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MS 31/3

Robin Butler Esq  
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31 March 1983

Dear Robin

MS

LONG TERM PUBLIC EXPENDITURE

... I attach my Secretary of State's report on the review of long term public expenditure in the Department of Employment Group in accordance with the Prime Minister's minute of 4 February.

The Chief Secretary has made a number of comments ... (which I also attach). My Secretary of State has not been able to consider these, but will do so on his return from the Easter break.

Copies go to the Chancellor of the Exchequer, the Chief Secretary, and the Secretaries of State for Scotland and Wales.

Yours sincerely  
Bunbury Shaw

J B SHAW

Principal Private Secretary

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## LONG-TERM PUBLIC EXPENDITURE - DEPARTMENT OF EMPLOYMENT GROUP

The Nature of DE Group Expenditure

1 As the Treasury paper which Cabinet discussed on 9 September 1982 noted, most of the Group's expenditure is related to the state of the labour market. In 1983/84 the Unemployment Benefit Service is estimated to cost £239m; the Redundancy Payments scheme £426m; the Special Employment Measures (SEMs) £849m; the MSC's Youth Training Scheme £922m; and the Training Opportunities Scheme (TOPS) and the Skillcentres £247m. These items constitute over 80 per cent of the Group's total expenditure (£2990). Big reductions could be made in the Group's expenditure only if some or all of these programmes were sharply cut back.

2 The figures for SEMs are gross costs. If people were not in the SEMs they would be drawing unemployment benefit. The net cost - the true measure of the public expenditure effect of any reduction in the SEMs - averages about 60 per cent of gross cost.

Unemployment

3 The Group's programmes are largely in response to unemployment, and largely therefore a function of its level. If the level continued broadly as at present the UBs would continue to cost about the same, although there are useful savings in prospect from more extensive use of computers (para 10 below). To reduce the SEMs would increase the number registered as unemployed. Big savings would have to come mainly from the Community Programme (CP) since this has the biggest net cost (£232m now, rising to £358m in 1984/85).

4 The Redundancy Payments Scheme is self-balancing in the long term, as the rebates to employers are financed by an allocation from ERNIC. Any reduction in the rebate would eventually be matched by a reduction in the charge. The scheme accordingly does not offer scope for reductions in expenditure which lead to reductions in the PSBR.

5 The Youth Training Scheme is to be a permanent feature of the training scene, although it also has a major direct impact on youth unemployment. If current levels of unemployment persist both purposes will remain important. TOPS has already been reduced in scope, and the Skillcentres are being hived off into an agency for greater efficiency; but at present levels of unemployment big cost reductions would add to the registered unemployed.

#### A Decline in Unemployment?

6 On the optimistic scenario in the Treasury's paper on long-term trends it was assumed that unemployment would fall to 2 million. The UBS expenditure would then decline, although probably not in quite the same proportion as unemployment. The effect on the SEMs would vary from scheme to scheme. There might well be a smaller up-take of the Job Release Scheme; on the other hand, so long as the number of long-term unemployed remained high (and it would probably not fall much until total unemployment had been falling for some time) the existing number of CP places might continue to be justified; and the Young Workers Scheme could still be useful to counteract any tendency for youth pay to rise. Overall, however, it should be reasonable to aim at a lower total register effect than the 350,000 produced by the present expenditure of £480m net on SEMs. Very broadly, the trade-off might be a reduction of £100m in net expenditure for about 70,000 extra on the register.

7 YTS could be affected by lower unemployment - not that the commitment to a new form of training for school-leavers would be less apt but that incentives to participation by employers (now in the form that two school-leavers they would have taken anyway are paid for if they take on three unemployed school-leavers) might be less cogent. Better job prospects would make TOPS and Skillcentre training more relevant, not less.

8 Lower redundancy payments would eventually be matched by a cut in ERNIC; in any event redundancies will continue at a high level even with more jobs in a healthier economy, because of continuing changes in the structure of employment.

9 In summary, lower unemployment should make possible substantial reductions in net SEM costs, though this would slow down the decline of registered unemployment. The UBS would cost less. Training, including YTS, does not afford much prospect of lower gross expenditure. However, a greater contribution by employers to the cost of training could reduce net expenditure; the report due this Summer of the study of long-term funding of training will bear on this.

#### Plans for Savings

10 The Group's five-year forward look and its review of Civil Service manpower already point to some useful savings, not dependent on the level of unemployment, within the same period as this more basic review of long-term public expenditure.

- DE manpower (mainly the introduction of computer terminals in the UBS between 1984/5 and 1986/7) - £14m. annually;
- Possible end of signing-on for UB (1987 at the earliest)  
- £5m annually;
- MSC manpower - £14m annually;
- Skillcentres: possible privatisation (the MSC would remain a major customer, so not all of the current £106m expenditure would be saved).

NJ



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Tebbit MP  
 Secretary of State  
 Department of Employment  
 Caxton House  
 Tothill Street  
 London SW1H 9NA

30 March 1983

*Dear Secretary of State,*

Thank you for your letter of 29 March enclosing a copy of your paper on Long Term Public Expenditure. You will appreciate that there is no time for me to consider the paper in detail before it has to go to the Prime Minister. The following comments are therefore very much a first reaction, confined to some of the more general issues.

I am sure you are right to draw attention to the large chunk of your department's expenditure which is related to the state of the labour market. However, this begs a number of important questions:-

- (i) How far can it be assumed that expenditure which has gone up as unemployment has risen, will necessarily come down again as it falls?
- (ii) The answer to this may be relatively straightforward in the case of redundancy payments or the UBS; but it is less so in respect of special measures. These tend all too readily to cease being "special" and to become a permanent feature of the landscape. It could therefore be over-optimistic to assume that the rising trend of expenditure on such measures can be decisively halted without specific, and perhaps unpopular policy decisions.
- (iii) In view of this, I was rather surprised that the paper does not consider the scope for reducing the unit costs of very expensive measures such as the Community Programme, which as you say might continue to be justified for some time to come.
- (iv) The relationship between expenditure on training and the level of economic activity is clearly very uncertain. This is especially so as regards the YTS which caters for employed as well as unemployed young people (and

indeed will substantially blur the distinction between these two categories). It may well be that the only real chance of preventing the scheme from becoming an open-ended expenditure commitment is to increase the contribution of employers, either implicitly or explicitly. You mention the current study of the funding of training which is obviously of great strategic importance. However, you do not mention the pressure which is already building up to extend the coverage of the scheme (to other unemployed 17 year olds for example). I think it needs to be made clear that we could not succumb to such pressure unless a way is found of reining back the degree of public funding.

- (v) Finally, the paper does not discuss the scope for savings in that part of your Department's programme which is not directly related to the state of the labour market. This may represent less than a fifth of the total, but it nonetheless amounts to around £300 million a year.

I know I have raised a number of substantial points, but the sums at stake are very large, and I hope you will agree that the broad-brush approach which you have adopted can only be a starting point.

*yours sincerely*

*MB*

for LEON BRITTAN  
*(approved by the Chief Secretary & signed in his absence).*

31 MAR 1966

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