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~~Mr Turnbull~~

File

Public expenditure

10 DOWNING STREET

8 June 1984

John Gieve Esq
Private Secretary to
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

Dear John,

Thank you for your minute of the meeting with the Chief Secretary on 4 June.

I would just like to make clear that the the theme of more fees and charges, which is a Treasury suggestion for the forthcoming PESC round, does have its difficulties, as I explained at the time. Widespread use of this does boost the Retail Price Index, and does not of itself do anything to improve value for money or efficiency within the public services.

However, the development of more customer power over public services is an attractive way of encouraging better efficiency and, more importantly, builds on the main theme of the meeting, namely trying to find policies which are in their own right attractive to Secretaries of State in spending departments, which have as their corollary the fortunate consequence of saving taxpayers' money.

Yours sincerely

JOHN REDWOOD

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PUBLIC EXPENDITURE SURVEY: MEETING IN HM TREASURY ON 4 JUNE 1984

Present:

Chief Secretary
Mr Redwood (Policy Unit)
Mr Bailey
Mr Gieve

Mr Redwood said that he had asked for the meeting to have a preliminary discussion of the handling of the Survey and the role the Policy Unit could play. He wondered whether it would not be possible for the Treasury to alleviate the dour message of restraint and cuts to some degree by building on some of the positive themes of the Government's strategy for example deregulation (buses, VED, aviation) disengagement of the Public Sector from certain areas (market advice and regulation in agriculture, sponsorship of industries, control of North Sea licensing) and increasing the power of the consumer through more fees and charges, simplification of taxes and benefits (Housing Benefit) and partnership between public and private sectors in education (FE and HE).

2. The Chief Secretary said it was an attractive idea and he would consider the scope for doing this when the pattern of bids and option became clearer during the Survey. Mr Bailey noted that some of the themes suggested eg. sponsorship and deregulation might be more helpful in terms of civil service numbers than expenditure. However the theme of disengaging Government from certain areas was very important particularly in agriculture and industry.

3. Discussion then turned to particular programmes.

(a) the Chief Secretary said that he was sure that there would be a battle this time round on agricultural

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and industrial subsidies; the theme of disengagement could be of value there;

(b) he was also concerned at the cost of the employment schemes, Mr Redwood agreed and suggested that Value for Money might be the theme there.

(c) On social security, Mr Redwood suggested that Housing Benefit still stretched far too high up the earnings scale and was probably the best place to look for short-term savings. Another possibility which he was inclined to favour would be not to increase Child Benefit on the grounds that the Government was giving priority to personal tax allowances. The Chief Secretary said that he doubted whether it would be possible to do less than index child benefit to prices. It was agreed that for the longer term changes in the State Earnings Related Pension Scheme were important.

(d) On the NHS, Mr Redwood pointed to the drugs bill and in particular the inadequacy of the measures taken on parallel imports. Beyond that, the big issue was the use of labour. Only continued improvements in the management structure and continuing tough cash limits would produce improvement there. The Policy Unit were producing a note on planning and professional restrictions on the growth of Private Sector health care which could be important in the longer term.

(e) On Defence, Mr Redwood said that the important thing was to prepare for the day that the NATO commitment collapsed. He was convinced that hundreds of fm were going to waste on procurement. Apparently Mr Levene had suggested that MOD were paying 10 to 20% over the odds on many contracts. He had high expectations of Mr Levene's review of procurement and of his ideas on dockyards. In his view the idea of defining a minimum industrial base had now been abandoned and Mr Heseltine was concentrating on fostering domestic competition.

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(f) Mr Redwood thought that both further education and higher education should produce further savings. He noted that *Salford* University was now flourishing on the basis of partnership between private sector and public sector finance.

(g) Mr Redwood agreed that control of local authorities presented a continuing problem. He thought that further measures beyond the abolition of the metropolitan counties and rate-capping might well be needed in the next couple of years. In the longer run a reduction and rationalisation of the functions of local authorities seemed the only sensible route. The Chief Secretary said he didn't dissent from that in principle but he doubted whether it would be possible to introduce any further major legislation on local authorities in this Parliament.

(h) Mr Redwood said that it was vital that the potential savings from the abolition of the Met. counties should be realised and the disposal of waste land and empty property would be one important source. Indeed that should provide savings more widely; he estimated that the PSA had £300m worth of empty property.

3. The Chief Secretary thanked Mr Redwood for giving his views. He thought it would be useful to reconvene the meeting later in the month when the bids and options were clearer. He agreed with Mr Redwood that members of the Policy Unit and officials in expenditure divisions should keep closely in touch and exchange ideas.

JL

JOHN GIEVE

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