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From: J B UNWIN
6 February 1987

MR NORGROVE

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

You may like to have the following comments on the Chief Secretary's minute of 5 February to the Prime Minister.

2. First, it is important to recognise what this minute is not about. It is (deliberately) not about the tactics for handling the next Survey, but rather about the nuts and bolts.

Nuts and Bolts

3. So far as this is concerned, the proposals seem to me generally to form an acceptable basis for setting this year's Survey in train. They have been discussed with Departmental Principal Finance Officers (PFOs), who (the Treasury assure me) are content with them. The proposal in paragraph 6 to dispense with the "Red Book" is particularly welcome. A vast amount of time and effort has gone into preparing this, but it has done little more than rest in PFOs cupboards after production.

4. I am a little surprised, however, at the proposal in paragraph 5 to repeat last year's practice of asking Ministers to put in any additional bids personally to the Chief Secretary. You may remember that the Prime Minister queried this last year on the basis that Ministers would find it harder to back off from bids they had personally sponsored. My own view is that this objection was validated by last year's experience. Far from being selective and self-denying, the letters from Ministers contained disappointingly long lists of additional bids. But I have discussed this with Robin Butler who assures me that the Treasury believe the practice is worth repeating.

5. I am sure that it is now right (paragraphs 7 to 11) to integrate running costs control with the Survey. The Treasury are also now displaying the greater flexibility on manpower control that the new system was intended to make possible within the overall running costs constraints. But we shall have to see how this works out in practice.

Survey Tactics

6. As noted above, this is not covered in this minute. But I think there are major problems of public expenditure control ahead which the Prime Minister will need to consider with the Chancellor and the Chief Secretary later in the year as the Survey progresses.

7. I believe the Treasury's credibility has suffered with Departments as a result of last year's exercise. First, Departments and their Ministers were kept almost entirely in the dark as to the overall position until the very final stage of the Survey. Second, they then witnessed the Treasury being able to sell to the markets a substantial upward shift (of nearly £5 billion in 1987-88), together with a redefinition of the target from "constant in real terms" to "a reducing proportion of national income", without the catastrophic market reaction that Treasury Ministers had threatened would greet an increase of much smaller dimensions. There were, of course, a number of reasons for this reaction, and the Treasury handled the presentation very well. But I believe the outcome has damaged the totemic significance of the planning totals, and that next time Departments and their Ministers will be less likely to accept the Treasury's warnings.

Star Chamber

8. These considerations also raise the question of the basis on which the Star Chamber is set up. In one sense the Chief Secretary (paragraph 4) is correct in claiming that last year his bilaterals produced "a manageable core of major issues for the Star Chamber to handle" (though the managing was far from easy!). But the wider basis on which the Star Chamber was asked to operate

was far from satisfactory. They had no explicit target; and the implicit target (to keep within the published planning totals) was quite impossible. The Chief Secretary's prior bilateral settlements had in any case not been consistent with it. More seriously, apart from the Lord President the other members of the Star Chamber did not know the overall seriousness of the position, and this deprived them of an important weapon they could have deployed against spending Ministers in the Star Chamber discussions.

9. On a point of detail, I agree with the Chief Secretary that it would have been better to have had six rather than five members on the Star Chamber. This was, of course, the intention until the very eve of the Star Chamber. The reason for only five was the failure to reach a satisfactory bilateral settlement with Mr Edwards (further complicated by his absence in the United States).

Other Issues

10. There are other important longer term issues too that will need to be sorted out. Not least is the question of the treatment of local authority expenditure, which I know the Chief Secretary is keen to tackle. There may also be a case for a different approach to the way in which social security expenditure is controlled and presented. Year after year we are faced with the same difficult problems of the implications of excess demand led expenditure for the (smaller) discretionary budgets.

11. There are no easy answers to these problems and I am sure the Treasury have them in their sights. They do not need to be resolved now, or to delay the inauguration of this year's Survey, but they will need serious consideration as the year progresses.

Conclusion

12. In the light of the above points, and subject to any comments the Lord President may have, I would recommend the Prime Minister:-

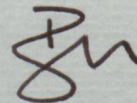
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(i) to endorse generally the Chief Secretary's proposals for the conduct of the 1987 Survey;

(ii) in particular to agree to the scrapping of the "Red Book" and to the proposals for integrating the running costs regime fully with the Survey;

but (iii) to note that wider questions of overall tactics on the Survey, and in particular on the basis for the Star Chamber's operations, will need to be given further consideration later in the year.

13. I am copying this minute to Miss MacNaughton in the Lord President's Office and to Sir Robert Armstrong.



J B UNWIN

ECON Pwr: Public Expenditure



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