

Prime Minister
LONG TERM PUBLIC EXPENDITURE



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Prime Minister²

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1. In your minute of 4 February you asked for a report on possibilities for reducing public expenditure in the longer term.

2. In considering these possibilities I think it is important to bear in mind the changes in programmes that have already taken place over the last 4 years. The table below from the Public Expenditure White paper illustrates this. The final column which I asked my officials to calculate shows the percentage change in cost terms of each programme over the period of this Government. It illustrates very clearly that the major reductions that have been made are in the contributions to the EEC budget and in the Housing programme.

COMPARATIVE CHANGES IN DEPARTMENTAL PROGRAMMES IN COST TERMS 1978/9 - 1983/4

	1978-9	1979-80	1980-1	1981-2	1982-3	1983-4	% increase over 1978/9 outturn
Defence	11,486	12,077	12,374	12,606	13,406	14,163	23
Overseas aid & other environmental services							
Overseas aid	1,108	1,031	983	960	892	936	-16
Net payments to EC institutions	1,151	1,098	245	153	540	337	-71
Other overseas services	579	594	570	573	617	653	13
Agriculture, fisheries, food & forestry	1,246	1,318	1,491	1,372	1,660	1,554	25
Industry, energy, trade & employment	4,652	3,771	4,439	5,319	5,446	4,981	7
Transport	3,750	3,882	3,825	3,898	4,037	3,811	2
Housing	5,473	5,908	4,933	3,137	2,399	2,474	-55
Other environmental services	3,458	3,537	3,576	3,244	3,193	3,157	-9
Law, order & protective services	3,120	3,376	3,505	3,774	3,985	4,060	30
Education & science	11,883	11,709	12,065	11,828	11,747	11,127	-6
Arts & libraries	521	529	528	520	539	499	-4
Health & personal social services	11,378	11,648	12,576	12,751	12,911	12,942	14
Social security	25,187	25,415	25,963	28,510	30,207	30,471	21
Other public services	1,485	1,517	1,593	1,556	1,553	1,484	0
Common services	1,307	1,321	1,216	1,453	1,537	883	-32
Scotland	5,644	5,821	5,893	5,772	5,826	5,656	0
Wales	2,263	2,343	2,356	2,243	2,213	2,240	0
Northern Ireland	3,275	3,209	3,215	3,218	3,319	3,372	3
Government lending to nationalised industries	1,080	2,541	2,459	1,457	1,268	986	-9
Local authority expenditure not allocated to programmes (England)						801	
Adjustments							
Public corporations' net over- seas & market borrowing	679	-630	-683	260	-1,009	-259	
Special sales of assets		-1,308	-394	79	-500	-650	
Contingency reserve					250	1,300	
General allowance for shortfall					-900	-1,100	
Planning total(2)	100,726	100,706	102,728	104,684	105,123	105,930	
Planning total - rounded(2)	100,700	100,700	102,700	104,700	105,100	105,900	5

1. Cash figures adjusted for general inflation as measured by the GDP deflator at market prices. the GDP deflator is assumed to increase by some 7½% in 1982-3 and some 5% in 1983-4 as stated in the Autumn Statement 1982.

2. Totals do not always add because of rounding.

3. These are net PES figures. The cost terms change in gross housing expenditure between 1978/9 and 1983/4 plans is: capital 30%; current 60%; total 40%.

3. Notwithstanding what has already been achieved I fully support the need for further and radical efforts to reduce public expenditure in the longer term, and we have scrutinised every part of the Department's expenditure programmes closely. I have also looked more widely at the total of local authority expenditure for which I have a general responsibility. The attached report sets out a number of possibilities which I think would be worth considering further. Leon Brittan has seen this report. He has some reservation on particular points, which we have not been able to agree at this stage.

In forwarding the report there are several points I would like to emphasise.

4. First, capital spending. In 1983/4 60% of the gross public expenditure in my programmes is planned to go on capital. Capital spending on construction has been severely reduced in cost terms in recent years in both the public and private sectors incurring problems in the construction industry, and serious deficiencies of provision in the number of programmes.

5. In my own programmes the recent English House Condition Survey has shown that there is a growing problem of housing in disrepair in both public and private sectors; and we are rapidly becoming aware of a very major problem of structural and design faults in some parts of the system - built public sector housing of the last 60 years. In the water field recent events have highlighted the need for much greater emphasis on cost-saving investment, and here too there is a significant problem of replacing old and deteriorating pipes and sewers. There is also likely to be a continuing need for investment under the urban programme in many of the inner city areas over the next decade.

6. I think there can be no doubt therefore of the need over the next decade for a higher level of capital investment in the construction sector than in the last few years. I am equally convinced however that much of this investment will be better and more efficiently done if it is carried out by the private sector, rather than as public expenditure. The challenge for this Government over the next decade is to create the conditions in which the private sector contribution to the necessary construction activity can be maximised.

7. John Stanley and I have identified a number of ways in which this could be taken forward in the housing field (para 26 of the report) and we shall need to pursue these vigorously in the next Parliament. Equally I shall want to give greater emphasis in the urban programme to schemes involving a partnership between the public and private sectors where the public sector investment acts as an inducement to lever more investment on the private sector.

8. Even with all these measures to encourage more private sector involvement in construction work there will inevitably remain a substantial need for public sector involvement on capital work. My own provisional assessment is that we shall need to maintain public expenditure on capital investment at at least its present level over the next decade, though forming a smaller proportion of what ought to be an expanding scale of activity for the construction industry as a whole.

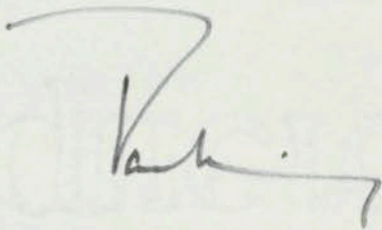
9. One major technical problem here is to find better ways of planning and managing our public capital expenditure programmes. Sensible planning and control requires a degree of flexibility at the year-end so that underspending or overspending in one year can be carried forward as an adjustment to the following year or years without disrupting the flow of the programme. The present rules contribute directly to the serious underspending which we have encountered in the last two years which is wasteful of resources, and undermines our general economic strategy.
10. Secondly, current expenditure. In my own programmes I see limited scope for reductions in the level of services to the public. But there is still enormous scope for increasing efficiency, and thus saving costs.
11. We have developed several lines of attack on this problem over the last 4 years which we shall need to take further over the next decade. First there is direct pressure on public sector bodies concerned to improve their efficiency. Within this Department the new costing and management information systems we have developed (MINIS and MAXIS) have played a key role here. They will need to be developed further and extended to sponsored bodies in our field, and possibly also to local government.
12. Secondly, there is the spur of competition. In local government direct labour organisations have been driven out of their cosy protected world by the requirement to keep proper accounts and tender against private competition. In a broader sense the wider publication of comparative statistics about all aspects of local authorities' performance and costs has enabled the public and authorities themselves to compare their relative performance and efficiency. These initiatives could be taken further.
13. Thirdly, we have taken steps to strengthen the audit of local government and other public sector bodies, and to give much greater emphasis to value-for-money audit. These initiatives will need to be developed over the next decade.
14. Fourthly, we need to look much harder at the scope for contracting out some services or privatising them altogether. Where private contractors can provide a service more economically than directly employed staff that in itself will produce useful savings. Where full-scale privatisation is possible, with a service being provided directly to the public for a charge, the whole cost of that service will be removed from the total of public expenditure.
15. Fifthly, we shall need to continue to look at the scope for introducing or increasing charges for publicly provided services or further reducing revenue subsidies. (The scope must however be limited by the difficulties of increasing charges faster than inflation.)
16. Sixthly, we should note that the total value of current expenditure on housing is some £5 bn per annum, spread across 3 Departments (see para 21 of the report). Aspects of this may need to be reviewed over the next decade.
17. Finally, on a point about PES conventions, it is impossible to ignore the confusion that arises in our public expenditure planning processes from treating local authority current expenditure (totalling £22½ bn in 1983/4) as though it were on all fours with central Government expenditure which can be directly controlled.

What we do control is the total of Exchequer grants to local authorities (general and specific) (£12 bn in 1983/4). But paradoxically the main Exchequer grants do not count as public expenditure. They are merely counted as financing items, while the total of local authority current expenditure is treated as public expenditure.

18. Paragraphs 12 and 13 of the report accordingly float the suggestion that it might be desirable to adopt a new PES convention whereby the Exchequer grant should score as public expenditure, and the rest of local authority current expenditure should not. This would be somewhat similar to the treatment of water authorities or nationalised industries in PES.

19. Leon Brittan has so far opposed this suggestion, but he recognises the presentational problem, and I shall be pursuing this issue further with him.

20. I am copying this minute and the report to the Chief Secretary, the Secretaries of State for Scotland and Wales and to Sir Robert Armstrong only at this stage.



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REPORT ON POSSIBILITIES IN DOE'S AREA OF RESPONSIBILITY FOR
REDUCING PUBLIC EXPENDITURE IN THE LONGER TERM

1. This report sets out in summary form a number of areas within DOE's area of responsibility where public expenditure savings might be sought in the longer term. None of the possibilities here listed are fully worked up, and some of them could be difficult to pursue for political or other reasons. They are not therefore put forward as firm proposals. They are simply possibilities from which some might be selected for further and deeper examination.

2. The report deals first with issues concerning the totality of local authority current and capital expenditure for which DOE has a general responsibility, although large parts of this expenditure fall within other Department's public expenditure programme. It then goes on to review each of DOE's main public expenditure programmes.

I. Local Authority Current Expenditure

3. Between 1979 and 1983 local authority current expenditure in England remained fairly steady in cost terms as the following table shows.

<u>£m Cash</u> <u>England</u>	<u>Outturn</u>				<u>Budget</u>	<u>Plan</u>
	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
LA Current (measured on RSG basis)	11,042	12,976	15,682	17,459	19,260	19,692 (Budget = 20,400)
<u>£m in</u> <u>1982-83 Costs</u>	(using local authority revaluation factor to deflate costs)					
LA Current	19,120	19,430	19,125	18,945	19,260	18,612 (Budget = 19,250)
Index	100	102	100	99	101	97½ (Budget = 101)

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Notes

- a. The increase in current expenditure at 1982-83 costs between 1981-82 and 1982-83 may be lower at outturn.
- b. using a GDP cost deflator the index would rise over the period.
4. Local authority manpower has declined by 4.6% from June 1979 to December 1982 but this positive achievement has been partly eroded by wage drift and other increases in the relative prices of goods and services to local authorities.
5. Standards of service have been maintained for most services in most authorities, but there are some signs that standards cannot be safely squeezed much further on some services in some authorities. At the other extreme there are some authorities which have continued to increase their expenditure in real terms regardless of Government pressures, and where some real savings in future years are clearly possible.
6. A full assessment of what can be achieved over the next decade on the totality of local authority current programmes must await a full analysis of replies by other colleagues with local government responsibilities.
7. It ought however be possible to achieve substantial further efficiency savings and some paring away of excessive expenditure in the higher-spending authorities, without involving serious diminution of standards of service. One key issue is how to ensure that services are actually pruned when client numbers decline (eg falling school rolls).
8. Measures to reduce Local Authority Current Expenditure The possibility of new measures to control local authority current expenditure are under discussion in ELF and are not considered further in this report.
9. Apart from any new measures there have been a number of developments under the present Government which will continue

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to exert a downward pressure on local government current expenditure over the next decade. The most important are as follows:

- (i) The structure of the new rate support grant introduced in 1980 can be arranged to make the marginal cost to local authorities of extra expenditure very high. Subject to any changes that may emerge from the ELF discussions these RSG pressures will continue to be available in the future.
- (ii) The Audit Commission which commences operations on 1 April 1983, will give a greater impetus and force to the audit of local government, particularly in the development of value for money audit which should over time lead to significant improvements in economy effectiveness and efficiency.
- (iii) The legislation introduced in 1980 to require direct labour local authority organisations to keep proper accounts and to operate in direct competition with the private sector has already had a significant effect in securing greater efficiency.
- (iv) There should be scope for extending the approach adopted towards DLOs in other areas: refuse collection/disposal, environmental health, recreational facilities, parks, office services. The scale of reductions in expenditure would depend on the potential savings achievable in provision of these services by contractors rather than by directly employed staff. Professional services - such as architectural, engineering and legal work - might be similarly approached.

10. More major reductions in expenditure might be achieved if responsibility for providing services were transferred wholly to the private sector, with the services financed by direct charges to consumers (eg refuse collection) rather than as a

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charge to rates - privatisation as opposed to contracting out. Short of complete privatisation the concept of mixed public/private enterprises set up outside local government (and by convention outside public expenditure) providing services to consumers on a charged basis - on the German model for refuse collection - might be pursued.

Defunding Local Authority Pensions

11. Pensions in local government, unlike those in the civil service and other parts of the public service, are paid out of a fund. This is fed by contributions from employees and employers; the latter's contributions count as public expenditure. Income at present is substantially in excess of scheme benefits. There would be substantial public expenditure savings initially if the scheme were changed onto a pay-as-you-go basis. Calculations made in March 1982 showed that the public expenditure saving in the first year would be over £400m; PSBR saving in the first year would be about £1000m. Savings would continue on a decreasing scale for a number of years; but there would be long term financial implications as by the early years of the next century public expenditure costs would be greater than for a funded scheme. Legislation would be required, and realisation of the funds would need to be spread over a number of years in order to minimise the consequences for the market. Several official studies in the past few years have recognised the anomalous position of this funded scheme within the public services, but considered that the arguments so far advanced did not justify a change. Although Ministers have endorsed those views, the importance of medium term public expenditure savings might make it worth reconsidering.

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Reclassification of Local Authority Expenditure

12. One other possibility affecting the whole of local government current expenditure is a classification change. Local authority rate borne expenditure might be excluded from public expenditure. Instead Exchequer grants to local authorities would be scored as being public expenditure. This would be comparable to the way in which water authorities and nationalised industries are treated in PES. Only their external financing requirements score as public expenditure; everything that is financed from their own revenue is ignored for PES purposes.

13. There are of course important economic and accounting conventions underlying the treatment which would need to be carefully examined with Treasury and other colleagues before any such change could be made. And there would also need to be careful consideration of how well such a change would fit with the general policy in relation to local authority expenditure as it is developing in ELF and elsewhere. Such a change would best accord with a policy of clarifying the separate responsibilities of central and local government. Central government would be seen to be planning for and controlling Exchequer grant, over which it has direct control. It could continue to make such plans and regulate the grants with a view to influencing the level of local authority expenditure as at present. But the total level of local authority current expenditure would no longer be treated as part of the Government's own plans, for which the Government should itself be treated as directly responsible and accountable. The total nominal level of public expenditure would be reduced by £10½ bn in 1983-84.

II. Local Authority Capital Expenditure

14. Local Authority capital expenditure has declined over the past five years in cost terms as the following table shows:

<u>£m Cash</u> <u>England</u>	<u>Outturn</u>				<u>Estimated</u>	<u>Plan</u>
	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>	<u>1981-82</u>	<u>Outturn</u> <u>1982-83</u>	<u>1983-84</u>
Net	2882	3646	3512	2459	2049	2982
Gross (ie. inc. Capital Receipts)	3474	4261	4344	2857	4000	4732
<u>£m in 1982-83</u> <u>costs</u>						
Gross	5750	5735	4815	3090	4000	4500
Index	100	100	84	54	69	78

15. The decline in public expenditure on housing has been the most important element of this, but there have also been reductions in capital spending on local environmental services, education and other services. More generally total construction expenditure (public and private) has declined by about 20% in cost terms over the period, although there is some sign of a modest recovery this year.

16. Although the stabilisation of the population size means that there will be somewhat less need for net additions to the housing stock, or to roads and other public sector facilities than in the immediate post-war decades, there will remain a substantial problem of catering for the continuing growth of separate small households, replacement, maintenance and repair of housing (both public and private), and of other public sector capital assets. Present levels of construction expenditure are barely adequate to cope with this national task, and any substantial reductions in real terms could mean a growing problem of disrepair and dereliction. The construction industry would also be adversely affected by any further reduction in the total local

authority capital programme. A significant increase of construction activity over the next decade would therefore be desirable. So far as possible this should be concentrated in the private sector; but the public sector capital line, including in particular the local authority line, will also need to be maintained at least at its present level.

17. The problems have been exacerbated over the last two years by the substantial under-spending by local authorities, which have wasted resources that could have been put to good use in developing and improving the capital assets of local authorities, and acting as a counter-cyclical boost to the construction industry.

18. One important cause of the underspending lies in the public expenditure convention which prevents the carrying forward of underspending from one year to boost a later year's cash limit. The high level of capital receipts at the present time, which are difficult to forecast accurately, makes it particularly difficult for local authorities and for central Government to plan confidently to hit a precise cash limit target. A degree of end-year flexibility could make a significant contribution here. More generally a review of the capital expenditure control system, and the way it operates in relation to capital receipts, may be needed at some stage during the life of the next Parliament.

III. DOE Public Expenditure Programmes

19. DOE's main programmes as planned for 1983-84 - 1985-86 are as follows:-

	£m		
	1983-84	1984-85	1985-86
Housing Capital (Net)	1843	2117	2276
(Gross)	[3245]	[3417]	[3576]
Housing Current	949	871	834

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		£m	
	1983-84	1984-85	1985-86
Regional Water Authorities - net NLF borrowing	390	398	401
Local Environmental Services Capital (Net)	200	210	220
(Gross)	£624	£637	£648
Local Environmental Services Current	2062	2100	2170
Derelict Land	75	68	72
Urban Programme	261	296	308
Urban Development Corporations	67	82	85
Heritage Expenditure	76	80	83
Minor Other Environmental Services	328	324	335
PSA	-125	-103	-113
	<u>6127</u>	<u>6443</u>	<u>6671</u>

HOUSING

20. There is no room for cuts on capital: indeed, capital will certainly need to be increased. But there is scope for cuts on the current side, though any such cuts will necessitate difficult and disadvantageous policy decisions. Current and capital are considered in turn.

Current

21. There are four main components of current expenditure in support of housing, spread through three Departments. They need to be considered together in the present context. Their total value in 1983-84 is about £5bn, as follows:

1. Mortgage Tax Relief, value £2500m
2. Rent support in the public sector through UHB and the rent element of supplementary benefit, value £1700m.

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3. Rent support through DOE housing subsidies, to local authorities, new towns and Housing Associations, value £530m.
4. Rent Support through local authority rate fund contributions to the HRA, value £290m.

22. Taking each in turn, mortgage tax relief is for the Treasury in the first place. UHB and the rent element of supplementary benefit is for DHSS in the first place, but DOE could not contemplate a reduction in the housing element of supplementary benefit unless it were to form part of equivalent reductions across the whole range of supplementary benefit. As a result of the Government's rent and housing subsidy policies, a dramatic reduction has already been made in housing subsidy to local authorities, which, in cash terms, has fallen from £1420m in 1980/81 to an estimated £370m in 1983/84. In any case, the scope for getting rents up through use of the subsidy mechanism is increasingly limited because it is estimated that in 1983/84 almost four fifths of all local authorities will be out of subsidy. The only way in which further reductions of public expenditure could be achieved through the rent/subsidy relationship is therefore by primary legislation, which would effectively dictate both the levels of rents and the utilisation of surpluses on the HRA for the housing programme. Such legislation would be intensely controversial.

23. Rate fund contributions to the HRA are continuing at a higher level than is desirable, including by authorities whose rent levels are below the average rent levels in their regions. It would be possible, as an alternative to operating directly on rents, to introduce primary legislation imposing some constraints on rate fund contributions to the HRAs, but this would also be highly controversial, particularly if we continued to allow local authorities to do the reverse (ie. HRA transfers to the GRF).

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Capital

24. On the capital side, we start from the position that 82% of the Government's capital cuts have fallen on the housing programme. Housing capital outturn expenditure in 1982/83 is only 57% in real terms of what it was in 1978/9, whereas Health scores 123% and Transport 98%. (GB comparisons in net terms).

25. At the same time the new information that has become available in the last few months shows that without any question there is going to be great pressure over the next 5 years for an uplift in real terms in public sector capital expenditure on housing because of the following combination of factors:

(a) the rate of increase of net household formation, plus demolitions, means that approximately 225,000 dwellings need to be added to the housing stock in the 1980s to maintain the existing household/dwelling balance, let alone increase it. Though the majority of new households will be able to buy (and we want to do all we can to help them do so) there will still be a significant minority whose personal circumstances are such that it makes it impossible for them to do other than rent;

(b) it is now becoming apparent at this very moment that there is a serious situation developing in respect of various forms of industrialised prefabricated housing built up to the end of the 1950s, totalling about 400,000 of which up to 250,000 may have inherent structural defects;

(c) there are also extremely difficult design problems with many system-built and deck-access blocks which were built in the 1960s and early 1970s necessitating costly reconstruction if they are to remain lettable; in some cases they may even need to be demolished with replacement accommodation having to be found for the tenants.

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(d) in the private sector, the results of the 1981 English House Condition Survey have shown a sharp rise in the incidence of serious disrepair, which, if not tackled through home improvement grants, will inevitably lead to costly clearance programmes and the replacement of private by public sector housing.

26. These factors together are bound to necessitate an increase in housing capital expenditure unless there is to be a marked deterioration of housing conditions. The increase can be mitigated if we take more steps to support the private sector. For that we need:

(1) tougher measures to get a greater rate of public sector land release;

(2) a more positive approach to residential development through the planning system to ensure that the private sector housing contribution remains above 150,000 units throughout the 1980s;

(3) a bigger contribution from new build for rent through assured tenancies, with legislation to extend the assured tenancy scheme to cover conversion and improvement of existing property;

(4) a further look at statutory rent controls on new (but not existing) lettings in the private sector;

(5) a viable basis for carrying out shared ownership entirely in the private sector. This would be assisted if the policy on capital allowances were changed.

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Even with all the above, a substantial level of public expenditure will be needed in order adequately to maintain home improvement in the public and private sectors and also to meet the demand for rented accommodation. Although by the end of the 1980s home ownership in England will have reached perhaps 65%, the highest in Western Europe, about a third of households will still require rented accommodation. And because of the unhappy collapse of the private rented sector and its continued 'blighting' by the Labour Party, this will have to be met at least for the rest of this decade predominantly in the public sector.

Water

27. Since 1978/79, DOE public expenditure on water services (including water research but excluding land drainage financed by MAFF and Welsh Water expenditure) has been as follows in cost terms (£ million based on 1981/82).

	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>
Water services	383	368	314	219	282	278
BWB	31	30	29	28	35	35

The main factor in the reductions shown has been a sharp decline in water investment. There is increasing concern about the low level of expenditure on renewal of sewers and pipes and with a resumption of economic growth investment requirements can be expected to rise over the next decade,

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particularly as recent events in the water industry have highlighted the need for an increased level of cost-reducing investment. Financial targets to achieve a reasonable rate of return on water industry assets have helped to finance a rising proportion of investment from internal resources, as has pressure on operating costs through performance aims and manpower targets. Capital investment should now increase again modestly to allow an adequate rate of renewal particularly of sewers and water mains (as recently recommended by the House of Lords Select Committee on Science and Technology) and to reduce manpower costs. This should be possible, assuming continuing and successful pressure for improvements in efficiency, with a gradually reducing external financing requirement and without unacceptable increases in charges.

LES Capital

28. This programme has been severely cut back in recent years: even in cash terms allocations to local authorities are now only two-thirds of net outturn in 1980/81. Any further reductions would impede local authorities in the delivery of essential services covered by the programme. The most striking case is refuse disposal, where some authorities now require to undertake major expenditure as local sites become filled and expensive processing plant has to be provided. Such expenditure cannot be deferred and is unlikely to be offset by the savings from private sector participation which we seek.

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LES Current

29. The programme for 1983-84 breaks down as follows:

Sub-Programme	<u>Gross</u>	<u>Receipts</u>	<u>Net</u>
(1) Town & Country Planning	420.3	175.7	244.6
(2) Recreation	670.2	200.0	470.2
(3) Refuse	634.5	78.0	556.5
(4) Other Local Services *	1127.1	336.4	790.1
	<u>2852.1</u>	<u>790.1</u>	<u>2062.0</u>

* Including administration costs not recharged to other services.

30. Significant measures have been taken under the present Government to reduce the net cost of the town and country planning system by stream-lining the planning process, simplifying the development control system and introducing charging for planning applications. There is probably not much scope for further simplification of the system but there may still be some scope for increasing the revenue from charges, and for reducing administrative costs, subject to the difficulty of increasing charges faster than inflation. On recreation no significant scope for reduction of gross expenditure is seen; and successive studies have concluded that charges could not be increased substantially without taking away custom, and adverse public reaction.

31. On other local services and refuse collection/disposal the main measures contemplated are the general pressures for improving efficiency referred to above (para 9) by extensions of the contracting out principle. Short of complete privatisation (para 10) reductions could be achieved by increases in charges for some services. Transfer of financing of services such as refuse collection from rates to user-related charges would have a greater impact, provided that a suitable regulatory framework could be devised to protect public health standards and ensure public acceptability.

32. Urban Development Corporations

Over the next five years the urban development corporations in London Docklands and Merseyside will clearly need substantial injections of public expenditure in order to fuel the major

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programme of regeneration, land reclamation, provision of new infrastructure, and redevelopment on which they are engaged to overcome generations of neglect. Thereafter with the consequent removal of negative land values, and regeneration of commercial and industrial confidence in the areas, the public expenditure component may be expected to begin to diminish.

33. Heritage Expenditure

This covers expenditure on protection and preservation of ancient monuments, grants to owners of historic buildings, expenditure on royal palaces and parks etc. The forthcoming creation of the new Historic Buildings Commission should enable this work to be managed efficiently and in a more commercial way, and to enlarge the possibility of generating additional revenue from the public. Significant savings might be achieved by reducing the standards of care, reducing opening hours, or restricting the number and level of grants to private owners. None of these measures would be politically attractive.

34. Minor Services

This category includes the Department's own expenditure, and that of a number of minor fringe bodies such as the Sports Council, Nature Conservancy etc. Continuing pressure on administrative costs by MINIS and other means should continue to produce useful efficiency savings throughout the decade; but major reductions are unlikely to be attainable for most of the bodies, without unacceptable diminution of services.

35. Derelict Land

Recent surveys suggest that between 1974 and 1982 there has been a net reduction of only 5% in the total amount of reclaimable derelict land. So the back of the problem is nowhere near broken, and although it would be feasible to cut down on the present scale of public expenditure on rehabilitation there are strong arguments for maintaining or even increasing the present programme. Under the present Government increasing importance has however been attached to linking derelict land rehabilitation schemes with positive steps to secure developers to make use of the restored land. This emphasis should be continued over the next decade.

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36. Urban Programme

In 1983/84 the urban programme breaks down as follows:

Partnerships	126
Programme Authorities	63
Traditional Urban Prog	52
Urban Development Grant	60
Merseyside special schemes	32
Other	25
	<u>358</u>

37. It might be technically feasible to reduce this scale of expenditure over the next decade by 25% or even more. If such a reduction had to be made there would be a choice between cutting back on partnership allocations, sharply cutting back the traditional urban programme, and a general decrease across the board. It is early to say, but it seems likely that we should want to protect the new urban development grant which shows every prospect of bringing forward new private sector capital and initiatives to join with the public sector in a wide variety of schemes in urban areas. The consequences of a substantial cut back (which a 25% reduction would be) would, however, be to cast severe doubt on our commitment to seeking solutions to the very severe problems, leading even to possible social breakdown, in the worst areas of our major cities.

38. PSA

The main reductions in public expenditure would come from reducing the amount of accommodation held by PSA. Under the Property Repayment Service (PRS) scheme the incentive is on Departments, who will now pay for accommodation, to economise, and the savings will accrue to them, not to PSA. The incentive can be sharpened by developing PRS towards a more commercial approach, eg by charging individually assessed market rents for all buildings. PSA can facilitate Departments' savings by taking opportunities to rationalise the estate following reductions in Departmental occupations, and by energy conservation measures, and reduce its charge to them for administrative costs by greater efficiency. It is not feasible to reduce their running costs by spending less on maintenance which is at an irreducible minimum, nor is there scope for significant cuts in the limited new works programme.

Department of the Environment

30 March 1983

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