

P.01471

PRIME MINISTERPublic expenditure survey: lessons for the future

The main paper for discussion at your meeting on 15 January will be the Chief Secretary's minute of 9 January. The agenda attached as Annex A to his minute identifies three main issues for discussion:

- i. a review of the current situation and, in particular:
 - why was the 1984 Survey so difficult?
- ii. the prospects for the 1985 Survey, and, in particular:
 - what policy reviews and decisions are needed to maintain nil real growth in expenditure?
- iii. the public expenditure procedures, and, in particular:
 - would it help to have a Cabinet discussion of expenditure priorities early in the Survey?

Difficulty of the 1984 Survey

2. As the Chief Secretary points out, the fundamental difficulty in the 1984 Survey was the inherent conflict between, on the one hand, the pressures for additional spending in four programmes accounting for four-fifths of public expenditure (social security, health, defence and local authorities) and the policy of nil overall growth in public expenditure. It is becoming increasingly difficult to find adequate offsetting savings from the remaining fifth of public expenditure. Pressures for more efficiency and good housekeeping across the board can and must be maintained but it is hard to find savings of sufficient magnitude from this source. Finally, we are running out of devices for preserving the appearance of nil expenditure growth, for example by assuming higher asset sales. The essence of the normal Survey process is squeezing and horse-trading at the margin. The main lesson of the 1984 Survey, reinforcing the experience of the 1983 Survey, is that this process is no longer adequate to attain the objective of nil expenditure growth.

SECRET

Policy issues affecting the 1985 Survey

3. The Cabinet will therefore face an impossible task in maintaining nil real growth in expenditure in the 1985 Survey unless there are some policy changes affecting major programmes. Policy changes of this magnitude and political significance cannot be sensibly discussed and decided in the last few hurried weeks of the 1985 Survey in late October and early November. The most important issue for the meeting is therefore the selection of programmes for major policy changes leading to expenditure savings, so that action can be put in hand now.

4. Annex A to the Chief Secretary's minute identifies six possible areas for savings:

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

In the main body of his minute he places emphasis on social security. This is inevitable because of the size of the programme and because the reviews of policy in that area are nearing completion.

5. The meeting will need to consider:

- i. whether they agree with the Chief Secretary that substantial net savings are to be required from the social security reviews, despite the major political difficulties which may be involved;
- ii. which other areas should be reviewed as candidates for substantial savings.

Procedure

6. The present annual public expenditure procedure broadly consists of the following elements:

SECRET



SECRET

March/April : guidelines for new Survey issued to departments

April-June : work by Treasury and departmental officials on bids and options resulting in the Public Expenditure Survey Committee report

July : report to Cabinet and Cabinet approval of overall totals to be sought

September : Chief Secretary's bilaterals

October : Ministerial Group ("Star Chamber") to resolve disputed programmes
(this stage found necessary in every year since 1979 except 1982)

November : final decisions by Cabinet

7. Any improvement in the procedure should be relevant to the nature of the present problem. The Chief Secretary's thesis is that the major problem lies in the pressures for increased spending in some very large programmes such as social security. If this thesis is accepted the most important improvement in procedure is to create the possibility for Ministers to take important policy decisions offering the prospect of substantial public expenditure savings in good time before the final stages of the 1985 Survey. So far as social security is concerned, the machinery for this purpose has already been set up in the form of the new Ministerial Group on Social Security (MISC 111) under your chairmanship. Depending on what the meeting decides about other areas in which major savings should be sought, appropriate machinery may need to be set up (Official Groups have recently been set up to review housing policy and Defence R & D).

8. Apart from this, three issues relating to procedure might be discussed:

* The Star Chamber has one important role - it ensures that there is a solid block of votes against any Minister who takes his case on to Cabinet. It would be a pity to lose that benefit.

SECRET

- i. how to improve the quality and usefulness of the inter-departmental work in the early stages of the Survey;
- ii. whether a "Star Chamber" should continue to be part of the process;
- iii. whether there should be a Cabinet discussion of expenditure priorities at an early stage in the Survey.

9. On i., the main proposal is that in the Survey guidelines spending departments would be obliged to provide in good time a properly costed analysis of options for reductions proposed by the Treasury.

10. On ii., the Lord President not surprisingly felt, at the conclusion of his labours as Chairman of the 1984 Ministerial Group on Public Expenditure, that it would be unreasonable to expect a similar task to be attempted in 1985. It is certainly unreasonable to expect the Lord President and a few other senior Ministers to resolve within a very tight timescale massive differences of view between spending Ministers and Treasury Ministers involving not only large sums of money but also fundamental policy issues. It would however be unwise to conclude from this that it is desirable, or even possible, to dispense with the technique of having a Ministerial Group in the run up to the final Cabinet discussions on public expenditure. If this option were ruled out, the Cabinet discussions of public expenditure in November would be much more complex and protracted. The right lesson to draw from experience is surely not to dispense with the Star Chamber as a possible element in the process but to ensure by major policy decisions earlier in the year that it is presented with a feasible task.

11. On iii., it can be argued that nothing useful would come out of a generalised discussion by the Cabinet of expenditure priorities. The most likely outcome would be expressions of broad opinion, for example about the need for less current and more capital expenditure, without any commitment to the hard specific decisions involved in such a shift of priorities. The discussion could actually make the later stages of the Survey more rather than less difficult by identifying some programmes as "no go areas" on political grounds. It may therefore be better to deal with priorities when particular areas of expenditure such as social security come up for review.


SECRET

12. Against this it can be argued that it is desirable to reinforce the collective commitment of Cabinet Ministers to the public expenditure process. If some Ministers believe that the absence of a discussion of priorities is a defect in the process and use that as an excuse for withholding total commitment to the process, there is at the very least a tactical advantage in removing the excuse and providing for a discussion of priorities, even at some risk.

HANDLING

13. The Chief Secretary, Treasury will wish to make a brief opening presentation, and will have some charts to hand round. It may then be desirable to divide the discussion into two distinct parts: one about the policy issues affecting expenditure in the 1985 Survey; and the other about improvements in procedure. You will wish to give the Lord President and the Home Secretary the opportunity to say what lessons they would draw from experience in the 1984 Survey. The Chancellor of the Exchequer will no doubt have views to offer both on the major policy issues and on the desirability of providing for a Cabinet discussion of expenditure priorities.

CONCLUSIONS

14. You will wish to reach conclusions on the following:

- i. whether it is accepted that substantial net savings will be needed from the social security reviews;
- ii. which other areas of expenditure should be reviewed as candidates for substantial savings in good time before the 1985 Ministerial public expenditure discussions;
- iii. whether there should be any changes in the public expenditure procedure (eg a Cabinet discussion of priorities at an early stage in the Survey).

PLG
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10 January 1985

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