

RBB



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NBM

My ref:

Your ref:

3 April 1986

Dear Chief Secretary,

GUIDELINES FOR THE 1986 EXPENDITURE SURVEY

Thank you for sending me a copy of your minute of ^{at 11am} 21 March to the Prime Minister covering guidelines for the 1986 Public Expenditure Survey.

I welcome the handling changes you propose, and I fully agree with the need for us all to consider rigorously the case for any proposals for net additions to the baselines. I was pleased to see your undertaking to circulate as soon as possible in June what will I hope be an agreed summary of any such proposals, as Nicholas Ridley suggested in his letter of 24 February. This will help for our subsequent collective discussion of the options and political priorities.

I also think you are right to emphasise the importance of the baseline for the later years of the Survey. I am, however, less happy at your suggestion that baselines for 1989/90 should be raised by less than your inflation assumption. We must of course continue to press for improvements in efficiency in all programmes. But the scope for such savings on some programmes is now limited so that any real reductions in provision can now show themselves only in ways which are very visible and painful for us politically.

I note your warning about the problems arising from proposals which test the definitions of public expenditure. My officials are already in discussion with yours over the details of a number of schemes to involve risk-bearing private funding in support of the voluntary housing sector. They will represent a very important means of supplementing public provision in an area of increasing political importance. I hope that the discussions now begun will be satisfactorily concluded before we are too far into the PES round.

I am asking PSA officials to continue discussions with yours about possible mechanisms for private funding of investment in office building.

Finally, we are all very conscious of the presentational problem presented by the present treatment of local authority current expenditure. Such expenditure is different from the generality of public expenditure, in that it is outside our direct control - we can only exert influence on it. Moreover, at the margin higher local authority current spending has to be financed out of local

rates and charges and is therefore self-balancing for the short-term economic strategy decisions on national taxes and on spending. This is intrinsically different in its impact on the Budget from, for example, uprating social security benefits. Some therefore argue that we should remove local authority current expenditure entirely from the public expenditure equation. We have made a stick for our own back by presenting the local authority current expenditure figure as though it were an integral part of and similar in kind to other main elements of the planning total. Consequently, since we have always inserted a figure in the Public Expenditure White Paper much lower than we know will be achieved, given the limits of our influence, we appear to "fail" every year in our attempt to "control" this spending. It is common ground that we should put a much more realistic figure but in any case I consider that we should look at ways and means of separating it out much more sharply than we do at present.

I am copying this letter to the recipients of yours.

Yours sincerely

JH Conant Private Secretary

(Approved by the Secretary of State and signed in his absence)

KENNETH BAKER

