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C(79) 36

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CABINET

PUBLISHING MEDIUM-TERM PUBLIC EXPENDITURE PLANS

Memorandum by the Chancellor of the Exchequer

1. The Cabinet on 26 July (CC(79) 12th Conclusions, Minute 5) asked me to prepare a paper about the case for and against publishing plans for the later years of the Public Expenditure Survey. This was intended as background to our discussion of the proposals for those years circulated in C(79) 35.

MEDIUM-TERM PLANNING

2. A prior question is whether we should in fact make plans for the medium term. I assume it is agreed that we should. For many expenditure programmes, the money can only be spent efficiently if planned several years ahead. The spending authorities need at least a provisional framework if they are to use the money to the best advantage - for example, in getting a proper balance between capital and current spending.

3. But for this purpose it is essential that the plans are realistic. The lesson of experience since the Plowden Report is the folly of agreeing ambitious expenditure programmes on the basis of too rosy a view of the future. We must not make the same mistake this time. Public spending plans for future years must be genuinely contingent on success in our main economic and financial policies. We should not now make firm commitments to figures for later years which could well have to be revised downwards in subsequent surveys if the progress achieved by the economy does not justify the expenditure. For the present, figures for the more distant future should be regarded only as a provisional basis for planning.

4. The period covered by the annual surveys needs to be long enough to provide a helpful guide for managers of the long-lead programmes, but not too long to be covered by some broad economic and financial framework. At present it is the current year plus four years ahead, though if we were starting from scratch, we might have adopted a slightly shorter period. Other comparable countries which publish expenditure projections seem to use a period broadly similar to ours. For the reasons in paragraph 8 below, I do not think that we should shorten the period now.

PUBLICATION

5. The question which the Cabinet raised was whether the plans, once decided, should be published.

6. There are arguments against this. The Plowden Committee, which recommended the development of the survey system, in fact assumed that Governments would not be prepared to publish them. The publication of plans for increased spending on particular programmes can raise public expectations about the development of the services. This stimulates pressure for still further improvements, and complaints if the plans have to be revised later on. The curtailment of planned increases tends to appear in the public mind as "cuts", and to be criticised accordingly.

7. Partly because of the tendency to base plans on over-optimistic assumptions, there have in practice been many revisions in these plans between their first publication and their eventual implementation. It can be argued that it is not worth publishing figures which are going to be revised so many times before they reach finality.

8. There are however strong arguments in favour of publication. First, to succeed in our economic and financial strategy we must convince people not only that we have the determination to carry it through but also that we will pursue the policies on which it depends. Our pledge to reduce the demands which the public sector places on the economy is fundamental to both. Publication of forward spending plans has become so much an established practice that to stop doing so now would probably be interpreted as a weakening of commitment to our strategy, an admission that we doubt whether it is attainable, or both. Particularly at the start of our Administration we need to show to the world at large that our plans for public spending are much lower than our predecessors' and how this restraint in our plans supports our wider economic objectives. We can only demonstrate these points by publishing at least the broad lines of those plans for the later years.

9. We also need to give guidance to public bodies outside Central Government. This means that part of the plans must be divulged in any case and become public knowledge. The local authority associations, for example, have said that their approach to the reductions required in 1980-81 will depend on whether these are part of a continuing and progressive policy. The nationalised industries will expect a similar indication as a basis for their investment decisions. Such forward indications, if they are to be given with confidence as a basis for planning, need to be part of a coherent framework, within an expenditure total which is consistent with the Government's medium-term financial objectives and the prospects for the United Kingdom and world economy.

10. Finally, to do a survey and then refuse to publish the result would run counter to what we are saying and doing about open government. Parliamentarians would say it was extraordinary to set up new Committees to help the House to scrutinise Departments' plans better and then for us to provide less information than our predecessors about our intentions for the future.

11. Thus, although there are some powerful arguments against publishing the plans for the later years, I think that the arguments for continued publication are weightier. This makes it all the more important that we should keep our planned expenditure low. We need also to say, even more clearly than in previous White Papers, that the plans for the later years are provisional, and the Government is not and cannot be committed to all the detailed projections for individual programmes.

12. To underline this, we could publish the figures for the later years as provisional totals with a minimum of supporting detail consistent with giving appropriate guidance to authorities responsible for programmes with long lead times. But we should not regard this as grounds for deferring the necessary decisions about reductions in the totals. Unlike the Labour Government, following the International Monetary Fund visit in the autumn of 1976, we cannot plead that there has been insufficient time to complete the survey, and publishing - even provisionally - higher figures than would be consistent with our general objectives would be interpreted as a failure to agree on the necessary reductions and a weakening of our resolve to reduce public expenditure.

LOCAL AUTHORITIES

13. A related question is the degree to which we publish the programme detail of the proposed figures for local authority current expenditure, both for 1980-81 and for the later years. This question, as it relates to 1980-81, has been the subject of correspondence between the Chief Secretary, Treasury, and the Ministers concerned, and differing views have been expressed.

14. We have asked the local authority associations to give us their views on the likely allocation of the 5 per cent reduction in the inherited plans for local authority current expenditure in 1980-81 which we announced in July, and we can if appropriate look again at the programme breakdown in the light of their comments. But I think we should then publish our views on the programme allocation in the normal way. In doing so, we should recognise that the detailed figures are projections which are subject to the freedom of individual local authorities to decide their own priorities. But I do not think we can stand back entirely from the programme distribution of local authority current expenditure. National policies and priorities are involved here, as we have already made clear, notably in relation to law and order services.

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15. If our commitment to reduce the previous public expenditure plans is to carry conviction, the published figures will need to set out the implications, as we see them, for the various functional expenditure programmes. A complete presentation of this sort would not be possible if the local authority current expenditure figures were confined to a separate global total; and leaving unallocated some or all of the local authority reduction we have decided would look unconvincing. If we did not publish the programme figures, we could anyway expect questions to be put in Parliament to the individual Ministers, asking what they expect the total to mean for their services, and it would be difficult to refuse this information. Similar considerations apply to the local authority figures for the later years.

CONCLUSIONS

16. I invite the Cabinet to agree:

- i. Our decisions for 1980-81 (which we considered in July) should be published in a short White Paper as soon as possible after Parliament reassembles, along with the short-term forecast required under the Industry Act.
- ii. The plans for the subsequent three years should be published in a second White Paper, stressing their provisional nature and setting them in a medium-term economic and financial context. The timing of this White Paper will depend on when we reach substantive decisions on the issues discussed in C(79) 35, but if possible should be before the end of the year.
- iii. In both these White Papers the figures for local authority current expenditure should be published by programme, as proposed in paragraph 14 above.

G H

Treasury Chambers

7 September 1979