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FROM: CHIEF SECRETARY

DATE: 9 January 1985

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY: REVIEW

We are meeting on 15 January to discuss the experience of the last expenditure survey and the lessons for the future.

2 We have conducted a detailed review of the last Survey within the Treasury. The attached note by officials (Annex B) describes how the Survey appeared to us, and the questions it has prompted us to consider. I think you may be interested to read the detailed assessment but I do not think we need discuss every point in it. I attach (Annex A) an agenda summarising the issues I think we should focus on.

3 In the remainder of this minute I set out my views on these issues.

4 First, a general point. The review throws up two sorts of issue: questions about our policy towards public expenditure. And questions about the procedures we adopt for implementing the policy. Both are important; but the questions of policy are clearly more so. I do not believe that the difficulties will be resolved by a change in procedures alone.

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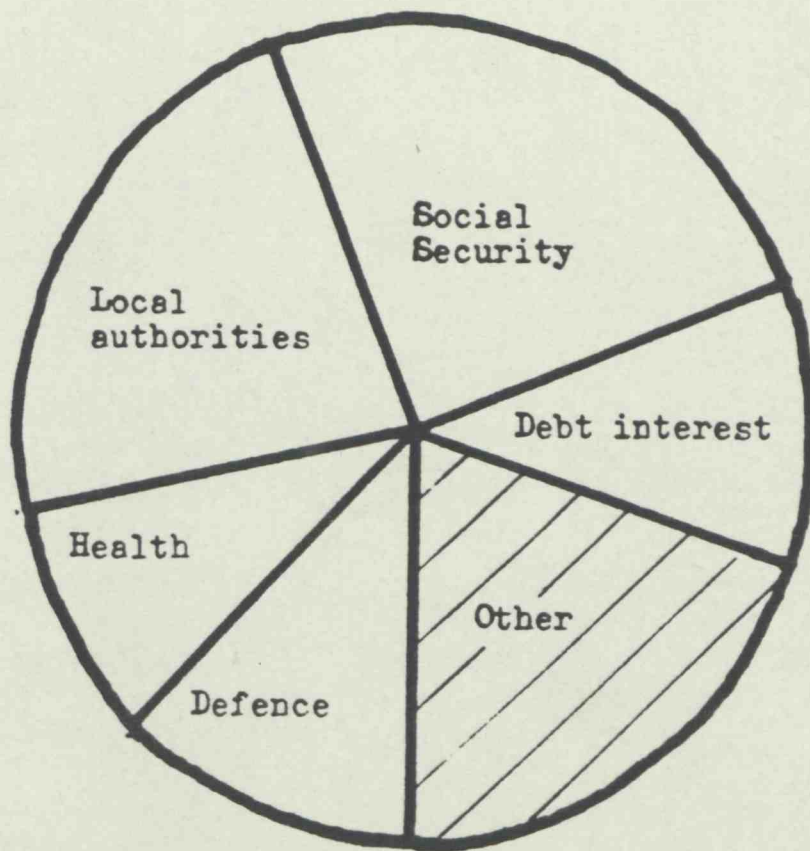
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5 The background to our discussion (Item 1 on my agenda) is the outcome of the 1984 Survey. A difficult Survey; and I think it is worth reflecting on why it was difficult.

6 Our policy is to keep public expenditure broadly stable in real terms. In practice, to preserve the rigour of the relatively new cash planning regime, we have interpreted this policy as keeping to the cash figures published in previous expenditure White Papers. Last year we faced unavoidable increases of nearly £3 billion in each year (£4½ billion in 1987-88), from local authorities (£1 billion), social security and health (£700 million) and other demand led expenditure (ECGD, agricultural intervention and the EC) as well as pressure from the nationalised industries, as a result of the Budget corporation tax changes.

7 The chart below shows how 4/5 of general government expenditure is accounted for by local authorities and debt interest, which we do not directly control, and three central government programmes which are either increasing or which we were committed not to reduce in 1985-86. The remaining 1/5 had to bear the brunt of the expenditure cuts which, with higher asset sales and lower financing requirements from the nationalised industries, were needed to balance the books.

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planning total plus debt interest 1985-86

8 It is against this background that we shall be launching the 1985 Survey. The second, and most important, item on my agenda is the prospects for this Survey - what steps will be necessary to compensate for the upward pressures and maintain the existing totals, and what should we be doing now to ensure they are taken?

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9 I have always seen one crucial aspect of my role as being to exert the maximum pressure for everyday housekeeping economies, individually often on a small scale but significant in aggregate. There is always more that can be done. But I have concluded that there will not be sufficient savings from continuing to exercise pressure in this way to close the gap.

10 Inevitably, then, we will be faced with a small range of major policy options to achieve the totals. The range is small because the only changes that are immediately in our power to make and which are large enough to close the gap will have to come in the big central government programmes in the chart above - notably social security. The success of the next Survey will depend on the outcome and implementation of Norman Fowler's reviews, and on ensuring that we have set in hand reviews into the other key areas of expenditure where we know we will have to find fresh savings: industrial support, housing and gas pricing. Finally, it will be essential to withstand pressures for any net new expenditure.

11 With the right decisions in these major expenditure areas and with a satisfactory resolution to some of the main uncertainties (e.g. pay, local authority expenditure and unemployment) I believe we could meet the existing targets. Without these decisions, or with other factors going against, we would be faced with different totals with all the policy implications that would involve .

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12 I come finally to procedures (Item 3 on my agenda). I have already said I do not believe radical changes to the system will solve the problems outlined above. I am pursuing a number of changes to the way the Survey report is prepared, including the extent to which I personally should be involved at an earlier stage in discussion of additional bids or options for reductions I should prefer to minimise such involvement, partly in order to reduce the risk of damaging leaks. But it is important to ensure that a full range of options for reduction are available in time of effective collective decisions to be taken. In this connection I would suggest that you might consider endorsing a new feature in the survey guidelines. This would oblige spending departments at the request of the Treasury to provide in good time a properly costed analysis of options for reductions proposed by the Treasury.

13 But whatever changes we make I think it will always be necessary for the ground to be cleared first by officials, followed by bilateral discussions between spending Ministers and myself to reach decisions where possible and, where not, to refine the issues for collective discussion, either in a small group of Ministers or in Cabinet.

14 I have however given some thought as to whether it would be worth seeking greater collective commitment to priorities as well as to totals in order to improve the prospects of successful conclusion of bilateral discussions. I think we should consider whether an informal collective discussion would be useful in the early stages of the Survey. I would not expect detailed figures or firm decisions to come out of such a meeting. But it could provide a framework for the Chancellor to bring proposals to Cabinet in June/July on the target totals for the Survey and subsequently for those targets to be translated into decisions on individual programmes

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15 I am copying this minute to Willie Whitelaw, Leon Brittan,
and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'PR' or similar initials.

PETER REES

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ANNEX A

PUBLIC EXPENDITURE SURVEY: AGENDA

1 Background:

Strains within our existing policy are making each Survey more difficult than the last. Real growth in most of public expenditure means cuts have had to be found each year in other programmes (see Chart in paragraph 7 of my minute).

2 Prospects for the 1985 Survey

The existing policy of nil real growth over the coming years therefore faces real pressures. "Housekeeping" measures will continue to be important in offsetting these pressures but will not be enough. What policy decisions will be needed to close the gap, e.g. in the following areas?

- a. social security
- b. defence
- c. industrial subsidies
- d. housing;
- e. health
- f. gas prices

(L.A. expenditure
Control of cap. exp.
Public sector Pay
Employment Measures.
Market Industries
Gas prices

What reviews should be set in hand now to put us in a position to take policy decisions in these areas next summer?

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3 Procedures

Is the present system broadly the right one:

- i) can the bilateral process be made more effective in securing final decisions?
- ii) is too much weight being placed on a 'Star Chamber': and if so, how can this be alleviated?
- iii) should the Cabinet have more involvement in Survey decisions, and if so at what stages and by what process?

1984 SURVEY: REVIEW

1. The Survey began in April with Cabinet agreement that officials should begin work against baseline totals for years 1 and 2 equivalent to those in the 1984 White Paper minus the reduction consequent upon the abolition of the National Insurance Surcharge; and to programme totals for year 3 uplifted by 2½% from the year 2 level. There would be particular interest in control of departmental running costs; more contracting-out; and additional bids would have to be ranked in order of priority and, for the first time, justified by output information. The new 1983 Manpower plans would be reviewed.

2. By June a familiar picture had emerged. In aggregate departments were saying they needed £5b above baseline in 1985/86, £5.8b in 1986/7 and £8.5b in 1987/8. Treasury expenditure divisions believed that the irresistible element in these bids amounted to £2.9b, £2.8b and £4.6b respectively. The main areas of pressure were local authority current expenditure (+ about £1b a year), social security and health (+£700m rising to +£2b a year), other demand-led areas - notably ECGD, reflecting higher interest rates, the consequence for EC expenditure projections of the Fontainebleau settlement (£200-300m), and the effect on nationalised industries' EFLs of the Budget Corporation tax changes (worth £2½b or so over three years).

3. Against this background Cabinet, in early July, agreed that the planning totals should be held to the baseline level for the first two years; with a cash uplift of 3% for the third year. At the same time E(A) decided that nationalised industries' EFLs should in aggregate be £250m, £500m and £1b below baseline in the 3 years. The expenditure

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side of the Treasury set about devising proposals for measures which would bring these results about. After an iterative process between expenditure divisions, the General Expenditure Policy division (GEP) and Treasury Ministers and advisors, a set of 'bidding' letters from the Chief Secretary was despatched before the summer break which in aggregate proposed reductions of $\pounds 2\frac{3}{4}b$, $\pounds 4b$ and $\pounds 6\frac{3}{4}b$ in the 3 Survey years - ie more than enough to bridge the gaps, now assessed at $\pounds 2b$, $\pounds 2b$ and $\pounds 3\frac{1}{2}b$. But a realistic assessment of the likely outcome, compiled from expenditure divisions' judgements by GEP, suggested that even with very tough decisions all round, we would fall short of our goal by about $\pounds \frac{1}{4}$ billion in 1985/86, and barely achieve those for the later years.

4. From this point onwards, the Survey was increasingly constrained by the need to bring it to a conclusion sufficiently before BT Impact Day. The Chief Secretary's bilaterals took place intensively throughout September, and settled the Employment, Transport, Education, Home Office and - after discussions at No 10 - the DTI programmes, as well as a number of small programmes and many details of the remaining disputed programmes.

5. MISC 106 ("the Star Chamber") began work immediately after the Party Conference, and was offered a Treasury analysis of the gap which remained to be filled, the programmes in dispute, and three alternative ways of closing the gap. Agreements were reached in MISC 106 on agriculture, health, social security, and non-housing DOE programmes. At meetings with the Prime Minister, defence, gas and electricity and the FCO/ODA programmes, were settled. Housing alone was left for the final Cabinet on 8 November. The Autumn Statement was produced, in record time, for Monday 12 November.

ASSESSMENT

6. The Survey cannot be counted as an unqualified success.

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The July Cabinet's targets were missed, by £400m in 1985-86, £400m in 1986-87 and £1.1b in 1987-88; and, within these, the E(A) targets for nationalised industries were missed by a large margin, although the outcome was below baseline in all three years. These figures themselves would not have been achieved if there had not been a large increase (£900m in 1985-86) in the forecast proceeds from asset sales. The House of Commons has, since the Autumn Statement, forced additions to total expenditure and shifts in priorities on overseas aid and student grants. There is currently pressure on the provision for local authority capital.

7. On the other hand, public expenditure totals have been held to earlier White Paper plans. The Treasury secured a satisfactory outcome on a number of programmes. The whole exercise was managed in such a way that the Autumn Statement/BT flotation timetable - which was a notable constraint on the success of the whole operation - could be exactly met.

8. The Autumn Statement itself was received with surprisingly little hostility. But, as opinion has gradually gauged the severity of the Survey decisions criticism has swelled. There is little public appreciation of how ambitious and tough is the objective of nil expenditure growth in real terms (which the Government has not yet achieved in practice). The Green Paper theme of last Spring, that after 20 years or more of expenditure growth at 3% a year there will be enormous pressures on a nil growth target, has not got through; and few appreciate that, with one-third (social security) of spending growing over the last five years at 5% a year real (cf Chart 4 of the Green Paper - copy attached at Appendix II) another quarter (defence and health) growing over the same period at 4% a year, and another quarter (local authority) largely out-with our control, it has been necessary to bear down with great severity on the rest.

9. It is important to point out to those who criticise

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the PES system that, to meet these targets within the government's pledges and commitments, necessarily required harsh decisions in the lower priority areas. It is hard to imagine that of any system of control which delivered (or nearly delivered) the present public expenditure totals could escape criticism.

THE LESSONS OF THE SURVEY

(1) The Policy lessons: the problems

10. Will these strains within existing public expenditure policy - the clash between the ambition for a nil growth total and the pledges and pressures on individual programmes - be sustainable in 1985-86, and in the 1985 and later Surveys?

11. First, the prospect for 1985-86. We have succeeded, with difficulty in squeezing public expenditure programmes for 1985-86 within the £132.1 billion total. What will the main sources of pressure on the £3 billion Reserve be in 1985-86?

(a) Local authority current The prospects here depend critically on the effectiveness of tougher holdback, more realistic targets, grant standstill, rate-capping and, in the longer run, on the outcome of the Kenneth Baker review; and, more immediately, on the upshot of the likely confrontation with the high-spenders. It would be disappointing if, notwithstanding this new regime, overspending remained at the level of recent years, of about £1½ billion or more a year. Our guess is that it will fall in the range of £¼-£½ billion.

(b) Local authority capital Following Cabinet's decisions on 13 December we are expecting an overspend of around £¼ billion. We will have to stand firm

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against the pressures for a more relaxed control regime here.

(c) Nationalised industries' EFLs The range of possible overspend spans $\pounds\frac{1}{2}$ - $\pounds 1\frac{1}{4}$ billion. The forecasters earlier had $\pounds 1$ billion, on the assumption that the coal strike would end at Christmas, so that post-strike costs in 1985-86 were assumed to be low. At best - and inevitably - the NCB's EFL will have to be increased to reflect the deferral of closures during 1984-85 and loss of markets and productivity. The electricity supply industry's EFL will also increase, unless offset by a Scargill surcharge, to pay for additional purchase of NCB coal. In addition, any decision to prolong oilburn in order to accelerate stockbuilding would be very expensive. And there may be other pressures, not directly associated with the strike.

(d) The social security figures in the PEWP rest on an unemployment assumption about which there must be much uncertainty. Further increases in take-up are, on past form, likely. Although some $\pounds 700m$ was added to this programme in the Survey it would be in line with experience in earlier years to assume that a further $\pounds\frac{1}{2}$ billion will be needed. Other demand-led programmes could turn out to be underestimated; this might add up to another $\pounds\frac{1}{2}$ billion.

(e) We ought to allow about $\pounds\frac{1}{4}$ - $\pounds\frac{3}{4}$ billion - net of cash limit underspends - for real contingencies (including the possibility that some public sector pay cannot be contained as well as in recent years; for the inevitable unstoppable initiative like extra launch aid, for strikes and so on).

(f) As a postscript, any new expenditures proposed

by Tom King and Lord Young's groups (£½ billion has been mentioned) would be additional to the foregoing.

12. This analysis suggests that, at best, £2¼ billion of the £3 billion Reserve will be spent. The uncertainties are, of course, very great. This means that we are heading for an overspend in 1985-86 unless tough decisions are taken to reject all avoidable additional bids and to offset any which prove to be unavoidable.

The years after 1985-86

13. Looking ahead to the 1985 Survey many of these pressures will also affect the prospect for the new Survey years up to 1988-89. It is true that, for defence, existing decisions are for a small decline in real terms after the end of the 3% NATO commitment in 1985-86. The pressure, too, from local authority current expenditure should ease off as rate-capping begins to bite on the high spenders (provided there is no let-up in containing the expenditure of the bulk of local authorities, and the decline in the grant percentage continues). But for many programmes - notably health and social security, together half of the total - the pressures will remain intense.

14. Furthermore, over and above these pressures, is the threat to public expenditure control posed in the medium term by public sector pay. The forthcoming Public Expenditure White Paper provides for average annual increases in the central and local government pay bill of 2.5% up to 1987-88. If actual public sector earnings increases over this period average, say, 5 per cent a year and unless numbers can be cut further, the White Paper thus makes significant and accumulative underprovision for pay. This must lead either to an increasingly difficult switch from non-pay to pay expenditure, or to very severe pressures on the totals.

The policy lessons - what action to take?

15. In the face of this sombre prospect there will be some who will argue for some relaxation of overall policy on the totals: either to move from existing cash totals to somewhat higher figures (£200 - £500m higher over the three years) which could still be justified as presenting a profile broadly flat in real terms; or to yet higher figures, within the constraint that there should be no increase from, say, this year's figure, in the proportion of national income represented by public expenditure.

16. Either of these possibilities is, and would be seen to be, inconsistent with the main thrust of the government's economic policy since 1979, and inconsistent with the principle of cash planning of public expenditure. There must, too, be a strong probability that any higher run of spending totals would itself soon be subject to equal upward pressure; it may be part of the dynamics of public expenditure control that whatever the ceilings set by the Treasury, pressures for higher spending develop which cause individual programmes soon to adjust so as to threaten the Treasury's control total.

17. Although higher totals should, for these reasons, be rejected, there are three changes in our approach to the totals which need to be considered:-

(i) the government has, understandably, thought it necessary not to revise the planning totals produced by the move to cash planning, lest the whole edifice crumble. Arguably, now that the system is established we can afford to be more flexible (as we have become, without disaster, in the case of cash limits, which when first introduced could almost never on principle be changed), in the light of changing assessments of the overall fiscal and expenditure programme prospects. More importantly, perhaps, we should think harder before

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imposing a backdoor volume squeeze on programmes by setting the new third-year target each year somewhat below the (inevitably biased-low) inflation forecast, remembering that the unrealistically low 3rd-year figure, if it cannot in practice be changed, becomes an unrealistic second-year then first-year figure. A view needs to be taken on this early in the Survey process, and we intend to provide Treasury Ministers with an assessment of Survey prospects immediately after the Budget as a basis for this.

(ii) We need to give close attention to the composition of the planning total. Public expenditure control is a secondary not a primary objective of policy and its aim must be to deliver the government's macro-economic objectives of reducing inflation and improving the performance of the economy. We must not allow the natural preoccupation with the quantum of expenditure, as currently defined, to blind us to the quality of the expenditure our system delivers. Thus, if we achieve the White Paper planning totals eg through higher asset sales and a bank-run student loan scheme we should recognise that, while these schemes for reducing expenditure will help meet the government's supply side (and also important political) objectives they will do little to help it attain its taxation, borrowing and interest-rate objectives; indeed, to the extent that they allow higher expenditure on eg housing maintenance and science, they actually set back progress towards these macroeconomic objectives.

(iii) when tax changes add to, or reduce, public expenditure pressures (as this year's Budget Corporation Tax, VAT and also NIS changes did) there is a case for adjusting the planning total accordingly. This needs to be weighed against the argument that cash is cash, and that these changes are dwarfed by other price changes in programmes for which we deliberately make no specific adjustments.

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The policy lessons - action in the coming months

18. Treasury expenditure divisions do not believe that there are sufficient housekeeping savings, and savings of the kind which can be secured without prior preparation in the course of a Survey, available to bridge the gaps likely to emerge from the 1985 Survey. If the 1985 White Paper totals are to hold it will be necessary to take decisions, now or later, on a range of issues:-

(a) Significant savings will be needed from the social security reviews which Ministers will be considering in January. At the very least, decisions will be required to identify offsets to the otherwise likely additions to provision for housing benefit, supplementary benefit and so on. This means savings of upwards of £½ billion a year.

(b) A wide-ranging programme of reviews (see proposals at Appendix I) is required. The reviews will need to identify and appraise sizeable expenditure savings ready for adoption in the Survey or before, especially in housing, trade and industry, the coal industry, student support and gas prices. Careful attention to the timing of these reviews will be needed, lest they are used by departments as an argument against action in the 1985 Survey. These reviews should be launched as soon as possible.

(c) No let-up in the downward pressures on local authority expenditure - current and capital.

(d) Any decisions for additional expenditure to come out of Mr King's or Lord Young's groups must be offset by secure savings elsewhere agreed at the same time. There is simply no room for an extra £½ billion or so

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here within the totals we are working to. This point may be enlarged to a general one about minimising and offsetting discretionary increases in expenditure across the board.

(e) As the privatisation programme proceeds, and more of the milch cows go to market, the contribution from negative EFL's to lower public expenditure totals will shrink. But there are still potential savings in moving towards economic pricing for gas, (see (b) above) even though the outcome of this year's Survey suggests that these will be very difficult to achieve.

(f) Minimise expensive oilburn once the coal strike is over, if not before, consistently with industrial relations and security of supply considerations.

(g) We must make the tight new running costs targets for 1985-86 stick; and keep up the pressure for later years.

(2) How to run the Survey better

19. Some want us to move to an entirely different system. At one extreme we might conduct much more of the Survey in public, with a Treasury paper to the TCSC in June/July, analysing departments' additional bids and suggesting a number of alternative ways of holding to the Cabinet's totals. This might be followed by departmental papers to departmental Select Committees appraising the consequences of alternative expenditure levels for each department, and alternative expenditure mixes within a given departmental total. The advantage of this would be to identify any major political rows and put these firmly into the overall context. Such an approach would, no doubt, improve the quality of officials' analysis. But these benefits would, in our view, be decisively outweighed by the damage to expenditure control: we would face a barrage of student loan/overseas aid incidents, as each lobby acted to block off whatever cuts

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seemed most likely to be agreed.

20. Is the timespan of the present Survey right? Should we move to a 2-year span, or to a 4 or 5-year span? Our view is that we should certainly not contemplate shortening the present span; but that, while we would prefer in an ideal world to have fourth-year and fifth-year plans, we recognise that it would not be practical to make this change. Dealing with three years already loads the Ministerial phase of the Survey heavily, and our efforts should be centred on increasing the extent to which the second and third years are taken seriously throughout.

21. There is, again ideally, a place also for 5- to 10-year projections, beyond the highly aggregated figuring of the Green Paper The Next Ten Years and on the lines of the 1982 LTPE exercise; and for options for reductions. But there are serious doubts about how worthwhile programme projections so distant in time are; some necessary elements in programme projections (eg on public sector pay and unemployment prospects) themselves set up pressures which act to defeat the whole purpose of the exercise - better control of expenditure; and we do not believe that, by failing to do long-term projections, we render it impossible to control spending over our 3-year span.

22. Greater use of block budgets has been suggested as a method of improving control and value for money. It may be that, by more delegation, less intervention in departmental spending decisions and greater willingness to allow a department to retain the savings it has itself identified, the Treasury would encourage improved management and improved financial responsibility - and generally, further our post-FMI objectives. But experience so far with block budgets has not always been happy. Once a block budget is in place it becomes very difficult - as it is now with the Ministry of Defence - to stop poor-value spending decisions if they can demonstrably be financed from within the budget. The

...Treasury may find that its ability to identify the departments' soft spots is impaired; and the department, typically, comes forward only with powerfully-supported inescapable additions to the block, while quietly redeploying savings elsewhere within the block (cf the FCO/ODA block this year.)

23. We should consider the scope for increasing the horizontal inputs to the Survey - like the successful Research and Development review led by Sir Robin Nicholson this year, which played a part in the discussion of a number of programmes. Possible candidates for adding to Sir Robin Nicholson's work which will be repeated next year - are an analysis of capital expenditure, with an attempt to develop inter-programme comparisons of the estimated rate of return available on the marginal project in each programme (although these may prove technically impossible to produce, and might add to rather than reduce the pressures for higher spending); work on levels and management of stocks held by departments (this would be complementary to progress on improving public purchasing procedures); and a further push - as (E(DL)) have already agreed - on disposals of surplus land and buildings (although this last would not help the government's monetary policy).

24. We should integrate civil service manpower planning and control more fully into the Survey, achieving further reductions in numbers by building on the new running costs control rather than by free-standing manpower targets as in the past.

25. We already try to identify , in Survey papers for Cabinet, the issues which seem most likely to be controversial, so that Cabinet colleagues will not have occasion later later to say that they were not consulted in detail. Perhaps in the light of this year's experience the Chief Secretary might be invited to report orally to Cabinet any agreements he reaches with spending colleagues on such issues. We must also avoid leaving potential sensitive issues for decision after the final Cabinet (like FCO/aid decision in last year's Survey).

26. There may also be a case in the next Survey for an informal discussion of public expenditure priorities. The risk in such a discussion are that it may call in question the overall targets (particularly if we are contemplating "flexibility" as in para 17(i)), or introduce new constraints upon the later stages of the Survey, and make a difficult task impossible of achievement. This risk is minimised if the discussion is held early on in the Survey, and perhaps with an agreed ground-rule that no options could be ruled out in the course of the discussion.

27. We have tried, but failed, to identify any practical means of preventing more and more Ministers each year taking their case to the Star Chamber, the PM or to the final Cabinet meetings. In fact, the bilaterals this year settled many issues, and nothing will prevent a spending Minister from fighting his case in all possible fora.

28. We assume that Parliamentary pressures will oblige the government again in 1985 to produce an Autumn Statement. A decision will be required before the 1985 Survey ends on whether to publish one year's or three years' figures in the 1985 Autumn Statement. Had it not been for the

tightness of this year's timetable we might well have decided last month to publish figures for all three Survey years. On expenditure control grounds all the arguments point in this direction: it would certainly be worth an extra day or so's delay in publishing the Autumn Statement to be able to get all the main decisions published. The argument against is whether we could draw the line at this point and resist the pressure for 3-year revenue projections and a full revision of the MTFs.

Press handling of the Survey

29. Until its last stages there was less press attention to the Survey than usual this year. The Treasury kept a low profile. But the closing weeks saw more press interest than usual, stimulated we believe by other departments. This does not help the Treasury: usually it is designed to hinder us. There is little we can do about it, apart from exhorting others to virtue and keeping our own noses clean.

CONCLUSIONS

30. A difficult Survey; but Surveys have to be difficult if expenditure control is biting, as it is. On present plans it will bite even harder next year. To make the 1985 Survey manageable it is necessary to take a number of decisions (paras 17 and 18) in the coming months. The existing Survey mechanism is capable of improvement. But any system which delivers nil growth in public expenditure is bound to be fiercely criticised.

APPENDIX I

PRINCIPAL REVIEWS NEEDED IN TIME FOR 1985 SURVEY

1. Housing

Now in train, under Cabinet Office chairmanship.

2 Coal

When the strike ends, a review will need to be set up

(a) to assess costs in 1985-86 and provide a basis for an EFL for the NCB; and then

(b) to work out a new plan covering coal stocks (linked with oil burn), closures, investment, and the import regime for coal and for electricity through the cross-channel cable.

(a) will need to be done in a few weeks but (b) may take about six months

3. Gas Prices

On 19 October 1983 No. 10 told the Department of Energy that the Prime Minister hoped

"agreed criteria could be put back to her on what would be implied by the adoption of economic pricing. The implications of moving towards economic pricing during the course of this Parliament and the timescale to be adopted can then be considered."

The department have not responded. A good deal of the necessary data was wrung out of BGC during discussions of Sleipner. In the Treasury's view this data suggests gas prices should rise by 20 per cent - 25 per cent. This would be worth £1 - 1½ billion. The department

is understood to have prepared a paper in response to the No. 10 remit but they will not show it to the Treasury. It would be desirable to get this work moving, preferably as a Review linked to the 1985 Survey.

4 Defence Research and Development Expenditure

Followed on from Sir Robin Nicholson's report on the annual review of scientific research and development during the 1984 PES. Expected to be completed by June 1985.

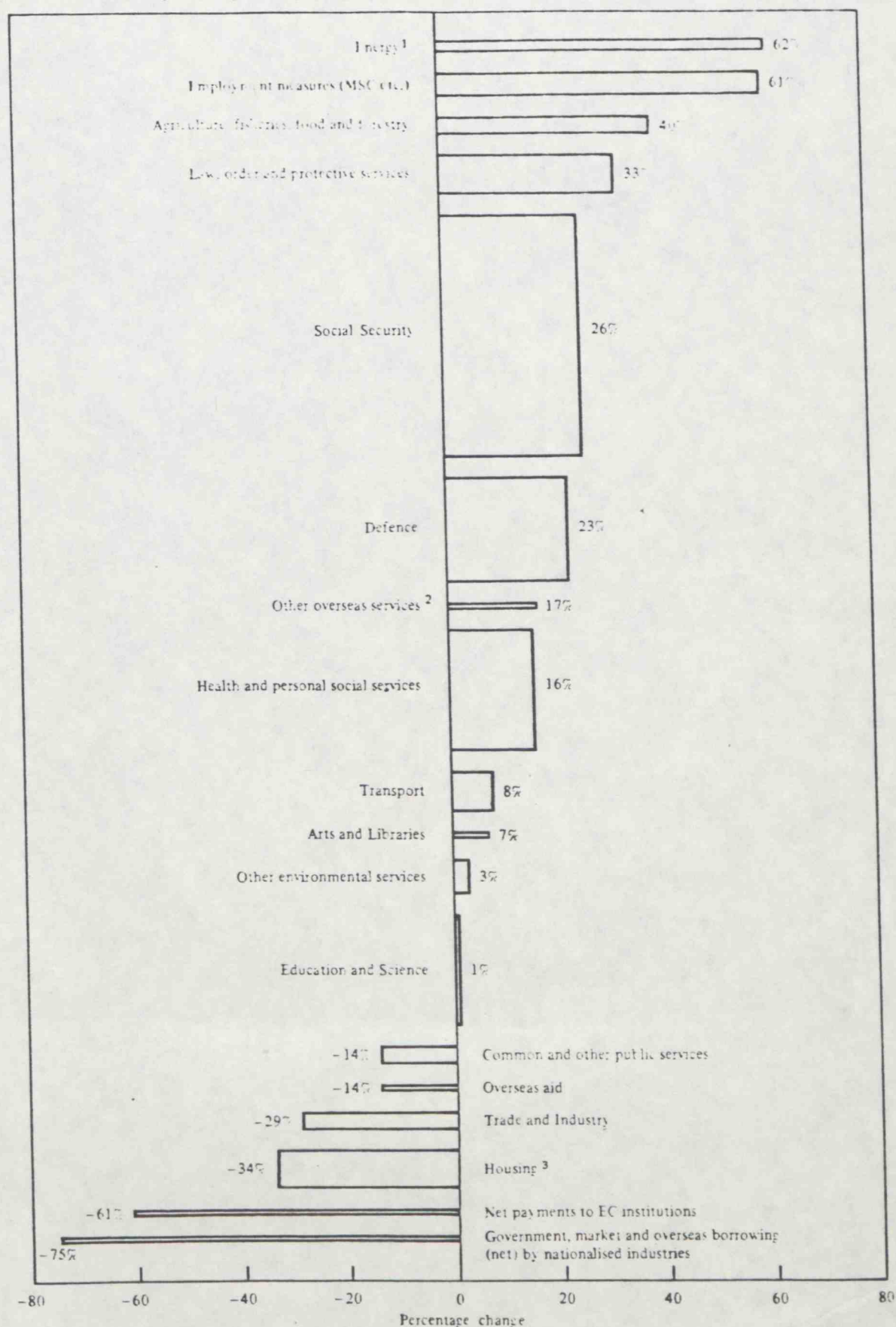
5 Trade and Industry: Industrial Support

Treasury and DTI officials have agreed on the ground to be covered in this review which should be completed by July 1985. The terms of reference include an examination of factual evidence on the size and incidence of costs and benefits of past schemes and current long-running schemes; an assessment of any lessons for ensuring cost effectiveness through clear identification of the rationale for intervention, definition of objectives and monitoring and evaluation techniques; and a reconsideration of pros and cons of different financial instruments for intervention. This review will take account of the results of the reviews including para 4 above. Some of this work on the review must be completed before the DTI's moratorium on Support for Innovation expires at the end of March. But it will be important to ensure that the announcement about the moratorium does not pre-empt the scope for policy changes in the 1985 Survey.

6 Student Support

Following the difficulties with this year's student award proposals there is to be a review of student support, which will consider possible loan schemes. The aim should be for the review to be completed before the 1985 Survey is far advanced.

CHART 4 Total percentage change in programmes between 1978-79 and 1983-84 (in real terms)



Notes:

The width of each bar on the vertical axis is proportional to expenditure on the programme concerned in 1983-84

Expenditure in Scotland, Wales and Northern Ireland has been allocated to functional programmes

(¹) Largely assistance to the coal industry.

(²) Includes a wide variety of items: the Diplomatic Service is about 40 per cent and has not grown in real terms.

(³) Housing figures are calculated before any deduction for council house sales.

9 JAN 1985





Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

7 January 1985

Dear Andrew

PUBLICATION OF 1985 PUBLIC EXPENDITURE WHITE PAPER

The text of the 1985 White Paper has already been cleared with other Departments (my letter to you of 21 December refers). We now need to settle arrangements for publication.

The White Paper is on schedule for publication in the week beginning 21 January as planned. Thursday 24 January is the next date for Treasury First Order Questions, which rules that day out. The Chief Secretary therefore proposes it should be published on Tuesday, 22 January. Our consultations suggest this should not clash with any other major publication or announcement.

The Prime Minister will of course be answering questions in the House on that day. The Chief Secretary suggests that publication should be at 3.30pm.

Recent practice has been for there to be no oral statement on publication of the White Paper, and there seems no reason for any change this year. The practice has been for a debate in the House on the White Paper a few weeks after publication. It would, however, seem appropriate - as last year - to announce the date and time of publication in a Written Answer a few days before hand, and then place copies in the Vote Office on publication day.

As in the past, the Chief Secretary will be arranging on-the-record briefing for the press. As the White Paper is a long and complex document, we envisage issuing embargoed Confidential Final Revises on the day before publication.