

Top Copy on
Econ Pol: Public
Expenditure: Pt 21



Prime Minister

This is a useful costing
of the proposals in the 5-year
forward look.

If you agree, I will
arrange for
Peter Cropper to see it on the same
basis as he saw
the earlier paper.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

17 March 1983

Michael Scholar Esq.
10 Downing Street
LONDON
SW1

Yes - Harrison
M

TERB

18.3.

Dear Michael,

FORWARD LOOK: PUBLIC EXPENDITURE

I enclose, as promised, a note which has been prepared by officials here costing the Ministerial contributions to the Forward Look exercise,

Given the nature of the responses, this has to be an interim assessment. As you will see, we hope to provide you with a much more thorough analysis in a few weeks' time when we have Departments' "Long Term Public Expenditure" and "Manpower after 1984" returns. Nevertheless, the main message seems pretty clear. Under the proposals we have seen, expenditure would rise by about 5 per cent in real terms over the 5 year period. This would, of course, compound the problems of reducing taxation and borrowing identified in the Long Term Public Expenditure report last summer.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA
Private Secretary



FORWARD LOOK: PUBLIC EXPENDITURE

This Report is based on Ministerial replies, analysed by Treasury Divisions without discussion with Departments. The new initiatives proposed seem to involve about £6 billion per annum extra expenditure (in today's prices) by the end of the decade. However, it is difficult to produce a proper estimate of the total, as many of the bids are unquantified. There are few offsetting savings. There are some unquantified windfall receipts from sales of assets and some administrative savings from computerisation or privatisation. But overall, manpower requirements would increase.

2. The most striking feature is the lack of any major proposal which would actually reduce expenditure.
3. On these figures, expenditure would rise by about 5 per cent in real terms over the 5 years. This figure is probably lower than the increase in GDP over the period, so that the ratio of expenditure to GDP would fall slightly. But there is no sign of a major structural change in the size of the public sector. In Education, the measures proposed (vouchers and loans) could lead to a shift, but not elsewhere. Even in Education, the shift would not occur within 5 years.
4. This 5 per cent rate of growth is faster than was feared when the first report on Long Term Public Expenditure (LTPE) went to the Prime Minister last summer. The Ministerial replies are not detailed enough to indicate exactly how much faster programmes would be increasing. But it should be noted that the LTPE was essentially a projection of current policies which did not cater for the new developments now put forward.



5. The Prime Minister will remember that the LTPE report itself gave cause for alarm. On the low-growth scenario (roughly projecting forward the economy's growth rate of the last 8 years), the report showed public expenditure rising from 44 per cent of GDP in 1982-88 to 47 per cent in 1990-91. On the high growth scenario (roughly equal to our best post-war performance), public expenditure fell to only 39.9 per cent of GDP in 1990-91. The latest Forward Look projections would add another one or two percentage points to the ratio in the low-growth case, further compounding the problems of reducing taxation and borrowing. In the high-growth case, expenditure would just about keep pace with the increase in GDP, maintaining a roughly constant ratio.

6. The forward looks make no attempt to tackle local authority current expenditure and proposals on specific services like education would increase it. Privatisation will have only a small impact on the overall financing requirements of the nationalised sector. They depend far more on Government policies towards railways and coal, since these industries currently absorb most of the finance going into this sector. There is no reference to any reduction of the UK share of the EC budget. The main increases come from:-

- | | | |
|-----------------|---|--|
| Social Security | - | Up to £3,400 million pa. Improved benefits and a new child benefit/FIS system. |
| Employment | - | £200 million pa for continued employment measures up to the end of the decade. |
| | - | £400 million pa for Youth Training. |
| | - | £100 million-£900 million pa on the Job Release Scheme. |
| Defence | - | £900 million pa by 1987-88 for running on the NATO 3 per cent commitment. |



Education	- £500 million pa on vouchers.
	- £50 million pa on student loans (though this would turn round in the following decade).
Law and Order	- £80 million pa.
Urban Renewal	- £200 million pa.
Industrial Support	- About £60 million pa, plus very large unquantified bids for fuel subsidies.
MAFF	- £20 million pa on various items.

Of these, Education, Law and Order, Urban Renewal and Industrial Support would tend to carry regional consequentials which have not yet been costed.

7. There are (oddly) no quantified extra bids for Health. Most of Mr Fowler's proposals (like more contracting-out) are aimed at economy but the savings would be ploughed back.

8. Some returns are neutral in expenditure terms, notably those for the FCO/ODA (with warnings about the hard choices this would entail) and those for the Department of Transport.

9. This has, of necessity, to be an interim assessment. It will be possible to make a much more thorough analysis in about a month's time, once the "Long Term Public Expenditure" and "Manpower After 1984" returns, due on 31 March, have been submitted. There may, of course, be considerable inconsistencies between the "Forward Look" proposals, which were prepared in a very restricted circle in Departments, and the more detailed LTPE returns.

PUBLIC EXPENDITURE SUMMARY

<u>Dept</u>	<u>Public Expenditure Cost</u>	<u>Manpower Cost</u>
DEn	Some receipts, say £200m pa, plus increases on nuclear programme	Minimum
ECGD	None	minimum, or if public corporation status -1800 approx from CS staff count.
DOT	negligible	negligible
DOI	£60 m pa plus fuel subsidies	some
DOE	£200 m (plus) pa on Urban Renewal Agencies	-
N. Ireland/ Scotland	negligible+++	negligible
Wales	negligible+++	negligible*
DEm	£100 m pa on Job Release Scheme* £140 m pa on Enterprise Allowance £50 m pa on Job-Splitting Scheme £400 m pa on Youth Training Scheme	- - - -
DTP	apparently negligible	-
HO and LCD	£80 m pa	some
DES	£500 m pa on school vouchers £50 m pa on student loans	? negligible
MOD	Perpetuate 3% pa real growth after 1985-86 (eg £500 m in 86-87, £900 m in 87-88)	-
MAFF	marginal lands £15 m pa glasshouse industry £5m pa	- -
DHSS	Cash benefits for disabled** £500 m pa approx	?
	Flexible retirement age £500 m pa approx	?
	Abolish Household Duties Test £275 m pa (max)	negligible
	Industrial Injury Scheme £40 m savings (longer term)	?
	Computerisation £110 m pa	some addition in medium term
	CB and FIS ^δ £2 billion (approx) pa	significant additions
	National Health Service	Unquantifiable
TOTAL	5,200 m - 5,900 m (approx)	

* Rising to £900 million by end of decade

**Not likely in medium term

^δTentative

+++ No allowance for carry-through of English policies.