

1 MR BUTLER

31 October 1984

2. PRIME MINISTER

Nothing as disregards.

SOCIAL SECURITY PROGRAMME

I attach two notes:

- a summary table
- details of savings agreed in bilaterals and MISC 106.

Whilst Mr Fowler is now committed on the total size of these savings he is still deciding the detailed allocation of the further cuts agreed at MISC 106.

This is all rather like old times!

David Willetts

DAVID WILLETTS

SOCIAL SECURITY EXPENDITURE (£m)

	1984-85	1985-86	1986-87
Baseline	39,400	41,520	42,560
* Additional bids	+737	+881	+2,062
Savings agreed in bilaterals	-113	-250	-350
Further savings agreed in MISC 106	-105	-335	-385
Net change	<u>+519</u>	<u>+296</u>	<u>+1,327</u>
	<u>39,919</u>	<u>41,816</u>	<u>43,887</u>

* Largely estimating changes and effects of revised economic assumptions

SOCIAL SECURITY SAVINGS (£m)

	1985-86	1986-87	1987-88
<u>Agreed in bilaterals</u>			
i. 2 year deferral of abolition of pensioners' earnings rule (leaving provision for a staged abolition in the Nov. 1987 and Nov.1988 up-ratings. The present timetable has never been announced	30	105	195
ii. changes in SB heating additions and increase in available scale margin	25	70	70
iii. changes in SB rules for people in board and lodging	35	50	50
iv. treating attendance allowance as income for SB recipients in residential homes	6	7	7

	1985-86	1986-87	1987-88
v. pay invalidity allowance net of add'l component for invalidity pensioners under pension age and restor 5% abatement of invalidity pension	10	15	25
vi. residual savings from 1984 uprating package	7	3	3

Agreed at MISC 106

vii. extension of employer's statutory sick pay scheme from 8 to 28 weeks	-	200	200
* viii. further reductions in SB board and lodging expenditure	}	105	135
* ix. payment of incapacity benefit in arrears			
* x. tighten up students' eligibility to HB and SB			
			185

* Detailed costings still to be calculated

HEALTH AND PERSONAL SOCIAL SERVICES (£m)

	1985-86	1986-87	1987-88
Baseline	13,954	14,658	15,024
Additional bids	+289	+464	+741
* Agreed savings	<u>-105</u>	<u>-160</u>	<u>-216</u>
<u>Total</u>	<u>14,138</u>	<u>14,962</u>	<u>15,549</u>

* Comprising:

- Prescription charges increased to £2 in 1985-86 and by a further 20p in each of the following years.
- Increasing dental charges from approximately 45 per cent of cost to about 60 per cent.
- Further savings in the Pharmaceutical Price Regulation Scheme by reducing allowable promotion expenditure.
- Restricting GPs' prescribing of minor proprietary drugs.

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FCO EXPENDITURE PROGRAMMES

Geoffrey Howe has revised his additional bids as follows:

	1985-86	1986-87	1987-88
ODA	6	25	35
Diplomatic Wing	34	43	44
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Total	40	68	79

In view of the very unpopular measures other Departments have accepted, such as the withdrawal of grants to students with better-off parents, it is difficult to see how any overspending by FCO can be accepted. Why not reduce the aid programme sufficiently to accommodate some of the increases in diplomatic costs and keep to baseline?

ODA PROGRAMME

Treasury point out that there is no technical difficulty about reducing the bilateral programme by £60 million (or 12%). The uncommitted proportion of bilateral aid is 21% in 1985-86, 32% in 1986-87, 45% in 1987-88.

We suggest that savings should be at the expense of "programme aid", energy sector projects, and India; and that

ODA make greater use of voluntary agencies.

Programme Aid

This took £51 million in 1983 and is growing. It is essentially designed for short-term balance of payments problems. An internal ODA review of 4 of these programmes in the 1978-81 period (Jamaica, Ghana, Zambia, Bangladesh) concluded that this form of aid was ineffective in influencing recipients' economic policies (indeed, it could have encouraged the Manley Government to continue its disastrous policies). No evidence was forthcoming that this aid was spent well. Most of it was absorbed by the "parastatal" organisations. Why not reduce this provision?

Project Aid

ODA is increasingly focussing project aid on particular sectors. The rationale for this is sensible but out of the £300 million spent on project aid in 1983, over £100 million was spent on energy projects, compared to £40 million on agriculture, £10 million on irrigation, £20 million on manufacturing. If the energy spend was brought into line with the others, we could save £50 million a year. Project aid is largely a subsidy to British contractors, and ought to be trimmed back in line with other industrial subsidies.

India

If Mrs Gandhi's death does not rule out a review of this item, it is worth asking:

Does India need aid of £110 million? You are not committed to this figure. India's per capita income is low but India feeds itself, has enormous technical expertise and a vast, educated class of administrators. India itself provides technical assistance to other countries. It is not obvious that our major contributions - energy projects, agricultural credit and slum clearance schemes - offer anything distinctive to India's development that Indians could not manage themselves.

Voluntary Agencies

ODA would probably admit that VAs can offer a much more effective way of providing real help at the village level than ODA staff, with all their associated costs. This year we provide only £8.2 million in support of VAs (including 1.2 million to Oxfam). Why not double this provision and trim back on ODA posts?

Commercial Spin-off

Paradoxically, bilateral aid yields a lower commercial return than multilateral aid. ODA's analysis shows that in

1982 each £1 of bilateral aid resulted in 70p of extra UK business. Each £1 multilateral aid led to £1.10 of extra UK business. Bilateral aid does not deserve preference as an export promoter.

DIPLOMATIC WING

The FCO has put forward a long list of minor additional items. No other Department has done this. FCO ought to absorb most of them through better housekeeping. For example, the cost of sterling depreciation, increased rents to PSA, pay awards are all types of increased expenditure which the MoD is absorbing. It would be unreasonable to ask the FCO to reduce staff in line with the Civil Service as a whole; FCO's work has greater priority than marginal activities in other Departments. But FCO ought to think seriously about:

- Making economies in the diplomatic estate by looking for a more modest standard of accommodation, particularly in small missions or for lower ranked staff .

- Closing down missions in Francophone Africa (FA), South America (SA) and Europe. Apart from the Embassies themselves, we have 5 missions in France, 7 in Germany, 7 in Italy, 9 in Spain. In small territories in FA and SA consular activities might be handled by honorary consuls or there could be regional missions.

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Conclusion

There is a possible basis on which to secure FCO agreement to keeping to baseline, by withdrawing additional ODA bids, and cutting ODA expenditure by, say, £10 million, £10 million and £15 million to meet unavoidable increases in diplomatic costs.


NICHOLAS OWEN