firm view myself, but I think that we are bound to address

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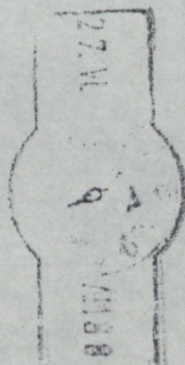
them in this Survey; and the main purpose of this letter is to ensure that the necessary preparatory work is done. We are faced with an increasingly radical shift in the employment situation to which your programmes are intended to respond. The priority which those programmes were given at a time of rising unemployment must imply a fairly major reassessment now.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'John Major', written in a cursive style.

JOHN MAJOR

Econ Pol: Public Exp
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RA + BIF with
meeting, before the
Wednesday's 14th June.

RAC6,
27/6

PRIME MINISTER

1988 PUBLIC EXPENDITURE SURVEY

I have arranged to extend your weekly bilateral with the Chancellor next Wednesday to an hour, so that half an hour can be devoted to discussing the picture emerging in this year's PES and the handling of the 14 July Cabinet discussion. The Chief Secretary will join the meeting for that aspect.

The Treasury will be preparing a paper before that meeting, but I fear it will not be available until you return from Hanover. Meantime, you may like to glance at the attached summary the Treasury prepared earlier in the month of the Departmental bids. As I explained in an earlier note, these are higher than last year, but not markedly so. Nonetheless, the extra amounts spending Ministers are seeking are clearly way out of the question, and demonstrate the need for the very tough approach you discussed with the Chancellor here today. One figure to bear in mind is that only about £3.5 billion is available in 1989-90 to redistribute to spending programmes from the existing Reserve of £7 billion while still maintaining an adequate Reserve to start the year of £3.5 billion. This compares with departments bids for extra spending of £8.4 billion.

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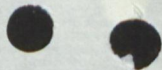
PAUL GRAY

24 June 1988

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PRIME MINISTER

1988 PUBLIC EXPENDITURE SURVEY

PAID COPY

21 June 1988

BRITISH

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1P 3EB

*NBRM at his desk.**REC 6**22/6**Dear Nick,**ZC* June 1988**1988 SURVEY: CHURCHES**

In your bidding letter of 25 May, you asked for an early response from me on your bids for £3 million per annum in the last two years of the Survey for additional expenditure on heritage churches and £0.6 million per annum in each of the three years in anticipation of the quinquennial review of the Redundant Churches Fund (RCF). You have also proposed to the Prime Minister in your minute of 14 June that the level of relief from non-domestic rates for church ancillary buildings be increased from 50 per cent to 100 per cent.

I believe it would be premature to take decisions now on either of your PES bids. I understand your officials are looking at ways of reducing the net outgoing of the RCF, and the results of this work need to be taken into account before we reach decisions later in the Survey. As for the heritage churches, more work needs to be done on identifying the candidate for additional grant so that an assessment can be made of their value for money. Indeed, I shall need to be convinced that we ought to take a decision on this in the current Survey, rather than next year.

I do, of course, acknowledge your views on the political significance of being able to demonstrate our support for the churches, to set against the argument that our reforms of local government finance will cost them significant sums. I therefore accept your proposal to give rating relief to the churches on ancillary buildings, at a cost of £1.5 million. But I am not

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convinced that the benefits would be sufficient to justify going further and announcing significant additions to the heritage programme, before value for money had been sufficiently explored and in isolation from other priorities.

I am copying this letter to the Prime Minister, other members of E(LF) and to Sir Robin Butler.

Yours Ever,
J.M.

JOHN MAJOR



NBPM at this stage

MCG

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20/6

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

20 June 1988

1988 SURVEY: SOCIAL SECURITY BENEFITS

Will report if request.

Thank you for your letter of 10 June. It is useful to have your early views on my proposals. I must take issue with you however, when you describe my bid as substantial. The bulk of my bid in the first survey year picks up the consequences for my programme of policy changes, such as the decision to retain the housing benefit taper at its existing level, which have been agreed with colleagues since the last survey. My bid for new policy initiatives is less than £150m, well under half a per cent of the social security programme. I do not think that this can be regarded as in any way substantial, although I recognise that my demand-bids do build up in the second and third survey years to reflect demographic change.

You suggest four areas for further discussion. Taking these in reverse order, we are, as I promised last November, making every effort to achieve more than the £240 million of savings from anti-fraud work already assumed in my baseline for 1988/89. My officials will provide yours with an interim progress report by the end of the month.

On tort, I can see strong attractions in principle for recovering social security benefits from tort damage awards, but I will need to give fuller consideration to the findings of the study commissioned from Touche Ross before I am ready to consult colleagues. You will be aware that Francis Maude is concerned about the increased burden on the insurance industry.

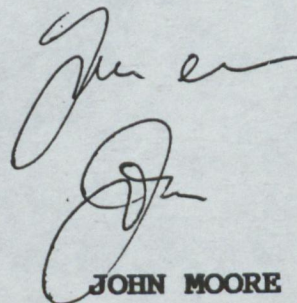
E.F.

I see major difficulty with the suggestion of changes to housing benefit to limit the protection given against rent increases. I must say that I cannot contemplate radical change to this benefit on anything like the timetable you suggest. After the effort devoted to considering and introducing the new scheme, and the concessions we have had to make to get it launched, it would seem to me quite out of the question politically to make a fundamental change to so controversial a benefit so quickly, and with so little evidence of abuse. I would also remind you that it was only last year, in the early discussions on the effect of new housing policies on benefit caseload and expenditure, that we decided explicitly not to pursue further the possibility of requiring everyone to pay some proportion of their rent. On unreasonably high rents, you will know that Nicholas Ridley and I have already proposed new arrangements for controlling expenditure in this area following the deregulation of new lettings.

This is not to say that there are not important issues here which it would be right to consider for the longer term, and I am quite prepared to talk about alternative solutions in this area over a somewhat longer timetable. Any such reexamination should most sensibly await the outcome of the current discussions on housing policy, however, as it would be essential to take full account of the interplay between benefit and housing policy. For this reason, and because the savings you are suggesting for the current survey would actually come out of the money transferred to us by Nick Ridley to cover the cost of achieving his policy objectives, I intend to involve him in our discussions if we are to pursue your ideas further.

Finally, on disability benefits, my officials are as you know still working on a reexamination of benefit provision in this area in the light of the OPCS survey results. As I said in my letter of 25 May, I shall be writing to you as soon as I can. I agree it would then be useful to meet to discuss the way forward.

I am copying this letter to the Prime Minister and to Sir Robin Butler.



JOHN MOORE

File



10 DOWNING STREET

From the Principal Private Secretary

SUBJECT cc MASTER

SIR ROBIN BUTLER

CHAIRMAN OF THE MINISTERIAL COMMITTEE ON PUBLIC EXPENDITURE
(STAR CHAMBER)

The Prime Minister told you this afternoon that she would like the Secretary of State for Energy to chair the Ministerial Committee on Public Expenditure (Star Chamber). She had not come to a firm decision on when this should be promulgated, though the Public Expenditure Cabinet offered an obvious opportunity. Meanwhile she would like you to inform the Secretary of State, in confidence, of the dates that he would need to be ready to make himself available for the work of the Committee so that he did not arrange any overseas visits for that period.

N. L. Wicks

15 June 1988

CONFIDENTIAL



BF (Minute Only to PG) 13/6

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Moore MP
 Secretary of State for Social Services
 Department of Health and Social Security
 Richmond House
 79 Whitehall
 London
 SW1

PA - 1988 Res

NRPM

PA 14/6

10th June 1988

Dear Secretary of State,

1988 SURVEY: SOCIAL SECURITY BENEFITS

Thank you for your letter of 25 May.

top of folder attached

Our officials will be discussing the detail of your proposals in the coming weeks, and I will be writing again after the July Cabinet to set out an agenda for our bilaterals. However, in view of what you have proposed, I thought I should let you have an initial response now on benefit expenditure.

Although you mention that your bids are lower than has been the case in recent years, they are nonetheless substantial: £¾ billion in year one, rising to over £2½ billion in year three. And your bids for extra benefit expenditure would have been larger than the increases we agreed last year but for the £½ billion a year reduction due to the lower assumed level of unemployment.

Against this background, I will have to seek considerably more than the £16 million a year of offsetting savings you have offered in your letter. I will also need to bear in mind that the longer term costs of some of your proposals, for example on Mobility Allowance, would be much larger than the costs you project within the Survey period. My agenda letter will, as usual, set out my proposals for the total savings which I would judge appropriate. But there are a number of pressing issues which I would like to raise with you now.

CONFIDENTIAL

The first of these is disability benefits. You say in your letter that you do not see this as an issue in this year's Survey, since it is unlikely that major changes will be possible before 1990-91. However, the size of your estimating bids for these benefits means that they cannot be ignored. They account for about half the estimating bids in the Survey period: £400 million in 1989-90, £570 million in 1990-91 and £1020 million in 1991-92. This follows, as you know, an increase in real terms of 80 per cent in expenditure on disability benefits since 1979.

The other reason for my concern is that this also appears to be a longer term problem. Your officials' interim report on the disability review points to a further substantial increase in expenditure between now and the end of the century, even assuming no increase in the real value of the benefits, if we do not change our policies.

You will no doubt be bringing forward proposals for tackling this problem when you write to me about the review. We will obviously have to look at the whole range of these benefits. But there are two particular areas which I think we ought to address, with a view to containing the long-term costs. The first is the Additional Pension. The projections in your officials' interim report suggest that expenditure is likely to increase from £350 million in the current year to around £1¼ - £1½ billion (in today's prices) in 2000, as entitlements increase. The other is Industrial Injuries Benefit. This is now costing us £450 million a year. It is an expensive and badly-targetted feature of our system of support for the disabled. Action in these areas would be consistent with our policies of reducing dependence on state benefits and encouraging private provision.

My second area of concern is Housing Benefit. It is difficult to see that we will ever have a reasonable system for controlling expenditure so long as we guarantee to compensate all those on benefit for 100 per cent of rent increases. I recognise that the new system has only just been introduced and that we have little evidence of how it is working in practice. However, the 100 per cent rule is inherently likely to push up rents and benefit expenditure, and is especially dangerous now that we are moving towards more market-related rents. Our policy on rents has, of course, moved more strongly in this direction since decisions were taken on the new housing benefit system following the social security reviews.

I would like our officials to look at alternative solutions, more in line with our new approach to rents and with our general desire to see markets work effectively. The options should include a maximum cash entitlement for assistance with rents. The impact of the options on housing benefit expenditure should also be assessed. The review would need to be completed in time for us (and then colleagues) to consider possible changes

CONFIDENTIAL

for implementation in 1990. The work will also need to take account of Nick Ridley's proposals on Housing Revenue Accounts. My officials will be in touch with yours about some of the ideas we might consider.

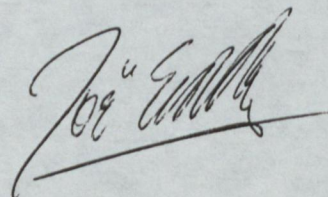
Thirdly, I know that your Department, with the help of Touche Ross, have been working on plans to recover from insurance companies amounts which the companies deduct from awards to accident victims who receive social security benefits as a result of their injuries. Significant savings could be achieved from implementing such a scheme, and I assume you will want to include this in your 1988-89 Bill. You will recall that the government was criticised last year by the PAC for not taking action to recover these sums. I wrote to you at the time (30 November) to say that I hoped we would be in a position to take account of savings from tort awards in this year's Survey. I think the PAC report would help us mount a strong defence of this decision.

Finally, you may recall that in my letter of 27 November I said that I would like to take a systematic look in this year's Survey at the scope for savings from anti-fraud work. This followed the withdrawal of your commitment to make an additional £30 million of savings from a special anti-fraud drive in 1988-89. It would be helpful if you could let me know what progress has been made on this front since the decision to ring-fence fraud staff, and what prospect you see for producing additional savings in future years.

I would like to be in a position to discuss each of these issues with you in July, so that we can aim to agree the next steps, including consultation with colleagues and preparation of legislation where necessary. To this end, I would be grateful if you could let me have your proposals on each of the issues by the first week in July.

I am copying this letter to the Prime Minister and Sir Robin Butler.

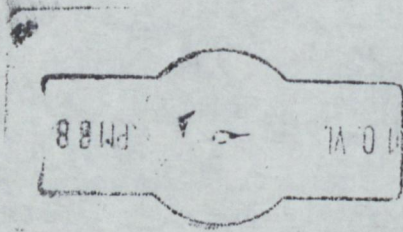
Yours sincerely



for JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

ECON 20L · Public Exp. PT39





*With the Compliments
of*

PRIVATE SECRETARY

6 JUNE

..... 1988

LORD ADVOCATE'S CHAMBERS
FIELDEN HOUSE
10 GREAT COLLEGE STREET
LONDON SW1P 3SL

Telephone: Director Line 01-276 6810
Switchboard 01-276 3000
Fax 01-276 6834



aBa

Lord Advocate's Chambers
Fielden House
10 Great College Street
London SW1P 3SL

Telephone: Direct Line 01-276 6819
Switchboard 01-276 3000
Fax 01-276 6834

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

*Put in the folder headed
to the PES file.*

3 June 1988

*REC
6/6*

Dear John,

1988 PUBLIC EXPENDITURE SURVEY - CROWN OFFICE AND PROCURATOR FISCAL SERVICE

As you will appreciate the burden on my Department is unrelenting due to the continuing increase in serious crime that requires investigation and prosecution with the consequent greater demand on resources.

While I accept the need for my Department to be cost effective the objectives of my Department as part of the Government's overall strategy on Law and Order must be met.

I have scrutinised my Department's financial needs for the next 3 years and enclose an analysis of the proposed baseline changes.

Regarding my Department's plans for the achievement of the stated efficiency savings on Running Costs, my officials in consultation with yours have produced a model based upon the unit cost of output. This model incorporates pay, price and efficiency savings factors to apply which has required my Department to make fundamental changes in policy and management planning. These changes include the setting of new targets for individual Procurator Fiscal offices and the monitoring of output and performance both centrally and in individual offices, all of which are geared to the reduction in unit cost.

This is not to say that my Department has not been conscious of the need to use limited resources to best effect. For example I am advised that recently compiled statistics show that output, ie performance, increased by 16.4% over the period from 1983/84 to 1987/88 whereas the unit cost (GDP deflated) increased by only 0.7% over the same period.

The enclosed tabulation illustrates the global effect of applying outturn against workload to determine unit cost and ultimately the Department's financial requirement. Plainly the model will require fine tuning in the light of improved management information and experience of the model's operation.



2

You will see that we have used a pay/price factor of 7% in the current year to establish a true unit cost base for the ensuing 3 year PES period. This percentage is necessary to meet:-

- (a) the new pay arrangements for Legal Grades 5-7;
- (b) the support grades - restructuring; and
- (c) Typists - skills allowances

all of which, unlike many other Departments, predominate in my Departmental grading structure. As a result EC110 will require additional funding if the present level of output, services and standard is to be maintained.

Furthermore, the results obtained by the application of the model when compared to the existing (EC110, EC115, EC130 and EC155) baselines highlights the depression of the existing baselines following the PES '87 one year only agreement.

Capital EC440

Aside from the need for an additional £60,000 in Financial Year 1989/90 I have been able to reduce existing baseline figures in Financial Years 1990/91 and 1991/92 by £103,000 and £418,000 respectively.

Forensic EC310

I do not propose to alter the existing baselines.

Expenditure on New Construction EC430

Expenditure has had to be revised and increased significantly in line with PSA's revised estimates of building costs. I am particularly concerned by the late notification of an additional requirement for the Heriot-Watt site which relates to an increase in the purchase cost from £2m to £5m as a result of unprecedented increases in Edinburgh property prices. The site purchase cost will be shared with SCA, and it is estimated that the Crown Office contribution would amount to £1.25m payable on the date of entry (ie July '89) an increase of £750,000.

CPLS EC180

Based upon the experience of the last Financial Year our existing baseline needs to be augmented but at present no information is available to enable the average cost per witness paid to be calculated. This will however be possible from the end of the current year.



3

To avoid the necessity of seeking supplementary provision during Financial Year 1989/90 the baseline has been increased by 3.9% to £4,620. Until we can forecast CPLS expenditure with a greater degree of accuracy uplift percentages of 3.5% and 2.5% only have been applied for the ensuing years.

Receipts (Fines etc) EC190

It is anticipated that receipts will continue to increase over the PES period.

My officials are providing further evidence in support of the additional bids which will form the basis for discussion with your officials over the coming weeks.

I am copying this to the Prime Minister and the Lord President.

Yours ever

Kenny

CAMERON OF LOCHBROOM

OUTTURN COMPUTATION

	(%)	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>	<u>NOTES</u>
WTD Workload		17868823.75	18334681.75	18865926.75	19236425.00	----- Extrapolated weighted workload (output)
Unit Cost 87/88		0.9882				----- Computed as at 31.3.88 (Running Cost ÷ Output)
Pay/Price	0.070	1.0574				-----
Saving	0.015					
Unit Cost 88/89		1.0415	1.0415			-----)
Pay/Price	0.040		1.0832)
Saving	0.020)
Unit Cost 89/90			1.0615	1.0615) Spreadsheet computer projected Unit Cost after
Pay/Price	0.035			1.0987) Pay and Price factors and efficiency gains are
Saving	0.020) taken into account and,
Unit Cost 90/91				1.0767	1.0767)
Pay/Price	0.025				1.1036)
Saving	0.020)
Unit Cost 91/92					1.0815	-----)
Total Running Costs		18610619.20	19462456.22	20312755.55	20804869.83	----- produces expected total running costs
New Work	Tape Rec	200000.00	Unable to compute effect in future			----- To this must be added work which is not part
			years as at 1.4.88			of the above equation eg new legislation
Revised Total 1988/89		18810619.20				
Model Running Costs						
Pay & Pens		13812796.19	14290215.26	14914688.91	15276000.75	----) Analysis of running costs
LO		83000.00	86300.00	89300.00	91600.00)
GAE		4950823.01	5121940.96	5345766.64	5475269.08)
Chgs for Gds	(36000.00)	(36000.00)	(37000.00)	(38000.00)		----)
Total		18810619.20	19462456.22	20312755.55	20804869.83	----- Agreed to spreadsheet total above.

1988 SURVEY - PROPOSED CHANGES

	1989/90 £'000	1990/91 £'000	1991/92 £'000
SALARIES EC 110 EXISTING BASELINE	13,953	14,302	14,660
PROPOSED ADDITIONS	337	613	616
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	14,290	14,915	15,276
LAW OFFICERS EC 115 EXISTING BASELINE	74	76	78
PROPOSED ADDITIONS	12	13	14
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	86	89	92
GAE EC 130 EXISTING BASELINE	4,841	4,950	5,074
PROPOSED ADDITIONS	281	396	401
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	5,122	5,346	5,475
CAPITAL EC 440 EXISTING BASELINE	690	603	618
PROPOSED ADDITIONS	60		
PROPOSED REDUCTIONS		103	418
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	750	500	200
FORENSIC EC 310 EXISTING BASELINE	795	828	849
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	795	828	849
PSA EC 430 EXISTING BASELINE	1,573	1,142	1,171
PROPOSED ADDITIONS	2,846	1,201	1,903
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	4,419	2,343	3,074
CPLS EC 180 EXISTING BASELINE	4,448	4,564	4,678
PROPOSED ADDITIONS	172	218	224
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	4,620	4,782	4,902
FINES ETC	- 5,250	- 5,500	- 5,638
	- 1,250	- 1,325	- 1,462
	<hr/>	<hr/>	<hr/>
PES '88 BASELINE	- 6,500	- 6,825	- 7,100

pr cc (personal) to Paul Curray
(No 10)

FROM: MISS S P B WALKER
DATE: 2 JUNE 1988

1. MR TURNBULL ^{AT 2/6}
2. CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Monck
Mr Odling-Smee
Mr Sedgwick
Mr MacAuslan o/a
Miss James

1988 SURVEY: DEPARTMENTAL BIDS

I attach a table showing the bids submitted by departmental Ministers. For one or two of the smaller departments we await further information or clarification of the size or status of particular bids, but the general pattern is clear. The table also shows initial estimates of the likely outturn on local authority relevant current expenditure and nationalised industries' EFLs, provided by LG and PE respectively, and a rough calculation of the territorial consequences of the bids received.

2. The totals of bids are about £8.4 billion, £11.3 billion and £14.8 billion. This compares with initial bids of £7.6 billion, £10.6 billion and £13.7 billion at this stage in last year's Survey. The totals include large bids from MOD, Transport (for roads), Health (pay and the expected results of the NHS review), Education and Housing.

3. Ministers' letters also mention various other potential items of expenditure for which they have not bid: these may emerge as further bids later in the Survey, or as claims on the Reserve. Major items are:

i. pay: the MOD bids include nothing for AFPRB awards after 1988 (Mr Younger mentions a 'planning assumption' of £90 million in 1990-91 and £200 million in 1991-92); the HPSS letter includes no bid for real pay increases resulting from the 1989 review body awards;

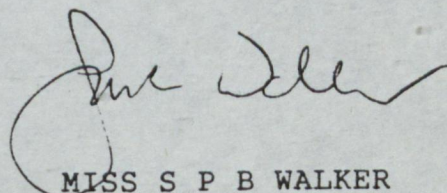
ii. the results of various reviews: Mr Moore bids for the 'probable outcome' of the NHS review; various aspects of

MAFF and DTI programmes are under review; DES have not bid for new forms of student support.

- iii. the international tin agreement: potential costs to DTI of an unfavourable result from current litigation - up to £600 million in 1990-91;
- iv. launch aid: Lord Young mentions possible bids for Rolls Royce and BAe;
- v. increases in prescription/dental charges: the HPSS bid does not assume further savings from increases in charges after 1988-89;
- vi. housing benefit: the Scottish Office bids do not include the housing benefit consequences of changes in local authority rents;
- vii. comparability: both the Welsh and the Northern Irish letters complain about the unfairness of the territorial consequences formulae, and Mr King has based his bids on the assumption of a block budget of 2.85 per cent of comparable GB provision rather than the current formula of 2.75 per cent;
- viii. MOD payments to BNFL for the disposal of nuclear waste: a separate submission from DM explains the background - a maximum cost of £70-80 million in each of the Survey years.

4. The savings offered by IBAP and ECGD are, of course, dependent on the weather on the one hand and exchange rates and interest rates on the other. In the case of IBAP in particular IAE think the bid may be optimistic. It is also noticeable that Mr Ridley has not yet declared his hand on receipts.

5. We hope to be able to let you have expenditure divisions' forecasts of the Survey outcome around 13/14 June.



MISS S P B WALKER

SECRET
SUMMARY SCORECARD

Date of last Update:
02/06/88

	1989-90 BASELINE	1989-90 DEPT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1991-92 BASELINE	1991-92 DEPT POSITION
Ministry of Defence	19,969.0	298.0	20,575.0	934.0	21,075.0	1,380.0
FCO - Diplomatic, Information, Culture	743.0	38.9	761.0	59.4	780.0	61.2
FCO - Overseas Development Administration	1,505.0	44.0	1,551.0	75.0	1,590.0	94.0
European Communities	1,470.0	420.0	1,320.0	190.0	1,353.0	0.0
Intervention Board for Agricultural Produce	1,690.0	-301.6	1,845.0	-286.7	1,891.0	-192.1
Ministry of Agriculture, Fisheries and Food	786.0	37.2	801.0	47.2	821.0	65.1
Forestry Commission	64.0	9.1	65.0	11.8	67.0	13.0
Department of Trade and Industry	1,282.0	97.1	1,222.0	98.3	1,225.0	-19.2
Export Credits Guarantee Department	139.0	-46.0	120.0	-49.0	123.0	-90.7
Department of Energy	309.0	9.2	316.0	-9.3	323.0	-19.6
Department of Employment	4,185.0	194.4	4,241.0	246.9	4,347.0	258.3
Department of Transport	2,244.0	394.0	2,299.0	456.0	2,357.0	605.0
DOE - Housing	2,378.0	524.0	2,399.0	602.0	2,459.0	936.0
DOE - Other Environmental Services	904.0	413.0	935.0	345.0	958.0	304.0
Home Office & Legal Departments	2,428.0	377.7	2,522.0	532.1	2,585.0	610.3
Department of Education and Science	5,156.0	632.1	5,293.0	842.1	5,425.0	975.9
Office of Arts and Libraries	454.0	0.0	471.0	0.0	483.0	50.0
DHSS - Health and Personal Social Services	18,559.0	1,867.0	19,445.0	2,595.0	19,931.0	3,483.0
DHSS - Social Security	50,889.0	756.5	53,347.0	1,363.3	54,681.0	2,678.7
Scotland: negotiable	5,033.0	27.5	5,206.0	26.8	5,336.0	24.6
Scotland: formula		492.6		628.5		815.3
Wales: negotiable	2,101.0	38.9	2,169.0	35.0	2,223.0	32.6
Wales: formula		225.3		284.7		373.8
Northern Ireland: negotiable	5,323.0	40.0	5,508.0	72.0	5,645.0	101.0
Northern Ireland: formula		135.5		172.9		224.2
Chancellor's Departments	4,019.0	45.1	4,162.0	120.9	4,268.0	233.9
Other Departments	397.0	38.2	415.0	48.2	425.0	122.4
DOE - Property Services Agency	-163.0	26.0	-162.0	72.3	-166.0	69.9
Nationalised Industries	114.0	217.4	-274.0	277.0	-282.0	-110.0
Local Authority Relevant	33,520.0	1,300.0	34,517.0	1,522.0	35,380.0	1,739.0
TOTAL (excluding Reserve & privatisation)	165,126.0	8,351.1	170,692.0	11,313.4	174,918.0	14,819.6

Geo. Pol. Pub. Gr. P139

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
 Home Secretary
 Home Office
 50 Queen Anne's Gate
 London
 SW1H 9AT

CEBG
CGO
MDM
RR16
6/6

2nd June 1988

Dear Home Secretary,

PUBLIC EXPENDITURE SURVEY (LOCAL AUTHORITIES): POLICE MANPOWER

Thank you for your letter of 13 May ^{has} about police manpower. I am also grateful to John Moore and Nicholas Ridley for their letters commenting on yours.

I am disappointed that you feel it necessary to reopen the question of police manpower after only two years of what I know both my predecessor and you had hoped would be a programme that ran a full four years. I, of course, appreciate the very real pressures that exist to increase police numbers, but no one could reasonably claim that the police have not been given a high priority since we took office. As you know police strength has increased by well over 10 per cent since 1979 and civilianisation has also had a major impact in freeing police for operational duties. It is necessary to weigh the pressure for additional resources for the police against the calls for increased spending in other areas. We must also bear in mind the ever increasing share of local authority resources consumed by the police, without taking into account the implications of manpower increases, because of the effect of the Edmund Davies pay formula.

I am grateful to you for informing colleagues of your likely bids for increases in police manpower in 1989-90. I also welcome your brief description of the pattern of demand for police resources that you see emerging. I would be grateful, however, if you could provide a more quantitative assessment of your bids covering the type and scale of the problems not being adequately met by police forces, the objectives you believe

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should be met in each area, and how far your proposals are likely to meet them. Our officials have already discussed the sort of questions we will need to consider, and in view of the control you exercise over the major component of police expenditure I think that you are in a good position to insist that the police demonstrate the value for money which has been achieved by additional resources in the past few years. This information is a necessary backcloth against which to judge the bids you wish to make. Looking to the future, I welcome your commitment to redoubling effort to measure and control police efficiency, and to stepping up the civilianisation programme where this is lagging. I would be grateful to be kept in touch with the action you are taking on this front. No doubt you will be considering in this context the recent Audit Commission recommendation for a rationalisation of administrative support facilities for police officers.

As the Police Federation Conference is past and you have recently announced your approval for increases in provincial force establishments covering the third year of the existing programme, I see no immediately pressing need to announce a review of police manpower need. In whatever form such an announcement was made, it would be bound to engender speculation that significant increases in the programme were being considered. I would be grateful therefore if you would defer any such an announcement until we have had time to discuss your proposals fully. As John Moore has said we may well have to do so collectively. We might also discuss how best such a review could be handled; but for example a low key approach might be achieved by linking the longer term forward look at requirements which you have in mind with the new arrangements to systematise police manpower applications that I understand you are considering.

I understand that our officials have had an initial discussion about your suggestion that new posts, the cost of which are fully met by agencies, should not count against any manpower programme agreed. I agree that they should report on this in time to inform E(LA).

I am copying this letter to the Prime Minister, other members of E(LA), Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours sincerely

Joe E. ...

for JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

PRIME MINISTER

1988 PUBLIC EXPENDITURE SURVEY

The Chancellor mentioned to you yesterday that Ministers' bids for this year's Survey, which have been coming in this week, looked to be extremely high. Copies of the submissions are, in accordance with the Survey guidelines, being sent to you, but I am not troubling you with them at this stage. But you may find it helpful to have a short commentary.

As the Chancellor mentioned, for 1989/90 - the first year of the new Survey - bids already in are about £5½ billion. There will be some more to come - this does not include local authority current expenditure. All told I would expect total bids to be at least £7 billion in 1989/90, and substantially more than that for the later years.

This total is a bit higher than normal. But I do not think this is any great surprise. With all the talk of how well the economy is going, and the fact that we are now running a budget surplus, spending Ministers are almost bound to react in this way.

As to the composition of the bids, the Chancellor mentioned that the two parts of DHSS account for about £2½ billion in 1989/90. The fact that the Social Security numbers are up yet again - about £3/4 billion and much more in the later years - is disappointing but a familiar feature. The more striking element is the bid for health of nearly £2 billion which, even allowing for the carry through of the pay settlement, looks very high.

Amongst other departments major features are:

- Total bids from DES of over £600 million in 1989/90 rising to nearly £1 billion in the later years.
- Bids of nearly £1 billion a year on DoE programmes (mainly

housing but also other parts of the department).

- Bids for extra transport spending - nearly all roads - of £400 million in 1989/90 rising to £600 million in later years.
- An extra £200 million for prisons.

Some of these bids are clearly inflated. The key question will be whether they can realistically be scaled down to keep within the existing planned spending totals. At first glance this looks to be a tall order. The present plans for 1989/90 include a Reserve of £7 billion, and this could prudently be scaled down only to say £3½ billion as we roll forward a year. That means perhaps £3½ billion to share out between programmes, of which quite a large proportion will be pre-empted by the largely unavoidable increases for local authority current and social security. So I think we are in for another difficult Survey.

Next Steps

We are currently planning for the Public Expenditure Cabinet on 14 July (possibly slipping to 21 July). I have asked for two papers to be prepared for you by mid June, to provide the basis for a discussion with the Chancellor and the Chief Secretary:

- (i) A Treasury assessment of the pressures ^{and} of the remit to be put to the July Cabinet.
- (ii) A note from Robin Butler on arrangements, and critically personnel, for a Star Chamber. You might meantime want to be reflecting on possible candidates for Chairman - Mr. Wakeham and Mr. Parkinson (whose departmental programme should be easily settled with the Treasury) look to be the main possibilities.

PRCG.

PAUL GRAY

27 May 1988

KAYAEJ



CEBGT
TO BE RETURNED TO FOLDER
ATTRIBUTED TO ECON POL
Public Expenditure Pt 39

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

25 May 1988

PES 1988: SOCIAL SECURITY BENEFITS AND DHSS ADMINISTRATION

I am writing to give you my proposals for increased provision for social security benefits and DHSS administration expenditure for the 1988 PES round. As usual I am writing separately about health and personal social services expenditure. The principal figures are set out in the Annex.

I should first refer to the outstanding items from PES 1987. We discussed the child benefit proposals last week and you now have details of the package which we expect to put to the Prime Minister very shortly. In my judgement the child benefit savings must be linked to improvements in our provision for poorer pensioners. I believe there is a strong case for the latter even if it is judged right to leave the child benefit provision unchanged and I therefore entered it as a separate bid. Similarly, whatever the decision on the structure of child benefit, I attach great importance to a full uprating of this benefit in April 1989. I have therefore entered a bid to reverse the previous decision that the benefit should be partially uprated next year.

We agreed that officials should examine three other areas and report in time for this year's survey:-

Christmas Bonus

You suggested that the Christmas bonus might be at a higher rate to poorer pensioners and withdrawn from others. We have looked into this but I am afraid that I do not think that this makes practical politics at the moment.

Mobility Allowance

You will recall that we discussed the position of mobility allowance recipients who, under current legislation, will lose benefit at age 75. This will occur from November 1989. You suggested that freezing the rate from April 1989 would be a way of meeting the cost of extension. Officials have examined this but my preference would be to extend the age limit to 80, as an interim measure, pending the outcome of the disability review, and to continue to uprate the benefit. I shall find offsetting savings in my programme.

Occupational Pension

We also discussed the possibility of making savings by offsetting occupational pensions against invalidity benefit. It would be better to deal with this in the context of the wider review of disability benefits on which officials have submitted an interim report.

PES 1988

Forecasting changes

Section 3 of the scoresheet at the Annex records the results of the May round of economic and estimating forecasts. The figures will be revised in August but it is encouraging that the net effect is a considerably lower bid in the first year of the survey than has been the case in recent years. The estimating changes in the first year are mainly attributable to increases in the disability benefits; it is too soon for us to be able to make any firm forecasts for income support and housing benefit. I shall however, be looking for an agreed addition to my programme - or a PES transfer from DOE - if there are increases in housing benefit expenditure arising from changes in housing policy.

E.R.

Agreed bids

The agreed bids are at section 5 of the Annex. They comprise:-

E(LF) - community charge

The figures here are only a marker: the E(LF) decision on compensation for 20% of the community charge cannot be re-costed until DOE have revised their forecasts of community charge levels. I have written to you and Nicholas Ridley on this and await your views.

Rent taper

This is the cost of the decision not to increase the housing benefit rent taper from 65% to 70%.

Losers package

This, of course, is the cost of the recent package to increase the housing benefit capital limit from £6,000 to £8,000 and provide transitional protection to those losing more than £2.50 a week.

ETP

These figures have been agreed with Department of Employment, and are net of a transfer to DE in respect of training allowances formerly paid by DHSS. The bulk of the cost is attributable to DE's revised assumptions about the caseload composition.

I have dealt with 4 of the items of section 7 of the Annex. The remaining bids are very minor in the context of my programme and I shall seek to find offsetting savings for the smaller items.

I must, however, put down a marker in the areas of income support and the social fund. Both schemes are in their infancy and we may not have uncovered all the rough edges. We shall know by the autumn and I may then need to seek provision to make some minor adjustments.

E.R.

Finally, there is the internal review of disability benefits. I do not at the moment see this as an issue in this year's survey since it is most unlikely that major changes will be possible before 1990/91. But the OPCS reports will be published later this year and we shall have to decide on the handling of this matter before then. There are some difficult issues involved and I shall write to you shortly.

Administration

Manpower requirements are invariably the biggest single component of my Department's administration costs. I am pleased to note that, after several years of growth, the trend is now firmly in the opposite direction. If the 1,800 manyears agreed on a one year basis in last year's survey for new work are carried forward the manpower comparison with last year is broadly neutral for 1989/90, but with substantial reductions for the two succeeding years.

Salaries

The cost of paying staff has increased substantially. For example, during 1987/88, average salaries moved upwards by almost 9.7% in comparison with the 3.75% movement used as the basis for PES 87 assumptions. I suggest we leave it to our officials to agree on the calculations which lie behind this bid.

Accommodation

I continue to attach a very high priority to improving the DHSS estate particularly in our local offices where there remains much to be done. Accordingly I am making a bid for a further substantial increase in expenditure for the first two years, the dividends for which are both better staff morale and better service to social security customers.

Non-manpower running costs

In many areas, eg fuel, rents and telecommunications, prices are forecast to outstrip the provision in the baseline. My Department will seek to contain the effect and savings targets will be set (see reference below to the Departmental Management Plan) but a substantial bid is unavoidable.

E.R.

Service to the Public

In addition to the improvements in accommodation we need to improve our service to social security claimants in other ways. The Public Accounts Committee will almost certainly issue a report urging greater expenditure in this area, and I am making a modest bid to enable improvements to be made in communications and training.

Medicines Agency

I endorse the proposal in the Evans/Cunliffe Report that the Medicines Agency should be transferred to net running costs control with effect from 1 April 1989 and I trust that our officials will be able to settle the details in the course of their discussions.

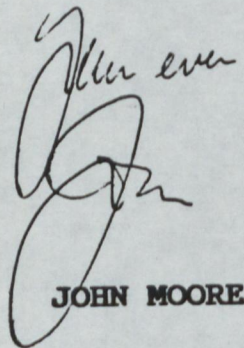
HB transitional payments

The bid does not include any provision for the administrative cost of these payments. A costing will be supplied as soon as possible.

Management Plan

I attach a Management Plan for the Department which our officials have discussed and which sets out the ways in which we intend to achieve efficiency gains of at least 1 1/2% over each of the next three years.

I am copying this letter to the Prime Minister and Sir Robin Butler.



JOHN MOORE

SCORESHEET

	1989/90	1990/91	1991/92
1. Agreed PES 87 totals			
1.1 Benefits	48,673	51,065	52,342
1.2 Administration	2,435	2,507	2,570
2. Total (baseline)	51,108	53,572	54,912
3. Economic changes			
3.1 unemployment	-573	-596	-610
3.2 prices & rents*	-81	-16	331
3.3 budget	-25	-29	-29
4. Estimating	709	1,168	2,166
Total of 3 and 4	30	527	1,858
5. Agreed bids			
5.1 E(LF) (subject to revision)	88	91	94
5.2 Rent taper	46	48	49
5.3 Losers			
(a) HB capital limit	22	23	24
(b) transitional protection	50	40	30
6. Agreed adjustments			
6.1 ETP	177	189	193
Total of 5 and 6	383	391	390
7. Policy bids			
7.1 Poorer pensioners	74.0	84.0	90.0
7.2 Mobility allowance	0.3	3.2	7.8
7.3 Child benefit	44.0	44.0	44.0
7.4 Overseas pensions	16.0	28.6	40.0
7.5 E(LF) over 25s	9.0	9.3	9.5
7.6 Uprating	3.6	4.8	6.0
7.7 Pre-1973 war widows	2.6	2.4	2.4
7.8 Miscellaneous savings	-16.0	-16.0	-16.0
Total of 7	133.5	160.3	183.7
8. Administration			
8.1 Salaries	105	141	123
8.2 Non-manpower running costs	59	109	148
8.3 Capital	45	38	-21
8.4 Other costs	1	-3	-3
Total administration	210	285	247

* Compensation for RPI error, included in forecast for changes in prices/rents: +£77m 1989/90; +£81m 1990/91; +£84m 1991/92.

CCB/6



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

Robbie at his stage.

*Acc 6
23/5*

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

23 May 1988

John G. H.

PUBLIC EXPENDITURE SURVEY (LOCAL AUTHORITIES): POLICE MANPOWER

Douglas Hurd sent me a copy of his letter of ¹³ *Has* May. It raises major issues that I think we need to consider collectively.

I do not underestimate the importance of sustaining a strong, efficient and effective police force; nor the political difficulty of resisting strongly expressed local bids for extra resources. To consider such bids in isolation, however, would be wholly inconsistent with our approach to the allocation of scarce financial resources.

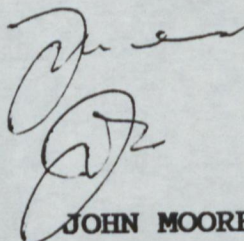
In looking at Douglas' proposals for significant growth in police and civilian manpower over and above that which is already provided for, I should welcome further information about the underlying objectives and the estimated costs. We shall need to establish the total effect of cash and volume bids for the police on the provision available for other services, against our judgement of their needs.

Like Douglas, I am, in the field of personal social services, determined to increase our efforts to improve efficiency and effectiveness. I also intend to provide for specific savings.

E.R.

At the same time, like him, I am faced by undeniable and justifiable increases in demand for high priority services such as the protection of children and care of frail old people. I hope that we shall be able to consider the various service pressures in deciding on the overall level of provision for local authority expenditure and to make conscious choices about the distribution of available funds, reflecting a balanced judgement of all service needs.

I am copying this letter to the Prime Minister, the other members of E(LA), Malcolm Rifkind, Tom King and Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'John Moore', written in a cursive style. The signature is positioned above the printed name 'JOHN MOORE'.

JOHN MOORE

ECON POL : Public Expenditure
PT39.



RESTRICTED



FILE
DA

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

**MR. STEVENS
CABINET OFFICE**

**1988 PUBLIC EXPENDITURE SURVEY: CABINET
OFFICE VOTE**

Thank you for your letter of 18 May. With the exception of expenditure on security improvements - and I know you are already closely in touch with Charles Fountain on this - I cannot think of any other major new expenditure requirements for 10 Downing Street.

(N.L. WICKS)

23 May 1988

RESTRICTED

MA



From: R T J Wilson
18 May 1988

P 03115

MR. GRAY

cc Mr Woolley
Mr Monger
Mr Neilson

STAR CHAMBER 1988

1. No decision has yet been taken about whether there should be a Star Chamber this year but there must be a possibility that something like it will be needed. I am therefore minuting you to try and prevent the repetition of a difficulty which has cropped up in recent Star Chambers, namely overseas travel by Ministers whom we want to be members of the Star Chamber or whom the Star Chamber wishes to invite to appear before it.

2. We cannot identify now which Ministers will be needed. But I think it would be prudent and helpful if all requests to No 10 from senior Ministers for overseas travel in October and the first half of November could be treated with caution, and only be approved subject to the provision that if the Ministers in question are required to appear before, or to serve on, the Star Chamber, then Star Chamber business must have precedence over whatever foreign travel arrangements they may have made.

3. I have checked with Mr Turnbull that the Treasury agrees that this would be a wise precaution.

C.F. (Tony)

R.T.J.W.

R T J WILSON

BF

1. Mr. Bearpfe

2. Mr. Morris o/a

Put into on desk and ensure the all applications are needed with a to remind us!

A good idea. Feel free to consult re dot state particular individuals are likely candidates.

Ang

*RCC6
18/5*

CONFIDENTIAL



QUEEN ANNE'S GATE LONDON SW1H 9AT

13 May 1988

NBPM noted Chief Sec. expands.

*DR CG
16/5*

Dear Chief Secretary,

PUBLIC EXPENDITURE SURVEY (LOCAL AUTHORITIES): POLICE MANPOWER

It may be helpful at this stage if I set out for you and colleagues, the way in which I see this developing. I believe that we need to be in a position to announce a substantial increase in the manpower programme over the PES years. We have held the line for two years with a modest expansion. We are under heavy pressure in this third year of the present programme, and in my judgment will have to expand faster during the next three years.

As you know my approval is necessary for any increase in police officer establishments in provincial forces. As police authority for the Metropolitan Police I also control Met Police civilian manpower. This enables me to exercise a considerable influence over the major component of spending on this service - greater I think than exists for any other large service. At a time, when there is increasing public demand for more effective and intensive policing it does leave us politically vulnerable if we are shown to be unresponsive or unnecessarily restrictive in meeting police authority bids. You and colleagues will appreciate that such bids only emerge after police authority scrutiny of chief constables' own assessments and that police authorities are required by the Home Office to show both that they can finance their share of the increased costs, and that they have fully explored the scope for civilianisation.

Existing Programme

My announcement in May 1986, following a 'proven needs' exercise conducted by the Inspectorate and after close consultation with colleagues, provided for a programme of establishment increases amounting to around 2,000 police officers in the provinces and 1,200 in the Metropolitan Police, plus civilian recruitment enabling redeployment of a further 650 officers to operational duties in the provinces and 400 in the Met. (200 Met officers have also been redeployed to operational duties as a result of force reorganisation.)

The phasing of the programme was not specified but successive Public Expenditure White Papers provided for growth of 500 police officers a year in the provinces and 300 in the Met. Arrangements have been made to monitor the increases. The great bulk of extra

/police officers

The Rt Hon John Major, MP

CONFIDENTIAL

police officers has gone, as intended, on patrol and resident beat duties. But it is now very clear that these increases have not met local demands. A clear pattern is emerging:

of forces which are fully stretched to respond to calls from the public (with the less immediately pressing ones sometimes unanswered at least by a visit from a police officer);

of CIDs unable to investigate all but the most serious crimes with the thoroughness which many would argue they require;

of police unable to respond in sufficient numbers to spontaneous outbreaks of disorder (especially at public house closing times, and increasingly even in quite small towns, not just in the inner cities).

The tasks expected of the police continue to multiply, especially in the area of public order, drugs and terrorism. Colleagues will also appreciate that it seems a universal complaint of those living in rural or even suburban areas that they rarely see a policeman except when visiting the major centres of population.

There is a strong professional case on which I can expand for reassessment of the manpower needs of the service in the next few years. There is also a strong political case. The opposition parties have turned sharply round and now support or take the lead in local requests for more police. This of course has a powerful influence in the cities. Our own supporters are vehement in the same cause.

A New Programme

In the normal course of events I would, as in 1986 and 1987, simply be putting forward a cash bid to enable me to complete the four-year programme announced in 1986, plus of course to provide for the overall costs of the service and for the special requirements we acknowledge in relation to police pay.

We must redouble our efforts to measure and control police efficiency, and step up the programme of civilianisation in those areas where it has been lagging. There should be no slackening in our repeated insistence on value for money. But next year we also need to increase significantly the manpower programme.

Having examined an assessment by HM Inspectorate of Constabulary, based on informal soundings and without in any way inviting "bids" from chief constables or police authorities, I consider that we should announce shortly a fresh comprehensive look at police manpower needs, and in the interim step up the programme in the provinces from 500 to 1,000 in 1989-90 with similar increases in later years up to 1992-93. For the

/Metropolitan

CONFIDENTIAL

3.

Metropolitan Police I think we need to extend beyond 1989/90 the present annual rate of police establishment increases of 300 a year and from 1989/90 should step up civilian recruitment from 150 to 350 a year. To promote civilianisation I would propose to issue a fresh circular to police authorities re-emphasising the criteria on which manpower applications are judged, introducing a timetable for the receipt of applications and the announcement of approvals, and engaging them in the exercise of forecasting likely future needs. I would be concerned in introducing this arrangement to present it as bringing a more systematic and orderly approach to the consideration of applications for increases in establishment. It would of course have to be made quite clear that there would be no guarantee that all or any applications would necessarily be met.

I should also like officials to report to us before we discuss the local authority programmes in E(LA) the possibility of taking out of the scored manpower programme new posts whose costs are fully reimbursed by agencies: this would both avoid over-provision in PES and help me to meet acute potential problems in relation to the policing of Stansted Airport and the Fixed Channel Link.

The exact amount we provide for 1989-90 will need to be decided upon in the light of the expenditure group's report but it will have to be realistic and take account of the police pay arrangements and other demands on the service.

For the later years we shall need to give indicative manpower figures. The demand is clearly established and if our priorities are to be maintained, it will have to be met. But I recognise we shall need to leave open both the financial provision and the final decision on the number of new posts until we have engaged the police authorities and the police service in more structured and open discussions. This will enable us to conduct the necessary rationing exercise in a way which remains acceptable within the tripartite structure of responsibility for the police service, but which will throw better light on the competing needs of different areas.

I am copying this to the Prime Minister, the other members of E(LA), the Secretary of State for Scotland, the Secretary of State for Northern Ireland and Sir Robin Butler.

Yours sincerely,

[Signature]
Lawel

Approved by the Home Secretary
and signed in his absence.



W
P
20
cc BI

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 May 1988

FINANCIAL REPORTING TO PARLIAMENT

Thank you for your letter of 4 May. The Prime Minister is content for the Treasury's memorandum to be published as a White Paper.

I am copying this letter to Alison Smith (Lord President's Office) and to Trevor Woolley (Cabinet Office).

Paul Gray

Alex Allan, Esq.,
H.M. Treasury.

P



MJZ CIR

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

6 May 1988

PUBLIC EXPENDITURE PER FAMILY

Thank you for your letter of 29 April. I have now also seen Tom Jeffery's of 3 May and Alex Allan's of 4 May. I am glad that, though the figures as always are not without their difficulties, we are agreed that the attached table provides us with an acceptable common base.

I am copying this letter to Tom Jeffery (Department of Education and Science) and Alex Allan (HM Treasury).

Mark Addison

Geoffrey Podger, Esq.,
Department of Health and Social Security.

PUBLIC SPENDING PER FAMILY OF FOUR

	<u>£ million</u> <u>UK</u>	<u>£ per week</u> <u>per family</u>
Health (1)	23,500	32
Education (2)	21,935	30
Social Security (3)	49,987	67.50

(1) A gross figure, estimated most recently by DHSS and reflecting the increase of £1,952 million (gross) in the NHS Budget this year. (N.B. Total includes some £200 million of land sales receipts.)

(2) Excludes the science budget, but includes an allowance for public expenditure on education financed by private income from course fees, etc. Figures based on the £21,892m. 1988 PEWP figure.

(3) 1988 PEWP

All the above calculations are based on a UK mid-year population estimate for 1988 of 57.006 million. Expenditure per family of four calculated by multiplying up a per capita figure.

ECON POL.

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

The Treasury's memorandum announcing the changes in documentation on financial reporting to Parliament has now gone to the PAC and TCSC. Alex Allan's letter of 4 May, attached, records Terence Higgins' request that it should also be published as a Command Paper or a House of Commons paper. The Chancellor sees some marginal advantage in agreeing to this.

Content for the document to be published as a White Paper on either Friday or Monday?

Recg.

Yes

PAUL GRAY

4 May 1988



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

4 May 1988

Paul Gray, Esq
No.10 Downing Street
London SW1

Dear Paul,

FINANCIAL REPORTING TO PARLIAMENT

The Treasury's memorandum was sent last week to the PAC and TCSC under cover of letters to the two Clerks. It requested the Committees to agree that the document should be made available more widely without waiting for it to be published as a House of Commons paper by one or both of the Committees.

Both Chairmen were content for the document to be disseminated more widely, and it was published yesterday under a Treasury press release. Mr Higgins, however, said he hoped it could also be published as a White Paper. This reflects a study the Liaison Committee has conducted into the way in which departments respond to Select Committee reports. As Chairman of that Committee he has written to the Lord President recommending more uniformity - with publication as either a Command Paper or a House of Commons paper being the norm.

The Chancellor sees no objection, and possibly some marginal advantage, to meeting this request and putting out the Government's response as a White Paper. I should be grateful if you could arrange for the Prime Minister's clearance. It would be published either on Friday or on Monday.

I am copying this to Alison Smith (Lord President's Office) and to Sir Robin Butler (Cabinet Office).

Yours
Alex

A C S ALLAN
Principal Private
Secretary

CONFIDENTIAL



cjs

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

4 May 1988

Mark Addison Esq
10 Downing Street
LONDON SW1

My reply

Dear Mark

PUBLIC EXPENDITURE PER FAMILY

file with MEA

You sent us a copy of your letter of 22 April to Geoffrey Podger about figures for public expenditure per family on health, education and social security. I have also seen Geoffrey Podger's reply dated 29 April.

Like DHSS, we have reservations about your figures. We think you are open to challenge if you use the figures as "public expenditure per family" without any qualification, when they are calculated simply by multiplying expenditure per capita by four. As Geoffrey pointed out, the average household size is just over $2\frac{1}{2}$ people, and the classic family of 2 adults and 2 children accounts for only $13\frac{1}{2}\%$ of households.

You told me that you had received briefing from the Treasury which said that the 1981 Census had revealed that there were 14.509 million families in GB (not very different from what you get by dividing the population by four). So far as I can tell, that figure must have been based on the CSO definition of a "family", which is "a married couple, alone or with their never-married child or children (of any age), or a lone parent together with his or her never-married child or children". As you will see, this means that that figure excludes single people living alone, including widows and widowers, many of whom will both benefit from this spending and contribute towards it through taxation.

The best way out seems to me to stick carefully to the formulation "public expenditure per family of four", which is defensible. This is what DHSS have done in the written answers you referred me to.

The only alternative would be to use figures for public expenditure per household, or per taxpayer. But these would, of course, produce considerably lower figures (by about a third and a half respectively).



The other points we had were:

- i. we would prefer to deduct spending on the Research Councils from the figures for education, in order to concentrate on purely educational spending which gives a direct service to families. This would give a total of £21,193 million instead of £21,892 million, and the figure for expenditure per family of four would then be £28.60.
- ii. Like DHSS, we see some problems in using gross figures for spending on health. There are indeed difficulties in measuring gross UK expenditure, though we would not contest DHSS's estimates of this year's provision. More important is that not all gross expenditure is financed from taxes and patient charges: it includes for example some income from sales of surplus land.
- iii. We attach importance to referring always to "public expenditure per family of four", and not "cost per family of four". This is particularly important for social security which is made up of transfer payments - the "average family" pays money with one hand and receives it back with the other. But for health also it could be misleading to imply that the whole gross cost of the NHS is met by families, since some is met by sales of land.

I am copying this letter to Geoffrey Podger (DHSS) and Tom Jeffery (DES).

*Yours
Allan*

A C S ALLAN
Principal Private
Secretary

ELON POL: Public EXP pr 39



COMMISSIONER



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

Mark Addison Esq
10 Downing Street
London SW1A 2AA

CBG
3 May 1988

Dear Mark

PUBLIC EXPENDITURE PER FAMILY

Your letter of 22 April to Geoffrey Podger asked for comments on estimates of expenditure per family on, among other things, education and science.

2. Taking your assessment of the number of families, we agree the arithmetic on education and science expenditure. The precise figure is £29.55p. For comparison with the gross health figure, it would be best to exclude the science budget - 95p per week. We should also make some allowance for public expenditure on education financed by private income from course fees and so on. This amounts to just over £1 per family. Hence the equivalent rounded figure for education is £30 of gross public spending per family per week.

3. I am sending copies of this letter to Jill Rutter and Geoffrey Podger.

*Yours,
Tom.*

T B JEFFERY
Private Secretary

Econ

Policy Pt 39

Public

EXPERIMENT

& CASH Limits

ELM STREET HOUSE
YORK ROAD
LONDON S11 2PE
01 894 1000

03.11.88
1988

FINANCIAL REPORTING TO PARLIAMENT

Memorandum by H.M. Treasury

Introduction

The Committee of Public Accounts (PAC), in its Eighth Report of 1986-87 (HC 98) said they wanted documents tailored more specifically to Parliament's needs in its consideration of department's expenditure proposals and suggested three possibilities:

- to develop Volume II of the Public Expenditure White Paper (PEWP), possibly dividing it into separate departmental reports, so that it embodies formal Estimates of the sums required to be voted by Parliament;
- to publish the Estimates earlier and develop their present form to include the forward looking information on departmental objectives and performance targets needed by Parliament to consider Supply;
- to develop some other document tailored more specifically (in relation to both timing and information content) to Parliament's needs, relegating the Estimates to a formal supporting role.

2. The Government replied on 15th July 1987 (Cm 177) agreeing that the form and content of financial reports should reflect internal systems and Parliament's perception of its own needs. There should be a direct correlation between the information in the White Paper on departmental objectives, performance and output and the Supply Estimates, so that the information in the former can be relevant to the examination of the latter. The Government expected to carry this process forward, so that the Committee's concern that information on aims, objectives and performance could be directly related to the Estimates should be largely met without repeating that information in the Estimates themselves. The Government saw advantages which publication of the information in the White Paper and the Estimates in a combined document might produce, but noted that there were many

other implications to be considered (eg for the timing of work in departments and the Treasury and in Parliament) before such a move could be decided upon. The Government would review these implications and report their conclusions to the Committee.

3. The Treasury and Civil Service Committee, in its report on the 1988 PEWP (HC 292), also considered the structure of expenditure documents and the way they are presented to the House and debated by it. The TCSC observed that the Autumn Statement now provides very much more information on the public expenditure aggregates and the broad division between programmes for the three years ahead. In consequence there was very little new that the PEWP has to say on the broad picture.

4. The TCSC recommended dividing the PEWP into three. The material on the broad policy on the totals and the outline plans should be absorbed into the Autumn Statement, to the extent that it is not already there; the departmental chapters of Volume II should be published as departmental reports no later than the Budget, together with the Estimates; and the technical analyses of Volume I should be released in January/February.

5. This memorandum accordingly presents the outcome of the Government's consideration of the matter and its proposals for future action, and invites the comments of the two Committees.

Government Proposals

6. The Government notes in the proposals of the two Select Committees some themes which it considers should feature in any new system. These are that the present series of three documents (Autumn Statement, PEWP and Estimates) could usefully be rationalised into two; that the main elements of the outcome of the Survey ought to be made available as soon as possible after the Survey has been completed; that clear and comprehensive information about the objectives, performance and output of each of the departmental programmes should be published for consideration and, as necessary, debated by Parliament; and that there should be clear links between the information about programme plans and the requests for Supply which Parliament is

asked to approve. In addition, if the documents are to include the information which Parliament requires, there need to be clear links between the timetable for these documents and the internal management systems which are used within departments and the Treasury to plan and control the expenditure.

7. Against this background, the Government's proposals are in brief as follows:

i. The Autumn Statement would include as much as practicable of the key material from Chapter 1 of the PEWP. This would still be published in November within a few working days of the Cabinet's decisions on the Survey.

ii. Volume II of the PEWP would be split up into separate departmental volumes containing each department's plans. These would be published in March, on or shortly before Budget day, in conjunction with the formal Supply Estimates. They would thus serve both as a description of the department's plans and as the necessary background information for understanding of the Supply Estimates.

iii. The remaining material in Volume I of the PEWP cannot be produced until departments have decided how the Survey allocations should be further broken down between sub-programmes (especially in the territories where this process has to await decisions on all the English programmes) and the detailed figures have been collated and analysed in the Treasury computer. This could be made available in a number of ways, for example as a statistical supplement to the previously published Autumn Statement, in written answers to Parliamentary questions, or along with the departmental reports in March.

8. A number of related questions will also need to be considered. First, whether for each department the volume on the departmental plans and the corresponding booklet of Supply Estimates should be merged into a single document; or whether the departmental plans should be published separately from, but on the same day as the formal Supply Estimates which would be

published in a series of booklets as now. The Government undertook, in the statement mentioned in paragraph 2 above, to consider this question. Merger would have the advantage that all the relevant information would be bound within one document. But many readers of the departmental plans would not need to have, or want to pay for, the relatively detailed breakdown in the Estimates which is needed by Parliament and Government as the basis for the preparation and audit of the Appropriation Accounts.

9. The Government sees advantages in publishing the departmental material now in the PEWP on the same day as the corresponding Estimates. One effect would be that the figures for the year immediately ahead would be those which had been agreed in the Survey, as modified by subsequent Estimates scrutiny. Linking the two exercises in this way would help to improve the read-across between PEWP and Estimates. But for the reasons given above, it feels it would be better not to bring the two sets of publications into single volumes, but to publish departmental volumes containing the former PEWP material plus a summary of the Estimates. The latter would provide the bridge with the full Estimates which would be published at the same time but in separate booklets. This would still allow Select Committees to have most of the relevant information brought together at the start of their scrutiny of departmental programmes. It would also allow the current arrangements under which the Treasury is responsible for presenting requests for Supply and for the associated procedures to continue.

10. Second, there is the question of the degree of uniformity of the departmental volumes. The character of the main programmes varies greatly and the volumes will need to reflect that. They will however need to contain a basic core of financial information, drawn from a common database, to link them to the information published in the Autumn Statement about the outcome of the Survey. They will also need to contain certain mandatory elements, such as a statement of objectives, an adequate array of indicators of performance and output, with comparisons with the comparable targets set in previous plans, information about running costs and manpower, and (as noted above) a clear link

with the detailed Estimates. As the PAC have pointed out, the information presented should satisfy the criteria of consistency, relevance and reliability. Subject to these requirements, the aim would be to provide as informative an account as possible, bearing in mind any requests for information made by individual departmentally-related Select Committees. To meet the needs of those readers interested in more than one programme it will be our aim to ensure that as far as possible the volumes have similar structure and presentation.

11. Third, there is the timing of the change. The Treasury is well advanced with plans to introduce a new computer system and this will need modification to bring together the separate systems which support the Survey and the Estimates. Changes will also be required to the departmental systems which support the central database and to the timetables for collecting information. Linking the Survey and Estimates databases in a way which would permit the two sets of material to be published together would therefore not be practicable before the documents presenting the outcome of the 1990 Survey.

12. But this need not delay action on the main proposals in paragraph 6 above. The Government proposes to include in the 1988 Autumn Statement additional information on departmental plans in real terms, comparisons of outturn with previous plans for the expenditure totals, and debt interest in order to make it a more complete account of the outcome of the Survey. It also proposes next year to present the existing departmental chapters in the current Volume II of the White Paper as separate booklets in January; to continue to improve the read-across to the Supply Estimates; and to release the remainder of the analytical material now in Volume I in some suitable way. The policy material of Chapter 1 which was moved to the Autumn Statement would not be repeated. This would be followed after two years by moving the departmental reports to March alongside the Estimates.

13. In addition, the Government proposes to proceed with the simplifications to the Estimates identified in the National Audit Office report (HC 576) and summarised in Annex A to the Government's reply to the PAC in July 1987 (Cm 177) including, if

the PAC sees no objection, the change in treatment of grants-in-aid and international subscriptions.

14. Fourth, as the TCSC has pointed out, there are implications for the way in which the information presented is debated by Parliament. If the PEWP is divided as proposed, there would not be the basis for a separate debate that there now is, though the Government recognises that the House would not wish to lose a day's debate on public expenditure. While noting the TCSC's proposal that a debate might be held in May or June arising from Select Committee scrutiny of one or more departmental reports, the Government is not yet convinced that this would prove an acceptable alternative in all parts of the House, and would propose to consult further before taking a final view on the arrangements which should be made.

15. The Government would be grateful for the views of the PAC and the TCSC on the proposals above. It will then take account of those views in devising more detailed arrangements for future expenditure documents along the lines suggested in paragraphs 7-10.

H.M. Treasury
April 1988



Under Review:

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

My Tony Knight

Mark Addison Esq
Private Secretary
10 Downing Street
London
SW1

29 April 1988

Dear Mark,

PUBLIC EXPENDITURE PER FAMILY *at flat.*

Thank you for your letter of 22 April.

I have to say that we do have reservations about the figures set out in your letter. In our view the basic premise of dividing the UK population by four to give a figure for the average family is highly artificial. The average household - as defined by the General Household survey - did in fact comprise 2.56 people in 1985, although the number had been declining steadily.

Equally the figures used by the Prime Minister on NHS spending per family have twice in recent months gone ahead of events. Somewhat fortuitously the real figures have caught up each time - but not without some potential presentational problems in handling last week's announcement of extra funding for the NHS and only by the use of gross expenditure figures. These can be partially justified, as you say, by reference to the burden of charges falling on families. This does leave the figure open to challenge - as does the inclusion of land sales receipts of some £200 million in the gross expenditure figures.

All that said, I can confirm that we are content to live with your approach, if only as it is clearly not a realistic proposition to seek to depart from it at this juncture.

I am copying this letter to Tom Jeffery (DES) and to Miss Rutter (Chief Secretary's Office).

*Yours sincerely,
Geoffrey Podger*

G J F PODGER
Private Secretary

ECON POL: Publici Expenditur PT39.



ECPC



FROM: PS FAIRWEATHER
DATE: 26 04 1988

Charles POWELL Esq
No 10

Dear Charles

As discussed, I enclose photostat copy of the most important papers on obtaining additional funds to help reduce Soviet influence in Africa. I understand that our bid for the Africa Defence Equipment Fund has survived thus far and is included in the FCOs PES bid for FY 89/90 and the following two years.

*Yours ever
Patrick*

PS FAIRWEATHER

FROM: PS FAIRWEATHER
DATE: 22 March 1988
cc: Heads of
SAFD
CAFD
EAD
WAD

Mr MUNRO

1988 PES ROUND: BOARD OF MANAGEMENT MEETING

1. As background to the bid attached in the papers under Mr Crabbie's minute of 17 March, you may wish to look again at my minute of 23 February which covers the additional bid over and above that already agreed at your meeting earlier this year and which arises directly out of the Prime Minister's visit to Africa.

2. There will be pressure to cut back on the total additional FCO bid. I hope our African bid can be spared. The sum involved of £5.7 m is only a little over a quarter of the programme bid. By no stretch of the imagination can it be described as meaning that we are giving disproportionate weight to Africa. A telling comparison would be with the £10 m which Mr Caines has just given to Malawi.

3. Let me deal separately with the UKMTAS bid (Annex A of my minute of 23 February) and the Africa Defence Equipment Fund (Annex B).

4. Additional UKMTAS bids. The following are the essential elements:

(a) FLS plus South Africa's neighbours. Ten separate bids, none larger than £0.5 m but which collectively will we calculate have a considerable impact in demonstrating the UK's commitment to regional stability. Bid (d) for the Zimbabwe Staff College Logistics Training Team is probably the most important after bid (i). As you and I both know from our visits to Harare, the ZNA wish to add a logistics wing to the Staff College. If successful this bid would ensure that ZNA training remains overwhelmingly British orientated. In other words we are keeping out the Russians.

As regards measuring the impact of what we are doing, Mr Smith in MRS has agreed that it would be very difficult to establish meaningful targets which would enable departments to evaluate additional expenditure. I would,

/ however

however, bring to your attention para 6 of Mr Allan's teletype to Mr Cullimore in which he draws a direct connection between our training and the refusal of additional Soviet military training.

(b) Kenya/Uganda. Two very small programmes which I hope nevertheless we can retain.

(c) Nigeria. Two rather larger programmes entirely justified by the importance which the Prime Minister gives to the maintenance of our defence relationship with Nigeria - a country with which she believes we can work to reduce Soviet influence in Africa. History has demonstrated that the Nigerians in their present economic circumstances find it almost impossible to pay for military training. If these bids are successful, it should be possible to avoid a recurrence of past problems.

Africa Defence Equipment Fund

5. As you know, UKMTAS funds are not supposed to be used for the supply of non lethal (or indeed lethal) military equipment. Only by robbing the FCO contingency reserve were we able during FY 1987/88 to provide small but operationally important quantities of non lethal equipment to Malawian and Zimbabwean units operating in Mozambique. We cannot rely again on the contingency reserve. It is essential that we should be able to draw on an Africa Defence Equipment Fund as proposed in Annex B for Mozambique, Zimbabwe, Malawi and Tanzania. With our enhanced UKMTAS bid this will demonstrate that we are determined to make our considerable economic aid to SADCC effective by improving security on the railway lines through Mozambique.

6. Somalia A special case. President Moi worries that the Presidential succession might bring about an increase in Soviet influence there. The drastic cut in US military aid to Somalia will certainly not help to keep Somalia lined up against the USSR. Our bid (guestimated) of £250.000 for spares for Hawker Hunter aircraft would be a demonstration of our commitment to Somalia, which is best done through military assistance.

7. Nigeria. A minor bid. Nevertheless important to make our training fully effective.

8. All the bids correspond with the objectives of the African Departments as set out in paragraph 4 of my minute of 24 February.

PS Fairweather

PS FAIRWEATHER

From: P S Fairweather

Date: 27 January 1988

cc: Mr Munro
Mr Crabbie, Finance Dept
Mr Prendergast, SAFD
Mr Cullimore, CAFD
Miss Fort, WAD
Mr Marsden, EAD
Mr Yarnold, Defence Dept

Mr Goulden

REDUCING SOVIET INFLUENCE IN AFRICA

1. Mr Powell's letter of 8 January to Mr Parker set out the Prime Minister's reflections following her visit to Kenya and Nigeria. The Prime Minister was interested to find a strong echo of her concern about Soviet policies in Africa. She wanted to see us make more of this in our relations with African governments. It was evident that there was scope for us to influence the situation in Angola and for reducing the Cuban and Soviet presence there. We were asked to consider what practical steps we could take. We are submitting separately on the Angolan issue. I would like in this minute to look at the general implications of seeking to reduce Soviet influence in Africa.
2. This of course has long been a major foreign policy aim. It has been pursued with some success; Mozambique is perhaps the best example. But as Mozambique shows, we need the means to do the job. One essential instrument is aid. We shall be in touch separately with the ODA on this point.
3. Military assistance is probably as important as aid as an instrument of foreign policy in some African countries. Many, perhaps even most, suffer from undisciplined armies which menace political stability, social order or both. (Conversely in new countries without established political institutions, a well-disciplined army can be a force for stability.) Even quite small-scale military training and assistance can have an impact both in terms of improving the quality of troops and, above all, in increasing our political influence. In the case of those countries which depend on Soviet training or arms (and which therefore by definition are those which we should be looking at first if we are to seek to reduce Soviet influence), or which might be tempted to go down this road - Zimbabwe is the most worrying example (the air defence package) - an offer of some form of military assistance - training, material or both - is an essential part of our effort.
4. But the means available to HMG for this purpose are inadequate. Unlike the Soviet Union we do not normally dispose of large quantities of hardware which can be given away to potential clients

/or

or sold at uncommercial prices. What we have apart from the military training fund (which is I understand - but I would welcome further information - effective but small) is the Defence Policy Fund and UKMTAS.

(a) Defence Policy Fund

I understand that the £5m DPF is disbursed by MOD on the basis of the MOD's judgement of its own Ministerial interest. While this no doubt makes sense from a MOD point of view, it means that it may not always serve HMG's overall interests or still less the specific purpose of reducing Soviet influence in Africa.

- (b) UKMTAS funds for African in FY 87/88 amount to £6.7m which is already more than 50% of the total worldwide. Yet even so the fund is under great strain as a consequence of the emphasis we are now giving to positive measures in favour of the Front Line States and SADCC countries. This is a key element in our strategy of convincing the FLS and the wider Commonwealth that our opposition to sanctions does not mean that we support apartheid. The effort to rehabilitate the transport routes through Mozambique, which is the centrepiece of our aid, requires parallel measures (both military training and supply of equipment) to protect the routes and make them viable.

5. As a result we are now providing from UKMTAS funds military training for companies of the Mozambican army at Nyanga in Zimbabwe, in addition to the longstanding commitment to training the Zimbabwe army (one of the results of which has been to see off the North Koreans). We have also, as you know, had to draw on the FCO contingency reserve to finance the £2m package of non-lethal defence equipment for the same Mozambican companies as well as for Malawian, Tanzanian and Zimbabwean troops to help them protect the transport routes through Mozambique more effectively. UKMTAS funds could not have been used for this purpose even if the money had been available.

6. These initiatives have had a political impact quite disproportionate to their cost. They have given a clear signal to the FLS of our determination to help them counter the destabilising effect of apartheid in the region, have encouraged the Mozambique Government to further distance itself from the Soviet Union (not least by demonstrating the clear superiority of British army training over the Soviet product) and have also sent a signal to Pretoria about the need to keep its hands off the transport routes. Other Western countries are now showing signs of following our lead, which is all to the good.

7. But the very success of the steps we have taken creates additional pressures and raises expectations. It is

/foreseeable

foreseeable that, as the work on the routes progresses, they will receive more attention from Renamo. The calls on us for help will increase accordingly. The Mozambicans are already pressing for an increase in our training effort. As matters stand there will be no scope for even a modest increase from the UKMTAS budget and of course we can hardly raid the contingency reserve a second time to fund further gifts of non-lethal defence equipment. Yet the only serious impediment now to our weaning Mozambique further away from the Soviet Union is our own inability to provide a significant amount of defence equipment at a subsidised rate and to step up our training effort.

8. So far as UKMTAS is concerned the FCO's PESC bid, which will be going forward in early February following consideration in the TMR, includes an additional £1.5m for Africa. Obviously the brief for the Secretary of State's use in his bilateral with the Treasury should refer to the Prime Minister's reflections as set out in paragraph 1 above and the higher priority which therefore in our judgement attaches to the PESC bid for UKMTAS.

9. I shall be looking again at the level of resources when I examine objectives for my area within the Top Management Review system but my preliminary impression is that the total remains inadequate. The original bid from the African departments for UKMTAS was for an additional £10m. In my view what is required is a flexible instrument, larger than the present UKMTAS and available to provide modest amounts of material assistance as well as training to those African countries where this would help to reduce Soviet influence or to prevent them establishing a position. It might be right to try to lump in the DPF. We need to ask ourselves whether further resources can be found to meet three policy objectives: to maintain our enhanced position in countries we have been able to assist recently by responding to requests for more; to counter Soviet influence; and to preserve into and beyond the next CHOGM the credibility of our alternative policy to sanctions - helping to the survivability of South Africa's neighbours.

10. I should welcome your views on all this and on how the MOD might be tackled (I suppose it would be right for you to do this). We then need to think in terms of a submission to No 10 without whose help the idea of a new Africa Defence Fund controlled by the FCO will get nowhere.

11. In any discussion with the MOD it might be worth raising the issue of high capitulation charges raised by them for loan service personnel funded through UKMTAS and the equally high costs charged for training in the UK as compared with training in the United States or I presume the Soviet Union. Both are

/fairly

ensure

fairly hoary and I realise that MOD are doing no more than respond to pressures placed on them by the Treasury. But the fact remains that we could do much more with existing funds if the MOD (or Treasury) could be persuaded that the costs of MOD personnel abroad or of training foreign army personnel in Britain should not have attributed to them every last cent of the cost of maintaining an army of our present size and its training facilities.

P S Fairweather

P S Fairweather

From: P S Fairweather

Date: 23 February 1988

cc: Chief Clerk
 Mr Munro
 Mr Tomkys
 Mr Goulden
 Mr Prendergast, SAFD
 Mr Cullimore, CAFD
 Miss Fort, WAD
 Mr Marsden, EAD
 Mr Yarnold, Defence Dept
 Mr Gore-Booth, Planners
 Mr Beel, Research Dept
 Mr Hemans, Soviet Dept

Mr Crabbie, Finance Dept

1988 PES ROUND

ADDITIONAL UKMTAS FUNDING ARISING FROM THE EFFORT TO REDUCE
 SOVIET INFLUENCE IN AFRICA

A 1. As requested in your minute of 6 February, I submit an additional bid for UKMTAS for 1989/90 and the following two years. The bid is for £2.95m in year one and £3.2m in years two and three. The details are attached at Annex A. This bid is of course additional to the £1.05m which the TMR has already agreed should go forward (£0.5m for Mozambique; £0.25m for Malawi and £0.3m for Zimbabwe).

2. UKMTAS covers, as you know, only training courses in the UK and training programmes carried out by MOD personnel abroad (though exceptionally it was agreed last year that items of equipment should be provided from UKMTAS for Mozambican soldiers passing out of Nyanga). The events of recent months have demonstrated that there is a need for a fund which can provide non-lethal equipment to keep units in the field in Mozambique to provide security along the transit routes from Zimbabwe, Malawi (and perhaps in future Swaziland) into Mozambique. The relatively small sums provided in the current financial year are expected to make a useful contribution to the operational efficiency of the ZNA, Malawian, Tanzanian and Mozambican units concerned by providing key items of equipment otherwise not available. The political impact has been disproportionately great. We cannot, however, assume that the FCO Contingency Reserve can be used again in future to provide this equipment. I should therefore like to bid additionally for the establishment of an African Equipment Fund with effect from 1989/90. I realise that it will be difficult to agree the establishment of a new fund at short notice but to delay, as Mr Goulden recommended, until after the 1988 PES round, would be to risk a hiatus of one year. This would damage the credibility of our policy of positive measures for the Front Line States which is bound to come under intense scrutiny in the run up to the next CHOGM in September/October 1989 in Kuala Lumpur.

/3.

B 3. The total bid for the Africa Equipment Fund, details of which are set out in Annex B, is for £2.35m in year one and £2.55m in years two and three. The difference is accounted for by the fact that item (c) - non-lethal equipment packages for Nyanga training Mozambican units - is being met from UKMTAS proper in year one and because the 1989/90 TMR-approved bid already provides £0.25m for an engineering team in Malawi (item g)

4. The additional UKMTAS bid and the bid under the African Equipment Fund would improve our chances of achieving important departmental objectives including:

- (a) reducing Soviet influence in Africa;
- (b) continuing to highlight the positive aspects of our Southern Africa policy, particularly aid for transit routes through Mozambique and to avoid exaggerated attention being given to our policy on sanctions;
- (c) doing what we can to reinforce the stability of friendly regimes in Africa, particularly those subject to destabilising attacks from the RSA;
- (d) reducing the dependence of South Africa's neighbours on routes through South Africa;
- (e) strengthening Mozambique's links with the West;
- (f) strengthening Swaziland's ability to cope with cross-border destabilisation and to participate in the protection of routes through Mozambique;
- (g) attaching proper importance to President Babangida's desire (shared by the Prime Minister) to strengthen the UK-Nigeria defence relationship;
- (h) contributing to keeping Somalia pro-Western when Siad Barre goes and to containing Libyan and Soviet Bloc influence in Uganda.

The bids for £1.05m referred to in para 4 of Mr Tomkys' minute of 9 February and already approved by the TMR are aimed at the first five of these objectives.

5. MOD have confirmed that there is no objection of principle to providing more training places in the UK or to the despatch of LSP teams; though they cannot at this stage guarantee places and it might take some months to put new teams into place.

P S Fairweather

P S Fairweather

ANNEX A

ADDITIONAL UKMTAS BIDS

	(a) <u>Uganda</u>	
4	Special military visits programme	£0.1m (3 years)
	(b) <u>Tanzania</u>	
	Special military visits programme	£0.1m (3 years)
	(c) <u>Kenya</u>	
3	Special military visits programme	£0.05m (3 years)
	(d) <u>Zimbabwe</u>	
2.	Zimbabwe Staff College 4 man logistics training team	£0.25m (3 years)
	(e) <u>Zimbabwe</u>	
	Additional courses in UK	£0.15m (3 years)
	(f) <u>Zimbabwe</u>	
	Short term advisory visits to Zimbabwe	£0.02m (3 years)
	(g) <u>Malawi</u>	
	Engineering training team for Kamuzu Military College	£0.10m (1 year) £0.35m (yrs 2 & 3)
	(h) <u>Malawi</u>	
8	Additional training courses in UK	£0.05m (3 years)
	(i) <u>Mozambique</u>	
1.	Double size of Nyanga courses	£0.5m (3 years)
	(j) <u>Mozambique</u>	
	Additional training courses in UK	£0.1m (3 years)
	(k) <u>Zambia</u>	
	Military courses in UK	£0.05m (3 years)

/(i)

cf £1.47m

£1.67m

(1) Swaziland

BATT to be reinforced by 1 or 2 men £0.08m (3 years)

(m) Nigeria

Payment for training courses in UK
already earmarked for Nigerians £0.9m (3 years)

(n) Nigeria

Establishment of two new LSP teams

(i) Mechanical warfare (NASI) £0.25m (3 years)

(ii) Armoured school team £0.25m (3 years)

£2.95m Year 1

£3.2m Years 2 and 3

ANNEX B

AFRICA EQUIPMENT FUND

(a)	<u>Tanzania</u>	
1=	Non-lethal equipment	£0.5m (3 years)
(b)	<u>Somalia</u>	
2	Spares for Hawker Hunters	£0.25m (1 year)
(c)	<u>Mozambique</u>	
1=	Non-lethal equipment packages for Nyanga trained units	£0.45m (yrs 2 & 3)
(d)	<u>Mozambique</u>	
1=	Non-lethal equipment for security of Limpopo line	£0.5m (3 years)
(e)	<u>Zimbabwe</u>	
1=	Non-lethal equipment for ZNA units engaged on protection of Limpopo and Tete road convoy tasks	£0.5m (3 years)
(f)	<u>Malawi</u>	
1=	Non-lethal equipment for Malawi army units engaged on protection of Nacala line	£0.5m (3 years)
(g)	<u>Nigeria</u>	
3	Non-lethal military training aids	£0.1m (3 years).
		<hr/>
		£2.35 (year 1)
		£2.55 (years 2 & 3)

CONFIDENTIAL



*File DG 404
bc BG*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 April 1988

Dear Jill,

FINANCIAL REPORTING TO PARLIAMENT

The Prime Minister has seen the further exchanges since I wrote to you on 5 April, culminating in the Chief Secretary's minute of 22 April. She is content for the Lord President to open discussions with the Opposition on the basis of the proposal that there should be a two-day debate on the Autumn Statement, with the second day devoted to public expenditure issues. She also agrees that the Lord President should put forward the possible upgrading of the Third Reading of the Finance Bill only if this is necessary to secure agreement. She is content for the memorandum now to be sent to the TCSC and PAC on the basis of the revised wording in paragraph 6 of the Chief Secretary's 22 April minute.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet, and to Eleanor Goodison (Office of the Minister for the Civil Service), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and to Trevor Woolley (Cabinet Office).

*Yours,
Paul*

Paul Gray

Miss Jill Rutter,
Chief Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

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CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 22 April 1988

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

I have seen the Lord President's minute of 15 April setting out his views and those of the Chief Whip on the implications for the timing of debate of the proposed changes in expenditure documents.

2. While transferring the day in February at present allocated to a debate on public expenditure generally to an Estimates day in May/June in many ways is more consistent with the revised structure of documents, I can understand the worries the Lord President expresses. Certainly we would not want to add a day in May/June for debate of specific programmes and then find ourselves conceding, under pressure from the Opposition, an extra day for general debate at the start of the year.

3. I am therefore content that he should open discussion with the Opposition with the proposal that there should be a two day debate on the Autumn Statement. This is, of course, in addition to the economic day in the Queen's Speech debate which, in many years, has come immediately after the Autumn Statement and has provided the forum for immediate reactions to it. As the Chancellor would have to open and take part in the debate, it would have to take place as soon as possible after Parliament returns from the Christmas recess and certainly before mid-January so as to avoid the period of Budget purdah between mid-January and Budget Day. We should also try to establish that the second day was devoted to public expenditure issues.

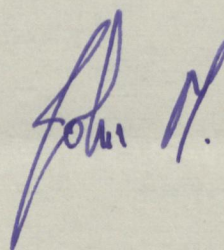
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4. It may be that there will be insufficient interest in a second day, as was the case with the old public expenditure debate. If that proves to be the case we should have to reconsider.

5. Neither the Chancellor nor I are keen on upgrading the Third Reading of the Finance Bill into a full debate on the economy. We would not want the Lord President to volunteer this and would want to put it forward only if it were necessary to secure agreement of the Opposition and the Select Committees to a package.

6. The Chancellor and I are content with the revised paragraph 14 of the memorandum suggested by the Lord President, though it would leave the Government's position slightly more open if the last sentence read "... the Government is not yet convinced that ...". If you are now content, I will arrange for the memorandum to be sent to the TCSC and PAC.

7. I am copying this minute to Cabinet colleagues, David Waddington, Richard Luce, Christopher Patten, Patrick Mayhew, Kenny Cameron and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to read 'John M.', is written above the printed name.

JOHN MAJOR

Elon Public

Expenditure

Pt 381





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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 April 1988

Dee Geoffrey

PUBLIC EXPENDITURE PER FAMILY

I spoke to Terry Ewington this morning about the point raised in Paul Gray's letter to you of 21 April. We agreed that it would be helpful if I were to circulate a note setting out the figures, as I have most recently calculated them, on public expenditure per family for health, education and social security, with a view to agreeing a common set for the future. My figures are as follows:

	<u>£ million</u> <u>UK</u>	<u>£ per week</u> <u>per family</u>
Health (1)	23,500	32
Education & Science (2)	21,891	30
Social Security (2)	49,987	67.50

- (1) A gross figure, estimated most recently by DHSS and reflecting the increase of £1,952 million (gross) in the NHS Budget this year.
- (2) From the 1988 PEWP.

All the above calculations are based on a UK mid-year population estimate for 1988 of 57.006 million, equivalent to 14.251 million families of four.

You will note that the £32 (equating to £1650 per family per year in the briefing) is the same as the figure the Prime Minister has used in the past (before the recently announced increase in NHS resources this year) which was calculated on a

different basis. The recent increase in NHS resources of £852 million gross amounts to an increase per family of about £1. We have agreed, however, that the £32 figure should continue to be used now as the overall figure.

It is worth noting that the NHS expenditure figure is gross and not net. The justification for this is that NHS charges are also met, in the end, by the families using the service. The other figures above are of course net and taken straight from the Public Expenditure White Paper.

You will no doubt spot that the social security figure is rather higher than the one we have been using to date, of £64 a week. That was based on an estimate for Great Britain, and I suggest we now adopt the United Kingdom figure in the table.

I should be glad if you and copy recipients would confirm that they are content with this approach.

I am copying this letter to Tom Jeffery (Department of Education and Science) and Jill Rutter (Chief Secretary's Office).

Y L e

Mark Addison

Mark Addison

Geoffrey Podger, Esq.,
Department of Health and Social Security.

PUBLIC EXPENDITURE PER FAMILY

Public expenditure in GB in 1986-87 ⁽¹⁾	£ million GB	£ per week per family ⁽²⁾
Health & Personal social services	21,516	28.52
Education & Science	18,472	24.48
Social Security	44,416	<u>58.87</u>
TOTAL OF ABOVE	84,404	<u>111.87</u>
Food		£39.02 ⁽³⁾

(1) Figures are consistent with Table 2.7 of the 1988 public expenditure White Paper.

(2) Assuming no. of families in GB is 14,509,000.
(Note: 1981 Census figure).

(3) 1983 Family Expenditure Survey.

CAROL SUMMERFIELD
GEP3
21 January 1988

UK PER CAPITA EXPENDITURE IN REAL TERMS (1)

	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Defence	259	273	279	285	304	313	332	327	320
Industry, Energy									
Trade & Employment	154	138	144	167	140	137	172	127	126
Roads & Transport	111	115	117	115	111	107	107	102	101
Housing	156	168	142	96	80	88	85	74	67
Other Environmental Services	98	100	97	91	94	97	95	89	87
Law Order & Protective Services	85	91	95	101	105	110	118	115	122
Education	328	323	331	328	329	331	328	319	338
Health & Personal Social Services	320	327	353	359	365	370	379	377	392
Social Security	587	592	602	668	708	734	760	778	807
Other Expenditure	179	168	149	149	166	147	133	126	93
Public expenditure planning total	2,277	2,296	2,310	2,358	2,403	2,434	2,509	2,432	2,453
UK population estimates (millions)	56.2	56.2	56.3	56.4	56.3	56.4	56.5	56.6	56.8

Note

(1) Real term figures are the cash figures adjusted to 1986-87 price levels by excluding the effect of general inflation as measured by the GDP deflator.

Figures are consistent with Table 2.7 of the 1988 public expenditure White Paper.

CAROL SUMMERFIELD
GEP3
21 January 1988

GROSS DOMESTIC FIXED CAPITAL FORMATION BY GENERAL GOVERNMENT (CENTRAL GOVERNMENT AND LOCAL AUTHORITIES) PER HEAD OF POPULATION

	1978	1979	1980	1981	1982	1983	1984	1985
<u>English Regions</u>								
North	78	96	104	80	64	95	124	114
Yorks and Humberside	73	71	79	70	72	94	104	104
East Midlands	67	67	74	62	47	69	95	91
East Anglia	71	78	83	72	71	82	99	105
South East	94	102	109	87	71	92	108	104
South West	62	64	71	57	48	78	88	90
West Midlands	64	70	73	57	44	85	110	112
North West	72	86	94	79	81	101	115	125
England	78	85	92	75	65	89	106	106
Wales	86	102	108	98	116	152	144	149
Scotland	120	141	144	130	132	166	174	178
Northern Ireland	85	110	123	104	111	116	130	130

Source:

Economic Trends published by CSO
Regional Trends published by CSO

CAROL SUMMERFIELD
GEP3
21 January 1988

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

Although you were content with the Chief Secretary's proposals to change the structure of public expenditure documents presented to Parliament, you questioned the proposal to replace the debate on Public Expenditure in January/February with a new Parliamentary debate in May/June.

This has led to further exchanges between the Chief Secretary and the Lord President:

Flag A: letter of 11 April from the Chief Secretary's office

Flag B: Lord President's minute of 15 April

Flag C: Chief Secretary's rejoinder of 22 April.

They now seem to have agreed an alternative approach. This would involve:

- (i) replacing the present one day Autumn Statement debate in December with a two day Autumn Statement debate in early January, with the second of those days devoted to public expenditure issues;
- (ii) getting rid of the present one day debate on the Public Expenditure White Paper in January/February;
- (iii) (only if necessary to secure the agreement of the Opposition and the Select Committees) upgrading the third reading of the Finance Bill into a full debate on the economy.

Content for the Lord President to negotiate a package on these lines and meantime for a holding response to be included in the memorandum?

Peace

PAUL GRAY

22 April 1988

Yes no



B CCBS

PRIME MINISTER

FINANCIAL REPORTING TO PARLIAMENT

Appx 38

I have seen the Chief Secretary's Minute to you of 29 March enclosing a draft Memorandum in reply to the recommendations of the PAC and the TCSC about the way in which information on public expenditure is reported to Parliament. I have seen also the subsequent exchange of letters between Private Secretaries.

I recognise the arguments for altering the documents presented to Parliament, as proposed, and am content with what is intended. The changes to the Sessional cycle of debates on public expenditure and Estimates which might follow this programme of alterations do, however, cause me some concern, as they do David Waddington with whom I have discussed the matter.

At present, the practice is for the Autumn Statement to be made sometime in the first half of November. The debate on this follows either in December or January, while the debate on the Public Expenditure White Paper comes in February or March. The pattern for taking the allotted three Estimates days, (one of which can be taken as two half days) is more variable - over the last four years the first part of the first day has twice been taken in December and twice in the March of the following year - but is particularly weighted towards taking two of the days in June and July.

A change to this arrangement which would do away with the public expenditure debate in February or March and probably replace it with another 'Estimates' day in May or June seems to us unattractive. If the Autumn Statement debate continued to occur before Christmas, it would be difficult to sustain the position whereby the House of Commons had no further occasion on which to debate public expenditure until after the Budget, when there are already many opportunities for financial matters to be raised. Furthermore, while the existing system of Estimates days works reasonably well, and I can understand the TCSC's wishing to see another day's debate of this kind, we do not believe that to the House generally the proposed debate in May/June would be an adequate substitute for the debate on public expenditure which we would be seeking to remove. But if it were once suggested, it would be sought in addition to the day's debate on public expenditure rather than as a substitute for it.

We believe, therefore, that there is a strong case for minimising the changes to the cycle of debates. Instead of extra time for debate in May/June arising from Select Committee scrutiny of one or more departmental reports, we might offer a two-day debate on the Autumn Statement in January/February. Among other advantages, this would give the TCSC slightly longer to prepare their report on the Autumn Statement, which would be relevant to the debate. We might also suggest, to assist the negotiations with the Opposition, that we would consider upgrading the significance of the Third Reading of the Finance Bill, by using it to provide a full day's debate on the economic situation just before the House rises for the Summer recess, for which there is normally some pressure. I attach a revised version of Paragraph 14 of the draft Memorandum in reply to the TCSC, which reflects this line of thought but makes it clear that this is a matter for further discussion.

Copies of this Minute go to other Members of the Cabinet, David Waddington, Richard Luce, Christopher Patten, Patrick Mayhew, Kenny Cameron and to Sir Robin Butler.

Alan Smith

PP

JW

15 April 1988

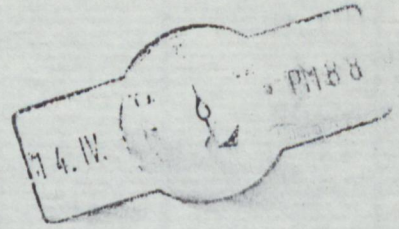
*(approved by the Lord President
and signed in his absence).*

RE-DRAFTED PARAGRAPH 14

14. Fourth, as the TCSC has pointed out, there are implications for the way in which the information presented is debated by Parliament. If the PEWP is divided as proposed, there would not be the basis for a separate debate that there now is, though the Government recognises that the House would not wish to lose a day's debate on public expenditure. While noting the TCSC's proposal that a debate might be held in May or June arising from Select Committee scrutiny of one or more departmental reports, the Government is not convinced that this would prove an acceptable alternative in all parts of the House, and would propose to consult further before taking a final view on the arrangements which should be made.

yet
h
↑
(Treasury
amendment)

ECON POL: public Exp pt 39.



~~CONFIDENTIAL~~



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

CCS
1
ADBM at this stage.

RCC

14/4

14 April 1988

John P. M.

Aggr p. 38.

THE NEW PLANNING TOTAL AND FINANCIAL REPORTING TO PARLIAMENT

Thank you for sending me copies of your minutes of 23 and 29 March to the Prime Minister.

I understand why the introduction of the new financial arrangements for local authorities leads you to suggest a different treatment for self-financed expenditure by local authorities and I am content for officials to consider the implications further. There is however one point which I would like to stress at this stage. The new arrangements will give the Government control over a higher proportion of the financing of local authorities. This is illustrated by the table accompanying your minute and is a point on which we laid some emphasis in the consultative paper about arrangements for negotiating teachers' pay. In view of this, I think that we should, if anything, seek to reinforce and certainly not diminish our ability to relate the Government's expenditure plans to the needs of local authorities and the services they provide - while recognising, of course, the discretion available to local authorities. From my point of view, I shall need to continue to be able to demonstrate that we are making adequate provision to support our education reforms. I hope that this can be covered by officials in their further examination of the proposal and that their report will illustrate what would be practicable for the expenditure tables and the text in presenting the Government's plans for individual local authority services.

~~CONFIDENTIAL~~

CONFIDENTIAL

There is a link here with the proposed new departmental reports in your second minute. In principle, I am in favour of your proposal but would want the new reports to have at least as much significance in terms of the provision for individual services as the present chapters in the Expenditure White Paper.

I am sending copies of this minute to the Prime Minister, to Cabinet colleagues, and to Sir Robin Butler.

Tom in

Hammett

CONFIDENTIAL

ELON POC : pub exp pt 39

PS/PM

cc BG



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Rt Hon John Major MP
Chief Secretary to the Treasury
Parliament Street
LONDON
SW1P 3AG

MBM
Proc
18/4

13 April 1988

Dear Chief Secretary

GUIDELINES FOR THE 1988 SURVEY

at flap Pt 38

Thank you for sending me a copy of your minute of 16 March to the Prime Minister. For the 1987 Survey we developed a procedure for the application of the Guidelines to reflect the ground rules for the operation of the Northern Ireland PE Block and I believe that these worked in a very satisfactory manner. I understand that my officials have been in touch with yours and that the same broad approach will apply this year. Subject to the resultant minor variations, I am generally content with the 1988 Survey Guidelines.

I am sending copies of this letter to other Cabinet colleagues, Richard Luce, Chris Patten, Patrick Mayhew, Kenney Cameron and Sir Robin Butler.

yours sincerely

Martin Donnelly

pp TK

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

SMN10936

Edwards Public
Exps Pt 39



CONFIDENTIAL

G.B.G.
A

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
Private Secretary
10 Downing Street
London
SW1

11th April 1988

Dear Paul,

FINANCIAL REPORTING TO PARLIAMENT

In your letter ^{at 11.45} of 5 April you express the Prime Minister's concern that shifting the debate on public expenditure from February to May/June could create difficulties for the Government.

In most years, the February debate on public expenditure has proved something of a non-event, a tendency which has been reinforced by the fact that the White Paper in January is not announcing anything new but is merely expanding on the decisions announced two months earlier in the Autumn Statement. This year, however, the debate proved more lively as it provided yet another platform for the arguments about the NHS.

The Chief Secretary agrees with the Prime Minister that if all that were done was to shift a general debate about public expenditure from February to May/June some of the difficulties mentioned in your letter could arise. However, as paragraph 14 of the draft Memorandum makes clear, this is not what is proposed. The proposal we are making, which is consistent with the TCSC's ideas, is that the general public expenditure policy should be debated as part of the Autumn Statement, probably before Christmas. Since there would be no further policy statement in January there would, under the proposed arrangements, be nothing to debate in February. The debate or debates in May/June would be on the reports which Select Committees have made following their examination of individual programmes. (One possibility might be two half-day debates.) Thus these debates would be focussed on specific programmes and not on the general picture. This should not allow any more opportunity to question the Budget stance than is already provided by the various stages of the Finance Bill.

But it
adds less
another
opportunity
to do so - e.g.
this year!

CONFIDENTIAL

Debates in May/June would be nearer the forthcoming Survey, but if they were related to individual programmes the argument would probably be about whether the service in question was under-funded, much as now, but this would enable the discussion to be kept off the objectives to be adopted in the subsequent Survey for public spending as a whole.

I would be grateful if you could confirm that the Prime Minister is content for proposals along these lines to be put to the Opposition through "the usual channels".

I am copying this letter to the Private Secretaries to other members of Cabinet, Eleanor Goodison (Office of the Minister for Arts), Miles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocates Department) and to Trevor Woolley (Cabinet Office).

Yours ever

308 *Jill Rutter*

PP JILL RUTTER

Private Secretary

Elon Pol: Public
Expenditure
Pt 39

MJ



cebg

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 April 1988

Dear Jill,

FINANCIAL REPORTING TO PARLIAMENT

The Prime Minister was grateful for the Chief Secretary's minute of 29 March and the attached memorandum.

The Prime Minister accepts there is a good case for a programme of changes to the public expenditure documents on the basis proposed. She is however concerned about the implication that the debate on public expenditure in January/February should be replaced by a new Parliamentary debate in May/June. A debate at this time, while the Finance Bill is still before the House, could lead to the whole Budget stance being questioned. It could also make it more difficult to restrict discussion to the expenditure plans agreed in the previous year and increase the questioning on the new year's Survey. The Prime Minister would therefore be grateful if the Lord President and the Chief Secretary could give further thought to this aspect of the proposals.

I am copying this letter to the Private Secretaries to other members of the Cabinet, Eleanor Goodison (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Michael Saunders (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and to Trevor Woolley (Cabinet Office).

Yours,
Paul

Paul Gray

Ms Jill Rutter
Chief Secretary's Office.

JR

PART 38 ends:-

PG to PM.

31.3.88

PART 39 begins:-

PG to HMT

5.4.88

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19

