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Prime Minister

No savings here.

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PRIME MINISTER
LONG TERM PUBLIC EXPENDITURE

In your minute of 4 February you asked for a report on the possibilities in my area of responsibility for contributing to a substantial reduction in public expenditure in the longer term. In the peculiar circumstances of a territorial department it was important for me to see the reports of my colleagues with responsibility for comparable services in England before responding.

The report by officials (circulated as C(82)32) which underlies this exercise assumed that expenditure within my programme but outside my block would remain broadly at its 1982/83 level in cost terms, and that expenditure within my block would be governed by the existing arrangements under which incremental changes to the block total are made each year by applying a population based formula to the net changes in comparable expenditure in England. On this basis, the predicted range of increase in my programme between 1982/83 and 1990/91 (in 1980/81 cost terms) was estimated at £234m to £274m, compared with a range of increase in Scotland of £607m to £727m and in overall programme expenditure of £12bn to £13bn.

The first question I have asked myself is whether my programme would show a substantially lower level of increase if the block/formula arrangements were replaced by bi-lateral bargaining with the Chief Secretary in each survey. My assessment is that the arguments of relative need in Wales are such that the increase would not be any lower, and could well be somewhat higher. Such rigorous assessment of need as exists (in the Needs Assessment Study carried out prior to the devolution referenda) tends to bear this out. We stay with the block/formula arrangements because the possible marginal loss is compensated by the advantages of speed in consequential survey decisions and the flexibility I have in allocating my total block resources between programmes. For the purposes of the present exercise, therefore, I conclude that no contribution would be made by abandoning the block/formula arrangements for Wales.

I looked next to see whether there was any area of my responsibilities in which I could make a distinctively Welsh contribution. The distinctive contribution I have already made to the reduction of public spending is in the area of local authority current expenditure. Since introducing the separate Welsh Rate Support Grant we have come markedly closer to our spending plans in each year than has been the case in England and Scotland. The decision to increase the plans for England by an "unallocated margin" to bring them closer to the amounts actually spent by the local authorities with no consequential increase in the plans for current spending in

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Wales has caused me embarrassment. The result is Government endorsement of higher levels of service in England than in Wales: in cash terms, the Welsh level of service provision for 1983/84 is some £52m less than the normal consequential arrangements indicate it should be. Clearly this disadvantage cannot be allowed to continue if we are to retain credibility. However, provided justice is seen to be done on this score and no local government finance measures are imposed which are seen to be clearly inappropriate to Welsh circumstances I am confident that we can continue to moderate local authority spending in Wales. This is the most significant single contribution it will be possible for me to make.

For the rest, I have reviewed the position in respect of each of my services in the light of the reports which have been submitted to you by colleagues with matching responsibilities in England. I comment below in the order of the size of service provision.

Health and Personal Social Services

This is the largest service provision within my block. The morbidity rate in Wales is high, and demographic factors are against us so the demand for health services in Wales is high and increasing. There is a very great deal to be done: an example is provided by my recent initiative regarding the care of the mentally handicapped in the community. I am therefore faced with the need to find considerable savings in present health expenditure if we are to do all the things I see need to be done, for example, in the extension of care in the community and cardio-thoracic services.

To take capital expenditure first, this accounts for £40m out of the £796m provided for the NHS in Wales in 1983-84. Our present District General Hospital building programme is due to be completed in 1988. Much of the remainder of our capital stock is dilapidated, however, and will need a substantial renovation programme extending indefinitely. In view of our unhappy experience with hospital building in recent years (long planning lead times, unsatisfactory supervision of construction, and subsequently discovered structural and other faults) I think we should experiment with more rapid private sector construction methods. I am asking my officials to investigate the possibilities. It remains to be seen whether this would cut initial construction costs but my intention is that it should save us subsequent renovation spending.

As regards current expenditure, I am particularly in favour of an attack on the size of the drugs bill, through both the recently announced review of the Pharmaceutical Price Regulation Scheme and the extension of generic prescribing. I am sure there is much to be saved in this area. I am also firmly of the view that Health Authorities should be able to find the greater part of the additional cash they will need by

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savings through improvements in their own efficiency. I am often told this is very difficult if not impossible, but I do not believe that. I shall therefore continue to exert the utmost pressure on my Health Authorities to find such savings.

Education

I am responsible in Wales for schools and higher and further education (but not Universities or teachers pay). Because of a declining school population, expenditure on this service is set to fall in real terms in the medium term. It will be difficult enough to achieve the reductions there should be. The closure of schools with falling rolls, whether in the country or in urban areas, is an act of considerable political difficulty as you know. The education lobby is well-organised and vociferous, and parents can be counted as one of the most unreasonable of pressure groups. There are also respectable arguments for increased expenditure on equipment and buildings. I therefore agree with the Secretary of State for Education that we must continue to exert all the pressure we can to enhance the efficiency of the service and deliver the planned reduction in real terms spending on it. In particular I am sure we must tighten pupil/teacher ratios in both schools and higher and further education. Beyond that, the only scope I see for substantial savings would be to change the relative legislative provisions to set maximum standards. It seems highly unlikely that such a change would get through the House.

Roads and Transport

The bulk of Welsh spending in this area is on capital construction and road maintenance. We have a major and important trunk road and motorway programme to complete, which was begun some years later than the comparable construction programme in England. There is a great deal of improvement needed to local authority roads in Wales to complement the main arteries we are providing. This is essential infrastructure work and it would make no sense to curtail it. There is very little current spending of the sort that worries the Secretary of State for Transport in England: in 1983/84 total planned expenditure in Wales on passenger transport subsidies is £10m and on concessionary fares is £6m. Such current expenditure in Wales is supported by RSG not TSG, which is confined to capital expenditure. The full block grant mechanisms therefore apply to influence local authorities to keep to our plans.

Other Environmental Services

This includes the Urban Programme, the latest development in which is the new system of Urban Development Grants. I attach great importance to the Urban Programme generally and in particular to UDGs, which provide the spur to private sector investment in run-down urban areas at minimum public sector cost. The initial response to the UDG scheme in Wales has been very promising. The borrowing requirement of the Welsh Water

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Authority (which is presently scored against this provision) will reduce in the medium term as the Authority moves towards self-financing; but it must be admitted that this is something of a moving target because of the increasing need for replacement of under-ground waterpipes and sewers. I see no prospect of an additional contribution from either a cut in the Urban Programme or an imposed cut in the Water Authority's borrowing requirement. The remainder of this provision goes in small amounts to various purposes which offer no possibility of substantial savings, and to Local Environmental Services (LES).

LES is itself a rag-bag of things, and in 1983/84 amounts in cash terms to £39m capital and £163m current expenditure. This current expenditure (which is by local authorities) can be influenced only indirectly through the RSG system. Better results should be achieved by a determined effort to increase the level of competition in the provision of the services concerned (which include leisure services and refuse collection) through contracting out.

Housing

I agree with the Secretary of State for the Environment that there is no room for cuts on capital. The condition of the housing stock in Wales is still particularly bad, as a recent survey has shown. One of my problems in allocating resources within my block is how to find the provision I am sure is needed. As to current expenditure on housing, this comes to only £22m in cash terms in Wales in 1983/84. The major part of this is subsidies of £11m: the rate fund contributions to the local authority housing account amount to only £4m. I expect both amounts to decrease somewhat in the medium term if current policies continue. But, as I have previously argued, what is really needed is the re-creation of a private rented sector to reduce the present overwhelming dependency on public sector housing by those who for whatever reason cannot buy a home of their own. Our policies aimed at the extension of home ownership, such as right to buy, are very worthwhile but they will never solve the whole problem. In my view action to revitalise private renting will be essential.

Industry

My Industry provision has already fallen from its peak in 1981/82 (£95m cash out-turn then to a planned £79m cash in 1983/84). It is very difficult to forecast with any certainty what the calls upon it will be in the medium term. I am seeking the whole time to use the funds as catalyst for private investment whilst turning over the assets of the development agencies. Ideally I should like to see the WDA become fully self financing in the longer term as our policies succeed and the economy recovers.

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Agriculture

I have seen the Minister of Agriculture's response and I endorse what he says. In particular the extension of support to marginal land is very important in Wales.

Tourism

The provision for this service in Wales is small (£6m cash in 1983/84). It is an important aid to the tourist industry, which in turn is important to Wales. There is no scope for substantial reduction.

Other Public Services

This is essentially Welsh Office running costs. I have said elsewhere that a continuation of the 1 April 1984 staffing level (on which this provision is based) will make the running of the Department very tight. It follows that I see no prospect of reducing this provision if we are to carry out our full range of functions.

In conclusion, I should like to register my support for colleagues who have entered pleas for early action to provide end-year flexibility for capital spending programmes. The present rules lead to waste, either in terms of planned expenditure unspent or in terms of inessential spending incurred to use up funds at the end of the year. I know that the objection to doing anything on this score last year was the expected public expenditure cost in the year following introduction. This could be an argument for indefinite delay, and I hope it will not be allowed to be an obstacle this year.

I am sending a copy of this report to the Secretary of State for Scotland and the Chief Secretary, who saw it in draft, and to Sir Robert Armstrong.

JHRoberts

30 March 1983

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

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