Ref: A0203

CONFIDENTIAL

PRIME MINISTER

Publishing Medium-Term Public Expenditure Plans
(C(79) 36)

BACKGROUND

At the last Cabinet discussion on Public Expenditure (C(79) 12th Conclusions, Minute 5) on 26th July, the Secretary of State for Trade questioned whether it was necessary to publish Public Expenditure Projections going beyond 1980-81. You asked the Chancellor to bring forward a paper. The ground has shifted since then, with the decision to publish two separate White Papers, one on 1980-81 and one on later years. This makes it easier to emphasise the tentative nature of figures for the later years. The correspondence about guidance to local authorities on later years (the Chief Secretary's letter of 10th August and various replies) is also relevant.

2. It would be useful to get this paper out of the way before moving on to discussion of Longer-term Public Expenditure.

HANDLING

3. You might start by recalling this background, and then invite the Chancellor to introduce his paper. You could then throw the discussion open, starting with the Secretary of State for Trade (who raised the question first) and including the Secretary of State for the Environment and any others who wish to speak.

4. There are really three issues:-

(a) Whether to plan for five years ahead (paragraphs 2 - 4)

The Chancellor makes a strong case for doing so, for Government's own internal purposes. But he rightly stresses the need for the figures to be provisional, and biased on the down-side to avoid the need for later and difficult adjustments. Other public authorities also need a measure of guidance (the same point arises under (b) below). However, the techniques have changed since the Plowden report of 1962. Plowden recommended that expenditure plans

should be considered against the background of a survey of available resources (now the 'medium-term assessment' or MTA). The present Government has set itself the objective of reducing public expenditure as far and as fast as possible, almost irrespective of the availability of resources. A gloomy MTA would merely strengthen the case for doing so. But the size and timing of cuts is not dependent on the MTA. Some Ministers may suggest that the whole apparatus of 5-year expenditure planning needs another review on the lines of Plowden (ideas of this kind have been current in the Ministry of Defence for some months). I do not suggest that you agree to this lightly: such a review would be very time-consuming and might not lead to any major changes. If necessary you could undertake to consider this suggestion.

(b) Whether to publish 5-year plans (paragraphs 5-12)

The Chancellor accepts that these White Papers can arouse expectations which cannot be fulfilled and are in any case usually liable to revision: but comes down in favour of present practice on the grounds that (i) publication at the present time would be an indication of the Government's seriousness over cutting expenditure; (ii) the local authorities and nationalised industries need some longer-term guidance; and (iii) failure to publish would lead to great criticism. In any case, it is operationally necessary to publish volume figures for 1980-81 as soon as possible, to provide a basis for the cash limits for that year. The Government will have to say then whether it intends to publish figures for later years. So a decision cannot be long-postponed.

(c) In what degree of detail should figures for local authority expenditure be published (paragraphs 13-15) ?

Underlying this issue is a more fundamental question, not really touched on in the Ministerial correspondence so far: does the Government intend to control local authority expenditure in future by a 'block-grant' with local authorities left to decide their own

priorities, or will it still go on giving guidance (which it cannot in practice enforce) about the allocation of resources. There are three factors here: the degree of responsibility to be accorded to local authorities as elected bodies; the collective wish of Cabinet to indicate priorities (e.g. more for law and order, and protection for health); and the wish of individual programme Ministers (like Education) to give guidance, and some reassurance, to their clients. Unless the Government is prepared to stand right back, and leave the whole allocation process to local authorities, there is a strong case for continuing to publish programme detail.

CONCLUSIONS

5. You might aim to record separate conclusions on each of the three main topics above. The most likely conclusions are:-

(i) to agree that the Government should continue to make its own expenditure plans on a five-year rolling basis, while regarding the figures for later years as provisional;

(ii) to publish annual White Papers setting out these projections, emphasising the tentative nature of the later years;

(iii) to continue to provide broadly the same level of programme detail as at present including, especially, detail about local authority expenditure;

(iv) to note that the Chancellor of the Exchequer will bring forward drafts of two separate expenditure White Papers, covering 1980-81 and later years respectively, for Cabinet consideration in due course.

(John Hunt)

12th September 1979