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CONFIDENTIAL

My ref:  
Your ref:

27 APR 83

Don Lee

I am broadly content with the draft guidelines for the 1983 Public Expenditure Survey which you sent to the Prime Minister on 28 March so far as they go though I support Norman Tebbit's reservations about the proposed 3% factor to be used in establishing the new 1986/7 baseline.

The proposition seems to amount to a deliberate cash squeeze in addition to proposals for option reductions and any selective cuts which may emerge from the exercises on longer term public expenditure and manpower requirements. I do not see the justification for this and in any event I think it should be a matter for collective decision.

On local authority expenditure I agree that we should follow last year's procedure to determine a figure for the total of local authority current expenditure at an early date with a view to announcing this in July. We shall need to establish at an early date a separate timetable for the necessary work leading up to this July announcement.

On capital expenditure I welcome the recognition in the guidelines that greater priority needs to be given to capital programmes, and I trust that this objective will remain to the fore in the course of the survey. We are doing all that we reasonably can do to encourage worthwhile expenditure even within existing plans given the rigidities and uncertainties of the present system and a number of steps have been taken to follow up some of the proposals made by Michael Heseltine last December, but I am convinced that we need to take more active steps now to combat underspending. End-year flexibility would be a major advance and I entirely endorse what David Howell and George Younger have recently said in support of it in their letters of 7 March and 29 March.

Housing poses a particular problem in that the gross expenditure line is heavily dependent on a continuing and somewhat volatile flow of capital receipts arising from sales of council houses which it is virtually impossible for authorities to plan to spend in full in the year in which they arise. Moreover assumptions on housing capital receipts have in the past proved to be too pessimistic with the result that some £160m in the 1981/82 and £490m in 1982/83 which could have boosted local authorities capital spending has in effect been foregone.



Faced with underspends of this magnitude I am convinced that we cannot delay further in reaching an early decision on implementing end-year flexibility. I would like to discuss this fundamental issue with you now before we go any further into this year's survey.

I am copying this letter to Cabinet colleagues, the Minister for the Arts and Sir Robert Armstrong.

*TK*  
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*TK*

TOM KING

27 April 1983

