

Econ Pol



10 DOWNING STREET

Prime Minister

Public Expenditure.

If the plan to keep the  
discussion low-key fails here are  
two points you could deploy:

(i) Public Expenditure as a % of  
GDP has been rising steadily since  
1979. It is now around 45%  
— a level last reached in 1976  
(figures attached)

(ii) Even after the Budget, the

real value of single and  
married allowances is about 3%  
below the 1978-79 level. ~~used~~  
the

MUS 31/3



Ref. A07977

PRIME MINISTER

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Cabinet: Public Expenditure Survey 1982

BACKGROUND

The Chief Secretary, Treasury, circulated to Cabinet, under cover of his minute to you of 25th March, his proposed guidelines for the 1982 Public Expenditure Survey. The Foreign and Commonwealth Secretary, the Secretaries of State for Education and Science, for Northern Ireland and for the Environment, and the Minister of Agriculture, Fisheries and Food have each raised points, in correspondence dated 30th March, which need to be discussed by Cabinet tomorrow.

2. The main issue arising from the correspondence is whether Departments should identify costed options for reductions over and above any savings necessary to offset additional bids. The other points seem relatively straightforward and can either be clarified in the course of the Survey discussions or are for decision later when Cabinet comes to substantive discussions of the 1982 Survey. In view of the heavy load of business tomorrow morning, and of the fact that Ministers appear to accept most of the Chief Secretary's proposals, you will wish to focus on the points at issue and to avoid either going over the proposals as a whole or letting the discussion widen into a more general debate on public expenditure and economic policy.

3. An important general point, which the Chief Secretary will no doubt emphasise, is that the present proposals are primarily procedural and are not intended to prejudge the substantive decisions which the Cabinet will need to take in the summer and the autumn.

MAIN ISSUES

Options

4. The Chief Secretary proposes - paragraphs 12 and 13 of the Annex to his minute - that any additional bids should be accompanied by proposals for offsetting savings and that in addition to such savings Departments should identify



for every programme costed options of at least 2 per cent for 1983-84 rising to at least 4 per cent by 1985-86. For Social Security the reductions would be applied from the November uprating dates. As you know from the Chief Secretary's letter of 25th March to the Secretary of State for Defence, he has agreed that option cuts should not apply to the defence budget: it is not intended that other members of the Cabinet should know of this.

5. The Secretary of State for Education and Science, in his letter to the Chief Secretary of 30th March, argues against identifying at this stage option cuts beyond any offsetting savings. He believes - and the Foreign and Commonwealth Secretary and the Minister of Agriculture support him - that this is unnecessary in view of the options identified in previous exercises, and also potentially politically damaging if the options identified were leaked and misinterpreted. The Secretary of State for the Environment, in his minute of 30th March, proposes that, as agreed by the Cabinet last year, Departments should deal with the identification of option cuts for the local authorities and that there should be no consultation through the Consultative Council on Local Government Finance. His point is that in practice it will be difficult enough securing the local authorities' co-operation in conforming with their present programmes, let alone pressing them for reductions.

6. I understand that the Chief Secretary will probably:-

- (i) Concede that as last year the local authorities should not be consulted on costed options.
- (ii) Argue that it is necessary for all Departments to identify options systematically, so that later in the year the Cabinet has a basis for considering how to offset additional bids (it is probably unrealistic to assume that suitable offsetting savings will be identified to deal with all such bids) and for considering the question of whether any further savings might be made at the margin in public expenditure totals. He will probably argue that, without such a requirement on all Departments, some might volunteer savings but others might hold back. In paragraph 7.4 of his minute to you he proposes that in the first instance the costed options should not be circulated generally; in this way it may be possible to reduce the risk of leaks of sensitive options.



- (iii) Argues against any suggestion, which he understands the Secretary of State for Energy might make, for excluding grants to nationalised industries from the options exercise: this would be inconsistent with the aim of looking systematically across the whole board.

Local Authority Current Expenditure

7. One of the most difficult aspects of the 1981 Survey was reaching decisions on local authority current expenditure in time for a Rate Support Grant settlement before Christmas and, in doing so, keeping in step with related decisions on central government expenditure and with the Survey exercise as a whole. The Chief Secretary has now reached agreement with the Ministers responsible for local authority programmes on certain improvements in the procedure for this year. These are summarised in paragraph 8 of the Annex to his paper.

8. The Secretary of State for Education and Science is generally satisfied with this, but, in his letter of 30th March, he emphasises the importance of conducting discussions so that he can take a sensible decision on his education programme overall, relating the local authority element to the central government expenditure. This is primarily a question for the Secretary of State to sort out further with the Chief Secretary, but it is obviously right to plan to take these decisions in an orderly manner; a similar point arises on the discussions of housing expenditure and council rents which, as you will recall, impinge crucially on the local authority decisions.

Comparability

9. In his letter of 30th March to the Chief Secretary, the Secretary of State for Northern Ireland says that he is willing to provide illustrative options for reductions provided the Chief Secretary can assure him that the "comparability formula" will again apply in determining the totals for the territorial programmes - that is, adjustments in some major programmes in Northern Ireland are made to ensure parity with the comparable programmes in Great Britain. I understand that this is acceptable to the Chief Secretary, and so it should not need discussion.





Manpower

10. The Chief Secretary proposes, in paragraph 15 of the Annex to his minute, the presentation of manpower figures in accordance with the agreed Departmental targets. In his covering minute - paragraph 7.6 - he describes this as providing "a neutral baseline for subsequent policy decisions".

11. The Foreign and Commonwealth Secretary, in his minute of 30th March, warns that further reductions beyond the agreed targets would be unacceptable to him. The questions whether there should be such further reductions, and if so where, is not for discussion at this stage.

Government Accommodation

12. Paragraph 16 of the Annex to the Chief Secretary's minute deals with the new arrangements for repayment by Departments of expenditure on their behalf by the Property Services Agency. The Foreign and Commonwealth Secretary wishes the individual requirements of Departments to be taken fully into account when this total is distributed between Departments. This is something which officials can readily deal with in the Survey discussions.

HANDLING

13. After the Chief Secretary has introduced his minute, and commented on the points made to him in correspondence, you may wish to make clear that you want to confine the discussion to the outstanding points of difficulty and not to go over the proposals as a whole.

14. On options - paragraphs 4-6 above - there is a political judgment for the Cabinet to make. In principle the Chief Secretary has a strong case in calling for the systematic identification of options from each Department. The question is whether this case is overridden by the doubts raised by some Ministers on the political difficulties which could arise from any leaks which were misinterpreted. You will want to ask those Ministers who have expressed doubts to speak to their letters: they are the Secretary of State for Education and Science and the Lord Privy Seal (in the Foreign and Commonwealth Secretary's absence). (The Minister of Agriculture who has also registered his doubts is in Brussels.) You might then invite the Chief Secretary to state his case in reply, before opening the discussion to other Ministers.





15. It should be possible for you to deal quickly with the remaining issues, listed in paragraphs 7-12 above, on the grounds that they can either be pursued further in the course of the Survey discussions or that they do not arise until the Cabinet's substantive discussions in the summer and in the autumn.

CONCLUSIONS

16. In the light of the discussion you will wish to record the Cabinet's approval of the proposals for the conduct of the 1982 Public Expenditure Survey set out in the Annex to the Chief Secretary's minute of 25th March, subject to:-

- (i) A decision on whether Departments should identify at this stage options for reductions in addition to savings to offset additional bids.
- (ii) Agreement that the local authorities should not be consulted on costed options through the Consultative Council on Local Government Finance.
- (iii) Noting that other points raised in correspondence and in the discussion will be dealt with in the course of the Survey discussions or substantively in the Cabinet's discussion later in the year of the 1982 Survey.

RA

ROBERT ARMSTRONG

31st March, 1982

*Consent recorded  
for the*