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25 April 1984

Dear Andrew

PUBLIC EXPENDITURE PRIORITIES

Sir Keith Joseph wrote to the Prime Minister on 21 March.

We were asked to provide a brief for the Prime Minister for a discussion she is going to have with Sir Keith Joseph and Mr Hancock.

I attach a short speaking note together with a slightly longer background note.

Yours sincerely
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JOHN GIEVE
Private Secretary

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PUBLIC EXPENDITURE PRIORITIES: SIR KEITH JOSEPHS NOTE OF 21 MARCH

Points to make

- i. Agree with need to review blocks of expenditure. A programme of public expenditure reviews is in place covering many of the issues Sir Keith mentions (see list at Annex A). Tourism was reviewed last year. Expenditure in Scotland, Wales and Northern Ireland is also being reviewed separately. [This work is sensitive and the fact of its existence is for Sir Keith Joseph's ears only at this stage]. Priorities for research and development expenditure are now reviewed annually by Dr Nicholson. Support for industry has now been much reduced.
- ii. Agree need to tackle spending on agriculture. Are negotiating hard to reduce CAP expenditure and carrying out a thorough - and highly confidential - review of national support for agriculture (reporting to the Prime Minister).
- iii. Can take account of savings identified by reviews in the public expenditure Survey; will at the same time consider other options for reductions and claims for additions, such as Sir Keith mentioned in his letter.

Background

Sir Keith Joseph's note says he expects to need extra resources for his programme rising to about £300 million a year by 1986-87. He mentions two main causes:

- i. the introduction of a performance-linked pay structure for school teachers. Sir Keith first raised this bid last September when he proposed to tell local authorities they could have up to £150 million. After the Chief Secretary objected it was agreed discussions on a new structure should go ahead but with no promise of additional funds. Some progress has been made, though the cost has not yet been discussed. The Burnham working party currently aims to put a package to Sir Keith by June. As well as the direct costs, there could be repercussions for other public sector pay groups.
- ii. More and better in-service teacher training. This idea has been around since the James Committee report in 1971. Sir Keith made a bid for extra resources in the 1982 Survey. Although the bid was turned down he has found room within his programme for a significant programme of in-service training supported through specific grants.

2. In addition, Sir Keith says extra resources would also be needed to enhance the efficiency and effectiveness of teaching and research in science and engineering. He probably has in mind such things as more and better laboratory equipment and reversal of universities recent cutbacks in research spending. He may also however pray in aid the Government's manifesto commitment to increase the number of graduates in engineering and technology. At present DTI and DES are collecting evidence of demand for such courses from employers and students. The DES position previously has been that the necessary cash could be found within their existing PES provision.

Public Expenditure Reviews

3. Sir Keith also mentions a number of areas in which savings might be found to offset the additional expenditure he (and others) will propose. Many of the issues Sir Keith has raised are in fact already being looked at in public expenditure reviews. Some of these reviews will in due course provide savings which will be taken account of in the expenditure Survey. A list of these reviews is attached (Annex A).

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4. On the particular points Sir Keith mentions:

i. Subsidies to agriculture. The UK is negotiating hard to reduce CAP expenditure. On domestic expenditure, officials are carrying out a thorough review of national support for Agriculture and will report to you (Prime Minister) in time for the 1984 Survey. (The Review is classified Secret and omitted from the attached list).

ii. Subsidies to industry. DTI support for aerospace, shipbuilding, steel and vehicle manufacture was planned in the last public expenditure White Paper to fall from £3,249 million in 1981-82 to just £90 million 1984-85, and £10 million in 1985-86 (though subsequent decisions on the A320 and V2500 will cost an extra £83 million in 1984-85 and £116 million in 1985-86).

iii. Subsidies to promote tourism total £34 million a year. A review of tourism policy was considered by E(A) Committee last November.

iv. Expenditure on research and development throughout Government is being reviewed annually by Dr Nicholson. This years review will be ready in time for the 1984 Survey.

v. Expenditure in Scotland, Wales & Northern Ireland is also being reviewed. [This work is sensitive and the existence of the review is for Sir Keith Joseph's ears only at this stage].

Sir Keith also suggests a gradual reduction in public support for higher education students' maintenance. This may be worth pursuing. But without a full-blown loans scheme - publicly rejected at least for the immediate future - any savings would be very modest in relation to the extra resources Sir Keith seeks for his programme.

5. In addition, the options for reductions which, despite Sir Keith's reluctance, are to be prepared in the Survey should identify the implications of 3 per cent savings on all programmes for Ministers to consider. There is, of course, no presumption that Ministers will wish to decide to make across the board reductions.

Current Policy Reviews (excluding efficiency reviews)

DHSS	Inquiry into Provisions for Retirement (including portable pensions and retirement age) Housing benefit scheme Supplementary benefit scheme Benefits for children and young people Contractual relationship between the NHS and the contractor professions in the family practitioner services NHS charging policy Drugs bill
D/Energy	UKAEA BNOC
DES	Future size and structure of higher education system
ABRC*	High energy particle physics (including CERN)
Dr Nicholson	Government Research and Development
MAFF	Review of Agricultural Development and Advisory Services (ADAS) National Support for Agriculture
MOD	National Defence Technological Capabilities
D/Environment	Urban Programme Effectiveness of existing rural economic policy instruments. Contracting out of local authority services Water Authorities
D/Transport	Public road passenger transport review
Treasury	Territorial block arrangements (Scotland, Northern Ireland)

*The Advisory Board for Research Councils will report to DES.

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Policy Reviews completed in 1983

DTI	Regional Economic Policy	Oct 83
	UK space policy	Dec 83
	Review of Tourism Policy	Nov 83
CPRS	Central-local government relations	Summer 83
DES	Cash payments in lieu of Free School Meals	Summer 83
Dr Nicholson	Review of Intellectual Property	
	Rights and Innovation	Oct 83

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