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cc ECON POL: Budget Pt 13

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

(i) Autopsy on 1984 PES and Planning for 1985

You could raise with the Chancellor whether it would be helpful to hold a meeting during the Christmas Recess to discuss the lessons of 1984 and to identify targets for savings in 1985. The Economist article attached reflects on briefing given by Lord Whitelaw. Other lessons to be learnt from 1984 are:

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(a) there is an upward creep in the point at which programmes are settled. This year fewer programmes were settled in bilaterals with the Chief Secretary, more went to MISC 106 which needed nearly thirty meetings and more were referred to you, though in the end only one programme had to go to Cabinet.

(b) the quality of settlements is deteriorating. There are more fudges, more unwarranted optimism and more is taken on account in respect of decisions yet to be taken.

(c) not all the policy reviews in 1984 were set up in time. MISC 100 did a good job in softening the agricultural programme but the reviews on health and social security did not get going until early Summer and eventually they became an obstacle to progress rather than contributing to savings. This indicates urgency in getting any reviews for 1985 going as soon as possible. The attached note by John Redwood identifies some options.

Flag B

If such a meeting finds favour, you could discuss with

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the Chancellor when it should be held - Treasury are doing some work of their own on the lessons of 1984 - and who should attend it. Lord Whitelaw should certainly be invited and possibly the other members of MISC 106. It is possible, however, that Lord Whitelaw may wish to say some things to you privately, particularly about the Chief Secretary's performance in leaving such a large number of programmes to be resolved by MISC 106.

(ii) Taxation of Pension Funds

You were questioned on this at Conservative Central Office. While you can continue to hold the line, using the defence you deployed against Mr. Kinnock's question on VAT, you might like to ask the Chancellor what options he is considering. A note by John Redwood is attached.

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(iii) The Markets

Sterling has weakened in the last two days against both the dollar and European currencies, though it is not clear what lies behind this. So far it has not sent interest rates up again, though it has diminished the likelihood that other banks will follow Barclays cut in base rates of 1/4 per cent.

(iv) Pay Review Bodies

The Chancellor may raise the future of these bodies, though I am not sure what line he is taking.

(v) Mr. Martin Jacomb

The Governor has suggested that Mr. Jacomb should be his nomination for a City honour this year. His original choice was Mr. Mackworth Young who has died. While the nomination could be justified by Mr. Jacomb's record of services to the City generally - he is Chairman of the Capital Markets Commitee and served on the Governor's 'posse' which advised on the structure of self-regulation - there is a danger that an honour now would look like a specific reward for managing the BT flotation. This could give an unhelpful impression.

AT

21 November, 1984

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Blood on the cabinet office carpet

After one of the worst public expenditure rounds since Mrs Thatcher came to power, exhausted ministers and officials are convinced there must be a better way of ordering the annual battle between Whitehall spending departments and the treasury. The last straw came on November 8th when the government's housing policy was effectively decided in a slanging match between the chancellor, Mr Nigel Lawson, and the environment secretary, Mr Patrick Jenkin, only to be resolved in the latter's favour by the threatened resignation of Mr Ian Gow, his new housing minister.

Blame for this has been directed at the chief secretary to the treasury, Mr Peter Rees. His job is to conduct the annual public expenditure survey committee (pesc). The round began with cabinet

Whitelaw conciliatory

approval of the overall £132 billion target in July and bilateral negotiations between the treasury and departments. After that, the temperature rose fast. Eight programmes were still unresolved by October and went to the Star Chamber, now a regular feature of Britain's economic management. Three (urban aid, agriculture, health and social services) were resolved there, with arts settled "on the doorstep". However, an unprecedented four (energy, defence, foreign affairs and housing) had to go to trilaterals with the prime minister, with housing surviving to the November 8th cabinet. That the result of this last was a spending department victory following a resignation threat is regarded as a bad omen for the future. So too was the irony of Mr Gow, once driest of the dries, going native in defence of one of the "wettest" programmes, housing.

This process is unsatisfactory for everybody. The Star Chamber, chaired by Lord Whitelaw, sees itself as a conciliator rather than arbitrator, usually splitting the difference between spending ministers (who attend alone) and the treasury. In such a virility test ministers are inclined to push their appeals to the exhausting limit. This year's Chamber had to meet up to three hours every morning for three weeks, a heavy burden on departmental members such as home secretary, Mr Leon Brittan and the Scottish secretary, Mr George Younger. Although pesc is theoretically a planning process over three years, it ends in a frantic political haggle over just one year. The only officials present are a cabinet office team under Mr Peter Gregson.

What is to be done? Ever since the introduction of the present pesc system in the early 1960s, Whitehall reformers have tried to plan spending programmes further ahead and monitor their performance. The 1964 Labour government tried a department of economic affairs. The 1970 Tory government introduced programme analysis and review (PAR). In 1982, Mrs Thatcher's government began to plan in cash rather than in volume terms. Individual ministries have come up with all sorts of fancy acronyms for mechanisms to monitor their spending, such as Minis (environment), Trident (education), APR (home office), Minim (agriculture) and ARM (industry). Grandest of all is the new financial management initiative (FMI), currently being proselytised round Whitehall by a talkative Scot, Mr Sandy Russell. His team, supported by the cabinet office efficiency unit, is seeking out FMI sympathisers in individual ministries with the zeal of Moral Majority campaigners.

Though each of these innovations is different, they share a vision of a new dawn of political programmes costed at the push of a button, priorities balanced and money saved—or at least better spent—across the whole of the public sector. This dawn has yet to break over the pesc realpolitik. However, this year a few departments have played the programme analysis trump card in a desperate bid to resist a cut. Agriculture pleaded the review of the farm advisory service (Adas), though this is considered doomed next year. More dramatic will be the fate at the hands of the pesc of Mr Norman Fowler's four reviews into housing, children's and supplementary benefits and pensions, reporting soon. The Star Chamber has already compelled him to yield money from these reviews "on account" next year, but truly spectacular treasury gains are expected after that. So sensitive will this be that a special Star Chamber chaired by the prime minister is predicted for next year.

Whether such reviews—and more rigorous forms of FMI—become more commonplace within departments may well depend on whether they prove a way of squeezing more money from the treasury, or whether conversely they become a weapon in the treasury's grasp. Departments fear that any internal analysis which suggests that one programme is over-funded might not mean more money for another, but less money overall. For FMI to gain acceptance as more than a way of improving office management, the treasury must be prepared to leave re-allocation (and staffing) decisions to individual departments. This it is reluctant to do: for instance, this year it left the Foreign Office to make its own cuts, but could not resist moaning about its pet target, the BBC overseas service.

Indeed the public spending side of the treasury has lived through too many similar reforms to risk being distracted by this one. It revels in the blood and guts of pesc and regards the annual duel before the Star Chamber as an inevitable part of cabinet government. Ministers may jointly will the overall public spending target: the treasury's job is to make them see what it means to them individ-

Rees bendable

ually. This will always be painful. What the treasury wants is an unbendable chief secretary and a prime minister ready to back him to the last ditch. This year, it feels it had neither.

To some Whitehall radicals, the best hope of reform is to hive off the public spending side of the treasury together with the cabinet's management and personnel office into an American-style office of management and budget. One senior cabinet minister would be responsible for public expenditure monitoring and control from the moment that cabinet had fixed its overall target. By controlling the civil service, such an OMB would be able to relate departmental performance to financial targets and hold senior officials directly accountable. The Star Chamber could thus be institutionalised as the OMB ministerial committee and a longer-term view introduced at the start of the pesc round.

This is unlikely to happen. The treasury prefers the devil it knows. Mrs Thatcher hates changing machinery of government. And next year everybody is expecting rich pickings from the department of health and social services: and more blood on the pesc carpet.