

CONFIDENTIAL



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AW
Prime Minister (2)

PRIME MINISTER

To see that this
has now gone round.
We now await colleagues'
responses.

MUS 25/3

PUBLIC EXPENDITURE SURVEY 1982

As usual at this time of the year, we need to settle guidelines for the 1982 Public Expenditure Survey. The object at this stage is to enable officials to work up the material we shall need when we come to substantive discussions. My proposals are set out in the Annex to this minute.

2. In view of the need to set work in hand, I would appreciate responses from colleagues by 30 March 1982. At this stage the questions are largely procedural. But if any colleague wants a collective discussion, I understand that we could consider these proposals in Cabinet on 1 April.

3. The 1982 Survey is the first in which cash planning will be applied in full. We shall be starting with the cash plans in the White Paper just published, adjusted by the Budget changes (including the National Insurance Surcharge reductions), and by transfers of provision from the Property Services Agency in accordance with the agreed move to repayment. I propose no immediate general changes to those plans on account of new forecasts of inflation, but departmental bids can be noted where put forward for this as for other reasons. I propose that we consider again in September the prospects for inflation.

4. The 1982 Survey will take us into the mid-1980s. We shall need to reach decisions about the medium-term path of total public expenditure at which we wish to aim in the light of our general policy objectives. It would in my view be wrong simply

to extrapolate the present path of expenditure or reach decisions on a purely ad hoc basis. I will put a paper to Cabinet on this later this year. As proposed in the Chancellor's minute to you of 9 March and subsequently approved by you, officials will be considering the long-term trends in public expenditure and reporting by June.

5. I have proposed to the Ministers directly concerned some changes in the way we handle local authorities' current expenditure in the Survey. I believe these proposals offer the prospect of useful improvements compared with what happened in the 1981 Survey.

6. We shall need to consider in due course our policy for civil service manpower after 1 April 1984. At this stage, all that is necessary is to establish a baseline for the Survey which consolidates the progress we have already made and does not pre-empt further policy decisions.

7. I now seek colleagues' agreement that, as proposed in the Annex:

1. The aim should be to keep to the timetable in the Appendix to the Annex;

2. the baseline for the 1982 Survey should be the cash plans in Cmnd 8494, as modified by the Budget and agreed transfers of PSA provision, and extended to 1985-86 by adding for all programmes 4% to the 1984-85 figures, and for Defence a further 3% as well;

3. the Survey report by officials should show any additional bids for expenditure above the baseline;

4. Departments should set out, in the first instance for the Treasury and not for general circulation, offsetting savings to cover these bids and in addition fully costed options for reductions, amounting to at least 2% of the baseline in 1983-84 (starting from the uprating date for social security benefits) and 4% in 1985-86, with appropriate specified consequences for 1984-85;
 5. representatives of the local authorities should be consulted about the costed options relevant to them using the machinery of the Consultative Council on Local Government Finance;
 6. Manpower figures should be prepared as proposed in the Annex, in order to provide a neutral baseline for subsequent policy decisions.
8. I am sending copies of this minute to Cabinet colleagues and to Sir Robert Armstrong.

L.B.

LEON BRITTAN

100- for L.A. - Universities

ANNEX

PUBLIC EXPENDITURE SURVEY 1982

Timetable

1. It is proposed (see timetable at Appendix) that:

(i) The Ministers concerned have a preliminary look at local authority aggregate current expenditure in May (see below).

(ii) Ministers have a first look at total public expenditure and programmes in July, especially for the first year of the Survey, 1983-84.

(iii) Ministers also consider in July preliminary advice to the local authorities, and provisional figures for discussion with the nationalised industries.

(iv) Officials should clear the ground for these discussions, by consideration beforehand of Departments' bids and the scope for reductions (see below). But the main Ministerial bilaterals (covering manpower where relevant as well as expenditure) should be in the early autumn.

Prospects for inflation

2. The cash plans just published for 1983-84 and 1984-85 (adjusted by the changes announced in the Budget and by the transfer of PSA provision - see below) are the baseline for the new survey. Departments may put in bids, or offer reductions, having considered the particular circumstances of their own programmes.

3. Ministers should consider in September whether in addition to or instead of any departmental bids a general revision should be made of the plans because of changed prospects for inflation, and whether to choose and publish a separate assumption for pay in 1983-84.

4. There is no case at present for a general adjustment. The trend of inflation has been declining faster than expected last autumn. In 1981-82

price movements have been generally around, or a little less than, 11%, and wage movements mostly not far from 6%. In 1982-83 the prospects now are that 4% may be tight for pay, but other public sector price increases may be a little less than 9%. For the RPI between November 1981 and November 1982 a forecast of 9% was published with the Budget.

5. The MTFs published with the Budget shows figures for general inflation in the economy as a whole (the GDP deflator) in 1983-84 and 1984-85 of 7% and 6½%, not much higher than the cash factors used for those years in constructing the present plans. The movement in public sector costs, which include a relatively high proportion of pay, may be lower than general inflation.

6. The prospects for inflation will need to be taken into account in the consideration of preliminary guidance to the local authorities to be given in the summer.

1985-86

7. The new survey will extend to 1985-86. The 1985-86 baseline will be the same as the 1984-85 baseline figures plus, as an assumption for inflation, 4%. Any differences likely to result from "existing policies" should be costed and put forward as proposed increases or reductions, except that for Defence 3% real growth should be treated as already established policy (as recorded in Cabinet conclusions CC(81)24th Conc 18 June 1981), and incorporated in the baseline.

Local authorities' current expenditure

8. Certain improvements have been proposed in the handling of local authority relevant current expenditure, namely:

(i) the Ministers concerned should consider in May the latest information about trends in local authority aggregate expenditure, and decide whether to ask officials to study the implications for services of a change in the aggregate plans, before Cabinet consider in July preliminary advice to the local authorities;

(ii) transfers of provision from local authority relevant current expenditure, which cannot be tightly controlled, to other areas (eg

central Government) should be ruled out;

(iii) rate support grant should be planned in cash.

Additional bids and offsetting savings

9. Any bids for additions to the baseline should be accompanied by proposals for fully offsetting savings. Estimating increases on demand-determined services count as additional bids; estimating reductions, provided they are reasonably certain, as savings. Proposed savings should be listed in order of acceptability.

10. Savings on local authorities' relevant current expenditure should not be put forward as offsets to increases on other kinds of expenditure, nor in lieu of options (see below) on other expenditure.

11. New or increased charges are a legitimate method of reducing net public expenditure, but in many cases add directly to inflation or are politically sensitive. They may be suggested as possible savings, but, except where otherwise agreed with the Treasury, alternatives should also be suggested in the form of efficiency savings or cuts in services.

Options

12. Officials should set out for every programme what would be involved in reductions amounting to at least 2% of the baseline for 1983-84 rising to at least 4% of the baseline (constructed as proposed above) for 1985-86, with appropriate consequences for the intervening year 1984-85. For social security the reductions should be applied from the November uprating dates.

13. These options should be in addition to the savings proposed as offsets to additional bids. As in 1981, details will not be circulated generally. The purpose is to provide material for considering the scope for reductions in some programmes to offset possible increases in others. Efficiency savings, disposals, and the scope for switching from current expenditure to capital, should receive particular attention.

14. As in earlier years, representatives of the local authorities should be brought into discussion of options which affect them.

Manpower

15. Officials should provide information about the civil service manpower figures planned for each year. For the baseline, the figures for 1983-84 should be consistent with, or below, the agreed departmental targets for 1 April 1984; for 1984-85 and 1985-86 they should be at or below that target. Any bids for more, whether in 1983-84 (against the contingency margin for that year), or for the later years, should be put in as such and explained with reasons. This applies to all such bids, including those already discussed with the Treasury.

Government accommodation

16. In April 1983 repayment by Departments is to be introduced for PSA's expenditure on Government civil accommodation. The baseline for the 1982 survey for each Department will include a share of the White Paper provision for the PSA. Departments can then consider whether to provide, within their total programmes, more or less than that share for their accommodation needs and indicating how far any additional provision can be regarded as linked with improvements in efficiency.

OUTLINE TIMETABLE FOR SURVEY

- April Departments begin to prepare bids and options.
- May Proposals on bids and options (and other draft material for PESC report) from Departments to Treasury for discussion with Treasury and other interested Departments (by 7 May).
- Ministerial consideration of local authority totals.
- Agreed material for PESC report to Treasury for circulation to Departments generally (options for reductions not to be circulated generally) by 28 May (or 4 June if Departments can provide Treasury with a fair copy of the text and a compatible tape for the Word Processor).
- June If so decided by Ministers, examination by officials of consequences of May discussion for LA services.
- Discussion at official level of bids and options for reduction.
- July Circulation of PESC report to Cabinet (2 July).
- E discussion of nationalised industries, including provision|decisions on totals.
- Cabinet discussion of:
- Chancellor's paper on economic background
 - Chief Secretary's paper on provisional public expenditure totals (including provisional proposals on bids and cuts for each Department) and particularly recommendations on local authority totals.
- Late July/August Preliminary advice issued to local authorities and to Departments on nationalised industries.
- September Cabinet discussion of inflation provision.
- Bilaterals, covering both manpower and expenditure.
- Discussion of nationalised industries (officials) and local authorities (officials and appropriate Cabinet Committee).
- October E discussion of nationalised industries.
- Cabinet Committee discussions of local authorities.
- Cabinet discussion of:
- Chancellor's paper on economic background
 - Chief Secretary's paper on expenditure totals and programmes.

