

PO-CH/NL/0126

PART B

part B

SECRET

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Begins: 17/7/87.

Ends: 22/7/87.



PO -CH /NL/0126



PART B

Chancellor's (Lawson) Proposals:

1987 PUBLIC EXPENDITURE
SURVEY CABINET

Disposal Directions: 25 Years

[Signature]

21/8/95

PO -CH /NL/0126

PART B

- cc CST
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Monck
- Mr Scholar
- Mr Luce
- Mr Sedgwick
- Mr Culpin
- Mr Gieve
- Mr Turnbull
- Mr Tyrie
- Mr Cropper



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

17 July 1987

David Norgrove Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear David

PAPERS FOR PUBLIC EXPENDITURE CABINET: 23 JULY

... I attach drafts of the papers for Cabinet next Thursday. These are:

- (i) a paper by the Chancellor on Economic Prospects; and
- (ii) a paper by the Chief Secretary on the Public Expenditure Survey with an Annex on Running Costs.

I should be most grateful if you could pass on to me any comments the Prime Minister has, so that we can circulate the papers to Cabinet on Tuesday.

Yours

Allan

A C S ALLAN

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For any final
situation

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This would be
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1. I have with a number
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2. I am concerned that, as in
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DRAFT PAPER FOR CABINET (No 4)

THIS DOCUMENT IS THE PROPERTY OF HER MAJESTY'S GOVERNMENT

C(87)
July 1987

Copy No

1987 PUBLIC EXPENDITURE SURVEY

Memorandum by the Chief Secretary, HM Treasury

Introduction

Our policy is to bring public spending down progressively as a proportion of national income. Over the past four years we have succeeded in achieving this. Even excluding privatisation proceeds, general government expenditure (the combined spending of central and local government) has fallen from 47 per cent of GDP in 1982-83 to 44 per cent in 1986-87, and there will be a further fall in 1987-88 - though it will still be higher than it was in 1978-79. Our progress over the last few years has enabled us to combine a steady but controlled growth of public expenditure in real terms with a reduction in borrowing and, in each of the last five Budgets, a reduction in taxes. This restraint in public spending has made possible the strong performance of the economy which the Chancellor has described in his Memorandum (C(87)).

2. In our Election Manifesto we pledged ourselves to continue the policy of ensuring that public spending takes a steadily smaller share of our national income. This is essential if we are both to maintain the momentum of our economic performance and to deliver of our Manifesto pledge to reduce the burden of taxation.

3. For this year's Survey we have set baseline totals for spending of £154.2 billion in 1988-89, £161.5 billion in 1989-90 and £165.5 billion in 1990-91. For the first two years this was done by retaining the planning totals set out in last year's Public Expenditure White Paper and for the third year we have used an uplift factor of 2½ per cent.

4. Departments were then asked to review their programmes within their baseline figures and to put proposals to me where they felt, after a review of priorities, that additional resources were required. In my minute of 17 July to the Prime Minister, I summarised the bids received from departments. *[Remains colleague of who reply amount 65]*

Objectives for the Survey

5. I have to make it clear to colleagues that bids on this scale are far beyond what can be afforded. If anything like this were accepted, we could make no further progress in reducing public spending as a proportion of GDP, ~~as set out in the White Paper.~~ This would not only make our objectives for taxation unattainable, it would also trigger a complete reappraisal of the Government's financial standing in the markets, and provide a severe setback to the economic progress we have made.

6. With the time lost as a result of the election, it has not been possible to analyse the bids as thoroughly as normal. There are major uncertainties in a number of areas which I will want to probe further, eg the large estimating changes for social security and the projections of our contributions to the European Community.

7. But it is clear that to hold to our policy on public spending we will have to face up to difficult decisions in a number of areas, in particular:

i. for programmes such as defence, health and education which are seeking very large increases, the bids will have to be significantly scaled back and, to the greatest extent possible, policy savings found to offset them;

ii. for social security we must look at policy changes to help offset the enormous estimating changes;

iii. we need to take a hard look at the employment programmes where, with the greatly improved trend ~~on~~ unemployment, substantial savings can be found;

iv. we need to re-examine the basis of our regional policies. The buoyancy of the economy and in particular of investment, reflecting the increased strength of the corporate sector,

is both increasing the cost of the present system of regional incentives and reducing the need for them. We should look for savings here partly to release resources for cost effective inner city spending;

v. we must look very carefully at the expenditure of the territories;

vi. we should seek every opportunity to transfer to the private sector the responsibility for providing services hitherto provided by the public sector.

Departmental running costs

8. Colleagues have sought increases in their departments' running costs implying overall cash increases of 8 per cent for 1988-89 over 1987-88 with further increases in later years. The associated manpower projections reverse the downward trend we have achieved, implying a 15,000 increase over published plans for 1988-89. Increases on this scale are clearly unacceptable.

9. In the last few years, the increases in spending on departmental costs agreed for each first Survey year have exceeded our aims. In many cases the figures for the later years have not been set at realistic levels and as a result have had to be increased further in later Surveys. We need to agree a realistic method for planning provision over the Survey period so that departments have a reasonably reliable basis for making medium-term plans to improve efficiency.

10. My proposals, set out more fully in the annex, are that:

i. the running costs share of total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with our plans for public expenditure generally, ie by about 1 per cent a year in real terms, though individual departments would ^{of course} have not ~~entitlement~~ entitlement to such an increase; 8

ii. cost and other pressures will need to be met to a large extent by efficiency gains of at least $1\frac{1}{2}$ per cent a year in the use of all resources including manpower. These will need to be planned well in advance and departments should have contingency plans for larger improvements in case they are necessary;

iii. departments should prepare management plans to deliver these gains over the full Survey period. In any case where the plans are not suitably ambitious, or are unrealistic, I would hold over agreement on the later Survey years until the next Survey;

iv. for 1988-89, the aim should be to reduce the overall increase in provision sought by at least half.

Nationalised industries

11. In the 1987 Investment and Financing Review, the nationalised industries' own initial and unamended bids, made in May, exceed the baseline by £0.9 billion in the first year and £1.2 billion in the two subsequent years. These bids are clearly unrealistic and cannot be afforded. They now need to be scrutinised rigorously, and a number of industries are revising their proposals so that we will have a sounder basis for judging them. Apart from the electricity industries in England and Wales and in Scotland, I propose that our aim should be to reduce the provision at least to baseline and, where we can in the case of individual industries, below it. Failure to achieve this would mean greater pressure on departmental programmes. There are particular problems relating to the electricity industry this year, notably the need to set new financial targets, the implications of privatisation and assessment of a new power station programme. Notwithstanding these uncertainties, the pressure on public expenditure means that it is essential to appraise the industry's bids critically and to set challenging financial targets.

Local authority relevant public expenditure

12. It has been agreed in E(LA) that provision for relevant public expenditure in England should be set at £27,969 million (£27,538 million for relevant current expenditure and £431 million

for Rate Fund Contributions to Housing Revenue Accounts). This is an increase of £819 million above the White Paper baseline. Aggregate Exchequer Grant in England is to be set at £13,775 million, an increase of £750 million (5½ per cent) on the 1987-88 settlement figure including teachers' pay. [Reference to Scotland and Wales to come.] These are substantial additions and we must recognise that they will severely limit what can be made available for other programmes.

Conclusions

14. I ask Cabinet:

- i. to reaffirm the Manifesto policy of ensuring that public spending takes a steadily smaller share of our national income and, after excluding privatisation proceeds, does not exceed the path in last year's White Paper;
- ii. to note that bids will have to be substantially cut back to secure the policy objective at (i);
- iii. to agree that in order to cut back or offset the bids, we explore a range of policy changes including those listed in paragraph 7;
- iv. to agree that we should aim to hold the EFLs of the nationalised industries other than electricity at least to baseline and possibly below; and that we should seek to keep the electricity industries' external finance as low as possible;
- v. for running costs, to agree the proposals set out in paragraph 11 and in the Annex;
- vi. to agree that I should now conduct bilaterals with colleagues on their spending programmes.

TREASURY CHAMBERS

July 1987

[JM]

1987 PUBLIC EXPENDITURE SURVEY: DEPARTMENTAL RUNNING COSTS

Departmental Ministers have sought increased provision for running costs totalling £761 million for 1988-89, £956 million for 1989-90 and £1,203 million for 1990-91.

2. We cannot accept increases of this size. They would mean that overall expenditure on running costs would rise by 8 per cent in cash and 4 per cent in real terms between 1987-88 and 1988-89, with further real increases in the later years. They would also imply an increase in Civil Service manpower of nearly 15,000 over the manpower plan of 583,000 for 1 April 1989 published in this year's public expenditure White Paper and further increases in later years, though some 5,000 of this rise stems from increases agreed after the last Survey.

3. There are undoubted pressures on running costs. In spite of large manpower reductions (135,000 since 1979 and 50,000 since 1983) and, in most years, Civil Service pay settlements at or below general inflation, running costs have continued to rise in real terms as a result of increases in non-manpower costs (eg more buying-in of services rather than providing them internally) and changes in grading mix. Tight pay settlements will continue to be the aim. But if departments are to recruit and retain the staff they need and the Government's objective of making the Civil Service pay structure more conducive to an efficient service and more responsive to labour market conditions is to be met, future pay offers cannot be expected to be immune from pay movements in the economy generally.

4. It is thus realistic to provide for some rise in overall spending on running costs; but the Manifesto pledge to press ahead with management reforms to improve public services and reduce their cost, as well as the aim of ensuring that public expenditure takes a steadily smaller share of national income, mean that the rise must be contained to well below the levels sought.

that we should be aiming for a better control

5. I propose we resolve that the share of running costs in total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with public expenditure generally, ie by about 1 per cent a year in real terms. It means that if increases in the volume of activity are to be met in some parts of the Civil Service, reductions or lower rates of growth will be necessary in others where demand is less or of lower priority.

6. To achieve this overall objective, colleagues' running costs bids will need to be substantially scaled down, to less than half the additions to baseline that have been sought for 1988-89; and all departments will need firm plans to offset pay bill and other cost pressures through sustained and incremental efficiency gains. The improved budgetary and management systems stemming from the financial management drive of recent years, the Government's large and continuing investment in new technology, and further improvements in purchasing as well as the continuing processes of scrutiny and inspection must be used to deliver further improvement in performance, benefiting both input costs and outputs. On the input side, further improvements in the use of manpower and better control of non-manpower costs will be essential.

7. These efficiency gains will be easier to make on the necessary scale if they are planned well in advance; and if the plans are ambitious there will be greater scope for flexibility in future years. I propose that all departments should now prepare or revise management plans committing them, over the Survey period, to the delivery of defined and wherever possible measured improvements in outputs, and progressive overall efficiency gains of at least 1½ per cent a year, with contingency plans for larger improvements in case they are necessary. This is a reasonable minimum target for well managed service organisations. These plans will be especially important for departments with large executive operations.

8. Departments' plans, and their implications for restraining growth in running costs would be discussed in the bilaterals.

Agreement to increases over baseline, particularly for the later years, would be withheld until plans for efficiency gains of at least 1½ per cent a year were demonstrated in a departmental management plan. Departments would be expected to deliver these plans.

Civil Service manpower

9. Earlier this year it was announced that manpower targets would not be set after 1 April 1988, and pressure on Civil Service numbers would be maintained through running costs. The proposed approach to running costs will mean large reductions in the manpower projections of some departments. It is important to show that the running costs regime is an effective control on all Civil Service resources, including manpower. There will otherwise be pressure to reintroduce manpower targets.

Conclusions

10. I invite Cabinet to agree that:

- i. the objective should be to restrain running costs over the Survey period to their present share in total public spending by offsetting so far as possible any real rises in pay and other costs through efficiency gains;
- ii. departments should prepare or revise three-year management plans for sustained output and cost improvement, for discussion in the bilaterals;
- iii. for 1988-89 the aim should be a reduction by at least half of the £761 million additional provision sought in order to keep the overall increase in running costs in line with the medium-term objective in (i) above.

Please re-do

ECONOMIC PROSPECTS

The economy has been steadily growing at a satisfactory rate for the past six years. With industry competing successfully both at home and abroad the prospect this year is for faster GDP growth than in recent years, and more than I forecast at the time of the Budget. Unemployment has continued to fall while inflation has remained close to the expected path. So far this year, the current account of the balance of payments has been in modest surplus.

All this ^{is pointing} ~~is~~ an economic picture. But, ~~it cannot~~

2. ~~The growth rate this year is likely to be significantly above the average of recent years, and we clearly cannot count on it being sustained at this level over the Public Expenditure Survey period.~~ There are also evident dangers. Abroad, the world economy could be more depressed than now envisaged. At home, pay settlements badly need to fall, not least in the public sector. ~~Above all~~ it is essential that the Government demonstrates its firm commitment to the financial policies that have brought our present success and which alone can deliver declining inflation and the continuation of steady growth in the years ahead. We are also seeing, especially in the rapid growth of manufacturing productivity, some ^{beneficial} ~~effects~~ from the measures taken over the past seven years to improve supply performance.

rate

The growth

3. Our prudent monetary and fiscal policies have stabilised financial conditions, enabled us to avoid lurches of policy, and increased confidence in the UK as a base for investment. The reduction of public expenditure as a share of GDP over the past four years has been especially important. It has enabled us to reduce the PSBR despite having to adjust to the sharp loss of North Sea revenues. But we have failed to make much progress in reducing the burden of non-North Sea taxation as a share of GDP:

^{this still} is ~~the~~ (well above the figure we aimed, but since 1985 it has ~~become~~ actually ~~been~~ rising.)

WORLD ECONOMY

4. The most obvious threat to continued steady UK growth comes from a weakening of demand and output in other major developed countries. Since the fall in oil prices at the beginning of 1986, output growth in the G7 economies has been disappointing. Last year weak world demand originated in the developing countries who, as a group, cut back their imports. More recently many of the strains seem to reflect slowness in adjusting to the sharp realignment of exchange rates. Domestic demand in the US is understandably weakening; while in Germany and Japan it is not rising fast enough to offset the adverse effects of currency appreciation on their exports. Their loss of export markets has been made more acute by the increasing shares taken by the newly industrialised countries, notably in South-East Asia, who, with the recent exception of Taiwan, have held their currencies steady against the dollar.

5. Inflation rates in the major economies have been reduced, much as expected. And there are now signs of some progress in correcting the large current account imbalances in the US, Japan and Germany. The risk of further turmoil in foreign exchange markets has been reduced - although not eliminated - by successful co-operation between the G7 countries. Following the agreement at the Louvre in February, the G7 countries have succeeded in stabilising their currencies by a combination of intervention and a greater willingness to adapt their monetary policies. And there have been some further steps in Germany and even more in Japan to support domestic demand and open markets. It is vital that these measures are sustained and strengthened. Further reductions in the US Budget deficit are also needed.

THE BRITISH ECONOMY

6. A summary of the most recent Treasury assessment is shown in ... the attached annex.

7. At home we have seen a continuation of what has by now become a familiar pattern of strong and steady growth coupled with low inflation.

CONFIDENTIAL

8. A year ago there was concern in some quarters at the mild pause in growth between mid-1985 and mid-1986. In the event, despite disappointing growth abroad, performance at home has exceeded expectations. In the first quarter of this year GDP was just over 4 per cent higher than a year earlier.

9. The prospect is for continuing strong growth in 1987, with the outcome in the year as a whole likely to be closer to 4 per cent than the 3 per cent predicted at Budget time. Domestic demand growth is balanced, with fixed investment rising in line with the growth of consumers' expenditure. With growth in 1987 above the trend of recent years, it would not be surprising if the growth rate fell back a little next year.

10. The recent strong performance of output has contributed to a further rise in employment and in turn to the fastest recorded fall in unemployment since the War. This welcome fall in unemployment to below the three million mark has occurred at the same time as productivity growth in manufacturing has been exceptionally high by historical standards. Indeed increased industrial efficiency has been an essential factor in the greatly improved unemployment prospect. If overall growth continues at a steady and sustainable rate, even if somewhat lower than this year, there is every likelihood that the fall in unemployment will also continue.

11. We have always known that the UK, as a major oil producer, would not benefit as much from the fall in oil prices as the other major economies. The necessary fall in sterling during 1986 largely offset the beneficial impact on inflation of the lower oil prices. However, we are still on course to achieve the Budget forecast of 4 per cent inflation in the fourth quarter of this year, and the outcome could well be a little lower. Nonetheless, this remains uncomfortably above the average rate in ^{most} other major economies. It is essential that inflation is kept firmly on a downward path over the medium term.

12. So far, lower inflation has not been adequately reflected in lower pay settlements. The deceleration of private sector pay settlements in 1986 appears to have ended: indeed if anything they

may have begun to edge up. Some public sector settlements - notably by local authorities - could also set an unfortunate precedent for the private sector and will make it more difficult to control public finances. Pay increases need to be lower if the hard-won fall in unemployment is to continue.

13. The prospects for the current account of the balance of payments now look a little better than they did at the time of the Budget, and the estimate of last year's deficit has been revised down almost to zero. Over the past year British companies have competed successfully in the home and international markets. In spite of subdued prospects for world trade and buoyant activity at home it now looks as if the current account this year will show a smaller deficit than the Budget forecast of £2½ billion, or half of one per cent of GDP.

X 14. Since the Louvre agreement towards the end of February, sterling has generally been very steady. Indeed, during April and May there was a pronounced tendency for the pound to strengthen. This was contained by reducing interest rates and intervening in the foreign exchange markets on ~~a massive scale~~ ^{an important} scale. As a result, the exchange rate has stayed within a very narrow range over the past 4-5 months. This in turn has strengthened confidence within industry.

X 15. Nevertheless, financial markets are closely watching the behaviour of the economy, and in particular the outlook for inflation. They will also be on the look-out for any signs of a loosening of the ~~firm~~ ^{rigorous} financial policies that have brought our current success. It is vital that we maintain the firm control of public expenditure the Chief Secretary proposes.

MAJOR ECONOMIC INDICATORS

When is the forecast related to this?

	UK				G7 excl UK
	1984	1985	1986	1987††	1987
A. Demand & Activity					
GDP	3	3½	3	4	2½
Domestic demand					
of which					
- consumers' expenditure	2	3½	5	3½	2½
- fixed investment	9	2	1	4	2¼
Exports of Goods & Services	7	6	3	4	2½***
Imports of goods & Services	9	3	6	3	4***
B. Inflation (Q4 on year earlier)					
RPI	4¾	5½	3½	3¾	3
Average earnings	6½	7	8	7½	3½†
B. Other items (levels)					
Current balance (£bn)	1½	3½	0	-½	-12
Unemployment (per cent, narrow definition)	11	11½	11½	10½	7½
3 month interest rate	10	½	11	9.2*	6.3*
Sterling index (1980=100)	79	78	73	72.9*	-
Oil price (Brent, \$barrel)	29	27	14	19.8**	

* close Friday 10 July
 ** delivery in July 87, as of 10 July
 *** goods only
 † manufacturing earnings

These figs still to be updated

PNJ

FROM: P N SEDGWICK
DATE: 20 JULY 1987

MR ALLAN

cc Sir T Burns
Mr. Odling Jones
Mr. Allan

TABLE FOR CHANCELLOR'S CABINET PAPER

I attach the final version of the table for the Chancellor's Cabinet Paper (referred to in para.6 of the version sent to No.10 on Friday, but not attached). This has the latest figures (for last Friday) for the oil price, and interest and exchange rates.

P.N.J.
P N SEDGWICK

FROM: A TURNBULL
DATE: 20 JULY 1987

MR ALLAN

DRAFT CABINET PAPER

I attach the latest draft which includes the amendments sought over the weekend. It would be helpful to know if the Chancellor is content before 2 pm.

2. To note:

i. ^{not} we have referred to the total of bids in paragraph 4. The Chief Secretary's minute deliberately did not provide a total. As last year we are trying to make it difficult to draw all the pieces together;

ii. in paragraph 5 the Chancellor deleted "as set out in the White Paper". We feel some reference to previous plans is required. Is the Chancellor content with what is proposed?

iii. is the Chancellor content with the end of paragraph 6 (which makes the general point of the old paragraph 7 without the specifics) and with the wording of the conclusion in paragraph 12(i)?

iv OK to toughening of para 5 of running costs annex?

A TURNBULL

a
OK? (some typos)

OK — told PS/A.T. (who had already corrected the typos) — AJK

DRAFT PAPER FOR CABINET (No 5)

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C(87)

July 1987

Copy No

1987 PUBLIC EXPENDITURE SURVEY

Chancellor of the Exchequer
Memorandum by the Chief Secretary, HM TreasuryIntroduction

Our policy is to bring public spending down progressively as a proportion of national income. Over the past four years we have succeeded in achieving this. Even excluding privatisation proceeds, general government expenditure (the combined spending of central and local government) has fallen from 47 per cent of GDP in 1982-83 to 44 per cent in 1986-87, and there will be a further fall in 1987-88 - though it will still be higher than it was in 1978-79. Our progress over the last few years has enabled us to combine a steady but controlled growth of public expenditure in real terms with a reduction in borrowing and, in each of the last five Budgets, a reduction in taxes. This restraint in public spending has made possible the strong performance of the economy which the Chancellor has described in his Memorandum (C(87)).

2. In our Election Manifesto we pledged ourselves to continue the policy of ensuring that public spending takes a steadily smaller share of our national income. This is essential if we are both to maintain the momentum of our economic performance and to deliver of our Manifesto pledge to reduce the burden of taxation.

3. For this year's Survey we have set baseline totals for spending of £154.2 billion in 1988-89, £161.5 billion in 1989-90 and £165.5 billion in 1990-91. For the first two years this was done by retaining the planning totals set out in last year's Public Expenditure White Paper and for the third year we have used an uplift factor of 2½ per cent.

4. Departments were then asked to review their programmes within their baseline figures and to put proposals to me where they felt, after a review of priorities, that additional resources were required. In my minute of 17 July to the Prime Minister, I summarised the bids received from departments.

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5. I have to make it clear to colleagues that bids on this scale are far beyond what can be afforded. If anything like this were accepted, we could ^{not} make ^{no} the further progress in reducing public spending as a proportion of GDP we have set ourselves. This would not only make our objectives for taxation unattainable, it would also trigger a complete reappraisal of the Government's financial standing in the markets, and provide a severe setback to the economic progress we have made.

6. With the time lost as a result of the election, it has not been possible to analyse the bids as thoroughly as normal. There are major uncertainties in a number of areas which I will want to probe further, eg the large estimating changes for social security and the projections of our contributions to the European Community. But it is clear that to hold to our policy on public spending we will have to face up to difficult decisions in a number of areas. Bids will have to be significantly scaled back and, to the greatest extent possible, policy savings found to offset ^{them}.

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7. Colleagues have sought increases in their departments' running costs implying overall cash increases of 8 per cent for 1988-89 over 1987-88 with further increases in later years. The associated manpower projections reverse the downward trend we have achieved, implying a 15,000 increase over published plans for 1988-89. Increases on this scale are clearly unacceptable.

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realistic method for planning provision over the Survey period so that departments have a reasonably reliable basis for making medium-term plans to improve efficiency.

9. My proposals, set out more fully in the annex, are that:

i. the running costs share of total public spending should not rise over the Survey period. This implies that running costs would grow on average in line with our plans for public expenditure generally, ie by about 1 per cent a year in real terms, though individual departments would, of course, have no entitlement to such an increase;

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ii. to note that to secure the policy objective at (i) bids will have to be substantially cut back and difficult decisions will have to be faced in a number of policy areas;

iii. to agree that we should aim to hold the EFLs of the nationalised industries other than electricity at least to baseline and possibly below; and that we should seek to keep the electricity industries' external finance as low as possible;

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v. to agree that I should now conduct bilaterals with colleagues on their spending programmes.

TREASURY CHAMBERS

July 1987

[JM]

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4. It is thus realistic to provide for some rise in overall spending on running costs; but the Manifesto pledge to press ahead with management reforms to improve public services and reduce their cost, as well as the aim of ensuring that public expenditure takes a steadily smaller share of national income, mean that the rise must be contained to well below the levels sought.

5. I propose we that we should base our plans on the firm constraint that the share of running costs in total public spending should not rise over the Survey period. This implies that overall running costs must grow no faster than our plans for public expenditure generally, ie by about 1 per cent a year in real terms. If increases in the volume of activity are to be met in some parts of the Civil Service, there must be reductions or lower rates of growth in others where demand is less or of lower priority.

6. To achieve this overall objective, colleagues' running costs bids will need to be substantially scaled down, to less than half the additions to baseline that have been sought for 1988-89; and all departments will need firm plans to offset pay bill and other cost pressures through sustained and incremental efficiency gains. The improved budgetary and management systems stemming from the financial management drive of recent years, the Government's large and continuing investment in new technology, and further improvements in purchasing as well as the continuing processes of scrutiny and inspection must be used to deliver further improvement in performance, benefiting both input costs and outputs. On the input side, further improvements in the use of manpower and better control of non-manpower costs will be essential.

7. These efficiency gains will be easier to make on the necessary scale if they are planned well in advance; and if the plans are ambitious there will be greater scope for flexibility in future years. I propose that all departments should now prepare or revise management plans committing them, over the Survey period, to the delivery of defined and wherever possible measured improvements in outputs, and progressive overall efficiency gains of at least 1½ per cent a year, with contingency plans for larger improvements in case they are necessary. This is a reasonable minimum target for well managed service organisations. These plans will be especially important for departments with large executive operations.

8. Departments' plans, and their implications for restraining growth in running costs would be discussed in the bilaterals.

Agreement to increases over baseline, particularly for the later years, would be withheld until plans for efficiency gains of at least 1½ per cent a year were demonstrated in a departmental management plan. Departments would be expected to deliver these plans.

Civil Service manpower

9. Earlier this year it was announced that manpower targets would not be set after 1 April 1988, and pressure on Civil Service numbers would be maintained through running costs. The proposed approach to running costs will mean large reductions in the manpower projections of some departments. It is important to show that the running costs regime is an effective control on all Civil Service resources, including manpower. There will otherwise be pressure to reintroduce manpower targets.

Conclusions

10. I invite Cabinet to agree that:

i. the objective should be to restrain running costs over the Survey period to their present share in total public spending by offsetting so far as possible any real rises in pay and other costs through efficiency gains;

ii. departments should prepare or revise three-year management plans for sustained output and cost improvement, for discussion in the bilaterals;

iii. for 1988-89 the aim should be a reduction by at least half of the £761 million additional provision sought in order to keep the overall increase in running costs in line with the medium-term objective in (i) above.

CONFIDENTIAL



FROM: A C S ALLAN
DATE: 20 July 1987

MR TURNBULL

cc PS/Chief Secretary
Mr F E R Butler
Mr Gieve

PUBLIC EXPENDITURE: CABINET PAPER: PARAGRAPH ON THE RESERVE

The Chancellor was grateful for your minute of 17 July.

2. He feels that, while there are arguments on both sides, the balance is against including the paragraph on the Reserve. In his view a statement that we need larger Reserves would, so far from deflating expectations of the eventual increase in programme expenditure, be bound to inflate expectations of the eventual increase in the planning totals - which everyone is agreed would not be desirable. As for the Star Chamber remit, this could well be (as it was last year) in terms of programme totals, leaving the Chancellor to set the Reserves he believes necessary at the end of the whole process.

A C S ALLAN



Ch

PEM felt strongly
that line should include
something on keeping as
close as possible to
planning total. He
dismissed with FRB,
who agreed and produced
attached. I have warned
David line might change.
What do you think?

Art

~~Cathy~~

~~Tony~~

~~Please say~~

~~Andrew Turnbull's~~

SECRET

Rc

*My comments
the press has
done well since the
last effort.*

FROM: ROBERT CULPIN
DATE: 21 JULY 1987

CHANCELLOR

- cc Chief Secretary
- Sir Peter Middleton
- Mr F E R Butler
- Sir Terence Burns
- Mr Anson
- Mr Monck
- Mr Scholar
- Mr Turnbull

I do not like the absence of any reference at all to the planning stage in the Ingham statement. Even though it might appear a bit weak, I should prefer to put the issue of para 5 of the supplementaries into the Ingham statement.

LINE ON THE PUBLIC EXPENDITURE CABINET

The statement would be better with the present speculations which is almost entirely - two of the planning stage.

I attach a draft letter to No.10. I have deliberately confined it to the Ingham communique: that is all we usually clear at this stage, and there is much to be said for business as usual.

2. I should draw attention to two points on the famous "declining share" in the second sentence.

a. It does not say explicitly that we are excluding privatisation proceeds. I would rather leave that for supplementaries, partly because it is complicated, and partly because we are not conceding at this stage that there is any change in likely proceeds.

b. It says "envisaged" in the last White Paper because the ratio excluding privatisation proceeds is not "set out". If you don't like "envisaged", we could try "shown" or simply "as in the White Paper".

3. I will have another look tomorrow at the supporting Q&A material in my note of 10 July, and re-submit it. But now that the line has settled down, I am inclined to simplify things by abstracting a single page of main points. I attach a draft, and should be grateful for comments.

4. I will also ask Mr Ingham tomorrow what questions he thinks he will have to answer.

Rc

ROBERT CULPIN

SECRET

Draft Letter to:

David Norgrove Esq
10 Downing Street
London SW1

July 1987

PUBLIC EXPENDITURE CABINET: LINE TO TAKE

The Chancellor and the Chief Secretary have been giving some thought to what might be said after the Public Expenditure Cabinet. They suggest the following:-

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should ~~continue to take a declining share~~ ^{continue} of national income, as ~~set out shown~~ ^{envisaged} in the last Public Expenditure White Paper. Within ^{those constraints} that constraint, the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes and the planned totals for spending, and will, as usual, announce decisions in the Autumn Statement in November.

be held
[remain] as close
as possible to the
planning totals
and be within
the declining
proportion

and that its share
of national
income should
not exceed the
path set out in

The Chancellor would be grateful to know if the Prime Minister is content.

I am sending a copy of this letter to Bernard Ingham.

A C S ALLAN

SECRET

SECRET

Main points

1. Overriding objective is that public expenditure should take a declining share of national income
 - policy in Manifesto
 - and Queen's Speech
 - figures in Public Expenditure White Paper
2. Cabinet interpreted strictly
 - no increase on White Paper shares of GDP in any year
 - excluding privatisation proceeds
3. Not just aspiration - considerable achievement
 - fifth year public sector's share has come down
 - [first time since]
4. Restraint has brought success
 - strength of economy
 - but not prudent to plan on assumption that growth continues at this year's pace
5. Didn't ask Cabinet to reaffirm planning totals as well. Will be reviewed in Autumn, as in practice they always are. Objective obviously remains to keep as close to them as possible - as well as meeting commitment to steadily declining share of GDP.

SECRET

SECRET

ppp

FROM: ROBERT CULPIN
DATE: 21 JULY 1987

CHANCELLOR

*Ch
OK?*
AA
*At X, I wd
rather say 'set out': 'envisaged'
v. 'shown'; & explain
you can always explain
the intent on an ex-
penditure proceeds
basis (to
privatise -
adjusted).*

- cc Chief Secretary
- Sir Peter Middleton
- Mr F E R Butler
- Sir Terence Burns
- Mr Anson
- Mr Monck
- Mr Scholar
- Mr Turnbull

LINE ON THE PUBLIC EXPENDITURE CABINET

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a. It does not say explicitly that we are excluding privatisation proceeds. I would rather leave that for supplementaries, partly because it is complicated, and partly because we are not conceding at this stage that there is any change in likely proceeds.

agreed.

b. It says "envisaged" in the last White Paper because the ratio excluding privatisation proceeds is not "set out". If you don't like "envisaged", we could try "shown" or simply "as in the White Paper".

X

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*Thurs.
for
comments
over*

4. I will also ask Mr Ingham tomorrow what questions he thinks he will have to answer.

Rc

ROBERT CULPIN

*Culpin
✓
CIX
21 July*

SECRET

SECRET

Draft Letter to:

Please type for my signature.

David Norgrove Esq
10 Downing Street
London SW1

July 1987

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The Chancellor and the Chief Secretary have been giving some thought to what might be said after the Public Expenditure Cabinet. They suggest the following:-

The Cabinet had its usual July discussion of public expenditure today. It reaffirmed the policy that public expenditure should continue to take a declining share of national income, as ~~envisaged~~ in the last Public Expenditure White Paper. Within that constraint, the Chief Secretary will hold bilateral discussions in the Autumn. In the light of these, the Government will review both the individual spending programmes and the planned totals for spending, and will, as usual, announce decisions in the Autumn Statement in November.

set out

Should it add something about keeping as close as possible to the planning totals? On balance I think not; better left for supplementary. On balance, I agree.

15

The Chancellor would be grateful to know if the Prime Minister is content.

I am ~~sending a copy~~ ^{ing} of this letter to Bernard Ingham.

A C S ALLAN

SECRET

SECRET

Main points

1. Overriding objective is that public expenditure should take a declining share of national income

- policy in Manifesto
- and Queen's Speech
- figures in Public Expenditure White Paper

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- fifth year public sector's share has come down

- [first time since]

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- but not prudent to plan on assumption that growth continues at this year's pace

5. ~~Didn't ask Cabinet to reaffirm~~ ^{7P} planning totals as well. ~~Will be reviewed in Autumn, as in practice they always are. Objective obviously remains to keep as close to them as possible - as well as meeting commitment to steadily declining share of GDP.~~

But Cabinet agreed on need

SECRET

CONFIDENTIAL

PS/CHIEF SECRETARY -

FROM: R FELLGETT

Date: 22 July 1987

cc: PS/Chancellor -
Sir Peter Middleton -
Mr F E R Butler -
Sir T Burns
Mr Anson -
Mr Monck
Mr Kemp
Mr Scholar
Mr Luce
Mr Moore
Mr Sedgwick
Mr Turnbull -
Mr Hawtin -
Miss O'Mara -
Mr Culpin -
Mr Gieve -
Miss Walker -
Mr Tyrie -

BRIEFING FOR CABINET ON 23 JULY

Annex G to the briefing package submitted by Mr Gieve on 20 July contained provisional figures for local authority relevant public expenditure, pending an agreement on the Scottish RSG settlement. Following that agreement, I now attach a slightly revised version which should be ^{stituted} submitted for the annex previously submitted by Mr Gieve.

Robin Fellgett

R FELLGETT

covering SECRET

fw

FROM: T TARKOWSKI
DATE: 22 July 1987

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Sir P Middleton
Mr F E R Butler
Mr Monck
Mr Moore
Mr Turnbull
Mrs Brown
Mr M Williams
Mr Colman o/r

23 JUNE PUBLIC EXPENDITURE CABINET : NATIONALISED INDUSTRIES

I attach the additional briefing you have requested for tomorrow's Cabinet.

Tomasz Tarkowski
T TARKOWSKI

Page

TREASURY BRIEFING ON THE RSG SETTLEMENT AND PUBLIC EXPENDITURE

1. Is the settlement consistent with decisions at Cabinet this morning?

Yes. Cabinet discussed the public expenditure prospects in the light of RSG proposals, among ~~many~~ other factors.

2. Extra provision signals a change in spending policy?

Nonsense. Happens every year - and smaller increase in provision than last year.
Government remains committed to continuing to reduce public spending as a proportion of national income. No change.

3. Pay increases will bust LA provision/planning total?

Plenty of scope for efficiency savings to offset any increase
~~No reason for further real increases in overall pay bill.~~
~~Any pressure for pay rises would be an incentive to increase search for efficiency;~~ In local authority sector Audit Commission has identified scope for £2bn savings.

4. LAs will increase spending again as much as in 1987-88?

No:

- tougher RSG settlement for 1988-89 than 1987-88 (£3.4 billion increase in grant compared to £1.2 billion in 1987-88).

2 *£* *substantial*
~~less pressure to put up spending in some areas (eg cost of announced pay package for teachers £270m compared to £460m in 1987-88).~~ *smaller next year*

- plenty of scope for efficiency savings.

5. Local authorities bound to overspend again?

No reason to assume overspend inevitable. Substantial scope for improvements in LA efficiency - £2bn identified

- big increase in teacher's pay took place this year

by Audit Commission, £500m could be saved by competitive tendering. But public spending plans contain substantial Reserves to accommodate any overrun.

6. Extra provision means planning total for 1988-89 inadequate?

Possibility that local authorities may spend above provision is always considered when
~~Extra provision a claim on the Reserve; £838m this year much less than £2 billion last year.~~

~~7. Effect on scope for tax cuts?~~

~~A matter for the Chancellor. Further reductions in the burden of taxation will be made when it is prudent to do so.~~

Setting the level of the Reserve. Overspending of

N.B. All figures relate to England only.

£838m increase in provision is a claim on £5½ billion Reserve for 1988-89 in the usual way. Much smaller than £2 billion increase at the time last year.

by Audit Commission, £500m could be saved by competitive tendering. But public spending plans contain substantial Reserves to accommodate any overrun.

6. Extra provision means planning total for 1988-89 inadequate?

Extra provision a claim on the Reserve; £838m this year much less than £2 billion last year.

14

7. Effect on scope for tax cuts?

A matter for the Chancellor. Further reductions in the burden of taxation will be made when it is prudent to do so.

*bring in more
in the
context*

N.B. All figures relate to England only.

Ch
Probably about the best that
can be done. OIC to send to DORE?
AA
OK provided X & Y
are made slightly lower
cryptic & checked for
initial
accuracy

TREASURY BRIEFING ON THE RSG SETTLEMENT AND PUBLIC EXPENDITURE

1. Is the settlement consistent with decisions at Cabinet this morning?

Yes. Cabinet discussed the public expenditure prospects in the light of RSG proposals, among ~~many~~ other factors.

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No reason for further real increases in overall pay bill. Any pressure for pay rises would be an incentive to increase search for efficiency; in local authority sector Audit Commission has identified scope for £2bn savings.

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No:

- tougher RSG settlement for 1988-89 than 1987-88 (£3 billion increase in grant compared to £1.2 billion in 1987-88).

X | - less pressure to put up spending in some areas (eg cost of announced pay package for teachers £270m compared to £460m in 1987-88).

- plenty of scope for efficiency savings.

5. Local authorities bound to overspend again?

No reason to assume overspend inevitable. Substantial scope for improvements in LA efficiency - £2bn identified

KEY POINTS ON RSG PROPOSALS

Treasury amendments
not yet passed to DoF
in red.

1. Current expenditure provision of £27,538m. Increase of £838m on White Paper and 7% above 1987/88, including teachers' pay. Will allow non-ratecapped authorities to increase a current expenditure at about inflation. Provision is realistic and takes account of the effect of restructuring teachers' pay in 1987/88, ~~police and fire service pay.~~

gubbard

Increase of About 3 3/4 up on this year's budget.

2. Aggregate exchequer grant of £13,755m. Increase of £750m on 1987/88 - a 5 1/4% cash increase. Grant percentage of 46.2% - the same as 1987/88, after teachers' pay.

3. Unallocated margin: there is to be a margin between the total of grant-related expenditure assessments and expenditure provision. (Detailed proposals in the autumn).

4. No major changes to grant mechanisms.

5. Next steps. A consultation paper setting out the full details of the proposals will be issue in the autumn. It is hoped to make the RSG Report for 1988/89 in November.

6. Rate limitation. 17 authorities selected for rate limitation (12 reselected; 5 newly selected - Ealing, Kingston-upon-Hull, Liverpool, Manchester and Waltham Forest).

Ch
This is DOE keeping, into
Treasury officials suggested
amendments marked in red. ✓
AA

Proposal

1. Cash increase of £838m over PEWP: [equivalent to an increase of 3% over LAs' current 1987/88 budgets ~~(plus teachers' pay, police and fire pay).~~ ^{33 1/2%} ~~plus allowance for priority services~~ *3%* *]
2. This increase in provision is higher than the Government would wish - a direct consequence of LAs exceeding expenditure plans for this year. But realistic provision needs to be made in this year's plan.
3. This will enable non-ratecapped authorities to increase their expenditure by about the rate of inflation - ~~with an additional element to reflect pay costs in those areas - education, police and fire - where the Government has a direct influence or where special arrangements apply.~~

Unallocated Margin

1. The Government does not consider that LAs need to increase their spending by the full increase in provision.
2. I propose to maintain a margin between the total of grant related expenditure and expenditure provision.
3. Plenty of scope for savings. [See Note on Audit Commission savings at E2.]

GREs & Nets and Caps

1. Proposals on GREs and other grant mechanisms (Nets and Caps) will be set out in a consultation paper in the Autumn.

Consultation

1. I intend to issue a consultation paper setting out my detailed proposals for the Settlement in October. [I am writing to the associations and local authorities informing them about the main elements of my proposals].
2. Authorities will be helped by my aim of bringing forward the Settlement to November.

Provision Inadequate? [LAAs have bid for £29bn]

1. I don't accept authorities need to spend at this level; it implies expenditure at £700m above inflation and £750m on pay. I do not accept that authorities' present policies need to continue; authorities need to tailor their spending to what ratepayers can reasonably be expected to afford.

2. [If raised] - The Reports of the Expenditure Working Groups are only one of the factors to be taken into account in decisions about the Rate Support Grant settlement. I am not bound to subscribe to the group's expenditure projection

- The Groups carry out their work on an agreed remit in order to provide a clear basis for looking at a projection of expenditure; it is based on continuation of present policies and rolling forward budgets by inflation.

~~3. [If raised] 1988/89 proposals include provision for realistic police and fire pay and for the knock on effects of the restructuring of teachers' pay.~~

4. The Government is well aware of the need to avoid placing new burdens on local authorities and takes account of these when setting provision.

What allowance for Education, Police and Fire pay?

I have made realistic provision for local authority expenditure next year. This includes allowance for the effect of 1987/88 restructuring of teachers' pay ~~and for police and fire pay.~~ [The Secretary of State will not wish to be drawn on ~~precisely~~ what allowance has been made for police and fire pay because this has been based on forecasts of average earnings.]

Don't touch

are they not the published FSBP ones?

Teachers' Pay

My proposed provision includes an additional £272m for the agreed cost of restructuring teachers' pay in 1988/89 (arising from the proposals announced by the Secretary of State for Education and Science on 2 March 1987). *No special allowance has been made for the 1988/89 teachers pay settlement.*

Baker Review Body on Teachers' Pay

- Yesterday the names of the Interim Advisory Committee on Schoolteachers' Pay and Conditions were announced. The membership of the committee fulfils the Secretary of State for Education and Science's commitment to appoint independent-minded people and, as required under statute, the committee includes those with knowledge of and experience in education.
- The Interim Advisory Committee arrangements will apply for April 1988.
- The precise remit to be given to the Interim Advisory Committee will need to be settled in the Autumn in the light of the Government's plans for local authority expenditure on education in 1988/89.

Didn't Teachers' Pay Settlement reduce the Grant % 1987/88?

Wrong
Teachers' pay is mainly supported by Block Grant. Because of specific grants the Block Grant percentage is always less than the AEG percentage. The inclusion of Teachers' Pay and other factors reduced the AEG percentage marginally.

What if Teachers' Pay were paid for by central Government (not LAs?)

Financing the Teachers' Pay bill centrally would cost about £4.2bn, net of block grant, and would add about 4p to the basic rate of income tax.

Proposal

Grant percentage at 46.2% - same as this year including teachers' pay: AEG proposed for 1988/89 £13.775bn - an increase of £750m.

Restore Grant Percentage

When Labour left office the AEG percentage was 61% - restoring this would cost £4 billion: about 4p on the standard rate of income tax.

Scope for tax cuts

Any increase in expenditure reduces the scope for tax cuts. But, as the Queen's speech made clear, this Government is committed to retain firm control of expenditure so it continues to fall as a proportion of National Income and permits further reductions in the burden of taxation.

Inner cities [additional briefing at N]

Decisions on GREs and the distribution of provision between services which have yet to be taken will affect the distribution of grant and will reflect the differing needs of the inner cities.

North/South divide

RSG system redistributes about £1bn in grant from London and the South East to the North.

Why not cut grant percentage [further]?

Present RSG is short on accountability - it would not be right therefore to increase the burden on local ratepayers.

Grant underclaim

Authorities will only forego grant if they choose to spend up. I hope they will hold their expenditure and take up all the grant on offer.

This year authorities have chosen to forego £270m. If they had chosen to reduce their spending extra grant would have been payable.

Why not more Grant? (In 1987/88 AEG increased by over £1bn)

Last year provision was increased very substantially (by £3bn) to get it onto a realistic basis. This year provision does not therefore need to increase so much in order to be realistic. The grant percentage can be maintained at 46.2% with a smaller increase in cash grant.

Shouldn't the Grant percentage be 46.4%?

No. The Grant percentage this year, after taking account of various factors including extra grant for teachers' pay, was 46.2%. I propose to maintain this next year. AEG is in fact being increased by £750m, a very substantial sum.

Didn't Teachers' Pay settlement reduce the Grant percentage?

Teachers' pay is mainly supported by the Block Grant. Because of specific grants the Block Grant percentage is always less than the AEG percentage. The inclusion of teachers' pay and other factors reduced the AEG percentage marginally therefore.

AMA views

A spokesman for the AMA was quoted in the Independent on 20 July 1987 as saying "This year anything less than £1bn would be quite tough. Anything less than £500m would be very difficult." Presumably therefore we can expect the AMA to welcome £750 million as being "quite tough" but not "very difficult".

Grant Stability

It is not possible within the confines of the Rate Support Grant system to provide stability in grant entitlement year on year. The new system will, however, provide more stability on grant.

U-turn on expenditure control

1. The Government remains committed to restraining local government expenditure.
2. Pressure on LAs to restrain expenditure is not being relaxed:
 - same block grant pressures as this year (tough slopes)
 - significant part of increased provision not in GREs (unallocated margin)
 - grant recycling abolished (no uncovenanted benefits to overspenders)
 - rate limitation (tough ELs).

LA expenditure out of control

1. LAs' budgets for 1987/88 show they are planning to exceed PEWP provision including teachers' pay by over £800 million - 3%; this is a matter of great concern.
2. Number of reasons for this:
 - (i) LAs concede high wage settlements - Government will not underwrite these
I thought we just had!
 - (ii) manpower levels have increased for the seventh quarter running - [Note at E1]
 - (iii) considerable scope for achieving savings and better value for money - Audit Commission studies reveal potential for annual savings of £1.5 billion - [Note at E2]
 - (iv) contracting out - savings can also be made through the opening up of six services to competition [the six services are refuse collection, street cleansing, building cleaning, catering, ground maintenance and vehicle maintenance]. The Local Government Bill provides for this but authorities could take the opportunity now.

3. Believe that the Settlement is tough on highspenders. Plenty of scope for all LAs to reduce spending by greater efficiency - without compromising local service standards.

4. Government does not control LA spending but RSG proposals are an important influence. It is for LAs to choose their level of expenditure - but if they spend up, they will lose grant and ratepayers will know who to blame.

Central Government Expenditure out of control?

[delete this section] ✓

1. Much of central Government expenditure is demand-led. The facts are that since 1981/82 central Government expenditure in real terms has increased by 6% less than local government expenditure. In the last two years local authority expenditure has increased by 10% in real terms.

2. In contrast to central Government local government continues to increase manpower. Manpower levels have increased for the seventh quarter running. Central Government has made considerable savings through increased efficiency. There is scope for local authorities to do the same.

Controlling LA expenditure - a nonsense

1. LA current expenditure whether financed from rates or national taxes, affects the overall burden of taxation in the economy, and the balance between public and private sector output. Government is responsible for overall management of the economy - right therefore to be concerned about LA current expenditure and local taxation. No question of abdicating its interest.

2. Government is committed to reducing the size of the public sector to allow reductions in levels of taxation - more freedom for people to choose what they consume.

3. Local authorities account for more than a quarter of the total tax burden in the UK: rates account for 10% all taxes levied - another 16% of taxes used to finance LA expenditure through Government grants.

4. The Community Charge will produce a substantial increase in local accountability and will encourage local authorities to adopt a sensible approach to expenditure.

AGGREGATE EXCHEQUER GRANT

	At settlement £bn	Cash	% cash	Real terms (using GDP deflator)
1981/82	10.9			
1982/83	11.5	+5%		-2%
1983/84	11.8	+3%		-2%
1984/85	11.9	+1%		-3%
1985/86	11.8	-1%		-7%
1986/87	11.8*	nil		-2%
1987/88	13*	+10%		+5%
1988/89 proposed	13.8	+6%		+2%
		% change 1981/82-1987/88		
		+19%		-10%
		% change 1981/82-1988/89		
		+27%		-9%

* including Teachers' Pay

CURRENT EXPENDITURE

	Provision £bn	Outturn/budget £bn	% Cash	change (outturn/budgets real terms (using GDP deflator)
1981/82	16.2	17.5		
1982/83	18.0	19.1	+9%	+2%
1983/84	19.7	20.3	+6%	+2%
1984/85	20.4	21.6	+6%	+2%
1985/86	21.3	22.3	+4%*	-2%*
1986/87	22.4**	24.3	+9%	+6%
1987/88	25.7**	26.5	+9%	+4%
1988/89	27.5		% change 1981/82-1987/88	
			+52%	+14%

** including Teachers' Pay

*adjusted to take account of transfer of LRT to central government

CENTRAL GOVERNMENT/LOCAL GOVERNMENT EXPENDITURE

real terms & change on previous year

	Central Government Planning total outturn	Local Government Current expenditure outturn
1982/83	+2%	+2%
1983/84	+1%	+2%
1984/85	+3%	+2%
1985/86	-3%	-2%
1986/87	+2%	+6%
1987/88	+2%	+4%
	real terms % change 1981/82-1987/88	
	+8%	+14%

TOTAL EXPENDITURE

	Settlement fbn	Outturn/budgets fbn	% Cash	Change (outturn/budgets) real terms (using GDP deflator)
1981/82	(No figure for this year)	18.2		
1982/83	18.4	19.7	+9%	+1%
1983/84	20.1	20.8	+5%	+1%
1984/85	20.5	21.3	+2%	-2%
1985/86	21.8	21.7	+3%*	-3%*
1986/87	22.8	24.0	+10%	+7%
1987/88	25.2 (includ- ing teachers' pay)	25.9	+8%	+3%
			% change 1981/82-1987/88	
			+42%	+7%

*adjusted to account for
transfer of LRT to central
government

TOTAL EXPENDITURE 1986/87 - 1987/88

	Cash £m	Cash	Year on year increase	
			Real terms (GDP deflator)	Cost terms (1a index)
1986/87 settlement	22,901*			
1987/88 settlement	25,163*	+10%	+5%	+4%
1986/87 (revised) budgets	23,965			
1987/88 budgets	25,874	+8%	+3%	+2%

* including teachers' pay

1. The grant percentage means that responsible LAs have the opportunity to budget for ~~moderate~~ ^{small} rate increases next year. If LAs spend up, rates will rise and ratepayers will know who to blame.
2. Important issues remain on which decisions have yet to be taken - in particular the split of provision between services and GREs - which will have an important bearing on rates for individual authorities.
3. Rate increases will vary from area to area. How much rates will rise will depend on how much LAs decide to spend.

4. If authorities spend in line with provision rate bills for the non-rate limited authorities should on average rise by around inflation - though there will inevitably be considerable variations around that average. Too soon to predict effects on individual authorities - will have to wait for the complete package of proposals in the autumn. L/RONA

5. [If raised] The effect of these proposals on the community charge would be broadly the same as on domestic rate bills. (Details for individual authorities in 1988/89 not available).

6. Why no rates/community charge figures for individual authorities?

- Rate bills and community charge figures for individual authorities will depend on decisions yet to be taken on GREs, service distribution and block grant mechanisms (nets and caps). Detailed proposals will be made in the Autumn.

Shires to do badly?

- Position of individual authorities will depend on decisions to be taken in the Autumn on GREs service distribution and mechanisms. Rate bills will depend on how much authorities spend and their use of balances.

- It is not possible within the confines of the Rate Support Grant system to provide stability in grant entitlement year on year. The new system will however provide more stability on grant.

[Summary Table of rate levels for 1987/88 below].

Table 1 : AVERAGE RATE POUNDAGES IN 1987-88 AND CHANGES FROM 1986-87 TO 1987-88

	Percentage changes in average rates			Average rate poundages			Average domestic rate bill
	General rate	Domestic rate	Non-domestic rate	General rate	Domestic rate	Non-domestic rate	
ALL ENGLAND	+5.9%	+6.9%	+5.4%	226.7p	210.4p	224.4p	£427.9
SHIRE areas	+7.3%	+8.0%	+7.3%	226.3p	206.4p	228.1p	£406.8
with a :							
CONSERVATIVE county	+6.0%	+6.6%	+5.9%	205.2p	186.5p	205.4p	£404.6
LABOUR county	+7.5%	+8.3%	+7.4%	263.6p	243.5p	265.2p	£398.3
OTHER county	+7.9%	+8.6%	+7.9%	230.7p	210.9p	232.1p	£410.2
CONSERVATIVE county & district	+6.1%	+6.8%	+6.0%	202.9p	184.7p	202.5p	£421.9
LABOUR county & district	+7.6%	+8.5%	+7.5%	270.2p	251.0p	270.9p	£385.6
METROPOLITAN districts	+4.7%	+4.9%	+4.8%	275.0p	254.5p	277.0p	£426.2
of which :							
RATE LIMITED	-5.8%	-5.8%	-6.0%	313.4p	293.3p	314.9p	£424.4
CONSERVATIVE	-1.7%	-1.9%	-1.7%	196.7p	178.2p	196.7p	£465.4
OTHER LABOUR	+6.9%	+7.1%	+7.1%	275.3p	255.6p	276.5p	£418.7
OTHER	+3.6%	+3.9%	+3.7%	253.6p	236.4p	252.0p	£466.7
LONDON boroughs	+3.9%	+6.4%	+2.7%	193.3p	180.9p	189.3p	£516.7
RATE LIMITED	-2.1%	-2.8%	-1.8%	233.0p	216.8p	231.3p	£555.8
CONSERVATIVE	+3.0%	+5.1%	+2.0%	162.1p	142.8p	161.7p	£469.6
LABOUR	+43.5%	+49.8%	+42.3%	254.6p	240.2p	250.4p	£589.6
OTHER	+3.1%	+10.0%	+1.4%	174.0p	172.8p	169.0p	£480.9
INNER LONDON (inc City)	+0.1%	+0.3%	0.0%	184.1p	173.8p	180.7p	£528.8
OUTER LONDON	+9.2%	+10.6%	+8.7%	206.4p	185.6p	209.4p	£509.6
INNER LONDON (exc City)	+0.4%	+0.3%	+0.4%	191.1p	174.0p	189.6p	£528.5
ENGLAND (exc London)	+6.5%	+7.1%	+6.5%	239.1p	218.3p	241.7p	£412.2
ENGLAND AND WALES	+5.9%	+7.0%	+5.5%	227.0p	210.7p	224.8p	£419.0

Changes in local rate or precept

Rate limited authorities	-3.8%
Non rate limited authorities	+8.2%
of which : Conservative	+5.4%
Labour	+12.4%
Other	+7.1%

BLOCK GRANT MECHANISMS

Proposal

1. Slopes of the block grant poundage schedule are unchanged ie 1.1p and 1.5p for each £1 per head of spending either side of a threshold 10% above the national average per capita GRE.
2. This means for an average authority each £1 of expenditure above GRE causes grant loss of between 50p and £1.

Other block grant proposals

- GWG has reported to CCLGF on options for changes in GREs. Will be considering all the options which have come forward, leading to decision in the settlement.
- GWG still discussing other mechanism options. Will report to CCLGF in September.