


Pm has seen.

PRIME MINISTER

PUBLIC EXPENDITURE

I attach a note which I have prepared about the Public Expenditure Survey, which is of interest both to you and the Chancellor. It is, I suppose, a matter on which it would ideally have been appropriate for him to approach you directly. But given the pressure of events, it seemed to me wiser to let you have early sight of the idea.

I am also submitting the note to the Chancellor himself and to the Chief Secretary.



ADAM RIDLEY
10 May 1979

PUBLIC EXPENDITURE - DECISIONS MADE IN OPPOSITION

In our policy work in Opposition, we completed what were, in effect, several "shadow" Public Expenditure Surveys. The last full shadow survey was in 1978. By the time the election was called, we had completed two discussions with two Shadow Departments - Environment and Social Services. - We had also updated the 1978 decisions in line with the 1979 Public Expenditure White Paper for all other departments. Knowing that the records of these decisions would be of great importance in Government, we have been careful to bring them together systematically with a view to their possible use by the Treasury. All Ministerial Dossiers supplied by the Research Department to incoming Ministers should contain the documentation dealing with their departments. The question now arises as to how this material and the decisions embodied in it should best be used. There are two distinct exercises in which they could play a part.

The first is the search for economies in 1979/80. Because of the timing of the election, the Budget and expenditure decisions (which have to be made in a financial year that has already begun), the significance of decisions made before the election on economies in "year one" is somewhat uncertain. Some may be technically impossible (at least in full); others may require legislation which is not feasible; others still may not be politically desirable. Nonetheless, there are some useful agreed proposals on which early action could be taken, in time to provide some revenue for the Chancellor's first Budget.

The second use for this material would be in the Public Expenditure Survey which will be launched shortly. Although longer-term public expenditure plans will not be particularly a matter for Ministerial attention in the few weeks up to the Budget, the normal timetable requires a considerable amount of advance preparation at official level. The more thorough and comprehensive that work is, the easier the subsequent decisions will be. In this preliminary stage, the Treasury and departments are involved in what is essentially a factual enquiry. As I understand it, departments are asked to revalue "present policies" and to roll them forward a year; and to suggest the policy changes they would like to make if their expenditure plans were to be increased or decreased at the margin by some fairly small amount (eg plus or minus 2½%).

If the standard procedure were followed this year, it would, of course, provide no way in which decisions about expenditure made in Opposition could be incorporated in the Survey. Since the economies that have already been agreed are very substantial, particularly by years two and three, it would seem imprudent to abandon all this work and to start afresh.

The question therefore arises as to whether the first, factual stage of PESC could be modified to incorporate Opposition plans. Preliminary contacts with the Treasury suggest that there might, for example, be a way of doing it on the following lines. Departments could be asked three questions:

- (a) what are their estimates of the expenditure involved over the next five years in "present policies";
- (b) what are their estimates of the changes in expenditure implied by decisions made in Opposition; and if those decisions are unacceptable, what policy changes would they now suggest which would be better ways of raising the same revenue; and
- (c) what policy changes would they wish to make, over and above those agreed in Opposition, if they were to have to make further economies up to, say X% by the final year of the Survey.

If it were possible for the PESC exercise to provide Ministers with the answers to these three questions after the Budget, there might then be a firmer basis on which to make long run decisions about expenditure in the longer term. The chances of securing substantial longer run economies would be far greater.

It must, once again, be stressed that the procedure outlined above is only an illustration of one possible way ahead. But should the general principle be accepted, one thing is clear. The Prime Minister's support for the principles of the exercise would be vital. In particular, her explicit endorsement of the need to stick by past decisions [(b) above] would be essential when any Treasury proposals for the handling of PESC come before Cabinet, as they are likely to do in the near future.

AR.

ADAM RIDLEY

10 May 1979