

PRIME MINISTER

29 June 1984

PESC CABINET

Public Expenditure in 1985-86

The baseline of public expenditure planned for 1985-86 is £131.7 billion. This is the figure the Treasury will be trying to stick to. Departments have put in additional bids totalling about £7 billion.

After allowing for the frivolous claims that will be in there, some of the bids may prove to be irresistible. The health pay reviews add £400 million; DTI agreed items £100 million; higher unemployment and price increases add £600 million to DHSS; the EEC settlement £200 million; and local authorities may well absorb £1,000 million or more - at present they are overspending substantially - and other items come to around £700 million.

If this is true, we will need to find £3 billion of offsetting reductions:

- £0.75 billion could come from reducing the Reserve for 1985-86 to £3 billion, which is the prudent minimum
- for getting through the year.

*This year's experience does not bear this out.*

SECRET

\* due next  
week

- Maybe another £0.75 billion from certain "soft" targets. The agriculture review and implementing the regional policy review should help. Industrial support, housing expenditure and education (in view of falling rolls) are three other possible areas.
- The DHSS will have to find savings. On the health side, Griffiths should be made to deliver more economies. An early outcome to the benefit reviews is all the more important.
- The remaining gap will finally have to be bridged by across-the-board cuts in all cash-limited expenditure.

1985-86 is the key year: if our general strategy of lower taxes and interest rates is to work, public expenditure must be held in 1985-86.

#### Civil Service Manpower

Civil Service numbers were reduced by 100,000 (or 14%), from 730,000 in 1979 to 630,000 in April of this year. It is expected that numbers will fall by only 37,000 (6%) in the

next four years, to 593,000. A Treasury analysis of these changes is shown below.

SECRET

SECRET

PLANNED MANPOWER CHANGES

	Reductions*	Increases*
Privatisation/Hiving off	20,500	-
Improved Efficiency	27,600	-
New Technology	7,700	-
Changes in Work Load	-	11,650
Prisons' (working hours reduction)		3,650
Changes in Functions	1,700	1,500
Contingency	-	6,140
Net Change for Smaller Departments	2,700	
<hr/>		
Gross Changes	60,200	22,940
<u>Net Change</u>	<u>37,260</u>	

\* Based on 10 large Departments, accounting for 85% of total manpower.

These figures reveal that:

- i. privatisation accounts for over half of the planned net reduction (20,500 out of 37,260);
- ii. only 1,700 jobs are to be shed through dropping functions; almost as many (1,500) are added back by acquiring new ones;

SECRET

SECRET

- iii. the work load is expected to increase over the next four years, by around 11,000 man-years (more if the contingency is included);
- iv. productivity growth is only estimated at 1.4 per cent a year.

### Productivity

With FMI, couldn't the Civil Service achieve a productivity growth comparable to that in the private sector, say 2.5%? A 2.5% rate of productivity growth over the 4 years would achieve manpower reductions of 10%, equivalent to additional savings of around 28,000.

It will, of course, be claimed that Civil Service work is fundamentally different, and does not lend itself to this kind of targetting. We doubt the truth of this advice.

### Policy

The Government is committed to privatisation, | deregulation, | contracting out, | lighter government, | a greater role for the market. Yet leaving aside privatisation, the manpower projections to 1988 anticipate almost the same numbers to carry out functions. Are there mismatches between policy on the one hand, and Departmental commitments as expressed in their manpower targets? For example:

SECRET

SECRET

- Transport now has substantial plans to deregulate and might now revise its manpower targets. It currently plans to reduce manpower by only 0.3% by 1988, compared to the average planned reduction of 6% for the Civil Service as a whole.
- DHSS proposes to implement the Griffiths proposals for managing the NHS. Could DHSS make do with 200 central administrators, rather than 2,200, once the new management team are in place?

Is there scope for more ambitious manpower targets on the basis of agreed policies? Could we not aim for additional savings of 15,000 from this source?

→ A function which is overmanned is "sponsorship". DTI and MAFF employ a total of around 20,000 people on sponsorship ie promotion, support, advice, as distinct from regulation. The spending policies which emerge from sponsorship are very much at odds with a policy of leaving decisions to the market. Sponsorship distorts governmental processes in favour of the favoured client groups. For example, MAFF deploy 80 or so staff to represent farmers on planning enquiries, and DHSS sponsors drug companies who then swell the drugs bill. Sponsor departments delay progress on privatisation and the competition initiative. Additional savings of around 5,000 might be achieved here.

SECRET

SECRET

Manpower Conclusion

The additional savings totalling 43,000 which are illustrated above would bring the Civil Service numbers down to 550,000 by 1988. This rate of decline - 2.5% a year - is well below the rate of natural wastage (8% in recent years).

Contracting-out

We agree with the Chief Secretary that Departments should be required to identify functions suitable for contracting-out, and to test the market for tenders. All departments could consider allowing competitive tenders for items like:

1. Architectural design and quantity surveying
2. Catering
3. Cleaning
4. Computing
5. Information and Public Relations
6. Laundry
7. Maintenance - buildings and land
8. Physical security
9. Printing (large jobs)
10. Vehicle provision and maintenance

Particularly big targets include:

SECRET

SECRET

- naval ship repair and maintenance
- NHS support services
- PSA and Crown Suppliers
- National Savings

But we doubt whether a simple "requirement" of the sort suggested by the Chief Secretary will be enough to stimulate rapid and positive action.

We recommend that the Treasury should also use a financial lever to achieve fast results. The Chief Secretary could include in his PESC letters to each Secretary of State:

- a. a warning that the government's public expenditure targets can be met only if departments take rapid action to reduce administrative overheads;
- b. examples of areas in which such overheads have been substantially reduced by competitive tendering;
- c. a statement that additional bids will be seriously entertained only if they are matched by evidence that the department in question is taking positive steps to identify services appropriate for tendering;
- d. a request that the Secretary of State should either plan to introduce competition for, say, 10% of his functions, or else explain why he is unable to do so.

SECRET

SECRET

### Nationalised Industries

Peter Rees is right to draw attention to the need to make a sharp reduction in the bids from the nationalised industry area, and to say that the main part of this correction should take place through reducing costs. There is also, as he points out, considerable scope for squeezing working capital, selling assets and cutting out loss-making new investment programmes. We should avoid returning to using price increases in the nationalised industries as a surrogate method of taxation. However, it would be reasonable to encourage price increases in line with inflation, and we could sell the policy on the basis that the nationalised industries were holding their real price levels.

### Conclusion

We need to hold to published targets for public expenditure.

To do so we need to deliver substantial savings in this PESC round.

Manpower targets need reinforcing: 550,000 would be a good target for 1988. The nationalised industries should be reined back.

SECRET