

Ref. AO90/1732

PRIME MINISTER

Public Expenditure Cabinet: Running Costs

I have sent forward separately a brief for tomorrow's Cabinet discussion of public expenditure. This note adds a comment on running costs.

2. Like you, I was concerned to see from the Chief Secretary's paper that running cost bids imply an increase in spending on the Civil Service of 16 per cent next year. I thought you would wish to be aware of some of the factors underlying the increase. They include:

(a) Substantial increases in PSA charges for rent and rates, reflecting higher property values. (In the case of the Cabinet Office, for example, this more than accounts for the net additional bid we have had to make.) These charges increase gross running costs, but do not add to public expenditure because they are matched by PSA receipts. The increases do not represent a real addition to the public expenditure resources used by Departments.

(b) Higher pay increases this year than were provided for in the last Survey, and an expectation that increases next year will also be significantly higher than envisaged in the last Survey. So this has a double effect on Departments - catching up with last year's pay increases and having to provide more for next year's. Next year's general price level will also be some 5 per cent higher than expected a year ago.



(c) Investment in computerisation which can perversely count as running costs, although it is necessary to save staff in the future.

(d) An increase of 7000 in manpower plans for next year. A large element in this is the Inland Revenue bid for staff to deal with independent taxation and the new treatment of bank and building society interest.

I would not want you to feel that Civil Service costs have suddenly run out of control. In fact most Departments continue to be under very great pressure.

R.R.B.

ROBIN BUTLER

18 July 1990

Ref. A090/1723

PRIME MINISTER

PUBLIC EXPENDITURE

Economic Prospects: C(90)6
Memorandum by the Chancellor of the Exchequer

1990 Public Expenditure Survey: C(90)5
Memorandum by the Chief Secretary, Treasury.

DECISIONS

No conclusions are needed on the Chancellor's Paper, C(90)6. But you will want the Cabinet to endorse the conclusions in paragraph 22 of the Chief Secretary's paper, C(90)5. The most important of these concern the Government's objective for the public expenditure figures. The Chief Secretary also proposes that, if necessary, a small group should be set up in October to consider outstanding issues when the bilaterals are concluded. Finally, you will want to agree what should be said to the Press after this Cabinet.

MAIN POINTS

Economic Prospects

2. No decisions are needed on the Chancellor's paper on economic prospects which is a general review of the prospects.

3. It does however present a worrying picture in the following respects:

i. The public sector debt repayment (PSDR) is proving to be lower in the current year than expected at the time of the Budget, and the Chancellor anticipates that it could fall rapidly over the next couple of years.

ii. Inflation as measured by the RPI may rise to over 10 per cent in the next couple of months, and is likely to be still over 9 per cent in the fourth quarter of the year.

iii. The current balance deficit is forecast at £16 billion for 1990, somewhat higher than at Budget time.

4. The Chancellor is likely in his opening remarks to give the Cabinet the GDP deflator forecasts for later years. They are as follows:

	1990-91	1991-92	1992-93	1993-94
	%	%	%	%
New forecast	<u>7 3/4</u>	6	4 3/4	3 1/2
Old forecast	6 1/2	4 3/4	3 1/2	3

The new forecasts may prompt some Ministers to press for adjustments to Departmental programmes to reflect higher inflation.

5. You may wish to draw the conclusion, as the Chancellor does, that the economic prospects, and particularly the PSDR outlook, demonstrate the need for continuing restraint in public spending.

The objectives for public expenditure

6. The Chief Secretary proposes the following objectives, which are similar to those agreed last year:

- i. hold as close as possible to the planning totals set out in the 1990 White Paper, in order to:
- ii. keep the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend.

7. The Chief Secretary's paper points out that the £3 billion increase in Aggregate External Finance for local authorities has already constrained severely the scope for adding to other

programmes. Social security expenditure will be increased by the higher level of RPI inflation, while unemployment is no longer falling. The total of bids, on the other hand, is a good deal higher than was tabled in the 1989 Survey. He does not however give a figure for this total since it would be damaging if leaked.

8. You may wish to endorse the objectives, and to emphasise the importance of achieving them if the Chancellor is not to be faced with increasing taxes next year.

9. Other points on which you may wish to draw if necessary are:

i. need for restraint. At a time when private spending by both companies and consumers is being held back in order to reduce inflation, it is even more important to ensure continued tight control of public spending.

ii. Cash planning. The Government should adhere to the presumption underlying cash planning that inflation is not automatically accommodated. The present high level of inflation admittedly makes this difficult, but nonetheless all the more important.

iii. Priorities. Ministers should take a critical look at departmental bids, discarding those which are not absolutely essential and finding offsetting savings for any that are.

Aggregate Exchequer Finance for local authorities

10. The Chief Secretary's paper refers to the settlement on local authority finance reached by E(LG) under your Chairmanship (paragraphs 7 and 8). This will already have been discussed under the previous item and there seems no need to repeat that discussion, except to note that the AEF settlement has already pre-empted much of any room for manoeuvre in the Survey.

Running costs

11. The Chief Secretary proposes that spending on the Civil Service should continue to fall as a proportion of the planning total, and that manpower numbers should be kept on a downward trend. You will wish to endorse these proposals, and ask Ministers to give their personal attention to departmental plans to contain costs and improve efficiency.

Nationalised Industries

12. The Chief Secretary recommends aiming at substantial reductions in the additional bids from the nationalised industries, and that all of these industries should have proper financial management and corporate planning systems. You will wish to endorse this.

Future discussions

13. The Chief Secretary recommends that he should now conduct bilaterals with his colleagues. They should be complete by early October. It is not yet clear whether a Star Chamber will then be needed but it would be useful to have formal agreement now that one can be set up if necessary, without the need for further discussion in October. You could say that you hoped that the Chief Secretary would be able to reach agreement with his colleagues on the basis proposed, but that if this proved impossible you would at the appropriate time establish a small group under the Chairmanship of the Lord President of the Council to consider outstanding issues and to make recommendations to the Cabinet.

Handling the Press

14. The Press will ask about the outcome of the Cabinet. As usual you will wish to agree a form of words which your Press Office can use in briefing them after Cabinet. The Treasury have suggested the following which you could read out to Cabinet:

"The Cabinet had its usual July discussion of public expenditure today. It agreed that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend. The Chief Secretary will be conducting bilateral discussions with colleagues in the Autumn. These will take account of the decisions on local authority finance [which are being announced later today]. In the light of these discussions, the Government will take decisions on individual spending programmes and the planning totals and these will be announced, as usual, in the Autumn Statement in November."

You might also emphasise that other members of the Cabinet should adhere to this line, that bilaterals should be carried out in confidence, and that the media should be given no ground on which to base speculative stories of Ministerial disagreements.

HANDLING

15. You will wish to invite the Chancellor of the Exchequer to open the discussion by describing the current economic background and prospects and the Chief Secretary, Treasury to follow with a more detailed account of his proposals on public expenditure. All members of the Cabinet may wish to contribute to the subsequent discussion.

R.B.

ROBIN BUTLER

18 July 1990