



D/P with CDF reply

AT 17/4

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PRIME MINISTERPUBLIC EXPENDITURE SURVEY 1985

In his minute of 3rd April the Chief Secretary sought agreement to the guidelines for the 1985 Public Expenditure Survey.

2. I have as you know consistently and firmly supported the principle and practice of cash planning. Since I came to this Ministry, I have been working towards a major change in attitudes at all levels to embrace the discipline of cash planning and its benefits, particularly in achieving improved value for money in procurement. This is now working through, but there remains an unease that the underlying rationale for cash planning has little to do with increased efficiency but is instead a mechanism for ratcheting down programmes regardless of their priority. This feeling has a wider constituency within Parliament.

3. Reservations of this kind are unlikely to be assuaged by the proposed guidelines for PES 1985. In logic the baseline for the survey should make realistic cash provision for the continuation of existing policies, as the starting point from which proposals for increases and decreases can be discussed. Weighting the scales in one direction from the start does not seem the best way to proceed in an exercise which is internal to the Government itself. The uplift factor for 1988 - 1989 should surely reflect the Government's own published forecast of inflation in that year, which seems likely in any case to be at the low end of the range of possible outcomes. The Chief Secretary's proposed 2½% uplift does not, as I understand it, meet this test. I hope he will look at it again.



4. There is a second general point of a related kind which I might register now. The practice has developed of making changes to the cash provision to reflect pay assumptions which bear no resemblance to the world outside Government. I understand the argument for such assumptions from a negotiating point of view but the implications for public expenditure planning can be paradoxical. In my Ministry the major pay bill relates to the Armed Forces, whose pay is governed by comparability as a fundamental Government commitment. Combining this policy with a pay factor applied across the Government as a whole means that the largest pay squeeze applies to one of the Government's highest priority programmes. This is not self-evidently sensible or a rational basis for planning. It relates also to the Chief Secretary's interesting proposals on containing running costs on which I shall be minuting separately.

5. The Chief Secretary's proposals would bias the baseline for defence, as for other programmes, towards cuts in "real provision" which could not be concealed from our own supporters or from our allies. I shall take up the political and international implications in the normal way as the survey unfolds. But I see no reason why I should be expected to identify further savings options below an artificially low baseline, and I do not propose to do so except in the most general terms. I am under continual pressure, particularly because of the impact of Trident costs on the Defence budget, to admit that a defence review is about to take place and that cuts will be forced upon me. I resolutely deny this. I see nothing but political damage to the reputation for the management of the nation's defences that we have won if I have to abandon these statements for the sake of a hypothetical Treasury exercise.

6. I have finally one small point on the detail of the guidelines which I believe will cause no difficulty. I am assuming that the wording of the final paragraph of Annex G to the guidelines, dealing with the new subject of sales of surplus land and empty housing, implies no intended departure from past practice in the case of my department. Nor would I



expect Estimates Year provision to be reduced as a result of efforts to maximise receipts.

7. I am copying this minute to other members of the Cabinet and to Sir Robert Armstrong.

MSA

Ministry of Defence

17th April 1985

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