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PART A

Part A

SECRET

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Chancellor's (Lawson) Papers:
The Public Expenditure Cabinet
For the 1989 Survey.

DJ's: 25 Years

[signature]

15/3/96.

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Cab

SECRET

FROM: J. ANSON
1st July, 1988.

CHIEF SECRETARY

c.c. Chancellor
Sir P. Middleton
Sir T. Burns
Mr. Monck
Mr. Phillips
Mr. Luce
Mr. D. Moore
Mr. Odling-Smee
Mr. Turnbull
Mr. MacAuslan
Mr. S. Davies
Mr. Gieve
Mr. Potter
Miss Walker
Mr. Call

[last year's is behind]

I agree (a) with Mr Anson's ~~[illegible]~~ suggestions (b) with those of AA (see below) (c) with those of Monck's amendments which I have not struck out. I have also made some amendments of my own. N.

PUBLIC EXPENDITURE PAPER FOR CABINET: 14th JULY

Mr. MacAuslan has provided below a draft paper for you to circulate to Cabinet for the meeting on 14th July; and a separate minute summarising the bids which it is suggested you should send on 7th July.

2. I agree with the draft Cabinet paper, except that I would recommend omitting paragraph 8, which Mr. MacAuslan has put in square brackets. I do not think it would be productive to give your colleagues advance warning of this hit list before the meeting. It would be better to reserve this for your oral presentation. I would however retain paragraph 9.

as last year

3. I would also retain the existing formula in the draft for the conclusion in paragraphs 7 and 18(i). This is the formula which you and the Chancellor agreed at his meeting, and discussed with the Prime Minister on 29th June. I took the sentence in Paul Gray's letter, to which Mr. MacAuslan refers, more as a record of what was said in that discussion. The existing formula does in fact meet the requirement which Paul Gray recorded.

behind

4. On the procedure, I agree that we need to aim to get the draft to the Prime Minister as soon as possible, and no later than Thursday. Rather than delay it, it would be better to send it with the local authority paragraph to follow. In the circumstances, I think she would understand the reason for that.

Wednesday if at all possible

J. ANSON

gep1.ip/cabinet/submission

SECRET

FROM: J MACAUSLAN*
DATE: 1 July 1988

1 MR ANSON* note attached

2 CHIEF SECRETARY*
CHANCELLOR*

cc: Sir P Middleton
Sir T Burns
Mr Monck*
Mr Phillips*
Mr Luce*
Mr D Moore
Mr Odling-Smee
Mr Turnbull*
Mr S Davies
Mr Gieve*
Mr Potter
Miss Walker*
Mr Call
* with complete set of summaries

CHIEF SECRETARY'S PAPER FOR CABINET: 14 JULY

I attach a draft of the paper for the Chief Secretary to put to Cabinet for its discussion of the Survey on 14 July.

2. The argument in the paper rests on the Government's tax objectives, but also on its objectives for inflation and the stability of financial conditions.

3. Paragraph 8 is a hit list. You will want to consider whether it would be better tactically to omit this paragraph and raise the issues orally.

4. Paragraph 9 deploys the argument against construction bids. This could, if you wanted, stand whatever decision you take on paragraph 8.

5. We have not yet drafted the section on local authority current expenditure; we would hope to do so after next Wednesday, when the position should be somewhat clearer.

6. The draft paper asks Cabinet to agree that

> " ... after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue to decline steadily over the three Survey years".

You will want to consider this in the light of Paul Gray's letter of 30 June, which says,

> "It was important ... that the precise words should point to a further decline in the GDP ratio from the <u>outturn</u> figure for 1988-89 ... ".

You may want to substitute in paragraph 7 and 18(i), the words:

> "....after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue over the Survey period to decline steadily from the figure achieved in 1988-89"

This makes it clearer that the starting point should be the outturn for 1988-89 rather than the PEWP or even FSBR figure.

7. If you were content below in blue folder with the suggestion in Mr Turnbull's submission of yesterday that the PFOs of main departments be shown the paper on Monday 11 July, it would be helpful to know by the close on Friday 8 July that the Prime Minister had no difficulties with the paper. That would imply getting the paper over to No 10 on Thursday 7 July at the latest. That in turn would require speedy drafting of, and agreement to, a paragraph on local authority current expenditure - between Wednesday and Thursday afternoons. If you are content with that timetable, that is what we would like to aim at - though clearance by Monday morning would not be unmanageable.

would be tight No 10 wd prefer Wed.

8. Mr Turnbull's submission of yesterday also promised a draft minute for you (the Chief Secretary) to send to the Prime Minister, covering summaries of the departmental bids. A draft is now attached, along with the summaries. It does not add up the bids; and it notes that the summaries do not include bids for nationalised industries, local authority current expenditure, and EC contributions. We suggest that, if you are content with this draft and the summaries, they should be circulated on Thursday 7 July.

JM

J MACAUSLAN

SECRET

DRAFT CHIEF SECRETARY PAPER FOR CABINET 14 JULY

Redraft as suggested by AA

1. Our policy is to keep public spending falling steadily as a proportion of national income. This will enable us to shift the balance of economic activity towards the private sector, and to reduce taxation - and in particular, to reduce the basic rate towards the target we have set of 20p. It will help us to maintain sound finances, keep downward pressure on inflation, and retain the confidence of the markets.

will they like this?

2. Our firm grip on public expenditure over recent years has allowed us to reduce General Government Expenditure as a share of GDP to its lowest level since the early 1970s. We have balanced the budget, while reducing both the higher and basic rates of income tax. The resulting strength in the economy has enabled us to ? deliver have/finance a controlled growth in public expenditure, along with a steady shift of resources into priority areas. This is in contrast to the destabilising surges and cuts in public expenditure inherent in previous the stop-go cycles. of previous administration.

3. There remains a major task ahead of us. The overall burden of tax (excluding the North Sea), at 37.7 per cent, is still well above the 34.3 per cent figure we inherited in 1979. If we are to get below that figure, and achieve the objectives in paragraph 1 above, public expenditure must continue to grow significantly less rapidly than GDP.

4. But the plans in the last Public Expenditure White Paper involve growth in expenditure only just below that of GDP - an average of 2¼ per cent real growth a year in spending on departmental programmes (ie the planning total excluding privatisation proceeds), compared with a reasonable assumption for the trend growth of the economy of 2½ per cent a year.

do we need the words in brackets - sound dodgy.

The bids

5. The baselines for this year's Survey are based on those plans. They total £172.1 billion in 1989-90, £181.2 billion in 1990-91, and, with an uplift factor of 2½ per cent, £188.9 billion for 1991-92. Departments were 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. My minute of [7 July] to the Prime Minister summarised the bids received from departments. In addition we must take account of higher expected net payments to the EC, and of pressures for extra provision for local authority relevant current expenditure and for the nationalised industries.

6. The size of these bids clearly puts our objectives at risk. If anything like this were accepted, the growth rate in real terms of the planning total (excluding privatisation proceeds) would ~~not be less than~~ faster EXCEED that of the economy as a whole. ~~- on the contrary it would exceed it.~~ Public expenditure would rise as a percentage of GDP, as would the tax burden. There would be ~~little~~ no prospect of progress towards a 20p basic rate. This would ~~end, and indeed~~ reverse, the progress we have hitherto made towards our objectives. ~~There would no doubt be a reappraisal of the Government's financial standing in the markets.~~ We would be seen in the financial markets and more generally as having lost our grip on public expenditure, at a time when the battle against inflation clearly calls for restraint; and as having built up massive spending commitments for the period up to 1991 on the basis of the exceptional rate of economic growth in 1987 and 1988 which is not sustainable over ~~several~~ a period of years. Letting expenditure rip in this way could only lead to painful retrenchment later in this Parliament - precisely the kind of short term reversal that our careful planning has enabled us to avoid.

7. If these consequences are to be avoided, we need to keep as close as possible to the existing planning totals, and ensure that the ratio of total public expenditure (excluding privatisation proceeds) to GDP continues to decline steadily over the three Survey years. To achieve this, the bids will need to be substantially scaled back, and we shall need to look for policy changes and other savings to help offset them.

[8. In particular, the bids for education and science, transport and the Home Office represent very large increases over the baselines (rising to 18%, 26% and 33% of the respective baselines in the last year) and will need to be scaled back very considerably. Difficult decisions will be needed on social security and defence. The bids for health will need careful scrutiny; in particular, they include large elements for capital expenditure which would only add upward pressures on current expenditure in later years. And we need to find savings on industry and agriculture - and, with unemployment falling fast and at its lowest since 1981, we should be looking for net reductions in the DE programme after its exceptional rise during the 1980s.]

In particular,

9. For a number of years the Government's capital programmes have benefited from increases in construction prices below those of inflation generally. But there are now clear signs that pressures in the construction industry are causing prices to move against us. A number of the bids have a large construction content; we will need to consider very carefully whether we should be adding to those pressures, which may well exceed the industry's physical capacity to deliver.

again - do we want to focus on prices to this extent

(Also if we remove para 8, para 9 will stick out a bit on its own)

Running Costs

10. Running costs bids are also high. They imply a real rise of 5% in Civil Service costs in 1989-90 over 1988-89, an increase in Civil Service numbers of 20,000 ~~over present levels~~ to more than 600,000 by 1991-92, and a rise in the share of the ~~last White Paper's planning totals~~ public expenditure devoted to administration.

?

11. We should be criticised for reversing our past achievements on Civil Service manpower and losing control of Civil Service costs if we were to allow increases on anything like this scale. I hope therefore that colleagues will cooperate in settlements which will enable me, as agreed last year, to hold roughly constant the running costs share in planned expenditure. This means that all departments will need to settle for less than their bids, in most cases substantially less.

12. I am grateful to colleagues for the personal impetus they have given to this process ~~the development of management plans~~. We agreed last year that ~~these should be associated with the settlement of~~ realistic three year running costs settlements ~~baselines across each three-year Survey period. A number of Ministers have said they find this new discipline valuable.~~ would be conditional on the development of satisfactory management plans

13. In a few cases it is doubtful whether there is ~~the management material~~ yet ~~provides~~ a satisfactory framework for adjusting provision. In ~~most, however, there is evidence of serious forward planning for efficiency improvements, though~~ in some cases there should be scope for aiming for clearer and more ambitious efficiency targets. I shall ask my officials to explore that scope with departments before the bilaterals.

14. For departments with satisfactory management plans underpinning agreed three-year settlements, I should be willing, on a limited scale, to consider a small extra margin of provision where they commit themselves to increasing receipts for services for which they charge and for which demand pressures are strong. I also propose in future White Papers to show administration costs both gross and net of receipt income.

15. These small modifications to the running costs system are outlined in the annex. They should provide some increase in flexibility and bring out more clearly the costs of financing Government administration. They give no ground for relaxing our efforts to contain these costs, or for the unacceptably high level of bids received in this Survey.

<u>Nationalised industries</u>

16. Some of the nationalised industries are already bidding for more than their baseline provision, and all of them have the opportunity to put in revised bids this month. I propose that our aim should be to keep ~~reduce the~~ overall ~~total~~ provision at ~~least to~~ baseline or less, and to bring individual industries below it where that is possible. We plan to privatise the Water and the Electricity industries during the present Survey period. We will need,

(although it does not become a major factor until the last of the Survey years, 1991-92 quote figures

therefore, to take account of the loss of their substantial negative External Financing Requirements; this will need careful handling in the Autumn Statement, In the meantime, we should continue to examine their plans rigorously - as for the other industries - bearing in mind the implications both for public expenditure while they remain within the public sector and for proceeds when they are privatised.

Local authority current expenditure

17. [Local Authorities: to be completed next week when position clearer].

Conclusion

18. I ask Cabinet:

(i) to agree that public expenditure should be held as close as possible to the existing planning totals, and that, after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue to decline steadily over the three Survey years.

(ii) to agree that the share of running costs in planned public expenditure should be held constant; and to agree the proposals in the Annex.

(iii) to note that, to secure these objectives, bids for expenditure and running costs will need to be substantially cut back and difficult decisions will have to be faced in ~~a number of~~ many areas ~~[including those noted in paragraph 8]~~.

(iv) to agree that we should aim to hold the External Financing Limits of the nationalised industries at least to baseline and where possible below.

(v) [local authorities - to be completed next week].

(vi) To agree that I should now conduct bilaterals with colleagues on their spending programmes, and to note that, if it proved impossible to reach agreement in these discussions, it might be necessary at the appropriate time to establish a small group which would consider outstanding issues and make recommendations to the Cabinet.

TREASURY CHAMBERS [JM]
JULY 1988

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ANNEX

Running costs: Treatment of Receipts

1 When we introduced the running costs system in 1986 it was agreed that running costs expenditure should generally be planned and controlled on a gross basis. We also agreed that where blocks of work can be made entirely self-financing and can demonstrate satisfactory management control systems they can be exempt from gross control. Six such exemptions have already been agreed and more applications have been made in the present Survey. To reflect the rising scale of this exemption from gross control I propose to provide a supplementary analysis in the 1989 White Paper showing trends in administration costs both gross and net of receipts.

2 The exemption arrangements provide an important element of flexibility in the running costs system. But they cannot usually be applied where receipts are insufficient to finance in full the blocks of work which generate them. To increase the incentives for generating more receipts and our capacity to respond to marginal demand pressures in such cases, I should be willing in this and future Surveys to consider marginal increases in agreed gross running costs provision where these are backed up with undertakings to increase receipts over and above existing trends and forecasts and departments have management plans suitable for three-year settlements of their main running costs provision.

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DRAFT MINUTE FROM CHIEF SECRETARY TO PRIME MINISTER

1988 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

1. I will be putting proposals to Cabinet shortly on our objectives in this year's Survey. As background for our discussion I attach summaries of the bids that colleagues have put to me for the main departments.

2. The annexes summarise the proposals made by each department for its own programmes. As in earlier years, they do not include proposals for local authority current expenditure, nationalised industries' external finance, and net contributions to the EC.

3. I am sending copies of this minute to other members of the Cabinet, to Richard Luce, and to Sir Robin Butler.

[JM]

MINISTRY OF DEFENCE

	1989-90	1990-91	£million 1991-92
Survey Baseline	19,969	20,575	21,075
PROPOSED ADDITIONS			
(i) Programme addition	213	756	1,089

Additional funding to maintain current defence policies and programmes.

(ii) 1988 Armed Forces pay award	85	88	91

It was agreed last year that, in advance of this Survey, the Secretary of State would plan his programme on the basis of additions over the PES baseline in respect of Armed Forces pay.

(iii) The Secretary of State also seeks agreement to plan his programme on the basis that, in later Surveys, he will receive further additions for 1990-91 and 1991-92 in respect of subsequent Armed Forces pay awards. On present pay prospects, this could amount to £90m in 1990-91 and £200m in 1991-92.

RUNNING COSTS

Bids have also been made for increases in MOD's running costs provision. However, the additions, which will finance the proposed programme, will be contained within the figures above. Details are as follows:-

	1989-90	1990-91	£million 1991-92
Running Costs Baseline	5,407	5,541	5,680
Additions (General Administrative Expenses including Works Maintenance)	329	462	544

Manpower

			'000s
Manpower plans	144.5	144	144
Change on plans	-	-	-

SUMMARY OF DEPARTMENTAL PROPOSALS

FCO: OVERSEAS DEVELOPMENT ADMINISTRATION

			£million
	1989-90	**1990-91**	**1991-92**
Survey Baseline	1505	1551	1590

PROPOSED ADDITIONS

(1) Aid Programme: Maintaining Existing Key Policies	14	21	22

To maintain the real value of existing aid programme in the light of changed inflation assumptions.

(2) ATP Soft Loans	0	12	14

To meet expenditure arising from the target level of commitments (£1062 million over 5 years) agreed by Ministers in 1985.

(3) Overseas Students	5	10	11

To meet manifesto commitment to increase numbers from Commonwealth and other countries studying in Britain. Assumes aid funded awards increase by 100 for each of a selected group of countries.

(4) Afghanistan	10	15	20

To contribute to anticipated international programme of refugee relief and resettlement for refugees currently in Pakistan and Iran, and for physical rehabilitation.

(5) Central African Pensions	5	5	5

To fund Zimbabwe, Zambia, Malawi contributions to a capital injection into the Central African Pension Fund to allow for various increases in pensions payable from the Fund, and to provide an element of exchange rate stability.

(6) IMF ESAF	4	5.5	14

An agreed bid. To meet the cost of the additional contribution to the IMF's Enhanced Structural Adjustment Facility (ESAF). Terms of contribution as agreed in Exchange of letters between IMF and UK Government signed on 11 May.

(7) Aid Administration	0	0.5	2

Notional sum to meet the cost of a necessary relocation from Eland House no later than the final quarter of 1990-91. Also to provide for net additional requirement to meet costs of increases in pay (6.5%) and GAE (5%) after allowing for the uplift factor of 2.5%.

(8) Superannuation: War Service Credit	6	6	6

To allow for former members of the Colonial Service to receive credit for war service in the calculation of their pensions.

PROPOSED REDUCTIONS	-	-	-
PROPOSED NET CHANGE	44	75	94
Running Costs Baseline	**41.9**	**42.3**	**43.3**

PROPOSED ADDITIONS

*(1) Relocation	0	0.5	1.0
*(2) Maintenance of existing services	0	0	1.0

*PES bids. See (7) above.

(3) Other	1.6	1.4	1.2

To provide for transfer of 9 TETOC staff from British Council; cost of rephased relocation of ODNRI to Chatham; cost to ODNRI of pay awards; admin. costs associated with War Service Credit bid.

PROPOSED REDUCTIONS	0	0	0
PROPOSED NET CHANGE	1.6	1.9	3.2

MANPOWER

Proposed	1622	1622	1622
Change from present plans	+9	+9	+9

FOREIGN AND COMMONWEALTH OFFICE - DIPLOMATIC WING

	1989-90	1990-91	£million 1991-92
Survey Baseline	743.0	761.4	780.4

PROPOSED ADDITIONS

(i) Running costs to meet existing commitments	16.9	26.3	34.4

To maintain existing commitments taking account of assumed increases in pay and prices.

(ii) Scholarships, training and educational exchanges	16.4	18.0	18.8

Additional expenditure to enlarge UK influence. Targets include specified numbers of new awards, visits, exchanges, etc in FCO scholarships, British Council programmes and military training. For example in 1991-92 the proposals include 400 (16 per cent) more FCO scholarships; 2 new British Council offices overseas; more travellers assisted by the British Council (another 759 (14 per cent) coming in, and another 365 (12 per cent) going out); and an extra 230 (41 per cent) military training students in the UK.

(iii) Information and short term exchanges	4.0	5.6	5.7

Policy initiative to increase activity in various areas of information work, to promote deeper knowledge of UK institutions etc. Includes participation in 1992 Seville Expo. Targets include 300 extra sponsored visitors a year and other quantified increases in activity.

(iv) Modernisation and new technology	9.8	8.6	7.9

Development of IT, other new equipment and processes. Targets include installation of new IT equipment in 25 posts a year.

	1989-90	1990-91	1991-92
(v) Personnel and Accommodation	4.9	5.2	5.4

Increases for accommodation maintenance work overseas, conditions of service and specific new activities.

(vi) Security	5.7	5.4	6.0

Increased security related property construction to reduce risk of technical and terrorist attack in certain posts and other security-related work and equipment.

(vii) BBC External Services	4.2	12.5	5.7

Reinstatement of re-evaluated project in the BBC's audibility programme, in accordance with 87 Survey decisions.

(viii) Asset recycling	0.5	1.3	0.0

Adjustments in the agreed distribution of running cost savings generated by the rationalisation of the overseas estate.

TOTAL	**62.4**	**82.9**	**83.9**
PROPOSED REDUCTIONS			
(i) Overseas price movements, and other minor savings	-23.5	-23.5	-22.7
TOTAL PROPOSED REDUCTIONS	**-23.5**	**-23.5**	**-22.7**
PROPOSED NET CHANGE IN PROVISION	**38.9**	**59.4**	**61.2**
(of which running costs)	(14.3)	(26.5)	(33.7)

MANPOWER

Proposed	8,222	8,222	8,222
change from present plans	-	-	-

IBAP AND OTHER CAP

	1989-90	1990-91	1991-92
			£ million
Survey Baseline	1690	1845	1891
PROPOSED ADDITIONS			
(i) IBAP administration	0.7	1.4	3.0

Impact of pay increases and extra accommodation costs

PROPOSED REDUCTIONS			
(i) Market support	-305.0	-290.3	-196.8

Reduced production forecasts (particularly cereals and milk products) along with estimated savings resulting from the Brussels European Council agreement on CAP stabilisers.

PROPOSED NET CHANGE IN PROVISION	-304.3	-288.9	-193.8
(of which running costs	1.3	1.6	2.5)

MANPOWER	1989-90	1990-91	1991-92
Proposed	886	907	934
Change from present plans	+4	0	+27

DOMESTIC AGRICULTURE, FISHERIES AND FOOD

£m

	1989-90	1990-91	1991-92
Survey baseline (excluding LA current and EFLs)	785.6	801.3	821.4

PROPOSED ADDITIONS

	1989-90	1990-91	1991-92
1. EC funded and demand-led estimating changes	- 6.0	- 5.9	1.4

Estimating changes to various demand led schemes.

	1989-90	1990-91	1991-92
2. Northern Ireland: capital grants	8.1	3.3	0.2

To enable the reopening of the national element of the Agriculture Improvement Scheme (suspended in 1987) for the payment of waste disposal grants. Aim: to restore same access to capital grants in Northern Ireland as in GB.

	1989-90	1990-91	1991-92
3. Flood defence	5.0	8.7	15.6

To initiate a programme of replacement of ageing flood defence and coast protection works, largely on the East Coast. Aim: to maintain protection of life and property from flooding. Estimated cost/benefit ratios 2.5:1 (flood defence), 5:1 (coast protection).

	1989-90	1990-91	1991-92
4 Running Costs	20.0	30.5	38.7

Provision sought, after taking account of efficiency savings, to meet cost of pay awards, increases in workload and increases in accommodation charges.

	1989-90	1990-91	1991-92
5. Administration: capital	1.0	0.7	0.6

Purchase of Information Technology and laboratory equipment. Aim: to deliver planned efficiency savings and enable ADAS to meet income targets.

6. Capital grants: diversification	1.9	1.9	2.0

To improve capacity to deal with the greater than expected popularity of the Farm Diversification Grant Scheme, introduced last year. Target: to deal with 1000 applications per year - the present level is 700.

7. Food stockpile (programme 9)	4.0	4.1	4.2

Conversion of emergency food stocks to more readily usable products. Target: to reduce length of conversion programme by 11 years.

8. Scotland	4.5	4.8	3.7

Purchase of a replacement aeroplane for fisheries protection; to fund bunching of local authority harbour projects; to fund agreed spending profile for the Scottish Isles agricultural development programme and other minor bids. Aims: various.

9. Other	1.9	1.5	1.7

Minor bids: for preparatory costs of Covent Garden Market Authority privatisation; performance evaluation; loan capital to the Sea Fish Industry Authority; exploratory voyages; and continuing payments to sheep assessors under the Sheep Compensation Scheme. Aims: various.

TOTAL	40.3	49.6	68.0
PROPOSED REDUCTIONS			
Various: mainly estimating changes	- 1.4	- 2.8	- 3.3
PROPOSED NET CHANGE IN PROVISION	39.0	46.8	64.8
of which running costs	20.0	30.5	38.7
MANPOWER	1989-90	1990-91	1991-92
Proposed	10838	10888	10938
Change from present plans	+100	+150	+200

FORESTRY COMMISSION

		1989-90	1990-91	1991-92
				£ million
A.	Survey baseline -Forestry	63.8	65.0	66.7
	PROPOSED ADDITIONS			
	1. Pensions	1.0	0.7	0.4
	Increase sought to cover cost of increases in number of pensioners and level of pension entitlement. Aim: to meet statutory obligations.			
	2. Land purchase	0.8	0.8	0.8
	Bid to enable Forestry Commission to purchase an additional 1400 hectares a year in order to rationalise existing forests, to establish plantations on better quality ground and in socially fragile areas. Aim: To help achieve agreed aims for new planting.			
	3. Planting grants	4.0	6.8	9.3
	Provision sought to cover cost of increases in rates of grant for planting under the Woodland Grant Scheme and Farm Woodlands Scheme following changes in tax treatment announced in the Budget. Aim: To restore level of support.			
	4. 1987 Storm Damage	3.3	3.5	2.5
	Cost of planting grants, including supplementary grants, for private sector woodlands and clearance and replanting in Forestry Commission woodlands in SE England affected by October 1987 storm. Target: Restoration of 16000 hectares of storm-damaged woodlands.			
	PROPOSED NET CHANGE IN PROVISION	9.1	11.8	13.0
B.	**Survey baseline - Disposal of assets (included in central privatisation proceeds)**	-13.0	- 7.7	-
	PROPOSED ADDITIONS	1.5	-	-
	PROPOSED REDUCTIONS	-	- 1.3	- 5.0
	Rephasing of land sales under Forestry Commission disposals programme. Target: Rationalisation of landholdings.			
	PROPOSED NET CHANGE IN PROVISION	1.5	- 1.3	- 5.0

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DEPARTMENT OF TRADE AND INDUSTRY

	1989-90	1990-91	£ million 1991-92
Survey Baseline	1281.9	1222.5	1225.5
PROPOSED ADDITIONS			
(i) Regional Development Grants.	+ 25.0	+ 30.8	- 20.4
Demand determined estimating increases reflecting surge in demand prior to closure of scheme on 31 March 1988.			
(ii) Regional Selective Assistance	+ 9.0	+ 19.3	+ 36.3
Forecast increase in demand.			
Objectives: to meet demand under scheme as currently administered. DTI are considering possible changes in guidelines to eliminate this bid.			
(iii) Capital expenditure	+ 17.4	+ 11.0	+ 6.4
Mainly new building works associated with the relocation of the Patent Office to Newport.			
Objective: savings in running costs.			
(iv) Industrial R&D	0	0	+ 28.6
DTI support for collaborative industrial R&D following reduction in domestic provision reflecting an increase in EC spending (EUROPES).			
(v) Running costs	+ 26.7	+ 31.1	+ 32.8
(vi) Space	+ 6.6	+ 2.8	+ 2.3
Funding for UK participation in the European Space Agency's Columbus project.			
Objective: Leading role in development of polar space platform.			
(vii) Other proposed additions	+ 18.9	+ 17.2	+ 5.1
Includes non-capital relocation costs, publicity and management training.			
TOTAL	103.6	112.2	91.1

PROPOSED REDUCTIONS			
(i) Launch Aid (running out of existing commitments)	- 0.1	- 2.1	- 101.3
(ii) Other savings	- 5.6	- 6.9	- 11.7
TOTAL	- 5.7	- 9.0	- 113.0
PROPOSED NET CHANGE IN PROVISION	+ 97.9	+ 103.2	- 21.9
(of which running costs	33.3	40.5	44.6)
MANPOWER	**1989-90**	**1990-91**	**1991-92**
Proposed	11749 (1081)	11669 (1081)	11569 (1081)
Change from present plan.	- (-)	- (-)	- 49 (-)

CONFIDENTIAL

£ million

ECGD

	1989-90	1990-91	1991-92
Survey Baseline	139.0	120.1	123.1
Proposed additions			
(i) Tender to Contract facility	4.5	4.0	4.7

Covers UK exporters tendering in foreign currencies against adverse exchange rate movements. Aim to support bids worth £500m per year at a net average cost of about £2m per year.

(ii) Cost Escalation cover	0.0	0.2	0.0

Covers exceptional material price changes on major civil contracts. Scheme closed in 1984. Expenditure reflects ongoing commitments on six projects with a total value of around £500m.

Total	4.5	4.2	4.7
Proposed reductions			
(i) Interest support costs	-50.5	-53.2	-93.6

Provides interest makeup on loans to finance UK exports. Aim is to reduce percentage subsidy through international negotiation. This has resulted in a reduction over the last 8 years, but actual cash expenditure is heavily dependent on commercial interest rates.

(ii) Cost escalation cover	0.0	0.0	-0.9

It is anticipated that all remaining cases will have expired by April 1991.

(iii) Mixed Credit Matching facility	0.0	0.0	-0.9

The facility allows UK exporters to match competitors bids. International negotiations have reduced potential new cases but the provision is for four existing cases.

Proposed net change in provision (of which nil running costs)	-45.9	-48.9	-90.7

CONFIDENTIAL

DEPARTMENT OF ENERGY

		£million	
	1989-90	**1990-91**	**1991-92**
Survey Baseline	309	316	323
PROPOSED ADDITIONS			
i) Privatisation of Electricity Supply Industry (England & Wales)	10.1	0	0

Employment of advisers for preparatory work prior to privatisation.

ii) Privatisation of British Gas: Gas Voucher and Share Bonus Schemes	6.0	5.0	0.5

Mainly the voucher scheme. A number of Gas Vouchers issued during privatisation have yet to be cashed (vouchers valid until September 1990).

iii) Coal based R&D	1.0	1.0	1.0

New work on the environmentally acceptable use of coal. Objective: develop "clean" coal burn technology.

iv) Renewable energy R&D	0.8	1.5	2.5

Increased expenditure mainly on wind energy. Objective: to develop diversity of electricity and other fuel supply.

v) Running costs	0.4	1.4	2.2

Increased number of staff required because of ESI privatisation.

TOTAL BIDS	18.3	8.9	6.2
PROPOSED REDUCTIONS			
i) Nuclear Research and Development	- 2.7	- 10.0	- 14.8

Reordering of priorities. Final figures await outcome of Ministerial review of Fast Reactor.

ii) Energy efficiency Office	- 4.0	- 4.5	- 5.0

Abolition of Energy Efficiency Survey scheme plus savings on R&D and demonstration programmes. Assumes annual budget of EEO reduced to £15m.

iii) Coal Firing Scheme	0	- 0.5	- 1.5

Revised assumptions about residual expenditure associated with this scheme which closed to new applicants in 1987.

iv) Offshore Supplies Office R&D	- 2.2	- 2.1	- 1.9

Increased contributions from private sector.

v) Petroleum Engineering R&D and other minor savings	- 0.1	- 1.1	- 2.7

Reduction in offshore geology and delimitation survey programmes.

TOTAL REDUCTIONS	- 9.0	- 18.2	- 25.9
PROPOSED NET CHANGE IN PROVISION	9.3	- 9.3	- 19.7
(of which running costs	0.4	1.4	2.2)

MANPOWER	89-90	90-91	91-92
Proposed	1064	1063	1063
Change from present plans	+ 20	+ 20	+ 20

DEPARTMENT OF EMPLOYMENT

	1989-90	1990-91	£ million 1991-92
Baseline	4,185	4,241	4,347
of which Running Costs	948	956	980

PROPOSED ADDITIONS

PROGRAMME

(i) ET: Transfer from DHSS Income Support	57.0	62.0	64.0

Transfer of provision from DHSS for Income Support payments which used to be paid by DHSS. Bid offset by reduced DHSS requirement.

(ii) ET Marketing	8.1	5.0	5.4

Objective: to encourage take-up of new Employment Training places by employers and potential participants

(iii) Higher Education: TC Grants	8.6	12.9	16.3

To promote responsiveness to the enterprise culture in higher education, development of courses aimed at needs of industry and wider access to under-represented groups.

(iv) Training Access Points (TAPS)	4.7	11.5	11.9

Provisions for direct public access to nationally computerised information about training opportunities.

(vi) TVEI	7.0	14.5	22.9

Objective: national extension of TVEI. Also provision for new initiative "Support Self Study" to promote open learning in areas of education affected by shortages of qualified teachers.

(vii) Tourism	1.7	2.8	3.1

To enable English Tourist Board and British Tourist Authority to fund extra promotion activity including participation in European year of Tourism 1990 (£½ million in 1989-90 and £1 million in 1990-91).

(viii) Small Firm Publicity	3.0	3.0	3.0

Including costs of establishing 6 further Small Firm Centres following "Action for Cities" initiative. Objective: to disseminate Small Firms policy to inner cities.

(ix) Grants to Dock Labour Board	2.9	-	-

Bid reflects possible agreement to the extension of Government support for severance payments to registered dock workers.

(x) Sheltered Employment	3.2	5.7	8.0

Continuing expansion of sheltered placements through voluntary sector. Target: extra placements of 1,200, 2,025 and 2,725.

(xi)	Other Programme	12.1	13.9	17.6

Includes a number of minor (about 12) DE bids.

SUB-TOTAL		**108.3**	**131.3**	**152.2**

RUNNING COSTS

(i)	Stricter Benefit Regime	29.1	29.0	29.7

Full-year gross costs of implementing Stricter Benefit Regime proposals announced earlier this year. Target: reduce recorded unemployment total by some 100,000 leading to over £100 million saving in benefit payments.

(ii)	ET and Bridging Allowance	24.5	24.0	24.4

Gross administrative cost of paying participants in the new Employment Training programme being introduced in September through Employment Service offices and introducing Bridging Allowance to under 18s. Some 8 million payments and 1 million interviews will be conducted annually. This represents over 6,000 payments per staff unit per year and more than 1,000 interviews per staff unit per year.

(iii)	Accommodation Costs	11.5	11.7	14.7

£7.9 million, £7.7 million and £10.0 million for rate and rent increases. £3.6 million, £4.0 million and £4.7 million to improve standards in job centres and unemployment benefit offices. Precise measurements of output increases resulting from premises improvements are not available. But the department believes that the two go together.

(iv)	Pay and Price Realism (DE, TC, HSE, ACAS)	41.4	73.8	106.1

Provision to cover 6 per cent pay assumption for each Survey year and 5/4/4 per cent price assumptions in PES years.

(v)	Other Running Costs	33.5	55.4	64.5

Various activities including: extra staff in ES local offices to focus on newly and long-term unemployed; early delivery of IT strategy in the Employment Service; marketing and re-location.

SUB-TOTAL		**140.0**	**193.9**	**239.4**
(vi)	Non-Running Costs (Admin and Capital)	54.7	46.1	25.1

IT projects Estate rationalisation and increased price assumptions.

TOTAL BIDS		**303.0**	**371.3**	**416.7**

PROPOSED REDUCTIONS

(i)	DE: PER	-3.8	-3.9	-4.0

Reduced administration costs as a result of the privatisation of Professional and Executive Recruitment (PER).

(ii)	: Economic Assumptions	-11.9	-11.9	-11.9

Reduced administration due to lower level of unemployment.

(iii)	: ET Bridging Allowance	-7.8	-8.0	-8.2

Administration savings due to the introduction later this year of a computerised benefit payment system.

(iv)	: Small Firms Loan Guarantee Scheme	-7.8	-7.1	-3.6

Savings reflect improvement in economic climate.

(v)	: HSC: NII Receipts	-6.2	-8.0	-9.9

Increased receipts from charges for work of the Nuclear Installations Inspectorate (NII) in connection with issue of licences.

(vi)	: Redundancy Fund	-40.7	-45.6	-48.9

Reduction reflects lower volume of claims due to improvement in economic climate.

(vii)	: Youth Training Scheme	-5.0	-15.0	-38.2

Net savings reflect demographic and economic changes.

(viii)	: DE: Receipts	-16.5	-13.7	-14.0

Receipts from TC associated with payments to participants on the new Employment Training programme and for Bridging Allowances.

(ix) : Other	-8.9	-11.2	-19.6
Total Reduced Requirements	**-108.6**	**-124.4**	**-158.3**
PROPOSED NET INCREASE	**194.4**	**246.9**	**258.4**
(of which running costs)	116.4	169.9	214.4

MANPOWER

	1989-90	**1990-91**	**1991-92**
Proposed	62,433	64,024	64,499
Change from present plans	+2,222	+3,411	+3,886

CONFIDENTIAL

DEPARTMENT OF TRANSPORT

		1989-90	1990-91	£ million 1991-92
Survey Baseline		2244	2299	2357
PROPOSED ADDITIONS				
(i)	National roads: new construction	137	265	380
	To prevent rising construction costs causing delays to existing roads programme and to enable preparatory work on an expanded programme to deal with growing congestion caused by higher forecast traffic growth. Average economic benefits (chiefly time savings) of about £2 for every £1 spent.			
(ii)	National roads: road maintenance	33	37	37
	To meet target of eliminating maintenance backlog on motorways and trunk roads by 1992. Miles of road renewed each year by extra provision: 63, 70, 70 respectively.			
(iii)	National roads: bridge maintenance	58	49	46
	To carry forward a 15 year programme of bridge repair and upgrading to provide for increased traffic and lorry weights. Extra provision mainly to fund work which if delayed would be more costly.			
(iv)	Local roads	133	30	80
	To reverse decline in local authority road investment. Average economic benefits of £3.50 for every £1 spent on roads of more than local importance, excluding certain urban schemes undertaken for environmental reasons.			
(v)	Other local authority capital	25	62	38
	Provision for phase I of Manchester light rail scheme, with economic benefits of £2 for every £1 spent; and for expansion of local airports, particularly Manchester, where demand is expected to exceed existing terminal capacity by 1991.			
(vi)	Running costs	7	13	24
	To meet increased workload from expanded road programme and 4% per annum growth in driver and vehicle licence volumes; pay and price increases, in particular 17% increase in rent and rates bill, and new Post Office agency contract.			
TOTAL		393	456	605

	1989-90	1990-91	1991-92
PROPOSED REDUCTIONS	0	0	0
PROPOSED NET CHANGE IN PROVISION	393	456	605
(of which, running costs)	7	13	24)
MANPOWER			
Proposed	11,119(3,578)	11,196(3,487)	11,388(3,3409)
Change from present plans	+114(+79)	+203(+165)	+395(+17)

(Civil Service manpower outside gross running costs control shown in brackets)

CONFIDENTIAL

DOE - HOUSING

	1989-90	1990-91	£ million 1991-92
SURVEY BASELINE			
	2378	2399	2459

PROPOSED ADDITIONS

(i) Provision for rent by housing associations	95	186	457

To increase new provision of social rented housing each year to meet growth in household numbers and to counterbalance losses of dwellings from disrepair, demolition and Right to Buy sales.
Target: to increase total annual new provision from 37,000 in 1987-88 to 50,000 dwellings by 1994-95.

(ii) Mainstream local authority renovation	144	100	100

To increase the number of dwellings renovated by local authorities against baseline to help maintain the general condition of the stock.
Target: to renovate 28,000 additional dwellings over the Survey period.

(iii) Estate Action	100	100	100

To increase targeting of resources for renovation and encouragement of good management of local authority housing through central estate action initiative.
Target: to increase programme to cover 177,000 dwellings in total over Survey years.

(iv) Defects Repurchase	5	5	- 5

To provide for increases in unit costs per repurchase, and to bring forward some repurchases.
Target: to increase repurchases over the Survey period by 180 dwellings.

(v) Home Improvement Grants	163	149	164

To maintain the condition of the private sector housing stock.
Target: to improve or repair about 24,000 additional dwellings over the Survey period.

(vi) Defects Grants	10	10	- 10

To provide for increases in unit costs per grant and to bring grant expenditure forward.
Target: to reinstate an additional 580 dwellings over Survey period.

(vii) Area Improvement	10	20	20

To target more improvement spending on concentrations of poor quality private sector stock.
Target: to quadruple present enveloping programme by 1990-91 to sustain 50 schemes.

	1989-90	1990-91	£ million 1991-92
(viii) Support for housing associations by local authorities	60	85	95

To maintain outputs from local authority support for housing association schemes by meeting increased costs.
Target: 4,600 new dwellings a year.

(ix) Current	-11	1	31

Mainly demand led changes in subsidy requirements for local authorities, housing associations and new towns.

(x) Housing Action Trusts	0	0	50

To set up a new tranche of Housing Action Trusts in 1990-91.
Target: creation of 6 new HATs.

TOTAL PROPOSED ADDITIONS	576	656	1002

PROPOSED REDUCTIONS

(I) Housing Corporation Receipts	-43	-50	-62

Increased estimate of repayments by housing associations of loans and grants to the Housing Corporation.

(ii) Slum Clearance	-9	-4	-4

Steady slow decline in slum clearance activity by local authorities based on current trends.

TOTAL PROPOSED REDUCTIONS	-52	-54	-66
PROPOSED NET CHANGE IN PROVISION	524	602	936

DOE: OTHER ENVIRONMENTAL SERVICES

	1989-90	1990-91	£ million 1991-92
Survey Baseline	904	935	958

Proposed Additions

i) **Urban Development Corporations** — 79 | 62 | 28

To cover unexpected increase in corporation tax liability, to compensate for loss of receipts as a result of a CPO decision and to provide additional resources for second generation UDCs.

ii) **City Grant** — 25 | 40 | 35

To maintain momentum of the programme and sustain private sector interest in regeneration. Target: £40 million private sector investment for every £10 million public investment.

iii) **Rural Development Commission** — 1 | 1 | 1

Various programmes to encourage investment in rural areas. Targets: Various.

iv) **Countryside, Recreation and Environmental Bodies** — 9.7 | 9.7 | 9.7

Increased provision for various amenity and environmental bodies, Targets: replanting of storm damaged trees: attracting private sports sponsorship on a £ for £ basis (£2m)

v) **Environmental Research** — 4.5 | 1.5 | 0.7

Radioactive Waste, changes in climate, monitoring of the North Sea, water metering trials. Targets: Various.

vi) **Royal Parks and Palaces** — 5.7 | 7.2 | 5.2

Maintenance works on Windsor Castle, the Albert Memorial and Hampton Court Palace. Provision to enable DOE to buy out its obligation to the National Trust to maintain Osterly House and Grounds.

vii) **HBMC** — 6.2 | 5.7 | 5.8

To cover HBMC's relocation expenses and to allow for a £3 million increase in church grants to partly offset the impact of the community charge on the church. Also covers additional pension costs, increased repair grants and the cost of purchasing the Audley End collection of paintings.

viii) **Other Heritage** — 2 | 1.2 | 1.2

Mainly relocation expenses of RCHM. Also increased provision for the Redundant Churches Fund to demonstrate increased support for churches following the additional burden of the community charge.

		1989-90	1990-91	£ million 1991-92
ix)	**National Rivers Authority**	6.0	48.5	48.5

To cover the estimated costs of running the NRA and, in later years, the shortfall on NRA's Environmental functions following the privatisation of the Water Services Plcs.

x)	**Water ERDF**	5	54	53

To cover ERDF grants to the water utilities following water privatisation. Currently ERDF grants to water authorities are treated as internal resources.

xi)	**Director General, Water Services**	2.1	3.5	3.5

Estimated gross expenditure for the first 3 years operation of the Water Services Office, to be established in parallel with the NRA etc.

xii)	**Administration**	33	28.5	30

To cover increased running costs in respect of housing initiatives and water privatisation. Also, current expenditure for information technology publicity, and post Chernobyl monitoring.

xiii)	**Local Environmental Services (capital)**	241	90	90

Includes £150 million in the first year for additional expenditure to cover the costs of the community charge. Also allows for increased expenditure in priority areas such as waste disposal, environmental health and the Mersey Basin project. No Targets.

TOTAL		420.2	352.6	312.3

<u>Proposed Reductions</u>

i)	**Countryside Recreation and environmental bodies**	- 1.1	- 1.1	- 1.2

Revised financial arrangements for London Zoo, £1.3 million per year transfer to DES.

ii)	**Administration**	- 0.1	- 0.1	- 0.1

Transfer to Home Office in respect of responsibility for payment to Post Office for issuing Game licences.

iii)	**Water Services**	- 0.5	- 0.5	- 0.5
Proposed Net Change in Provision		418.5	350.9	310.5
of which Running Costs		14.4	19.5	26

<u>Manpower</u>

Proposed	6664	6629	6629
Change from Present Plans	+ 85	+ 50	+ 50

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CONFIDENTIAL

HOME OFFICE

	1989-90	1990-91	1991-92
			£ million
Survey Baseline	1382	1415	1450
PROPOSED ADDITIONS			
(i) Prisons: new building	175	233	167

To provide additional accommodation because of the projected increase in prison population - target: 6900 additional places by end-1992 - and additional expenditure to continue existing programme at planned rate.

(ii) Prisons: manpower	72	123	189

Staffing for new places created over PES period taking account of efficiencies under Fresh Start framework agreement for the main prison service grades and pay assumption of 5 per cent for these grades. Target: 3 per cent efficiency gain in 1989-90.

(iii) Prisons: other	11	35	45

Consists of some 200 sub-items, many of which are consequential upon the enhanced building programme and projected increase in prison population eg public utilities, repairs and maintenance etc.

(iv) Criminal Injuries Compensation Scheme	17	27	40

Revised assumption of 11 per cent increase per year in average award size and to reduce backlog of cases. Target: to reduce backlog by 5000 cases a year.

(v) Immigration and Nationality Department: manpower	5	6	4

Target: double enforcement activity; clear the backlog of citizenship cases by end 1989-90, reduce arrears of general and asylum casework by 50 per cent and clear backlog of appeals cases; and to staff new port developments.

(vi) Other non-prisons: manpower	12	20	26

Pay assumption of 7 per cent and increases in staff mainly in the fire inspectorate, forensic science service, police college and IT support.

(vii) Police training 7 7 5

Target: to increase throughput by 5 per cent for training centres and 7 per cent for the police college; introduce a new course for probationary constables; and pay assumption of 5 per cent.

(viii) Non-prisons:
miscellaneous 31 29 26

Includes bids for counter-terrorist measures; additional bail accommodation and increased supervision of offenders in the community - target: to displace 900 prison places by 1991-92; immigration detention facilities; civil defence; broadcasting; IT; accommodation; publicity and the Fire Service College.

(ix) Local authority capital:
telecommunications 55 7 7

Local authority effect of the proposal that the Home Office Directorate of Telecommunications should cease from April 1989 to purchase telecommunications equipment and rent it to police and fire services: mainly capitalised costs of existing equipment in 1989-90 and procurement cost of new equipment in later years.

(x) Local authority capital: other 22 26 25

Includes replacement police stations, supervision by the probation service of the package of measures to displace 900 prison places included in (viii), volume bids for magistrates courts building and provision for inflation in all three services.

TOTAL 407 512 533

PROPOSED REDUCTIONS

(i) Directorate of Telecommunications
(DTels) -21 -20 -20

Home Office offset of proposal described at (ix) above: savings in procurement, installation and maintenance costs.

(ii) Fines and fees -8 -15 -25

(iii) Sales of police houses -12 -3 -3

Increased projections

PROPOSED NET CHANGE
IN PROVISION 366 474 484
(of which running costs) (98) (164) (241)

MANPOWER	1988-89	1989-90	1990-91	1991-92
Proposed	40,482	43,218	45,422	48,319
Change from present plans	-	+3993	+6115	+8832

CONFIDENTIAL

LORD CHANCELLOR'S DEPARTMENT

	1989-90	1990-91	£ million 1991-92
Survey Baseline	813.9	868.1	889.8

PROPOSED ADDITIONS

(i) Running Costs	9.7	17.0	36.0

To cover increased accommodation charges paid to PSA; higher pay factors than were thought appropriate last year; effect of local pay additions; and additional staff to achieve operational targets (ie national targets for disposals, waiting times and administrative throughput) against background of forecast workload growth (6% pa in Crown Courts and 3% pa in County Courts).

(ii) Non-Running Costs	1.5	0	0

To cover capital expenditure, including computers (£0.8m); judicial fees paid to part-timers and some judicial salaries (£0.2m); video satellite links (£0.5m).

(iii) Consolidated Fund	0	0.5	2.4

To cover effects of TSRB pay awards and forecast increase in numbers of judges required to run new courtrooms and meet operational targets.

(iv) Court Building	18.54	23.23	22.55

Largely restores the PES 1987 bid after review of control systems by Department, and reflects the effects of inflation and of overheating in the construction industry (especially relevant in the South East where building inflation is currently running up to 30%, and where about half of the court building schemes are located). Target: at least 25 schemes to provide 110 courtrooms (a net addition of about 65 courtrooms) in Survey period.

(v) Office and General Accommodation	0	0.10	0.10

To cover refurbishment costs of office and general accommodation.

(vi) Legal Aid	10.5	17.5	53.9

Demand-led programme. Revised volume forecasts, revised assumptions for unit cost growth and effect of new polices (eg tape recording of police interviews; DNA testing in paternity cases; mutual legal assistance; effect of Social Security reform; community charge - cover costs of appeals on points of law and green form advice, and Family Reform Act 1987). **Aim:** to fulfil statutory obligations.

(viii) Grants to Law Centres	0.02	0.02	0.02

Provision towards the running costs of each of 7 law centres and the Law Centre Federation.

(viii) Legal Aid Administration	2.0	2.0	2.0

To cover pension contributions and for the fees and associated expenses payable to members of the new Legal Aid Board.

TOTAL	42.26	60.35	116.97

PROPOSED REDUCTIONS

(i) Jurors and Court Reporting	-1.5	0	0

Result of experimenting with different methods of court reporting - including Computer Assisted Transcription.

(ii) Costs from Central Funds	-10.5	-10.5	-11.0

Estimating change on costs of acquitted defendants in magistrates courts.

PROPOSED NET CHANGE IN PROVISION	30.26	49.85	105.97
[of which running costs	9.7	17.0	36.0]

MANPOWER	1989-90	1990-91	1991-92
Proposed (Man years)*	11094	11240	11526
Change from present plans	319	390	626

* These figures correct the omission of 77 staff from the PEWP 1987 following the transfer of the Immigration Appellate Authorities.

2524/4

Northern Ireland Court Service

BASELINE	23	23	£ million 24
PROPOSED ADDITIONS	1989/90	1990/91	1991/92
(i) Running costs	1.452	1.731	1.982
Impact of pay increases, computer maintenance. To maintain output of courts.			
(ii) capital and other non-running costs	2.000	0.947	0.452
To facilitate reconstruction of courthouses, computer capital and grant in aid.			
(iii) LEGAL AID	2.864	3.737	4.597
to ensure liabilities can be met			
(iv) CONSOLIDATED FUND	0.119	0.125	0.201
To pay judicial salaries at levels set by TSRB.			
TOTAL	6.435	6.563	7.282
PROPOSED REDUCTIONS	-0.353	0	0
Reduced satellite video and computer capital			
PROPOSED NET CHANGE IN PROVISION	6.082	6.563	7.282
of which running costs	1.452	1.731	1.982

MANPOWER*	1989/90	1990/91	1991/92
Proposed	732	741	748
Change from present plants	+32	+29	+28

* - not in Civil Service manpower count

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CONFIDENTIAL

CROWN PROSECUTION SERVICE

			£ million
	1989-90	**1990-91**	**1991-92**
Survey Baseline	183.8	190.5	195.3
PROPOSED ADDITIONS			
(i) New policy issues	1.1	2.2	2.3

Provision for the implication of the Criminal Justice Bill, such as the use of video satellite links, corroboration of children's evidence and the use of closed circuit television for children giving evidence in cases of alleged violence or assault. Objectives include bringing to court some cases which would otherwise not be brought.

(ii) Counsel fees and other prosecution costs	-	-	3.5

To cover increased counsel fees and costs of employing private prosecuting agents to perform the functions of Crown Prosecutors where necessary (a realism update in last year only).

(iii) Capital	2.2	2.6	1.3

Principally major new works and the cost of the department's new headquarters building.

(iv) Running Costs	6.8	13.7	21.9

Additional manpower for increased workload, impact of pay increases and a more realistic assessment of likely requirements given the department's inability to secure a three year running costs settlement last year.

TOTAL	10.1	18.5	29.0

PROPOSED REDUCTIONS

(i) Reclassification of offences	1.5	2.0	2.0
(ii) Estimating and other minor changes	13.0	4.0	0.2
(iii) Efficiency savings	2.4	2.7	2.2
PROPOSED NET CHANGE IN PROVISION	- 6.9	9.8	24.5
(of which running costs)	(- 1.8)	(9.6)	(18.2)

MANPOWER	**1989-90**	**1990-91**	**1991-92**
Proposed	5580	5850	6080
Change from present plans	+260	+249	+349

SERIOUS FRAUD OFFICE

	1989-90	1990-91	1991-92
			£ million
Survey Baseline	4.6	4.7	4.9
PROPOSED ADDITIONS			
(i) Counsel fees and other investigation and professional costs	3.4	3.5	3.7

Revised assumptions on Counsel Fees, witness expenses and outside investigative
accountant costs.

(ii) New Policy issues	0.8	1.4	1.4

Provision for the implication of the Criminal Justice Bill, such as the use of video satelite links and mutual legal assistance and the confiscation of the proceeds of crime. Objectives include bringing to court some cases which would otherwise not be brought.

(iii) Running costs	2.9	3.2	3.5

More support staff, impact of pay increases and a more realistic assessment of likely requirements given the department's inability to secure a three year settlement last year.

TOTAL	7.1	8.1	8.6
PROPOSED REDUCTIONS	-	-	-
PROPOSED NET CHANGE IN PROVISION	7.1	8.1	8.6
(of which running costs)	2.9	3.2	3.5

MANPOWER	**1989-90**	**1990-91**	**1991-92**
Proposed	91	92	92
Change from present plans	+12	+13	+13

CONFIDENTIAL

CROWN OFFICE

	£ million		
	1989-90	**1990-91**	**1991-92**
Survey Baseline	21.1	20.9	21.4
PROPOSED ADDITIONS			
(i) Capital	2.9	1.2	1.9

Principally major new works and PSA's revised estimates of building costs.

(ii) Crown prosecutions	0.2	0.2	0.2

Revised assumptions of likely requirements for witness expenses.

(iii) Running costs	0.6	1.0	1.0

Additional manpower for increased workload and the impact of pay increases given the department's inability to secure a three year settlement last year.

TOTAL	3.7	2.4	3.1
PROPOSED REDUCTIONS			
(i) Capital expenditure on computers	-	-0.1	-0.4
(ii) Increased receipts from fines and fixed penalties	-1.2	-1.3	-1.5
PROPOSED NET CHANGE IN PROVISION	2.5	1.0	1.3
(of which running costs)	0.6	1.0	1.0

MANPOWER	**1989-90**	**1990-91**	**1991-92**
Proposed	1,088	1,102	1,111
Change from present plans	+6	+13	+22

DEPARTMENT OF EDUCATION AND SCIENCE

	1989-90	1990-91	£ million 1991-92
Survey Baseline	**5,156**	**5,293**	**5,425**

PROPOSED ADDITIONS

	1989-90	1990-91	1991-92
(i) **Grant maintained schools**	1.6	3.0	4.8

To meet staff restructuring and other exceptional costs, parental ballots, special grants and support for GM Schools Trust. Objective: to ensure successful launch of GM Schools from September 1989.

(ii) **Assisted places scheme**	0.0	1.4	2.3

To meet increased costs of maintaining existing scheme and expand numbers. Target: to expand scheme by 200 places a year to 35,000 places by 1995.

(iii) **EC Initiatives**	2.5	0.0	0.0

To make good EUROPES reduction in domestic PES reflecting increase in EC spend on ERASMUS and other programmes.

(iv) **Polytechnics and Colleges Funding Council: current**	103.3	107.8	113.9

To cover inherited and continuing commitments, to provide for staff restructuring and to expand management education. Objectives/targets: to sustain volume and quality of teaching, meet forecast demand, and maintain a sound financial base for the new sector; provide for 20,000 extra places for management education.

(v) **Polytechnics and Colleges Funding Council: capital**	50.0	50.0	50.0

To provide new equipment, and upgrade of premises. Objectives/targets: to meet additional needs of new status; to replace obsolescent equipment; to provide for replacement about 1% of the capital building stock a year.

(vi) **Science**	147.0	187.0	206.0

Restructuring of Science Base including meeting costs of reduction in near market research; additional provision for specific programmes. Objectives/targets: 10 new Interdisciplinary Research Centres a year; rationalise Research Council Institutes onto fewer sites; increase emphasis on exploitability and collaboration with industry.

(vii) **Universities**	94.5	127.4	147.4

Provision for 1989-90 pay award and other cost increases; new initiatives in staff development and management education; additional equipment and computers; and increase in Open University funding. Objectives/targets: to ensure universities are viable by 1990-91; to provide all academic staff with 5 days training over next 3 years and to increase supply of qualified teachers in management education; to achieve 6.5 year replacement cycle for equipment; to provide a PC for every academic and for every 5 students; to provide 5,200 OU foreign language course places and 3,000 Home Computing Programme places.

(viii) **Running costs**	7.2	9.2	12.3

To fund extra staff following enactment of Education Bill, to allow recurrent investment in IT, to meet future pay increases. Objectives: to meet net additional staffing requirement of 77/78/74; to help cover new policy work with minimum increase in staff: to provide DES with effective IT infrastructure.

(ix) **Publicity**	1.5	1.5	1.5

To provide resources to supply effective and sustained publicity about implementation of Educational Reform Bill policies. Objective: to inform all concerned about implementation.

(ix) **Administration capital**	1.3	0.9	0.5

To extend IT investment programme, and to buy cars for HMIs. Objectives: to expand DES IT infrastructure; to provide cost-effective transport for HMIs.

(xi) **Adult education**	2.5	2.5	2.5

To expand PICKUP, to improve adult literacy and numeracy, to increase direct funding for adult education sector. Objectives/targets: 10% of working population in PICKUP-type training by early 1990s, to enable ALBSU to increase adult literacy; to keep directly funded sector viable.

(xii) **Royal College of Art: rationalisation**	1.5	-1.5	0.0

To balance expenditure on rationalisation and sale of surplus properties. Objective: to rationalise RCA accommodation.

(xiii) **Maintained sector: capital**	155.0	260.0	336.0

To enable LEAs to meet existing commitments; to remove surplus places; to maintain a programme of school improvements to cover related costs for voluntary schools, capital needs of first GM schools, FHE new building and equipment. Target: LEAs to remedy 75% of defects identified in School Buildings Survey by 1995.

(xiv) **Student awards (covenants)**	23.5	35.4	40.8

Reflects decreased parental contributions following Budget changes on covenants.

(xv) **Student awards (other)**	40.7	58.5	57.9

To increase student awards in line with inflation and higher projected student numbers. Objectives/targets: to provide an additional 11,700 awards in 1989-90 and 13,200 awards in 1990-91.

TOTAL	632.1	843.1	975.9
PROPOSED REDUCTIONS	0.0	0.0	0.0
PROPOSED NET CHANGE IN PROVISION	632.1	843.1	975.9
(of which running costs	7.2	9.2	12.3)

MANPOWER

Proposed	2595	2596	2592
Change from present plans	+35 (77)	+36 (78)	+32 (74)

(figures in brackets represent net additional staffing requirements underlying running costs bid)

CONFIDENTIAL

Office of Arts and Libraries

	1989-90	1990-91	1991-92
			£ million
Survey Baseline	454	471	483
PROPOSED ADDITIONS			
(i) **Living arts**	0	0	15

Additional resources for the Arts Council and British Film Institute, including expansion of touring outside London, and for a programme of building restoration.

(ii) **Museums and gallcries**	0	0	14

To increase the building and maintenance programme, to improve conservation and collections management, to allow touring of national treasures and for the running costs of the new National Gallery Sainsbury Wing and Tate Gallery, Liverpool.

(iii) **Protection of collections**	0	0	0.5

To provide environmentally secure conditions for protection of national treasures in times of tension and war.

(iv) **Running costs**	0	0	0.2

Staff and accommodation costs.

(v) **British Library St Pancras project**	0	0	14.3

To cover revised estimates of costs of Stage 1A and initial costs of completion stage, and British Library removal costs.

(vi) **Heritage**	0	0	6

Enhanced funding for National Heritage Memorial Fund.

TOTAL PROPOSED CHANGE IN PROVISION	**0**	**0**	**50**
(of which running costs	0	0	0.2)
MANPOWER			
Proposed	60	60	60
Changes	-	-	-

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY: HEALTH AND PERSONAL SOCIAL SERVICES

£million

	1989-90	1990-91	1991-92
Survey baseline	18,559	19,445	19,931

PROPOSED ADDITIONS

Hospital and Community Health Services (HCHS)

	1989-90	1990-91	1991-92
i. Estimating	1,155	1,625	2,250

To maintain existing service standards and to fund a continued activity increase (+2.8% inpatient,1.6% outpatient and 10.0% day cases a year),allowing for foreseeable changes (continuing 1988 Review Body pay award costs and demographic change); and funding existing health authority income and expenditure deficits.

ii. RAWP	50	50	50

Substantial increase in present fund. Objective: further ease pace of RAWP redistribution (especially in Thames regions)within overall settlement and create scope for responding to RAWP review.

iii. AIDS	105	240	370

Additional treatment and prevention costs. Objective: treat growing AIDS/HIV patient numbers (projected to rise at some 50% a year), and control infection's spread.

iv. Management	175	205	220

Various proposals. Objectives include improved information (eg on costs of operations) and decision making capacity (see (vi) below),specifically linked to NHS review.

v. Targeted services	15	20	25

Targeted, specific improvements in certain specialised (eg organ transplants)services.

vi. Investment	230	305	265

Increased investment in (a) information etc capacity (see also (iv)) and (b) infrastructure. Objectives: to improve (a)management information and (b) NHS competitiveness with the private sector,to implement NHS review.

vii. Special Capital Fund	100	150	150

New fund to finance land releasing and revenue saving schemes-either Exchequer funded or using private sector finance.

viii. Cyclotron	3	3	0

Agreed contribution to capital costs of machine to treat cancer.

Family Practitioner Services (FPS)

ix. Estimating	142	182	443

To meet forecast demand and provide increased services: numbers of doctors + 1.7%, dentists + 1.6%, prescriptions + 2.2% per year.

x. Improved information	5	10	10

Improved information etc systems for doctors. Objective: improved practice and patient management, and services.

xi. Other	10	10	10

Various developments to improve services.

Centrally Financed Services (CFS)

xii. Demand led	1	5	13
xiii. Cash limited	45	50	55

To meet forecast demand for welfare food and EC medical costs, and effect of 1988 Review Body awards;and to continue or expand the AIDS public education campaign and the social work training,and the research, programmes.

Personal Social Services (PSS)

xiv. Capital	15	16	16

To provide continuing allocation at 1988-89 level and increase capital investment in priority areas.

TOTAL	2,051	2,871	3,877
PROPOSED REDUCTIONS			
i. Increased income generation scheme receipts	- 30	- 50	- 55
ii. Efficiency savings (net of pay increases 2% above inflation for Whitley Groups)	- 55	- 125	- 240
iii. Increased receipts from land sales	- 100	- 100	- 100
TOTAL	- 185	- 275	- 395
PROPOSED NET CHANGE IN PROVISION	1,866	2,596	3,482
(of which running costs)	10	12	14
MANPOWER			
Proposal	4,919	4,986	5,018
Proposed change from present plans	+ 442	+ 642	+ 824

DHSS: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

	1989-90	1990-91	£m 1991-92
Survey Baseline	50889	53347	54681

PROPOSED ADDITIONS : BENEFITS

i. **Community Charge (E(LF))**	88	91	94

Estimated increased cost of compensation due to higher estimated notional rates of community charge in 1988-89. Aim : To compensate people on Income Support for their minimum average 20 % contribution to community charge .

ii. **Rent taper**	46	48	49

Cost of decision announced by Prime Minister on 19 April not to increase the housing benefit rent taper from 65% to 70%.

iii. **Losers : HB Capital Limit**	22	23	24

Cost of decision to increase housing benefit capital limit. Target: To help around 100,000 people with capital above £6,000 but below £8,000 who would otherwise have lost eligibility for housing benefit from 1 April 1988.

iv. **Losers : Trans Protection**	50	40	30

Payments to housing benefit claimants to make good housing benefit losses in excess of £2.50 a week. Target: To offer transitional help to around 300,000 people significantly affected by changeover to new housing benefit arrangements.

v. **Employment Training (ETP)**	68	74	76

The effect of the erosion (by changes in the expected case load composition) of savings scored last year - partly offset by the transfer to DE of responsibility for paying benefits top -ups to existing training allowances.

vi. **Poorer pensioners**	74	84	90

To add £2 to the Higher Pensioner Premium (£3 to the couple's) Aim : to help pensioners over 80 (and disabled over 60).

vii. **Child benefit**	44	44	44

To reverse the Child Benefit saving scored last year by providing for a full uprating from April 1989.

viii **Overseas pensions**	16	28.6	40

To uprate pensions paid in Australia, Canada and New Zealand in line with UK pensions from April 1989 and in each year thereafter. Aim : To defuse criticism of the UK for freezing these peoples' pensions.

ix. Mobility allowance	0.3	3.2	7.8

To raise the age limit for receipt of mobility allowance from 75 to 80.

x. Income support	9	9.3	9.5

To leave present compensation (£1.30) for 20% rates unchanged for single claimants over 25 rather than reduce to £1.25 when adjustment made for community charge. Aim : To avoid real cut in benefit rates for 3 million claimants of which almost half are pensioners.

xi. Non-dependant deductions	2	3	4

To uprate non-dependant deductions (deducted from 700,000 housing benefit recipients and 100,000 recipients of income support who receive help with mortgage interest) by the Rossi index rather than the RPI. Aim : greater consistency and simplicity.

xii. Residential homes	1.6	1.8	2.0

To uprate income support payments to boarders in residential care/ nursing homes by RPI rather than Rossi index.

xiii. War pensions	2.8	3.1	3.0

Package of measures to improve allowances made to pre-1973 war widows. Aim : to lessen disparity with post-1973 war widows who benefit from the Armed Forces Pension scheme.

<u>Less Proposed Reductions on Benefits</u>

xiv. Income Support	-8.6	-6.7	-5.8

Deferral by one or two weeks of uprating increases for 3 million people paid income support in arrears. Aim : to provide savings, and to bring uprating into line with associated contributory benefits, such as unemployment benefit and sickness benefit.

xv. Income Support	-7.9	-9.1	-10.4

Revision of procedures to extend liability to maintain children from sixteenth birthday to nineteenth.

Forecasting Changes (Provisional)

i. Estimating Changes	709	1168	2166
ii. Economic Assumptions*	-678	-641	-308

* Includes cost (+77/+81/+84) of compensating beneficiaries for losses arising from computer error understating the RPI. Will ensure benefit rates from April 1989 onwards are paid at level they would have been if error had not occurred.

PROPOSED ADDITIONS : ADMINISTRATION

i. **Running costs**	165	250	272

Increased workload, impact of pay and other increases

ii. **Capital**	45	38	-21

Operational Strategy computers & buildings, and other accommodation works, excluding DE Agency.

iii. **Other**	1	-3	-3

Excludes agency payment to DE

PROPOSED TOTAL NET CHANGE IN PROVISION	**649**	**1249**	**2563**
(of which running costs	165	250	272)

MANPOWER IMPLICATIONS (HEALTH & SOCIAL SECURITY)

Proposed	92289	91330	86514
Change from present plans -	+739	-220	-5036

SCOTLAND

	1989-90	1990-91	1991-92
			£m
Survey Baseline (1)	5033	5206	5336

NON BLOCK

PROPOSED ADDITIONS

(i) Agriculture (2)	3.6	4.1	2.6

Mainly to maintain fisheries protection through replacing an inshore surveillance aircraft, and to support 6 fisheries harbour projects. Further savings of about £1m are expected in the fishery protection service.

(ii) Regional Development Grant	10.2	4.3	-

Demand determined estimating increases reflecting surge in applications prior to the ending of scheme on 31 March 1988.

(iii) Regional Enterprise Grant	-	-	2.4

To encourage investment by small firms. Objective: increase in investment of £16m in 1991-92 from firms with less than 25 employees.

(iv) Scottish Development Agency	8.1	14.6	17.1

Maintain present level of Agency activity with priorities including environmental renewal, particularly in inner cities and peripheral estates, and inward investment. Objectives include inward investment target of providing nearly 2,000 new jobs over the PES period.

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(1) excluding privatisation programme, NI EFLs and LA relevant expenditure

(2) the agriculture bid is also covered in the Agriculture summary

(v)	Highland and Islands Development Board	3.2	3.6	5.3

Maintain level of developmental activity through additional provision for financial assistance, to provide further advance factory space and to reinforce tourism and product marketing. Targets:650 new jobs over the PES period, and a further 45-60 jobs a year from advance factory space.

TOTAL		25.1	26.6	27.4

PROPOSED REDUCTIONS

(i)	Housing Subsidies	-3.6	-3.8	-
(ii)	Regional Assistance	-	-	-2.4

PROPOSED NET CHANGE IN PROVISION	21.5	22.8	25.0

(Other Programmes

Privatisation	+6.0	+4.0	-0.5

Further costs of privatising Scottish Electricity Boards and bus operations)

Gross Running Costs	+22	+29	+42

Not a Bid: additional costs to be met from within the Block. Bids provide mainly for pay awards and higher accommodation charges, offset in part by efficiency gains.

These bids are additional to the changes arising from the application of the territorial consequences formulae

MANPOWER(Manyears)	1989-90	1990-91	1991-92
Proposed	13027	13127	13124
Change from present plans	818	1065	1181

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WALES

	1989-90	1990-91	1991-92
Survey Baseline	**2,101**	**2,169**	**2,223**

NON BLOCK

PROPOSED ADDITIONS

(i) Welsh Development Agency	**17.5**	**15.8**	**15.4**

Increase baseline by 28%. Key components: (i) more derelict land reclamation - additional 800 hectares over three years; (ii) urban renewal - especially town centre redevelopment; (iii) property development grant triggering private investment providing 600,000 sq ft of factory space over three years.

(ii) RDGs	**26.0**	**23.0**	**11.0**

Demand determined estimating increases reflecting surge in applications prior to closure of scheme on 31 March 1988.

(iii) RSA	**-**	**-**	**10.0**

To maintain existing criteria for assistance despite an increase in forecast industrial investment.

(iv) Other	**0.6**	**0.6**	**0.6**

Mainly for the Development Board for Rural Wales to help to eliminate the deficit on the Newtown housing account, and to meet the cost of promotional activities for industry.

(v) Gross Running Costs	**3.8**	**3.8**	**4.1**

Costs to be met from within the Block. Bids provide mainly for pay awards.

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PROPOSED REDUCTIONS

Housing subsidies	-0.9	-0.9	-
PROPOSED NET CHANGE IN PROVISION	**43.2**	**38.5**	**37.0**

In addition to changes arising from the application of the territorial consequences formula.

MANPOWER

Proposed	2,279	2,270	2,232
Change from present plan	+50	+50	+18

NORTHERN IRELAND

	1989-90	1990-91	1991-92
			£ million
Survey Baseline	5323	5508	5645

PROPOSED ADDITIONS

(i) Law and Order	21.5	41.1	61.1

Mainly for police pay, overtime and allowances but also some extra for compensation schemes). Assumes pay increases higher than GDP, in line with Home Office recommendations. Objectives: to maintain firm and effective enforcement of law, and eradication of terrorism in Northern Ireland.

(ii) Inner City Belfast	23.2	21.2	19.3

Addresses specific economic and social problems, with a view to improving employment, labour market and training, and education. Objective: to help create conditions for greater economic activity, to enhance quality of life, reduce alienation of the community, unemployment, and reduce support for PIRA/Sinn Fein.

(iii) Public Sector Renewal	43	48	53

Extra provision for roads, education and for the health and personal social services. Aim: to reduce backlog of public sector capital maintenance.

(iv) Employment and training measures	12.6	24	30.9

Increased expenditure on Action for Community Employment (ACE) and the introduction of a new employment training programme in parallel with Department of Employment schemes. Target: to provide total available places of over 13,000 in 1989-90 rising to 17,000 in 1991-92.

(v) Community relations	3.7	4.7	5.7

Four separate measures designed to improve community relations. Objective: to foster greater cross-community contact; involve local elected representatives in positive action to promote better community relations; encourage a wider appreciation and understanding of different cultural traditions; and to create a body to provide support and advice for all the bodies working to improve community relations in Northern Ireland.

(vi) ESF/ERDF receipts	1.1	1	1.2

Expected additional expenditure net of trigger payments generated by additional receipts from the ESF and ERDF.

TOTAL	105.1	140	171.2
PROPOSED REDUCTIONS			
(i) Excess assets of the NICF	-52.5	-52	-51.5
(ii) Social Security savings (from Emp and Training measures)	-12.3	-15	-18.4
(iii) Housing loan charges (revised economic assumptions)	-1.8	-1.8	-
(iv) Social Security (revised economic assumptions)	-21.2	-33.8	-23.4
(v) ERDF	-	-0.7	-2.1
PROPOSED NET CHANGE IN PROVISION*	17.3	36.7	75.8

These proposals are for increases in expenditure in addition to any uplift consequent on decisions on GB programmes. Assumed by DFP to be £65m, £80m and £110m.

Gross running costs	50.1	64.9	77.3

Not a PES bid: Increases in running costs to reflect the level of resources required to deliver services in Northern Ireland. They also reflect more realistic figures given that there was no three-year settlement in the last Survey. The PE increases will be contained within the Secretary of State's block budget.

MANPOWER**	1989-90	1990-91	1991-92
Proposed	188	187	187
Change from Present plans	-1	-2	-2

Notes: * Excludes national agriculture schemes.

** Home Civil Service only.

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INLAND REVENUE

	£ MILLION		
	1989-90	1990-91	1991-92
SURVEY BASELINE	1462.2	1535.0	1573.4
(Running costs baseline	1121.2	1154.7	1183.6)

PROPOSED ADDITIONS:

A1 General administrative expenditure	0.5	1.0	1.6

To provide for increases in amounts delegated to local budget holders (other than for pay and accommodation) limited to the Treasury's forecast of the GDP deflator, with no addition for forecast growth in workloads.

A2 Centrally controlled expenditure	0	8.7	19.0

To meet sharply rising costs in other running costs controlled centrally, including computer software and maintenance, and professional assistance.

A3 Manpower	21.4	42.1	57.4

To provide for future pay assumptions above the level of the baseline, offset to some extent by a reduction in manpower volumes (excluding independent taxation) and other efficiency measures including the delegation of work to more junior staff.

A4 Accommodation: current expenditure	3.5	5.9	9.1

To provide for future price rises above the level of the baseline, offset in part by a 1 per cent annual volume reduction.

A5 Independent taxation: current expenditure	33.5	22.4	32.8

To provide for the implementation and running of independent taxation, including identifying new taxpayers, setting up records, training staff, adapting computer systems and, from April 1990, operating new procedures.

A6 Independent taxation: capital	1.6	3.3	3.9

To provide computer equipment and furniture for additional staff.

A7 Collection	1.2	2.5	2.6

To provide extra staff to reduce amounts of tax which have been assessed but not yet collected; extra revenue around £200 million in a full-year.

A8 Developmental training	0.5	0.5	0.5

To provide for more developmental training.

		£ MILLION		
		1989-90	1990-91	1991-92
A9	Information Technology: capital	8.0	24.4	4.0

To provide for projects which have received, or are expected to receive, approval.

A10	Accommodation: capital	7.7	8.3	0

To meet costs of major building works to relieve severe overcrowding, house a new computer installation (financial case in preparation) and refurbishment.

A11	Other: capital	2.2	2.2	0

To provide for other capital expenditure, in particular the purchase of more official cars with savings in travel costs.

PROPOSED REDUCTIONS

B1	LAPR/MIRAS	-62.0	-44.6	-48.5

To reduce the provision in respect of the public expenditure element of mortgage interest relief at source (MIRAS) and life assurance premium relief (LAPR) in the light of Budget changes and revised forecasts of interest rates.

TOTAL	18.1	76.7	82.4
(of which running costs	60.6	83.1	123.0)

MANPOWER	1989-90	1990-91	1991-92
Proposed	68,689	68,811	69,404
Change from present plans	+513	+635	+1,228

OBJECTIVES

1. To enable the department to tackle its expected workloads at the levels of performance, quality and cost set out in detail in its Management Plan and, in particular:

   - to deal with increased numbers of taxpayers, both self-employed and employees,

   - to maintain its compliance operations,

   - to complete the revaluation of non-domestic properties.

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CUSTOMS AND EXCISE

	1989-90	1990-91	1991-92
		£ MILLION	
SURVEY BASELINE	542.4	571.2	585.5
(Running cost baseline	490.2	515.8	528.7)

PROPOSED ADDITIONS:

		1989-90	1990-91	1991-92
A1	**VAT Skills**	5.5	6.8	6.9

To provide for the implementation of 2 scrutiny reports (Barnard and Gudgin). The package includes allowances and special payments, training and recruitment. **Objectives:** to alleviate London staffing problems and improve skills of VAT control officers in face of increasing sophistication of VAT traders. Expected to produce £255 million extra revenue. Cost benefit ratio of 1:13.

A2	**Relocation**	1.0	0.0	0.0

To finance the relocation of some operations from Southend to Bootle. **Objective:** running costs savings in future years. Break even after year 1991-92, thereafter savings of £680,000 per annum.

A3	**Additional staff (VAT)**	1.2	3.3	7.9

To provide for staff required to implement new legislation and, in 1991-92 to meet forecast increases in workloads.

A4	**Full funding for manyears agreed in 1987 Survey (VAT)**	6.4	14.2	22.0

To provide full funding for the level of manyears agreed in the 1987 Survey, after taking account of efficiency savings. **Objectives:** to secure planned outputs: forecast revenue loss if baseline maintained: £150 million in 1989-90 rising to £370 million in 1991-92.

A5	**Full-year funding for 1991-92 manyears (VAT)**	0.0	0.0	3.2

To provide for the full-year costs in 1991-92 of the staff increases agreed for 1990-91 in the 1987 Survey.

A6	**Additional staff (Customs)**	0.1	0.5	4.4

To provide for staff required to implement new legislation and, in 1991-92, to meet forecast increases in workload.

A7	**Full funding for manyears agreed in 1987 Survey (Customs)**	5.3	10.6	13.4

To provide full funding for the level of manyears agreed in the 1987 Survey, after taking account of efficiency savings. **Objectives:** to secure outputs especially in area of anti-drugs effort. Effect of shortfall: loss of drugs seizures and preventive effect equal to more than £140 million at street prices.

A8	**Full-year funding for 1991-92 manyears (Customs)**	0.0	0.0	2.7

To provide for the full-year costs in 1991-92 of the staff increases agreed for 1990-91 in the 1987 Survey.

	1989-90	1990-91	1991-92
		£ MILLION	
A9 Non-running costs current expenditure	0.3	0.2	0.2

To provide for legal fees which will become payable under the Criminal Justice Bill,and volume increase in Bailiff's fees. **Objective:** to reduce the amount of VAT outstanding from taxpayers and to investigate the assets of non-drugs offenders of a cost ratio benefit of 1:8.

	1989-90	1990-91	1991-92
A10 Information Technology: capital	0	3.0	13.6

Cost of CHIEF project in accordance with the approved business case and, in 1991-92, of the initial stages of the essential replacement of VAT computer system. **Objective:** to provide enhanced successors to existing freight handling system and VAT system.

	1989-90	1990-91	1991-92
A11 Accommodation: capital	0.8	2.5	4.0

To fund relocation as part of dispersal from London in 1989-90 and additional accommodation and refurbishments in last 2 years mainly for new LVOs in London area and essential requirements at ports and airports. **Objective:** to meet accommodation needs of expanding Department.

	1989-90	1990-91	1991-92
A12 Other: capital	1.0	0	1.0

For equipment relating to preventive work.

	1989-90	1990-91	1991-92
		£ MILLION	
PROPOSED REDUCTIONS			
B1 Appropriations in Aid	- 0.3	- 0.7	- 0.8

Increases in Appropriations in Aid.

TOTAL	21.3	40.4	78.4
(of which running costs	19.5	35.4	60.5)

MANPOWER	1989-90	1990-91	1991-92
Proposed	27,458	28,052	28,670
Change from present plans	+ 65	+ 222	+ 840

Main Targets in PES Management Plan

i. £4.3 billion VAT from control visits.

ii. Drugs seizures, and prevention of drugs smuggling equal to £1 billion 'value' at street prices.

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CHANCELLOR'S SMALL DEPARTMENTS

			£ million
	1989-90	1990-91	1991-92
Survey baseline	592	583	600
Proposed additions			
Department for National Savings	2.7	2.7	3.0
Major repairs to the fabric of the National Savings Bank building in Glasgow.			
HM Treasury	9.8	0.9	15.0
Increased expenditure on coinage			
Rating of Government Property Department	9.0	9.0	10.0
Consequences of rates set in 1988-89 and changes in economic assumptions			
Other	-	-	0.9
Proposed net change in provision	30.5	12.6	28.9
(of which running costs	0.6	1.0	2.9)
Manpower			
Proposed	11,767	11,744	11,728
Change from present plans	+29	+22	+6

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PROPERTY SERVICES AGENCY

	£ million		
	1989-90	**1990-91**	**1991-92**
Survey Baseline	-163.1	-162.1	-166.2

[The baseline figures are negative largely because receipts under the Property Repayment Services (PRS) system exceed PSA's expenditure charged to programme 14.1 as a result of departments being charged a market rent on freehold as well as leasehold property.]

PROPOSED ADDITIONS

		1989-90	1990-91	1991-92
(i)	Major new works (Office and General Accommodation)	20.0	27.0	30.0

To meet the cost of top priority projects - health and safety, "Out on the street" and urgent operational needs and some priority 2 (strong operational case) projects in 1990-91 and 1991-92.

		1989-90	1990-91	1991-92
(ii)	Major new works - Estate	1.2	3.0	3.9

Rationalisation

To fund spend to save estate rationalisation schemes with a pay back within five years.

		1989-90	1990-91	1991-92
(iii)	Major new works - Consultants fees	1.5	3.5	3.5

To meet anticipated shortfall in fees provision for forecast work load in relation to works bids.

		1989-90	1990-91	1991-92
(iv)	Freehold purchases	5.0	5.0	5.0

To provide provision for freehold purchases to mitigate the increase in rent payments

(v)	Rents	21.8	64.4	86.0

To fund increases in rent payments to private landlords

(vi)	Rates on Vacant Accommodation	2.6	2.3	2.5

To meet shortfall between present provision and forecast of future rate payments.

(vii)	Maintenance (work including directly employed labour)	0.0	10.0	15.0

To provide an increased provision to enable the backlog of priority 1 and 2 work to be substantially eliminated by no later than the mid-1990s.

(viii)	Maintenance (consultants fees)	2.0	3.0	4.0

To provide increased provision to achieve the planned level of maintenance works spending throughout the PES period.

(ix)	Departmental administration (net)	6.4	6.8	6.9

To reflect anticipated shortfall in receipts

(x)	London Conference Estate (net)	0.2	0.5	1.0

To meet an anticipated shortfall in provision for administration expenditure throughout the PES period and a 40 per cent increase in rates in 1991-92 partly offset by reductions and reduced requirements.

TOTAL	60.7	125.5	157.8

PROPOSED REDUCTIONS

(i) Disposals	-2.0	0.0	-3.8

Increased disposal receipts

(ii) Rent and service charge receipts	-2.7	-3.2	-4.1

Increased receipts arising from rent reviews for commercial tenants and renewals of memoranda of terms for traditional repayment rents.

(iii) PRS receipts	-30.0	-50.0	-80.0

Increased rent receipts arising from departments' payments being uplifted to reflect current market levels.

TOTAL	-34.7	-53.2	-87.9
PROPOSED NET CHANGE IN PROVISION	+26.0	+72.3	+69.9
(of which running costs(1)	+7.9	+8.2	+9.4)

	1989-90	1990-91	1991-92
MANPOWER	21,992	21,891	21,891
Change from present plans (2)	-331	-363	-409

NOTES

1. Includes PSA's proposed increase in running costs expenditure attributed to other PES programmes.	1.7	1.6	1.5

2. Further savings will depend on decisions on the allocation of work between in-house resources and consultants.

OTHER DEPARTMENTS

			£ million
	1989-90	1990-91	1991-92
Survey baseline	397	415	425
Proposed additions			
Cabinet Office	1.0	8.3	5.8

Mainly information technology and telecommunications projects.

Office of the Minister for the Civil Service	3.5	4.2	4.2

Training, setting up "Next Steps" team and additional recruitment schemes.

Charity Commission	4.2	5.6	4.5

Implementation of Woodfield reforms

Land Registry	0.1	-0.5	-1.2

Increases in administrative and capital spending, offset by receipts from fees.

Public Record Office	4.0	5.0	5.8

Running costs (increases in pay and accommodation costs, personnel overheads and office services). Aim: to maintain services to departments and the public. Also capital (new building and information technology strategy costs).

Office of Population Censuses and Surveys	3.0	5.7	42.9

Mainly for preparation for and taking of the 1991 Census.

Others	9.9	11.0	12.8
Proposed net change in provision	25.7	39.3	74.8
(of which running costs	23	27.5	66)
Manpower			
Proposed	9497	9330	9324
Change from present plans	-28	-148	-324

jc18

SECRET

From: J ODLING-SMEE
1st July 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir Peter Middleton
Mr Anson
Sir Terence Burns
Sir Geoffrey Littler
Mr Scholar
Mr Sedgwick
Mr Turnbull

AA per ~~[illegible]~~ spk

CABINET PAPER

I attach a draft of your paper on economic prospects for Cabinet on 14 July. The table at the end contains the usual variables, although Mr Anson has suggested that we might also include the GDP deflator [because it suggests a sharper rise in inflation than the RPI]. The figures for 1988 are from the forecast which will be discussed at your meeting on 5 July.

because Departments will want to know (J Anson correction!)

Discuss after assumptions mtg.

JO-S

J ODLING-SMEE

Ch

Quite a few drafting suggestions.

Not easy to get the tone right.

But major question is what figures we put in for 1988, for RPI & current a/c in particular.

AA

But I would not say what I'd like to make ct a/c a whole number — £9bn.

OK for them as am by your mtg: we will have to look @ figs again after assumptions mtg.

econcab

SECRET

DRAFT

CABINET

at the time of the Budget

ECONOMIC PROSPECTS

we cannot afford to be complacent, or to relax our vigilance

Memorandum by the Chancellor of the Exchequer

The British economy has been performing ~~very~~ well in recent years, ~~helped by~~ thanks to prudent monetary and fiscal policies and ~~our~~ supply side ~~policies~~ reforms. Growth this year is turning out stronger than expected and may reach 4%. Unemployment has fallen by over 500,000 over the last 12 months and is now ~~below 9%~~. lower than any other major European country except Germany.

2. But ~~there are clear dangers.~~ Inflationary pressures ~~are increasing~~ remain, and the current account of the balance of payments has moved sharply into deficit. Domestic demand is higher than expected and the economy is growing ~~quicker~~ faster than is sustainable in the medium term - even allowing for the supply side improvement which has undeniably taken place.

3. In the circumstances the top priority must be to support and strengthen the prudent monetary and fiscal policies which have buttressed the good performance of the economy. It would be very ~~dangerous~~ damaging for the public sector to add any more to the demands which the private sector is putting on the economy. This would further increase ~~the~~ upward pressure ~~which is already evident~~ on prices and interest rates, and ~~It~~ could seriously damage confidence both internally and externally.

4. But ~~Provided that~~ we ~~can~~ maintain our sound financial policies, ~~a tight budgetary position and adjust interest rates appropriately we should be able to contain inflationary pressures and cope with the balance of payments deficit without undue alarm.~~ The private sector ~~will be able to~~ should have no difficulty financing the investment boom which is currently adding to domestic demand and we can ~~look for~~ expect a recovery in personal savings.

5. We must at the same time continue to focus our attention on improving the supply performance of the economy. A lower tax burden and falling share of public expenditure in the economy are essential components of this policy. To achieve them requires continued restraint on spending.

there is no reason why we should be blown off course. Our underlying position is strong, and we have built up larger net external assets than any other country except Japan.

WORLD ECONOMY

6. Growth in the world economy picked up strongly in the second half of last year, and the signs are that this buoyancy has continued in the first half of 1988. World trade growth in 1988 could be the fastest since 1984.

7. A number of factors underlie this unexpectedly strong growth : the beneficial effects of the oil price fall have probably ~~occurred~~ come through later than expected; the major economies, ~~including~~ notably Japan, appear to have adjusted well to earlier sharp changes in exchange rates; the newly industrialised and some middle income economies have been growing rapidly; and the ~~deleterious~~ potentially harmful effects of the stock market collapse were ~~greatly exaggerated.~~ successfully avoided.

8. Buoyant activity has so far had little effect on consumer price inflation in the major economies. There are, however, emerging signs of inflationary pressures. Commodity prices have risen by 50% during the last year, albeit from a very depressed level. In response there have already been some rises in interest rates.

9. Whether the world economy grows at a sustainable rate with low inflation beyond this year will ~~partly~~ largely depend on the policies followed by the major countries. The G7 will need to ensure that any signs of rising inflation ~~will be~~ are dealt with promptly; ~~and firmly;~~ that that ~~policies in the large economies - especially the US - ensure the steady reduction in external~~ continued progress is made in reducing ~~imbalances;~~ imbalances (in particular the US budget deficit); and that there is no repetition of the wild swings in exchange rates of the early 1980s.

THE BRITISH ECONOMY

10. ~~With large discrepancies in the official economic statistics, it is difficult to know how the economy has been performing so far this year.~~ The annex summarises the most recent Treasury assessment. The prospect for the UK is for another year of strong growth, for the seventh year running, at a rate closer to 4% than the 3% I predicted at the time of the budget. Manufacturing output has been ~~growing~~ particularly strongly; it ~~had now~~ has already passed the 1979 peak and should soon pass the all-time peak ~~level~~ recorded in 1974. With such strong growth employment should continue to rise and unemployment to fall.

11. Domestic demand ~~appears to be~~ has so far been growing very rapidly in 1988. Consumers' expenditure continues to rise strongly, but the main contrast with earlier years is the surge in investment as companies ~~and~~ including foreign investors take advantage of the highest rates of return in the UK since the early 1960s. Surveys of investment intentions and figures for orders - notably for construction - all demonstrate the strength of this investment boom.

12. There have been some worries on capacity shortages. But Only in the construction sector are there clear signs that the industry is working close to its limits. Construction ~~Output~~ output rose by 10½% in the year to the first quarter of 1988, and orders are very high. This has inevitably put upward pressure on Construction costs. ~~are beginning to accelerate.~~ Elsewhere, CBI surveys show that manufacturing companies expect to be able to cope with likely demand in 1988, despite strong order books.

~~partly~~ changes as a result of higher mortgage ~~interest~~ rates.

13. Inflation at the end of this year ~~could be~~ is likely to turn out higher than the budget forecast, ~~though movements in the RPI will be amplified by fluctuations in the mortgage rate.~~ Pay is continuing to grow more rapidly than is desirable, especially in the public sector. A slowdown would improve the prospects for both inflation and employment.

level amplified by the

14. It was always likely that the current account would move into deficit during a period of strong investment growth. So far this year the recorded current account deficit has been running ~~at a rate~~ well above the budget forecast, ~~It now looks as if the deficit for the year as a whole could be just below £10 billion (2% of GDP).~~ at an annual rate equivalent to about 2 per cent of GDP.

15. A deficit on this scale is unusual but can ~~probably be sustained if~~ readily be financed provided we continue to pursue sound financial policies, balance the budget, keep downward pressure on inflation and thereby maintain the confidence of financial markets. The counterpart of the move into balance of payments deficit has been a rise in private investment and a fall in private saving, not an increase in public sector borrowing, on the contrary. Deficits associated with high private investment are sustainable, and those associated with low private saving are likely to be reversed in time. But deficits that result from excessive public borrowing - the usual case in the era

There is a marked contrast between our present circumstances and earlier periods of current account deficit, in that public sector borrowing is now negative — we are repaying debt. The implication is that the

~~of stop-go policies - cause longer-term problems. Even though we are not in this position,~~ there ~~is~~ must be a risk with a deficit of the size now ~~being forecast~~ that market sentiment will turn against us, especially if markets sense that we are ~~loosening monetary or fiscal policies.~~ losing our grip on either monetary policy or public spending.

Conclusion

16. Confidence at home and abroad in the UK ~~is~~ remains high. We must keep it so. ~~The strength of the exchange rate and the buoyant surveys of investment intentions are evidence of this. Businessmen and markets believe that the enterprise economy is thriving, that we shall maintain~~ firm financial policies to ~~prevent~~ bear down on inflation ~~rising as the economy booms~~ and ~~that we shall~~ avoid expenditure commitments now which may be unsustainable as economic growth moderates. Recent rises in interest rates have ~~justified their belief by~~ demonstrated ~~demonstrating~~ our determination to tighten as and when necessary ~~on~~ monetary policy. We must show the same determination in the restraint of public spending.

And it means that we must

It is essential that we follow

17. ~~I therefore commend to colleagues~~ the recommendations in the Chief Secretary's paper.

That will require a continuation of

current account deficit is a consequence of private sector behaviour, which will in time be self-correcting. Nonetheless,

SECRET

ANNEX

MAJOR ECONOMIC INDICATORS

	UK				FSBR	G7 excl UK
	1985	1986	1987	1988		1988
A. Demand Activity						
GDP	3½	3	4½	4	3	4
Domestic demand	3	4	4	6	4	4
of which						
- consumers' expenditure	4	6	5	6	4	3
- fixed investment	3	0	4	10½	6½	7½
Exports of Goods & Services	6	3	5½	2	3	7½***
Imports of goods & Services	2½	6½	7½	9	6½	9½***
B. Inflation (Q4 on year earlier)						
RPI	5½	3½	4	5		3
Average earnings	7	8	8	9½	9?	3½†
C. Other items (levels)						
Current balance (£bn)	3½	0	-1½	~~-9½~~ -9		-13
Unemployment (per cent, narrow definition)	11½	11½	10½	8½		6½
3 month interest rate	12	11	9½	10*		6½*
Sterling index (1980=100)	78	73	73	75*		-
Oil price (Brent, $barrel)	27	14	18	14**		-

May be better left @ 5 given present variant with higher IR has 5½

Do as % GDP?

* close Thursday 30 June
** Brent 15-day delivery
*** goods only
† manufacturing earnings

GDP deflator (if we give it) (financial years) 5 5¾ — ?

(cf 4½ in FSBR)

NH6/27M

SECRET

BE ~~5/7~~

pmp.

passed on

FROM: MISS M P WALLACE

DATE: 4 July 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr Phillips
Mr Luce
Mr D Moore
Mr Odling-Smee
Mr Turnbull
Mr MacAuslan
Mr S Davies
Mr Gieve
Mr Potter
Miss Walker
Mr Call
Mr Anson

Ch/absolute silence from rest of the world so, if you have no further thoughts on this, and are content with ACSA's draft opening paras (flag X) CST's can send over tomorrow? mpw 5/7

some v. minor changes

OK.

PUBLIC EXPENDITURE PAPER FOR CABINET: 14 JULY

The Chancellor has seen Mr Anson's minute of 1 July, covering Mr MacAuslan's submission of the same date.

2. The Chancellor is inclined to agree with Mr Anson's recommendations that the "hit list" paragraph 8 should be omitted, but paragraph 9, and the existing formula for the remit retained.

3. The Chancellor has a number of detailed comments on the text, which I have marked in manuscript on the attached version. He also suggests a slightly different approach for the opening paragraphs: I attach (Annex B) his alternative.

mpw.

MOIRA WALLACE

SECRET

[ANNEX A]

DRAFT CHIEF SECRETARY PAPER FOR CABINET 14 JULY

Redraft as at Annex B

[1. Our policy is to keep public spending falling steadily as a proportion of national income. This will enable us to shift the balance of economic activity towards the private sector, and to reduce taxation - and in particular, to reduce the basic rate towards the target we have set of 20p. It will help us to maintain sound finances, keep downward pressure on inflation, and retain the confidence of the markets.

2. Our firm grip on public expenditure over recent years has allowed us to reduce General Government Expenditure as a share of GDP to its lowest level since the early 1970s. We have balanced the budget, while reducing both the higher and basic rates of income tax. The resulting strength in the economy has enabled us to deliver a controlled growth in public expenditure, along with a steady shift of resources into priority areas. This is in contrast to the destabilising surges and cuts in public expenditure inherent in previous stop-go cycles.]

3. There remains a major task ahead of us. The overall burden of tax (excluding the North Sea), at 37.7 per cent, is still well above the 34.3 per cent figure we inherited in 1979. If we are to get below that figure, and [achieve the objectives in paragraph 1 above] public expenditure must continue to grow significantly less rapidly than GDP.

maintain confidence.

4. But the plans in the last Public Expenditure White Paper involve growth in expenditure only just below that of GDP - an average of 2¼ per cent real growth a year in spending on departmental programmes (ie the planning total excluding privatisation proceeds), compared with a reasonable assumption for the trend growth of the economy of 2½ per cent a year.

The bids

5. The baselines for this year's Survey are based on those plans. They total £172.1 billion in 1989-90, £181.2 billion in 1990-91, and, with an uplift factor of 2½ per cent, £188.9 billion for 1991-92. Departments were 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. My minute of [7 July] to the Prime Minister summarised the bids received from departments. In addition we must take account of higher expected net payments to the EC, and of pressures for extra provision for local authority relevant current expenditure and for the nationalised industries.

6. The size of these bids clearly puts our objectives at risk. If anything like this were accepted, the growth rate in real terms of the planning total (excluding privatisation proceeds) would ~~not be less than~~ exceed that of the economy as a whole. ~~on the contrary it would exceed it.~~ Public expenditure would rise as a percentage of GDP, as would the tax burden. There would be ~~little~~ no prospect of progress towards a 20p basic rate. This would ~~end, and indeed~~ reverse~~,~~ the progress we have hitherto made towards our objectives. ~~There would no doubt be a reappraisal of the Government's financial standing in the markets.~~ We would be seen in the financial markets and more generally as having lost our grip on public expenditure, at a time when the battle against inflation clearly calls for restraint; and as having built up massive spending commitments for the period up to 1991 on the basis of the exceptional rate of economic growth in 1987 and 1988 which is not sustainable over ~~several~~ a period of years. Letting expenditure rip in this way could only lead to painful retrenchment later in this Parliament - precisely the kind of short term reversal that our careful planning has enabled us to avoid.

7. If these consequences are to be avoided, we need to keep as close as possible to the existing planning totals, and ensure that the ratio of total public expenditure (excluding privatisation proceeds) to GDP continues to decline steadily over the three Survey years. To achieve this, the bids will need to be substantially scaled back, and we shall need to look for policy changes and other savings to help offset them.

[8. In particular, the bids for education and science, transport and the Home Office represent very large increases over the baselines (rising to 18%, 26% and 33% of the respective baselines in the last year) and will need to be scaled back very considerably. Difficult decisions will be needed on social security and defence. The bids for health will need careful scrutiny; in particular, they include large elements for capital expenditure which would only add upward pressures on current expenditure in later years. And we need to find savings on industry and agriculture - and, with unemployment falling fast and at its lowest since 1981, we should be looking for net reductions in the DE programme after its exceptional rise during the 1980s.]

omit

X 9. In particular For a number of years the Government's capital programmes have benefited from increases in construction prices below those of inflation generally. But there are now clear signs that pressures in the construction industry are causing prices to move against us. A number of the bids have a large construction content; we will need to consider very carefully whether we should

X be adding to those pressures, which may well exceed the industry's physical capacity to deliver.

Running Costs

10. Running costs bids are also high. They imply a real rise of 5% in Civil Service costs in 1989-90 over 1988-89, an increase

X in Civil Service numbers of 20,000 ~~over present levels~~ to more

X than 600,000 by 1991-92, and a rise in the share of ~~the last White~~

X ~~Paper's planning totals~~ public expenditure devoted to administration.

11. We should be criticised for reversing our past achievements on Civil Service manpower and losing control of Civil Service costs if we were to allow increases on anything like this scale. I hope therefore that colleagues will cooperate in settlements which will enable me, as agreed last year, to hold roughly constant the running costs share in planned expenditure. This means that all departments will need to settle for less than their bids, in most cases substantially less.

12. I am grateful to colleagues for the personal impetus they have given to this process ~~the development of management plans~~. We agreed last year that ~~these should be associated with the settlement of~~ realistic three-year running costs ~~baselines across each three-year Survey period. A number of Ministers have said they find this new discipline valuable~~. settlements would be conditional on the development of satisfactory management plans.

13. In a few cases it is doubtful whether [~~the management material~~] there is yet [~~provides~~] a satisfactory framework for adjusting provision. In [~~most, however, there is evidence of serious forward planning for efficiency improvements, though~~] some cases there should be scope for aiming for clearer and more ambitious efficiency targets. I shall ask my officials to explore that scope with departments before the bilaterals.

14. For departments with satisfactory management plans underpinning agreed three-year settlements, I should be willing, on a limited scale, to consider a small extra margin of provision where they commit themselves to increasing receipts for services for which they charge and for which demand pressures are strong. I also propose in future White Papers to show administration costs both gross and net of receipt income.

15. These small modifications to the running costs system are outlined in the annex. They should provide some increase in flexibility and bring out more clearly the costs of financing Government administration. They give no ground for relaxing our efforts to contain these costs, or for the unacceptably high level of bids received in this Survey.

<u>Nationalised industries</u>

16. Some of the nationalised industries are already bidding for more than their baseline provision, and all of them have the opportunity to put in revised bids this month. I propose that our aim should be to [~~reduce the total~~] keep overall provision at [least to] baseline or less and to bring individual industries below it where that is possible. We plan to privatise the Water and the Electricity industries during the present Survey period. We will need,

therefore, to take account of the loss of their substantial negative External Financing Requirements; this will need careful handling in the Autumn Statement, although it does not become a major factor until the last of the Survey years, 1991-92. In the meantime, we should continue to examine their plans rigorously - as for the other industries - bearing in mind the implications both for public expenditure while they remain within the public sector and for proceeds when they are privatised.

Local authority current expenditure

17. [Local Authorities: to be completed next week when position clearer].

Conclusion

18. I ask Cabinet:

(i) to agree that public expenditure should be held as close as possible to the existing planning totals, and that, after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue to decline steadily over the three Survey years.

(ii) to agree that the share of running costs in planned public expenditure should be held constant; and to agree the proposals in the Annex.

(iii) to note that, to secure these objectives, bids for expenditure and running costs will need to be substantially cut back and difficult decisions will have to be faced in ~~a~~ ~~number of~~ many areas ~~[including those noted in paragraph 8]~~.

(iv) to agree that we should aim to hold the External Financing Limits of the nationalised industries at least to baseline and where possible below.

(v) [local authorities - to be completed next week].

(vi) To agree that I should now conduct bilaterals with colleagues on their spending programmes, and to note that, if it proved impossible to reach agreement in these discussions, it might be necessary at the appropriate time to establish a small group which would consider outstanding issues and make recommendations to the Cabinet.

TREASURY CHAMBERS [JM]
JULY 1988

DRAFT CHIEF SECRETARY'S PAPER FOR CABINET; 14 JULY

Our objective is to bring public spending down progressively as a proportion of national income. Over the past five years we have succeeded in achieving this, reversing the overall trend of the previous [1960s + 70s] years. As a result of our success in this, and in our supply side reforms, we have been able to combine a steady but controlled growth of public expenditure in real terms with a reduction in borrowing and with reductions in personal taxation.

These policies have laid the foundation for our economic success. And it is because the economy has been strong that we have been able to afford a steady shift of resources into our priority public spending programmes. It is particularly important that we continue to follow these policies, given the over-riding need to maintain confidence both at home and overseas, as the Chancellor points out in his paper.

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

I v. much agree. Pse draft something along these lines.

Ch

I think the tone of paragraph 1 & 2 is v odd. Will colleagues sign up to "shifting the balance of economic activity towards the private sector", given that we have reduced "GGE as a share of GDP to its lowest level since the early 1970s". Won't they say enough is enough?

I'd prefer something which followed last year's pattern:

(i) succeeded in ↓ GGE/GDP over five years now

(ii) this has enabled us to achieve tax cuts

(iii) laid foundations for economic success

(iv) particularly important we continue

it given points in Ch's paper.

Would you like something on these lines drafted?

AH

[ANNEX A]

DRAFT CHIEF SECRETARY PAPER FOR CABINET 14 JULY

4/7/88.

Redraft as at Annex B

[1. Our policy is to keep public spending falling steadily as a proportion of national income. This will enable us to shift the balance of economic activity towards the private sector, and to reduce taxation - and in particular, to reduce the basic rate towards the target we have set of 20p. It will help us to maintain sound finances, keep downward pressure on inflation, and retain the confidence of the markets.

2. Our firm grip on public expenditure over recent years has allowed us to reduce General Government Expenditure as a share of GDP to its lowest level since the early 1970s. We have balanced the budget, while reducing both the higher and basic rates of income tax. The resulting strength in the economy has enabled us to deliver a controlled growth in public expenditure, along with a steady shift of resources into priority areas. This is in contrast to the destabilising surges and cuts in public expenditure inherent in previous stop-go cycles.]

3. There remains a major task ahead of us. The overall burden of tax (excluding the North Sea), at 37.7 per cent, is still well above the 34.3 per cent figure we inherited in 1979. If we are to get below that figure, and achieve the objectives in paragraph 1 above, public expenditure must continue to grow significantly less rapidly than GDP.

4. But the plans in the last Public Expenditure White Paper involve growth in expenditure only just below that of GDP - an average of 2¼ per cent real growth a year in spending on departmental programmes (ie the planning total excluding privatisation proceeds), compared with a reasonable assumption for the trend growth of the economy of 2½ per cent a year.

The bids

5. The baselines for this year's Survey are based on those plans. They total £172.1 billion in 1989-90, £181.2 billion in 1990-91, and, with an uplift factor of 2½ per cent, £188.9 billion for 1991-92. Departments were 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. My minute of [7 July] to the Prime Minister summarised the bids received from departments. In addition we must take account of higher expected net payments to the EC, and of pressures for extra provision for local authority relevant current expenditure and for the nationalised industries.

6. The size of these bids clearly puts our objectives at risk. If anything like this were accepted, the growth rate in real terms of the planning total (excluding privatisation proceeds) would ~~not be less than~~ exceed that of the economy as a whole. ~~- on the contrary it would exceed it.~~ Public expenditure would rise as a percentage of GDP, as would the tax burden. There would be ~~little~~ no prospect of progress towards a 20p basic rate. This would ~~end, and indeed~~ reverse~~,~~ the progress we have hitherto made towards our objectives. ~~There would no doubt be a reappraisal of the Government's financial standing in the markets.~~ We would be seen in the financial markets and more generally as having lost our grip on public expenditure, at a time when the battle against inflation clearly calls for restraint; and as having built up massive spending commitments for the period up to 1991 on the basis of the exceptional rate of economic growth in 1987 and 1988 which is not sustainable over ~~several~~ a period of years. Letting expenditure rip in this way could only lead to painful retrenchment later in this Parliament - precisely the kind of short term reversal that our careful planning has enabled us to avoid.

7. If these consequences are to be avoided, we need to keep as close as possible to the existing planning totals, and ensure that the ratio of total public expenditure (excluding privatisation proceeds) to GDP continues to decline steadily over the three Survey years. To achieve this, the bids will need to be substantially scaled back, and we shall need to look for policy changes and other savings to help offset them.

[8. In particular, the bids for education and science, transport and the Home Office represent very large increases over the baselines (rising to 18%, 26% and 33% of the respective baselines in the last year) and will need to be scaled back very considerably. Difficult decisions will be needed on social security and defence. The bids for health will need careful scrutiny; in particular, they include large elements for capital expenditure which would only add upward pressures on current expenditure in later years. And we need to find savings on industry and agriculture - and, with unemployment falling fast and at its lowest since 1981, we should be looking for net reductions in the DE programme after its exceptional rise during the 1980s.]

omit

in particular

9. For a number of years the Government's capital programmes have benefited from increases in construction prices below those of inflation generally. But there are now clear signs that pressures in the construction industry are causing prices to move against us. A number of the bids have a large construction content; we will need to consider very carefully whether we should be adding to those pressures, which may well exceed the industry's physical capacity to deliver.

Running Costs

10. Running costs bids are also high. They imply a real rise of 5% in Civil Service costs in 1989-90 over 1988-89, an increase in Civil Service numbers of 20,000 ~~over present levels~~ to more than 600,000 by 1991-92, and a rise in the share of ~~the last White Paper's planning totals~~ public expenditure devoted to administration.

11. We should be criticised for reversing our past achievements on Civil Service manpower and losing control of Civil Service costs if we were to allow increases on anything like this scale. I hope therefore that colleagues will cooperate in settlements which will enable me, as agreed last year, to hold roughly constant the running costs share in planned expenditure. This means that all departments will need to settle for less than their bids, in most cases substantially less.

12. I am grateful to colleagues for the personal impetus they have given to this process ~~the development of management plans~~. We agreed last year that ~~these should be associated with the settlement of~~ realistic three-year running costs ~~baselines across each three-year Survey period. A number of Ministers have said they find this new discipline valuable.~~ settlements would be conditional on the development of satisfactory management plans.

13. In a few cases it is doubtful whether ~~the management material~~ there is yet ~~provides~~ a satisfactory framework for adjusting provision. In ~~most, however, there is evidence of serious forward planning for efficiency improvements, though~~ some cases there should be scope for aiming for clearer and more ambitious efficiency targets. I shall ask my officials to explore that scope with departments before the bilaterals.

14. For departments with satisfactory management plans underpinning agreed three-year settlements, I should be willing, on a limited scale, to consider a small extra margin of provision where they commit themselves to increasing receipts for services for which they charge and for which demand pressures are strong. I also propose in future White Papers to show administration costs both gross and net of receipt income.

15. These small modifications to the running costs system are outlined in the annex. They should provide some increase in flexibility and bring out more clearly the costs of financing Government administration. They give no ground for relaxing our efforts to contain these costs, or for the unacceptably high level of bids received in this Survey.

Nationalised industries

16. Some of the nationalised industries are already bidding for more than their baseline provision, and all of them have the opportunity to put in revised bids this month. I propose that our aim should be to ~~reduce the total~~ keep overall provision at least to baseline or less and to bring individual industries below it where that is possible. We plan to privatise the Water and the Electricity industries during the present Survey period. We will need,

therefore, to take account of the loss of their substantial negative External Financing Requirements; this will need careful handling in the Autumn Statement. In the meantime, we should continue to examine their plans rigorously - as for the other industries - bearing in mind the implications both for public expenditure while they remain within the public sector and for proceeds when they are privatised.

although it does not become a major factor until the last of the Survey years, 1991-92

Local authority current expenditure

17. [Local Authorities: to be completed next week when position clearer].

Conclusion

18. I ask Cabinet:

(i) to agree that public expenditure should be held as close as possible to the existing planning totals, and that, after excluding privatisation proceeds, the ratio of total public expenditure to GDP should continue to decline steadily over the three Survey years.

(ii) to agree that the share of running costs in planned public expenditure should be held constant; and to agree the proposals in the Annex.

(iii) to note that, to secure these objectives, bids for expenditure and running costs will need to be substantially cut back and difficult decisions will have to be faced in ~~a~~ ~~number of~~ many areas ~~[including those noted in paragraph 8]~~.

(iv) to agree that we should aim to hold the External Financing Limits of the nationalised industries at least to baseline and where possible below.

(v) [local authorities - to be completed next week].

(vi) To agree that I should now conduct bilaterals with colleagues on their spending programmes, and to note that, if it proved impossible to reach agreement in these discussions, it might be necessary at the appropriate time to establish a small group which would consider outstanding issues and make recommendations to the Cabinet.

TREASURY CHAMBERS [JM]
JULY 1988

mjd 1/208A

SECRET

[ANNEX B]

DRAFT CHIEF SECRETARY'S PAPER FOR CABINET; 14 JULY

Our objective is to bring public spending down progressively as a proportion of national income. Over the past five years we have succeeded in achieving this, reversing the trend of the previous [ ] years. As a result of our success in this, and in our supply side reforms, we have been able to combine a steady but controlled growth of public expenditure in real terms with a reduction in borrowing and with reductions in personal taxation.

These policies have laid the foundation for our economic success. And it is because the economy has been strong that we have been able to afford a steady shift of resources into our priority public spending programmes. It is particularly important that we continue to follow these policies, not least given the over~~-~~riding need to maintain confidence both at home and overseas, as the Chancellor points out in his paper.

mjd 1/209A

SECRET

FROM: A C S ALLAN
DATE: 4 July 1988

MR ODLING-SMEE

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Scholar
Mr Sedgwick
Mr Turnbull

CABINET PAPER ON ECONOMIC PROSPECTS

The Chancellor was most grateful for your minute of 1 July and the draft of his paper on economic prospects for Cabinet on 14 July. He has amended the draft slightly, and I attach a revised version. I should be grateful for any comments; the Chancellor may want to make some further amendments himself.

3. He would like to discuss what figures should go in the Annex immediately after the meeting tomorrow on Economic Assumptions for Public Expenditure.

ACSA

A C S ALLAN

SECRET

Which we have recently countering counter had to by raising rates by ~~...~~ interest 2½% from new low point at the beginning of that month; and

CHANCELLOR'S CABINET PAPER ON ECONOMIC PROSPECTS

The British economy has been performing well in recent years, thanks to prudent monetary and fiscal policies and supply side reforms. Growth this year is turning out stronger than expected at the time of the Budget, and may reach 4 per cent. Unemployment has fallen by over 500,000 over the last 12 months, and is now lower than any other major European country except Germany.

~~[2 options for where this goes]~~

2. But we cannot afford to be complacent, or to relax our vigilance. Inflationary pressures remain, ~~and~~ the current account of the balance of payments has moved sharply into deficit. Domestic demand is higher than expected and the economy is growing faster than is sustainable in the medium term - even allowing for the supply side improvement which has undeniably taken place.

~~and that is why we have raised interest rates by 2½ per cent over the last month and a half, from the low point in mid-May.~~

3. In these circumstances the top priority must be to support and strengthen the prudent monetary and fiscal policies which have butressed the good performance of the economy. It would be very damaging if the public sector were to add any more to the demands which the private sector is putting on the economy. That would further increase upward pressure on prices and on interest rates, and could seriously damage confidence both internally and externally.

4. But provided that we maintain our sound financial policies, there is no reason why we should be blown off course. Our underlying position is strong, and we have built up larger net external assets than any other country except Japan. The private sector should have no difficulty financing the investment boom which is currently adding to domestic demand, and we can expect a recovery in personal savings.

~~See JOS note~~

~~from at home and abroad~~

, from a combination of domestic and overseas sources,

5. We must at the same time continue to focus our attention on improving the supply performance of the economy. A lower tax burden and falling share of public expenditure in the economy are essential components of this policy. To achieve them requires continued restraint on spending.

WORLD ECONOMY

6. Growth in the world economy picked up strongly in the second half of last year, and the signs are that this buoyancy has continued in the first half of 1988. World trade growth in 1988 could be the fastest since 1984.

7. A number of factors underlie this unexpectedly strong growth: the beneficial effects of the oil price fall have probably come through later than expected; the major economies, notably Japan, appear to have adjusted well to earlier sharp changes in exchange rates; the newly industrialised economies and some middle income countries have been growing rapidly; and the potentially harmful effects of the stock market collapse were successfully avoided.

8. Buoyant activity has so far had little effect on consumer price inflation in the major economies. There are, however, emerging signs of inflationary pressures. Commodity prices have risen by 50 per cent during the last year, albeit from a very depressed level. In response there have already been some rises in interest rates.

9. Whether the world economy grows at a sustainable rate with low inflation this year will largely depend on the policies followed by the major countries. The G7 will need to ensure that any signs of rising inflation are dealt with promptly; that continued progress is made in reducing imbalances (in particular the US Budget deficit); and that there is no repetition of the wild swings in exchange rates of the early 1980s.

THE BRITISH ECONOMY

10. The prospect for the UK is for another year of strong growth, for the seventh year running, and at a rate closer to 4 per cent than the 3 per cent I predicted at the time of the Budget. Manufacturing output has been growing particularly strongly; it has already passed the 1979 peak and should soon pass the all-time peak recorded in 1974. With such strong growth, employment should continue to rise and unemployment to fall. The Annex summarises the most recent Treasury assessment.

11. Domestic demand has so far been growing very rapidly in 1988. Consumers expenditure continues to rise strongly, but the main contrast with earlier years is the surge in investment, as companies (including foreign investors) take advantage of the highest rates of return in the UK since the early 1960s. Surveys of investment intentions and figures for orders - notably for construction - all demonstrate the strength of this investment boom.

12. There have been some worries on capacity shortages. But only in the construction sector are there clear signs that the industry is working close to its limits. Construction output rose by 10½ per cent in the year to the first quarter of 1988, and orders are very high. This has inevitably put upward pressure on construction costs. Elsewhere, CBI surveys show that manufacturing companies expect to be able to cope with likely demand in 1988, despite strong order books.

13. Inflation at the end of this year is likely to turn out higher than the Budget forecast, chiefly as a result of higher mortgage rates. Pay is continuing to grow more rapidly than is desirable, especially in the public sector. A slowdown would improve the prospects for both inflation and employment.

14. It was always likely that the current account would move into deficit during a period of strong investment growth. So far this year the recorded current account deficit has been running well above the level implied by the Budget forecast, at an annual rate equivalent to about 2 per cent of GDP.

15. A deficit of this size is unusual but can readily be financed provided we continue to pursue sound financial policies, including a Budget surplus, which will ~~balance the Budget,~~ keep downward pressure on inflation and thereby maintain the confidence of the financial markets. There is a marked contrast between our present circumstances and earlier periods of current account deficit, in that public sector borrowing is now <u>negative</u> - we are repaying debt. The implication is that the current account deficit is a consequence of <u>private sector</u> behaviour, which will ~~be~~ in time be self-correcting. Nevertheless, there must be a risk with a deficit of the size now in prospect, that market sentiment will turn against us, especially if markets sense that we are losing our grip on either monetary policy or public expenditure.

<u>Conclusion</u>

16. Confidence in the UK remains high both at home and abroad. We must keep it so. That will require a continuation of firm financial policies to bear down on inflation. And it means that we must avoid expenditure commitments now that may be unsustainable as economic growth moderates. Recent rises in interest rates have demonstrated our determination to tighten monetary policy as and when necessary. We must show the same determination in the restraint of public spending.

17. It is essential, therefore, that we follow the recommendations in the Chief Secretary's paper.

jc5

SECRET

From: J ODLING-SMEE
4th July 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Sir Terence Burns
Sir Geoffrey Littler
Mr Scholar
Mr Sedgwick
Mr Turnbull

CABINET PAPER ON ECONOMIC PROSPECTS

I have only two points on the Chancellor's draft of today. First, the statement at the end of paragraph 4 that the private sector should have no difficulty financing the investment boom goes beyond the statement in my earlier draft that the private sector will be able to finance the investment boom. Even my formulation was of dubious accuracy, given that the forecast suggests that private investment will exceed private saving, and the reformulation is therefore less justifiable. I would feel happier if we retreated to something like:

Or ~~saying~~ say "private sector should have no difficulty financing the investment boom from a combination of domestic and overseas sources, and."

> "The private sector will be able to finance the bulk of the investment boom ....."

2. Secondly, "balance the Budget" in the first sentence of paragraph 15 is risky, because colleagues might argue for more expenditure to bring the PSDR down to zero. It might be best to delete it: prudent fiscal policies are anyway implied by "sound financial policies".

3. Some typos:

Paragraph 14

replace "as" by "at" in the final sentence.

Paragraph 15

replace "on" by "of" in the first sentence.

"periods" not "period" in the second sentence.

Delete the first "be" in the third sentence.

Insert "that" before "market sentiment".

J OS

J ODLING-SMEE

jc8

SECRET

From: J ODLING-SMEE
5th July 1988

PRINCIPAL PRIVATE SECRETARY

cc Sir Terence Burns
Mr Sedgwick

CABINET PAPER ON ECONOMIC PROSPECTS

I attach the table for the Chancellor's Cabinet paper, incorporating the changes agreed at the meeting this morning. The figure for exports in 1988 is still shown at 2%, rather than the 2½% which the Chancellor proposed. Mr Sedgwick found that the adjustment to the current balance of £½ billion was insufficient to tip the exports growth rate up to 2½% (the 2% already incorporated some rounding up).

DO-S

J ODLING-SMEE

a

(1) I have asked Terry to reconsider (& speak @ bilateral) the 5½% GDP deflator for 1988-89.

(2) Any further amendment to the paper before we send it to No 10 tomorrow night.

AA

Right

Amendment to draft markets

SECRET

MAJOR ECONOMIC INDICATORS

	UK				G7 excl UK
	1985	1986	1987	1988	1988
A. Demand & Activity (per cent change)					
GDP	3½	3	4½	4	4
Domestic demand of which	3	4	4	6	4
- consumers' expenditure	4	6	5	6	3
- fixed investment	3	0	4	11	7½
Exports of goods & services	6	3	5½	2	7½***
Imports of goods & services	2½	6½	7½	9	9½***
B. Inflation (per cent)					
RPI (Q4 on year earlier)	5½	3½	4	5½	3
(excluding mortgage interest payments)		3½	4	5	
GDP deflator (financial years)	6	3¼	5	[5½]	3
C. Other items					
Current balance (£bn)	3½	0	-1½	-9	
Unemployment (per cent, narrow definition)	11½	11½	10½	8½	6½
Average earnings (per cent change: financial years)	7½	7½	8	8½	
3 month interest rate (per cent)	12	11	9½	10¼	6¾*
Sterling index (1980=100)	78	73	73	74.6*	
Oil price (Brent, $barrel)	27	14	18	14**	

to be reconsidered

* close Monday 4 July
** delivery in August 88, as of 4 July
*** goods only
† manufacturing earnings

mjd 1/215A

SECRET

pup

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

6 July 1988

Paul Gray, Esq
No.10 Downing Street
London SW1

Dear Paul

CHANCELLOR'S PAPER FOR CABINET ON 14 JULY

... I attach the latest draft of the Chancellor's paper for Cabinet next week. He will be looking at it further over the weekend, and would be grateful for any comments the Prime Minister has.

Jill Rutter is sending you separately a copy of the latest draft of the Chief Secretary's paper.

Yours

Alex

A C S ALLAN
Principal Private Secretary

CHANCELLOR'S CABINET PAPER ON ECONOMIC PROSPECTS

The British economy has been performing well in recent years, thanks to prudent monetary and fiscal policies and supply side reforms. Growth this year is turning out stronger than expected at the time of the Budget, and may reach 4 per cent. Unemployment has fallen by over 500,000 over the last 12 months, and is now lower than any other major European country except Germany.

2. But we cannot afford to be complacent, or to relax our vigilance. Inflationary pressures ~~remain~~ have been incr'g, which we have recently had to counter by raising interest rates by 2½ per cent from their low point at the beginning of last month; and the current account of the balance of payments has moved sharply into deficit. Domestic demand is higher than expected and the economy is growing faster than is sustainable in the medium term - even allowing for the supply side improvement which has undeniably taken place.

× PRCG wdn't press

3. In these circumstances the top priority must be to support and strengthen the prudent monetary and fiscal policies which have butressed the good performance of the economy. It would be very damaging if the public sector were to add any more to the demands which the private sector is putting on the economy. That would further increase upward pressure on prices and on interest rates, and could seriously damage confidence both internally and externally.

got infl. down by ...

4. But provided that we maintain our sound financial policies, there is no reason why we should be blown off course. Our underlying position is strong, and we have built up larger net external assets than any other country except Japan. The private sector should have no

Will worry PM. Do we need it here?

difficulty financing, from a combination of domestic and overseas sources, the investment boom which is currently adding to domestic demand, and we can expect a recovery in personal savings.

5. We must at the same time continue to focus our attention on improving the supply performance of the economy. A lower tax burden and falling share of public expenditure in the economy are essential components of this policy. To achieve them requires continued restraint on spending.

WORLD ECONOMY

6. Growth in the world economy picked up strongly in the second half of last year, and the signs are that this buoyancy has continued in the first half of 1988. World trade growth in 1988 could be the fastest since 1984.

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8. Buoyant activity has so far had little effect on consumer price inflation in the major economies. There are, however, emerging signs of inflationary pressures. Commodity prices have risen by 50 per cent during the last year, albeit from a very depressed level. In response there have already been some rises in interest rates.

9. Whether the world economy grows at a sustainable rate with low inflation this year will largely depend on the policies followed by the major countries. The G7

will need to ensure that any signs of rising inflation are dealt with promptly; that continued progress is made in reducing imbalances (in particular the US Budget deficit); and that there is no repetition of the wild swings in exchange rates of the early 1980s.

PRCG

THE BRITISH ECONOMY

10. The prospect for the UK is for another year of strong growth, for the seventh year running, and at a rate closer to 4 per cent than the 3 per cent I predicted at the time of the Budget. Manufacturing output has been growing particularly strongly; it has already passed the 1979 peak and should soon pass the all-time peak recorded in 1974. With such strong growth, employment should continue to rise and unemployment to fall. The Annex summarises the most recent Treasury assessment.

11. Domestic demand has so far been growing very rapidly in 1988. Consumers expenditure continues to rise strongly, but the main contrast with earlier years is the surge in investment, as companies (including foreign investors) take advantage of the highest rates of return in the UK since the early 1960s. Surveys of investment intentions and figures for orders - notably for construction - all demonstrate the strength of this investment boom.

Overstatement ?

12. There have been some worries on capacity shortages. But only in the construction sector are there clear signs that the industry is working close to its limits. Construction output rose by 10½ per cent in the year to the first quarter of 1988, and orders are very high. This has inevitably put upward pressure on construction costs. Elsewhere, CBI surveys show that manufacturing companies expect to be able to cope with likely demand in 1988, despite strong order books.

13. Inflation at the end of this year is likely to turn out higher than the Budget forecast, chiefly as a result

PRCG

of higher mortgage rates. Pay is continuing to grow much more rapidly than is desirable, especially in the public sector. A slowdown would improve the prospects for both inflation and employment.

14. It was always likely that the current account would move into deficit during a period of strong investment growth. So far this year the recorded current account deficit has been running well above the level implied by the Budget forecast, at an annual rate equivalent to about 2 per cent of GDP.

PRCG

PRCG: Omit. PM will want to make less of this.

15. A deficit of this size is unusual but can readily be financed provided we continue to pursue sound financial policies, including a healthy Budget surplus, which will keep downward pressure on inflation and thereby maintain the confidence of the financial markets. [There is a marked contrast between our present circumstances and earlier periods of current account deficit, in that public sector borrowing is now <u>negative</u> - we are repaying debt. The implication is that the current account deficit is a consequence of <u>private sector</u> behaviour, which will in time be self-correcting.] Nevertheless, there must be a risk with a deficit of the size now in prospect, that market sentiment will turn against us, especially if markets sense that we are losing our grip on either monetary policy or public expenditure.

<u>Conclusion</u>

16. Confidence in the UK remains high both at home and abroad. We must keep it so. That will require a continuation of firm financial policies to bear down on inflation. And it means that we must avoid expenditure commitments now that may be unsustainable as economic growth moderates. Recent rises in interest rates have demonstrated our determination to tighten monetary policy as and when necessary. We must show the same determination in the restraint of public spending.

17. It is essential, therefore, that we follow the recommendations in the Chief Secretary's paper.

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B. Inflation (per cent)					
RPI (Q4 on year earlier)	5½	3½	4	5½	3
RPI excluding mortgage interest payments	5¼	3½	4	4½	
GDP deflator (financial years)	6	3¼	5	5	3
C. Other items					
Current balance (£bn)	3½	0	-1½	-9	
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Oil price (Brent, $barrel)	27	14	18	14**	

* close Monday 4 July
** delivery in August 88, as of 4 July
*** goods only
† manufacturing earnings

PECab

SECRET

FROM: A TURNBULL
DATE: 8 JULY 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr Anson
Mr Phillips
Mr Monck
Mr Odling-Smee
Mr Gieve
Mr MacAuslan
Miss Walker

Mr Nash. Formula seems OK. I have amended some of the Q&A material.

PUBLIC EXPENDITURE CABINET: LINE TO TAKE

We need to advise No 10 on the line to be taken in the "Ingham communique" which is normally issued after the Public Expenditure Cabinet. I suggest something like that used last year, with the substitution of the formula Cabinet is being asked to endorse this year.

> "The Cabinet had its usual July discussion of public expenditure today. It agreed that public spending should be held as close as possible to the existing planning totals so that the share of public spending in national income should continue to decline steadily over the three Survey years. With this objective, the Chief Secretary will hold bilateral discussions in the autumn. In the light of these, the Government will take decisions on individual programmes and the planning totals, and these will be announced, as usual, in the Autumn Statement in November."

2. Also attached is some Q&A material for use with the Press.

3. We need to clear the wording of the communique with No 10 so that it can be worked into the Prime Minister's Cabinet brief. In the light of any comments you may have the material could be sent over to No 10 on Monday.

AT

A TURNBULL

Q AND A BRIEFING

Positive points

(i) Government's consistent objective has been that public spending should take a declining share of national income. Dates back to 1979 Manifesto.

Even excluding privatisation proceeds,

- Is being achieved. Share in 1988-89 will be ~~should be below 41 per cent (general government expenditure excluding privatisation proceeds as a proportion of GDP))~~, the lowest since the early 1970s. Has fallen continuous over 6-year period from ~~47 per cent in~~ 19-82-83, the longest sustained fall since the 1950s.

- Public spending under control. Over last 4 years has grown about 1 per cent a year in real terms while economy has grown at 3½ per cent a year.

- Has enabled public borrowing to be reduced and tax rates cut.

- Has ~~contributed~~ been crucial strengthen to strength of economy.

(ii) Cabinet agreed that this successful approach must be sustained. Share of public spending, excluding privatisation proceeds, in national income must continue to fall from position reached this year.

[~~altered?~~]

(iii) Cabinet has not set new planning totals. Existing totals (£167.1 billion in 1989-90 and £176.1 billion in 1990-91) remain in force. Objective of bilaterals is to stick as closely as possible to them.

Defensive points

(i) **Are you admitting that planning totals cannot be held and will be increased?**

Cabinet has made no decisions on new planning totals. These are never revised in July. So existing totals remain. But when position is reviewed in the autumn, Cabinet may decide some change is justified but it has agreed to keep any adjustment as small as possible.

(ii) Why no decision now?

Cabinet has made a decision - to stick to the policy of reducing expenditure in relation to GDP. ~~Never takes~~ Final decisions on planning totals ~~in July. These~~ always follow the examination of programmes in bilaterals and final public expenditure Cabinet, ~~in light of~~ new economic forecast in November. Which also takes into account

(iii) Giving up on public expenditure control?

Not at all. ~~No.~~ We have reduced public spending as a proportion of GDP steadily since 1982-83. Cabinet has decided to continue on that path which means public spending will have to be kept below growth of national output.

(iv) With economy overheating wrong time to be adding to expenditure?

Government is determined to prevent overheating. One reason why Cabinet agreed to stick as close as possible to existing plans.

(v) If do raise planning total, what remains of cash planning?

All planning is done in cash - no funny money. Presumption that programmes do not receive automatic adjustment for movement in prices, whether specific or general, remains firmly in place. All additions to programmes have to be argued for. It does not rule out an increase in the planning total if consistent with wider objectives. Totals were raised in last two Surveys but real growth still below that of economy as a whole and objective of declining GGE/GDP ratio has been achieved.

(vi) What do bids come to?

Total of bids has no relevance since Cabinet has agreed they cannot be scaled down or savings found. This happens every year: nothing new.

(vii) Could accommodate very large increases and still remain within ratios set out in last White Paper. If money GDP this year is higher than forecast could add to plans and stay within figures in FSBR.

No question of spending up to a level implied by any particular ratios. Ratios are used as an indicator of general direction of policy, not to provide specific targets. If, for example, money GDP is higher because prices are higher would be wrong to make automatic adjustment to plans.

OK

~~Our aim is that ratio should decline: but that does not mean we have specific targets.~~

(viii) Why not allow spending plans to benefit from faster growth? In wanting to reduce ratio from whatever if has reached you are operating a ratchet.

Wholly wrong to enter into spending commitments for three years ahead on basis of growth in economy in 1987 and 1988 which ~~may be~~ [is] above the ~~trend which is likely to be sustained for the~~ sustainable medium term trend.

(ix) How much higher will money GDP be this year?

~~Next~~ ~~Forecasts will be revised~~ No new forecast until Autumn Statement.

(x) Very tough round expected this year? Will Star Chamber be needed?

Is this our public line?

Star Chamber now an established part of the system but not always needed, eg last year when all programmes settled bilaterally. All rounds are tough, this will be no exception.

(xi) Can you confirm that Mr Parkinson will chair Star Chamber if it is required?

Yes.

(xii) Including privatisation proceeds is a fiddle?

We recognise special nature of privatisation proceeds so we deliberately measure expenditure as a ratio of GDP without deducting the proceeds.

(xiii) What is likely outturn in 1988-89?

(usual way in the)

An estimate will be published in the Autumn Statement in November. £8½b

We know already of some large claims on Reserve eg local authority current expenditure (£1 billion for England), Rover (£0.65 billion), NHS pay (£0.75 billion), housing benefit (£0.1 billion). But ~~after taking account of expected shortfalls elsewhere our current expectation is that overall outturn will be broadly consistent with plans.~~

also some shortfalls expected elsewhere. Purpose of setting plan total is to stay within it.

010/4209

SECRET

COPY NO 1 OF 11 COPIES

000188

FROM: JILL RUTTER

DATE: 8 July 1988

APS/CHANCELLOR

cc:
Mr Anson
Mr H Phillips
Mr Monck
Mr Odling-Smee
Mr Turnbull
Mr Gieve
Mr MacAuslan
Miss Walker

PUBLIC EXPENDITURE CABINET: LINE TO TAKE

The Chief Secretary has seen Mr Turnbull's minute of 8 July. He agrees with the line to take. He has one comment on the question and answer briefing. In answer 7 he would add after the first sentence:

> "We propose to stick as close as possible to the planning totals."

Jill Rutter

JILL RUTTER
Private Secretary

CHIEF SECRETARY
BRIEFING

gep1.ip/cabinet/scorecard

FROM: J MACAUSLAN
DATE: 8 JULY 1988

CHIEF SECRETARY

cc: Chancellor
Sir P Middleton
Sir T Burns
Mr Anson
Mr Monck
Mr Phillips
Mr Luce
Mr D Moore
Mr Odling-Smee
Mr Sedgwick
Mr Turnbull
Mr S Davies
Mr Gieve
Mr Richardson
Miss Walker
Mr Call

PUBLIC EXPENDITURE BRIEFING FOR CABINET: 14 JULY

I attach briefing on public expenditure for the 14 July meeting of Cabinet.

2. Mr Odling-Smee will be submitting briefing material on economic prospects.

3. Cabinet colleagues will have three papers in front of them: your paper on public expenditure; your minute to the Prime Minister of 7 July, covering summaries of the bids; and the Chancellor's paper on economic prospects.

4. You may also want to have with you the paper sent to the Prime Minister under cover of Moira Wallace's letter of 28 June to Paul Gray; and Mr Turnbull's submission of today about the line to be taken with the Press. (The Prime Minister will be briefed to raise that issue at Cabinet; we will submit draft briefing notes for the Prime Minister early next week covering this among other points).

5. Your paper and the Chancellor's should be circulated early next week, subject to any comments from the Prime Minister. There are some changes to your paper. Jill Rutter's letter of 7 July to Paul Gray covered a draft of paragraph 16 - the local authority paragraph which had been left blank. The fifth indent of paragraph 17 can be dropped: no conclusion is needed on local authority expenditure. Finally, I propose a small change to the nationalised industry section in paragraph 15. The second sentence now reads:

> "I propose that our aim should be to keep overall provision to baseline or less and to bring individual industries below it where that is possible".

I would recommend instead:

> "I propose that our aim for the industries, for so long as they remain in the public sector, should be to keep overall provision to baseline or less."

The fourth indent in the concluding paragraph 17 would read:

> "(iv) To agree that our aim for the industries, for so long as they remain in the public sector, should be to keep overall provision to baseline or less."

In 1991-92, we could not keep overall provision for the industries to baseline given the loss of the electricity EFL. Saying without qualification that we will do so implies that we will in some sense not count that loss. The new formulation avoids that implication. It thereby also keeps open the possibility of offsetting the loss within public expenditure generally. PE agree.

6. Mr Phillips will chair a meeting with PFOs on Monday afternoon. Mr Turnbull intends to mention the revisions to the GDP deflators at that meeting. We will report back any points of interest.

7. The briefing on public expenditure consists of:

A - a note on tactics.

B - a speaking note for you on public expenditure, including references to the programmes which are particular targets.

C - defensive Q and A briefing on public expenditure, covering both general questions such as whether there is room for large additions to programmes within the published GGE/GDP ratios, and also short notes on individual programmes.

D - fact sheets on public expenditure offering background statistics, including a revised scorecard.

E - background and defensive briefing on running costs and manpower (by RC).

F - nationalised industries (by PE).

G - privatisation proceeds (by PE).

H - local authorities (by LG).

I - pay developments and prospects (by Pay division).

All those items are attached below except D which will be submitted early next week.

JM

J MACAUSLAN

A

PUBLIC EXPENDITURE CABINET: NOTE ON TACTICS

The aims of the meeting are to provide the Chief Secretary with the best platform for the conduct of the bilaterals; and externally to retain confidence that the Government's expenditure policy is being adhered to.

2. More specific objectives are:

(i) to secure Cabinet confirmation that we should keep as close as possible to the existing planning totals, and that we should ensure that the ratio of public expenditure, after excluding privatisation proceeds, to GDP continues to decline steadily over the three Survey years.

(ii) while acknowledging that some increase in the planning totals may be consistent with (i), <u>not</u> to set new totals.

(iii) to dampen expectations of what this means for individual programmes, and to secure endorsement for a serious search for policy savings in a number of areas, and to ensure that nothing is off-limits.

(iv) to keep open options for handling of later stages of Survey, but to get agreement to set up Star Chamber if necessary (without further Cabinet discussion).

(v) to get agreement to the post-Cabinet line for briefing the Press.

3. On (i) and (ii), it is essential to get across that the decision not to endorse the existing planning totals, or set new ones, does not leave the Survey open-ended. If confidence in the Government's expenditure policy is to be sustained, expenditure as a proportion of GDP cannot be brought down in infinitesimally small steps, but must be steadily reduced from the point we have reached in 1988-89.

A

4. Colleagues may probe for an indication of how much the planning totals might be increased in order to assess how hard they should press their bids. They may interpret the Chancellor's paper on the economy as implying substantial scope to raise the planning totals while adhering to the White Paper (or even FSBR) ratios. Departments will be able to guess that, in 1989-90, money GDP will be 2-3 per cent up on the FSBR projection. This could lead them to the conclusion that £4-5 billion could be added to the planning total in each year without breaching the FSBR ratios, and about £10 billion for the PEWP ratios:

	1988-89	1989-90	1990-91	1991-92
PEWP				
Money GDP (£bn)	448	475	501	
GGE/GDP (%)	42	41.75	41.25	
FSBR				
Money GDP (£bn)	456	486	516	545
GGE/GDP (%)	41.25	40.75	40	(39.5)
Departmental guesses				
Money GDP (£bn)	465	498	528	557
Extra scope (£bn) for GGE within				
- PEWP ratios		+10	+11	
- FSBR ratios		+5	+4	+5

5. If faced with suggestions of this kind, you should avoid an argument about detailed figures, but use the defensive points in brief C, item 5.

6. On (iii), the Cabinet paper does not identify the areas for policy savings which the Treasury has in mind. Instead, the Chief Secretary will mention them orally. Some colleagues may seek Cabinet agreement that savings of the kind suggested in the paper cannot be found in their area. This should be resisted on the grounds that Cabinet is not being asked to take decisions, but only to acknowledge that further savings will need to be explored. The Prime Minister will be briefed not to allow any opting out.

7. On (iv), there could be requests for Cabinet to review the position in October. Any commitment should be avoided, since public knowledge that there was to be a substantive discussion would simply raise the same handling problems as for the July Cabinet. But it would be helpful if Cabinet agreed that Star Chamber should be established if programmes are still unresolved at the end of bilaterals - so that we would not need to hold a Cabinet discussion later to get authority for that. The Prime Minister will be briefed to get such agreement.

Ch
This is revised version, incorporates some CST comments
AA

B

SPEAKING NOTE FOR CHIEF SECRETARY AT JULY CABINET

The Paper in front of colleagues sets out the background to this year's Survey together with recommendations of the objectives I believe we should seek.

2 In making these I am conscious of the areas where expenditure next year has already been committed. There are a number of these:-

Local Authority Current	1.750 bn
Net Payments to EC	380 million
NHS Review Body Awards	780 million
Social Security (HB & CC charges agreed (earlier this year)	206 million
	£3.1 billion

These are far higher additions to expenditure baselines than we faced at this time last year.

3 As colleagues know our consistent policy has been to keep ratio of public expenditure to national income steadily declining. We have repeatedly reaffirmed that. Essential to do so again for a variety of reasons :

- we need to maintain the scope for tax reductions;
- retain confidence of markets and;
- avoid building up commitments that would appear inflationary, and lead to retrenchment later in Parliament.

4 Against these policy aims bids go far beyond both the cash planning totals and what can be afforded in the medium term. Unless we are to wholly change established and agreed policy we must restrain bids. Doubly important to ensure we do not embark on a level of expenditure that could not be sustained through Parliament. This means we must address difficult decisions in a number of areas. These can best be discussed in detail in the Survey although some points stand out immediately.

(i) bids for education and science, transport and Home Office represent very large increases over the baselines (rising to 18 per cent, about 30 per cent and over 35 per cent of respective baselines in last year): must be scaled back very considerably.

(ii) There are again enormous estimating increases in social security. That means inevitably that we must look at policy changes to help offset them [of].

(iii) difficult decisions will also be needed on defence to bring commitments into line with resources.

(iv) bids for health will need careful scrutiny; in particular, they include large elements for capital expenditure which would only increase upward pressures on current expenditure in later years.

(v) Elsewhere we must take a hard look at industry and agriculture programmes - and, with unemployment falling fast and at its lowest since 1981, must look afresh at the Employment programme after its exceptional expenditure rises during the 1980s.

(iv) And of course, as usual, must look carefully at territorial expenditure. Particularly where it is acknowledged to be far above comparative expenditure levels in England.

5 In looking at all these bids we shall have to look especially carefully at construction bids - both housing and civil engineering - since there are clear signs of capacity shortages and price increases.

6 We need also to look carefully at running costs which, as colleagues know, amount to nearly 9 per cent [8.75 per cent] of total expenditure. Since 1979 we have kept a firm control over Civil Service manpower and costs. That approach has been generally popular. Now real danger of undermining these gains. Running costs bids for 1989-90 imply cost rise of 9 per cent over this year - about 5 per cent in real terms; and a Civil Service of more than 600,000 within 2 years which would build back half the manpower reductions since 1983. I believe, therefore we must keep to strategy agreed last year of holding roughly constant the running costs share in planned expenditure. This does give some headroom for pressures on Departments but it also requires even more effort to improve efficiency than many colleagues yet planning. It also means in the large majority of cases cash settlements substantially below present bids.

Nationalised Industries

7 Insofar as Nationalised Industries are concerned we need to take similarly rigorous approach. So long as industries remain in the public sector I believe our aim should be to reduce total provision to baseline or less. We should continue to examine rigorously plans of industries due to be privatised, bearing in mind implictions both for public expenditure before privatisation and for proceeds after.

Summary

8 I propose to explore position on individual programmes in bilaterals in September; not asking for detailed decisions today. But I do seek Cabinet's agreement to framework for these discussions set out in my paper - in short:

(i) we must stick as close as possible to existing planning totals, and ensure that, leaving aside privatisation proceeds, the ratio of total public expenditure to GDP continues to decline steadily over the three Survey years.

(ii) the share of running costs in planned public expenditure should not increase.

(iii) bids for expenditure and running costs will need to be substantially cut back, and difficult decisions will have to be faced in a number of areas.

(iv) if it proves impossible to reach agreement in bilateral discussions, it might be necessary at the appropriate time to establish a small group to consider outstanding issues. Hope not; did agree last year; but it might be.

9 Invite colleagues to endorse this approach.

C

PUBLIC EXPENDITURE CABINET: DEFENSIVE POINTS

1. **Why have you not provided a total for all the bids?**

Have circulated full summary of departments' proposals. As have made clear, could not afford anything like all the bids made, and no prospect of accepting them, so a total would have no significance. [This is the best answer, but it is not worth having a row on the point as you have implicitly used the figures in your Cabinet paper. If you want to give them, the bids in the summaries total £5.5 billion, £8.1 billion and £11.6 billion. To those numbers must be added the extra sums that may be needed for local authority current, nationalised industries, net contributions to the EC, etc. The resulting total will be shown on the scorecard to be submitted on 11 July].

2. **Will the planning totals be increased?**

Not seeking a decision on them at this stage. But essential that Government keeps as close as possible to the existing totals, and does not endanger objectives as set out in my paper. Will review position at final Cabinet.

3. **Why cannot we take a decision on the planning totals now? Are we leaving Survey open-ended?**

Final decisions best taken when:

- there has been further assessment of position on particular programmes;

- we have further information on prospects for economy and what can be afforded.

But Survey is not open-ended. We must decide now to stick firmly to the policy of steady decline in the ratio of spending to GDP from this year's level.

4. Wrong to ratchet down ratio if growth faster. Good progress means we can go slower over Survey years.

First, have made little progress in reducing burden of taxation, which is about the same as 5 years ago, and higher than when we came into office. So if there is an opportunity to make faster progress in reducing ratio of public spending to GDP we should take it.

Second, must show steady decline from point reached in 1988-89; must avoid a substantial jump upwards in the ratio between 1988-89 and 1989-90; and avoid an unsustainable rate of increase in expenditure. That would destroy confidence in steady financial policies, and raise spectre of stop-go.

5. But Chancellor has pointed to new-found vigour of economy, reflected in growth rates of 3-4 per cent: so must be room within ratios of GGE to GDP shown in FSBR for additions to programmes of £5 billion (and within PEWP ratios for additions of £10 billion)?

Vigour of economy reflected in growth sustained at 2-3 per cent a year over 8 years and more. Should base our plans for three years ahead on a reasonable view of sustainable growth. To plan public expenditure on basis of even higher growth achieved in peak years would be imprudent - would shake market confidence in stability of our planning, and would raise spectre of painful retrenchment later in this Parliament. Insofar as higher money GDP due to higher prices, wrong to presume an automatic adjustment. Would destroy basis of cash planning, and the in-built resistance of system to inflation.

6. But cannot sensibly seek large declines in ratio every year into indefinite future?

Must keep ratio declining if to achieve objective of reducing burden of taxation - which is still well above 1979 level. May indeed be individual years in which it is more difficult to achieve substantial decline - especially if there is a year when economic growth is below trend. But we must not fail in this objective when economy is strong.

7. But prospect of higher privatisation proceeds means more room for programmes?

I am not proposing any change in the figures. Still too many uncertainties over water and electricity. In any case, not relevant to what can be afforded on departmental programmes. Markets rightly take view that wrong to raise spending on basis of higher asset sales: have taken credit for fact that our plans are presented and judged after excluding privatisation proceeds. Departments' programmes were not cut back when there was a shortfall in receipts (1986-87), so no case for expanding if receipts came in faster.

8. Tax revenue growing faster even than economy, so room for spending to grow faster as well?

Our policy is to reduce burden of taxation, not increase it.

9. Return to balanced budget gives room for more spending?

Clear that in current circumstances no case for a loosening of fiscal policy. Would be inflationary and seen as such. Foolish to build expenditure plans around such an unsound policy.

10. But continued public sector debt repayments means debt interest will fall fast, leaving more room for departmental programmes?

Declining debt interest already built into figures. But interest receipts and dividends also decline. Must also allow for decline over medium term in contribution from North Sea revenue. And must take account of other pressures: [see next question]. So little room for manoeuvre.

11. But drawing down reserves means there is £3.5 billion each year to be added to departmental programmes?

Will need to decide later on appropriate level of new reserves. Wrong to draw conclusion that there is substantial scope to increase departmental programmes in the Survey:

- we have to accommodate pre-Survey decisions (eg on social security).

- also, large estimating changes for social security which probably cannot be wholly offset.

- also need to allow for increase in provision for local authority current expenditure and net payments to EC.

- colleagues have put down markers in other areas where there may be upward pressures.

Large sums are at stake here which severely limit the room for manoeuvre.

12. Time for some catching up after negligible real growth in spending over recent years?

Plans already imply as great an increase in growth rates of spending as is consistent with our objectives. Growth rate of planning total (excluding privatisation proceeds) in last PEWP about 2¼ per cent in real terms.

13. But growth of GGE in plans in last PEWP only about 1¼ per cent a year in real terms: plenty of room there for an increase?

Need to have a clear margin between growth of GGE and growth of GDP if burden of non-North Sea taxes is to be reduced and medium term decline in North Sea taxes accommodated.

14. Inflation looks set to be higher this year and possibly next [and Treasury has mentioned new assumptions showing higher inflation], so increases in cash totals needed, and consistent with same real growth rates? Should departments amend bids because of new assumptions?

For departments to decide what bids to submit. But higher inflation is a signal for caution, not for fiscal relaxation. Wrong to presume automatic compensation for inflation: undermines basis of successful cash planning, and would mean inflation feeding on itself.

15. How can we endorse conclusions of your paper if you won't quantify implications for programmes?

Implications for programmes are for bilaterals. We need first to set overall objective. I ask Cabinet to endorse policy of continuing steady decline in ratio of public expenditure to GDP, sticking as close as possible to the plans we published only a few months ago. Drawing down the reserves (while maintaining prudent levels) already allows for some addition to departmental programmes within existing planning totals. If asked to go firm on figures now, I would have to ask for endorsement of existing totals.

16. How will work of E(ST) on science and technology mesh with Survey discussions?

A satisfactory relationship has been established. E(ST) has set out framework and indicated area where savings should be found and areas to be which savings can be directed. Provides clear remit for bilaterals. I will then report back to E(ST) later in the survey on progress made in bilaterals.

17. Wrong to penalise departments because of loss of negative EFLs due to Treasury policy of privatisation?

Loss of negative EFLs is a real change in public expenditure totals; cannot be ignored. Also, it is matched by privatisation proceeds which we have already taken into account: must look at both sides of account.

18. Rate of growth of construction output forecast to be high this year, but modest over Survey period; and bids only small component of pressures on industry?

Forecasts of output suffer from forecasters' droop; last forecast from NEDO had same problem: forecast increase in 1987 slowing in 1988; that was wrong! Capacity constraints emerging already, a problem even if growth did moderate. Bids are a very significant addition to pressures on industry.

19. New planning total

Officials have completed discussions; I am writing to colleagues seeking agreement to publication before end of month, and asking for comments next week.

20. Extra public spending would be better for balance of payments than tax cuts?

a. Almost three-quarters (72.2 per cent in 1987-88) of public expenditure goes straight into people's pockets, in form of benefit payments, subsidies and public sector pay. Hence, effect on demand for imports very similar to that of income tax cuts.

b. Import content of public sector capital spending will vary widely from project to project. But cannot let short-term demand/ balance of payments considerations determine long-term capital spending: projects must generate adequate return in their own right, and capital equipment must be bought wherever it offers best value for money.

c. Need to consider long-run competitive position of UK economy. Tax cuts stimulate enterprise and improve incentives.

21. **What is likely outturn this year?**

An estimate will be published in the Autumn Statement in November. We know already of some large claims on Reserve eg local authority current expenditure (£1 billion for England), Rover (£0.65 billion), NHS pay (£0.75 billion), housing benefit (£0.1 billion). But after taking account of expected shortfalls elsewhere our current expectation is that overall outturn will be broadly consistent with plans.

INDIVIDUAL PROGRAMMES: DEFENSIVE

DEFENCE	1988-89	1989-90	1990-91	1991-92
Baseline (% growth)	19,215	19,969 (3.9)	20,575 (3.0)	21,075 (2.4)
Bid (implied % growth)		+298 (5.5)	+934 (6.1)	+1,380 (4.4)

"Defence budget has declined in real terms over recent years, projected to decline further towards or below 4% of GDP."

25% real growth 1978-79 to 1985-86: benefits in terms of new equipment still coming through. Must look to efficiency savings to improve output within budgets.

AGRICULTURE	1988-89	1989-90	1990-91	1991-92
Baseline (% growth)				
IBAP	1,575	1690 (+6.8)	1845 (+8.0)	1891 (+2.5)
Domestic	773	786 (+1.7)	801 (+2.0)	821 (+2.5)
total	2,348	2475 (+5.5)	2646 (+6.9)	2712 (+2.5)
Bid (implied % growth)				
IBAP	-	-304 (-13.7)	-289 (+12.3)	-194 (+9.0)
Domestic	-	39 (6.7)	47 (+2.8)	65 (+4.5)
total	-	-265 (-5.8)	-242 (+8.8)	-129 (+7.4)

"Massive savings on market support more than pay for small increases on the domestic programme. Must not get out on a limb in reforming national policies until substantial progress made in GATT round."

Savings on market support largely demand led, only partly due to CAP reform, and cannot be used to fund further domestic support. Recent study by the Commission shows that UK national support for agriculture second highest in the Community, relative to its share of national GDP.

INDUSTRY

	1988-89		1989-90		1990-91		1991-92	
Baseline (% growth)	1284	(+19)	1282	(-0.2)	1222	(-4.7)	1225	(+0.2)
Bid (implied % growth)			91.1	(+6.9)	93.7	(-4.2)	-34.7	(-9.5)

"Modest bids in years 1 and 2 with substantial savings in year 3. Regional assistance and running cost pressures largely outside my control."

But figures exclude launch aid and shipbuilding intervention fund, so understate potential demands. Final year savings artificial result of run out of existing launch commitments. Substantial increase last year with exceptional freedom to allocate resources. Under-resourced regional assistance was your deliberate choice, consequences of which must now live with.

DEPT OF EMPLOYMENT

	1988-89		1989-90		1990-91		1991-92	
Baseline (% growth)	4108	(7.8)	4185	(1.9)	4241	(1.3)	4347	(2.5)
Bid (Implied % growth)			+194.4	(6.6)	+246.9	(2.5)	+258.4	(2.6)

"DE spending - especially the stricter regime for benefit claimants - helps keep unemployment down, and so makes for big benefit savings".

It is strength of economy (as described by Chancellor) that has kept unemployment falling. Need to take a fundamental look at scale of programme in light of markedly improving labour market. Unemployment last at current levels in 1981. Then DE programme was more than £900 million lower in today's prices than now. Benefit savings from stricter regime exaggerated, but have welcomed effort there <u>if</u> financed by offsetting savings from running cost areas of lower priority.

TRANSPORT	1988-89	1989-90		1990-91		1991-92	
Baseline (% growth)	2220 (8.7)	2244	(1.1)	2299	(2.5)	2357	(2.5)
Bid (implied % growth)	-	393	(18.8)	456	(4.5)	605	(7.5)

"After small increase last year, now a strong economic case for increased investment in roads, as shown by roads review".

Level of spending on roads a matter for our discretion. Will need to take a view on what can be afforded in light of needs of other programmes. Cannot allow roads to crowd out the rest. Construction industry overheating means Government must not add to inflationary pressures.

HOME OFFICE	1988-89	1989-90		1990-91		1991-92	
Baseline (% growth)	1267	1382	(9.1)	1415	(2.3)	1450	(2.5)
Bid (implied % growth)		366	(38.0)	474	(8.0)	484	(2.4)

"Prison population projections indicate danger of prison system breaking down. Significant expansion to prison building programme required to avoid this."

Prison spending increased by nearly 40 per cent in real terms since 1979. Existing prison building programme largest ever (delivering 26 new prisons through to 1995). Answer to the problem cannot rely solely on building even more prisons. Must look rigorously at alternatives to custody. Proposals in Home Secretary's Green Paper examples of other effective measures that could be introduced.

EDUCATION & SCIENCE	1988-89	1989-90		1990-91		1991-92	
Baseline (% growth)	4,100	5,156	(25.8)	5,293	(2.7)	5,425	(2.5)
Bid (implied % growth)		632.1	(41.1)	843.1	(6.0)	975.9	(4.3)

Note: of increase in 1989-90, about 22% is accounted for by transfer of polytechnics and colleges sector.

Education: must put polytechnics and colleges onto a sound footing now that they are responsibility of central Government. Refurbishment of local authority schools essential. Over £100m a year extra needed to make universities viable, financially and academically.

Must look at priorities here against overall objectives and needs of other programmes. Bid is for large increase for polytechnics and colleges: almost doubles capital spending on them. Already increased capital spending on local authority schools substantially this year. Last Survey gave universities an extra £155m for restructuring to achieve viability - one year on, even more money sought to meet same goal.

Science: over £500m is needed in the Survey years to restructure the science base, set up new inter-disciplinary research centres (IRC's) and maintain current programmes of vital national importance.

Bids imply 25% growth in science budget next year; far exceed what could be transferred to DES from research budgets of other Departments; fail to reflect E(ST)'s scepticism about the value of IRC's ; and make no attempt to quantify benefits to be derived from extra funding.

HEALTH	1988-89	1989-90	1990-91	1991-92
Baseline (% growth)	18,278*(9.0)	18,559 (1.5)	19,445 (4.7)	19,931(2.5)
Bid (implied % growth)	-	1901 (11.9)	2591 (7.7)	3477 (6.2)

* includes £596 extra funding for Review Body awards.

"Needs substantial additional resources just to maintain services in face of growth in demand. Also bidding for resources to implement reforms to the NHS likely to flow from NHS Review."

Proposals would entail massive growth in health service spending which could not be accommodated under our overall public expenditure plans. Must look for substantial scaling down of bids and offsetting reductions. Need to consider bids for policy changes in light of outcome of NHS Review.

DHSS: SOCIAL SECURITY	1988-89	1989-90		1990-91		1991-92	
Baseline (% growth)	48.3	50.9	(5.5)	53.3	(4.8)	54.7	(2.5)
Bids (implied % growth)		0.7	(6.8)	1.3	(5.9)	2.6	(4.8)

"Bids smaller than recent years; mainly estimating changes, and policy changes already agreed. New policy initiatives are minimum necessary. Given recent controversies, this is no time to go for further savings".

Bids still substantial, given large additions in last year's Survey (1000/1900/1300) and real increase of over 40% since 1979. Bids imply further real increases [and they may well be raised significantly by latest inflation forecast.] Longer term outlook also worrying. Clear need to consider measures to contain cost of programme not just within Survey period but in longer term.

SCOTLAND	1988-89		1989-90		1990-91		1991-92	
Non Block								
Baseline (% growth)	464	(8.7)	475	(2.4)	479	(0.8)	491	(2.5)
Bid (implied % growth)			27.5	(8.3)	26.8	(0.7)	24.5	(1.9)
Block								
Baseline (% growth)	4,307	(3.3)	4,558	(5.8)	4.727	(3.7)	4845	(2.5)

[To be adjusted by formula consequentials to comparable English programmes].

"Need all of Block consequentials and bids to consolidate industrial, employment and enterprise initiatives".

Substantial over-provision relative to need. Need to find ways of starting to correct this.

WALES	1988-89	1989-90		1990-91		1991-92	
Non Block							
Baseline (% growth)	279	274	(-1.8)	274	(0)	281	(2.6)
Bid (implied % growth)	-	44.1	(14)	39.4	(-1.5)	37.0	(1.5)
Block							
Baseline (% growth)	1768	1827	(3.3)	1895	(3.7)	1942	(2.5)

[To be adjusted by formula consequentials to comparable English programmes].

"Need more money to consolidate upturn in industrial and commercial activity in Wales."

Last year's settlement was generous. Too much Welsh Office funding risks dependency culture.

NORTHERN IRELAND	1988-89	1989-90		1990-91		1991-92	
Baseline* (% growth)	5,071	5,258	(3.7)	5,439	(3.4)	5,575	(2.5)
Bid* (implied % growth)	-	82.3	(5.3)	36.7	(2.5)	185.8	(5.2)

* Excludes national agriculture schemes.

"Comparability formula in recent years failed to provide sufficient funds to finance demand-led increases eg in the law and order field. Priority needs to be given to economically disadvantaged areas".

Recognise the pressures, but block budget ground rules give Mr King more discretion than other Ministers to allocate resources.

SECRET

Date of last update: 08/07/88

SUMMARY SCORECARD

(£million)

	1989-90 BASELINE	1989-90 DEPT POSITION	1989-90 FORECAST OUTCOME	1989-90 HMT POSITION	1990-91 BASELINE	1990-91 DEPT POSITION	1990-91 FORECAST OUTCOME	1990-91 HMT POSITION	1991-92 BASELINE	1991-92 DEPT POSITION	1991-92 FORECAST OUTCOME	1991-92 HMT POSITION
Ministry of Defence	19,969.0	395.0	140.0	0.0	20,575.0	1,026.0	500.0	0.0	21,075.0	1,469.0	660.0	0.0
FCO - Diplomatic, Information, Culture	743.0	38.9	11.2	-24.9	761.0	59.4	28.6	-17.8	780.0	61.2	29.9	-28.2
FCO - Overseas Development Administration	1,505.0	44.0	28.0	4.0	1,551.0	75.0	29.0	5.5	1,590.0	94.0	30.0	13.5
European Communities	1,470.0	380.0	380.0	380.0	1,320.0	260.0	260.0	260.0	1,353.0	157.0	157.0	157.0
Intervention Board for Agricultural Produce	1,690.0	-304.3	-99.3	-101.0	1,845.0	-288.9	-98.6	-102.0	1,891.0	-193.8	-97.0	-103.0
Ministry of Agriculture, Fisheries and Food	786.0	40.6	18.2	-38.4	801.0	49.0	16.9	-95.7	821.0	66.9	19.1	-126.9
Forestry Commission	64.0	9.1	9.1	0.0	65.0	11.8	11.8	0.0	67.0	13.0	13.0	0.0
Department of Trade and Industry	1,282.0	91.1	50.1	-55.7	1,222.0	93.7	50.7	-65.0	1,225.0	-34.7	-115.1	-159.0
Export Credits Guarantee Department	139.0	10.0	8.0	8.0	120.0	1.0	-1.0	-1.0	123.0	-35.7	-37.7	-37.7
Department of Energy	309.0	-6.7	-10.2	-10.2	316.0	-14.2	-17.7	-17.7	323.0	-20.2	-24.1	-24.1
Department of Employment	4,185.0	196.1	-100.0	-264.0	4,241.0	248.8	-150.0	-429.0	4,347.0	260.3	-200.0	-614.0
Department of Transport	2,244.0	454.2	254.0	-3.0	2,299.0	547.7	285.0	-8.0	2,357.0	720.1	306.0	-8.0
DOE - Housing	2,378.0	533.3	-296.7	-583.7	2,399.0	610.8	-79.2	-575.2	2,459.0	940.2	-71.8	-606.8
DOE - Other Environmental Services	904.0	418.6	128.4	-230.6	935.0	351.0	24.4	-230.6	958.0	310.6	-8.7	-216.7
Home Office & Legal Departments	2,428.0	453.7	280.4	-75.3	2,522.0	604.0	406.3	-71.9	2,585.0	680.4	443.7	-94.0
Department of Education and Science	5,156.0	632.1	382.5	0.0	5,293.0	843.1	430.4	0.0	5,425.0	975.9	457.8	0.0
Office of Arts and Libraries	454.0	0.0	0.0	0.0	471.0	0.0	0.0	0.0	483.0	50.0	20.5	2.0
DHSS - Health and Personal Social Services	18,559.0	1,901.2	1,069.2	-1,232.0	19,445.0	2,591.1	1,284.1	-1,552.0	19,931.0	3,476.6	1,497.6	-2,370.0
DHSS - Social Security	50,889.0	674.9	864.3	-58.8	53,347.0	1,275.9	1,800.2	206.9	54,681.0	2,587.8	3,495.3	1,374.5
Scotland: negotiable	5,033.0	92.0	35.8	-298.4	5,206.0	102.2	45.0	-364.5	5,336.0	109.4	48.9	-372.4
Scotland: formula		453.6	197.4	-224.8		577.1	251.3	-259.5		751.3	279.5	-354.1
Wales: negotiable	2,101.0	68.2	54.1	48.6	2,169.0	63.5	52.1	46.6	2,223.0	61.6	40.6	35.1
Wales: formula		209.3	89.9	-105.9		264.4	111.3	-124.4		348.5	124.4	-173.3
Northern Ireland*	5,323.0	95.6	53.4	42.0	5,508.0	130.4	57.4	43.7	5,645.0	199.2	94.5	84.5
Chancellor's Departments	4,019.0	-19.4	-39.0	-146.6	4,162.0	72.6	30.4	-105.0	4,268.0	171.6	110.2	-72.0
Other Departments	397.0	27.8	22.5	6.8	415.0	39.9	28.4	4.3	425.0	75.6	61.4	37.5
DOE - Property Services Agency	-163.0	26.0	10.0	-29.4	-162.0	72.3	30.0	-5.5	-166.0	69.9	20.0	-20.5
Nationalised Industries	114.0	11.0	100.0	100.0	-274.0	-2.0	150.0	150.0	-282.0	-140.0	180.0	180.0
Privatisation EFLS		319.0	275.0	275.0		440.0	275.0	275.0		193.0	1,800.0	1,800.0
Local Authority Relevant	33,520.0	1,751.0	1,751.0	1,751.0	34,517.0	2,073.0	2,073.0	2,073.0	35,380.0	2,307.0	2,307.0	2,307.0
Adjustment												
TOTAL ADDITIONS TO PROGRAMMES	165,126.0	9,065.9	5,727.3	-867.2	170,692.0	12,303.7	7,994.8	-959.8	174,918.0	15,865.7	11,762.0	610.5
*of which formula consequences would be:		175.2	104.8	-11.3		217.4	127.8	-12.8		270.6	140.9	-33.4

D – TABLE 1

D

gep1.ip/tables/history

PUBLIC EXPENDITURE TABLE 2: THE PAST

General Government Expenditure (excluding privatisation proceeds)

	GGE real growth (%)	GGE as % of GDP	Non-oil tax burden % of non-oil GDP
1964-65	+3.5	35.5	
1965-66	+6.1	36.8	
1966-67	+5.9	38.4	
1967-68	+12.9	42.0	
1968-69	-0.6	40.5	
1969-70	+0.8	40.0	
1970-71	+3.3	40.4	
1971-72	+3.2	40.9	
1972-73	+5.1	40.7	
1973-74	+8.0	42.6	
1974-75	+12.4	48.0	
1975-76	-0.2	48.5	
1976-77	-2.2	45.9	
1977-78	-5.1	42.6	
1978-79	+5.2	43.2	34.3
1978-79	-	43.2	34.3
1979-80	3.1	43.4	35.2
1980-81	1.8	46.0	36.2
1981-82	1.1	46.4	38.7
1982-83	2.6	46.8	38.2
1983-84	1.5	45.9	37.8
1984-85	3.3	46.2	37.9
1985-86	-0.3	44.5	37.0
1986-87	1.9	43.9	37.5
1987-88	-0.6	41.7	37.7

Notes

(1) Shows erratic growth of GGE in the past: excessive real growth has led to retrenchment (para 6 of Chief Secretary's Cabinet paper).

(2) Shows GGE increased its share of GDP overall in 1963-70 and 1970-79, but that the upward trend was not uninterrupted.

(3) Shows GGE now at lowest proportion of GDP (40-41%) since early 1970s.

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PUBLIC EXPENDITURE TABLE 3: EXPENDITURE AND TAX IN FUTURE

	1988-89	1989-90	1990-91	1991-92	1988-89 to 1991-92
A Baseline expenditure on FSBR Basis[1]					
Planning total real growth %	2.5	2.2	1.7	1.3	1.7
GGE real growth %	1.7	1.1	0.8	0.6	0.8
GGE/GDP (%)	41.2	40.7	39.9	39.2	
Non-oil tax burden (%)	37.7	36.7	36.4	35.8	
B New Basis[2]					
Planning total real growth %					
baseline	1.6	1.8	1.7	1.3	1.6
forecast outcome		3.2	2.8	3.2	3.0
all bids conceded		5.2	3.3	3.7	4.0
GGE real growth %					
baseline	0.7	0.6	0.8	0.6	0.8
forecast outcome		1.7	1.6	2.2	1.8
all bids conceded		3.5	2.2	2.8	2.8
GGE/GDP (%)					
baseline	40.4	39.6	38.9	38.2	
forecast outcome		40.1	39.7	39.6	
all bids conceded		40.7	40.6	40.7	
Non-oil tax burden (%)					
baseline	37.0	36.5	36.3	35.8	
forecast outcome		37.0	37.1	37.3	
all bids conceded		37.7	38.0	38.3	

NOTES

1 ie assumptions on money GDP and GDP deflators as in FSBR; expenditure on 1988 Survey baseline; PSDR returns to zero from 1989-90.

2 ie GDP deflators of 5.5% in 1988-89 and 4.5% in 1989-90, and money GDP of £465/498/528/557 billion in 1988-89 to 1991-92; PSDR of £5 billion in each year.

All figures exclude privatisation proceeds. Bids include loss of privatisation EFLs, but not effect of revised economic assumptions on social security.

PUBLIC EXPENDITURE TABLE 4

The following are agreed baseline figures, except where indicated. Real terms changes are calculated using the FSBR projections for the GDP deflator.

1. Public Sector Capital Spending

£billion

	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 plan	1989-90 plan	1990-91 plan	1991-92 plan
Cash	22.0	22.1	23.2	23.9	24.3	25.0	25.7
Percentage change in real terms		-2.7	-0.2	-1.1	-2.7	-0.2	-0.5

2. Science and Technology

£billion

	1983-84 outturn	1987-88 outturn	1988-89 plan	1989-90 plan	1990-91 plan	1991-92 plan
Cash	4.2	5.0	5.2	5.2	5.2	5.3
Percentage change in real terms		-0.4 (annual average)	0.8	-3.8	-4.5	-0.5

3. Manpower and Running Costs

Manpower Plans

Thousands, whole time equivalents

	1978-79 outturn	1983-84 outturn	1987-88 outturn	1988 89 plan	1989-90 plan	1990-91 plan	1991-92 plan
Civil service manpower in running costs	689.1	600.5	567.5	570.6	566.5	567.0	567.0
Civil service manpower totals	734.0	636.4	586.1	591.3	587.3	587.7	587.9

Running Cost Totals

£million

	1983-84 outturn	1987-88 outturn	1988-89 plan	1989-90 plan	1990-91 plan	1991-92 plan
Departmental Gross Running Costs	10.4	12.9	13.7	13.9	14.3	14.7
Percentage change - cash		5.7 (annual average)	6.1	1.4	2.7	2.5
- real terms		1.0 (annual average)	1.6	-2.6	-0.8	-0.5

4. Economic Assumptions

		1988-89	1989-90	1990-91	1991-92
Increases in GDP deflator (%):	1987 PEWP	4.5	3.5	3.0	
	1988 FSBR	4.5	4.0	3.5	3.0
	Current	5.5	4.5	3.5	3.0
Increases in RPI to September (%):	1987 PEWP	4.5	3.25		
	1988 FSBR	4.25	3.5	4.0	
	Current	5.5	4.5	4.0	
GB adult unemployment (millions):	1987 PEWP	2.6	2.6	2.6	
	1988 FSBR	2.35	2.35	2.35	2.35
	Current	2.25	2.25	2.25	2.25

PUBLIC EXPENDITURE TABLE 5: DEPARTMENTAL GROWTH RATES

Planning total by department: % annual average change

	1987-88 to 1988-89		1987-88 to 1990-91	
	Cash	Real	Cash	Real
Defence	9.9	1.8	3.3	-0.7
Foreign & Commonwealth Office	7.5	-0.4	5.5	1.4
European Community	0.6	-6.7	-6.2	-10.6
Ministry of Agriculture, Fisheries & Food	10.8	2.7	7.6	3.5
Trade and Industry	-3.1	-11.3	9.8	5.6
Energy	-5.9	-19.9	-32.6	-27.5
Employment	14.8	6.4	3.6	-0.4
Transport	7.0	-0.8	3.3	0.4
DOE - Housing	-1.5	-8.9	6.3	2.2
DOE - Other Environmental Services	5.4	-2.3	2.7	-1.2
Home Office	13.2	4.9	5.0	0.9
Education and Science	8.8	0.8	3.8	-0.2
Arts and Libraries	10.2	2.1	3.3	-0.5
DHSS - Health and Personal Social Services	10.8	2.7	4.8	0.8
DHSS - Social Security	11.4	3.3	5.0	1.0
Scotland	8.1	0.2	2.4	-1.5
Wales	8.2	0.3	3.3	-0.6
Northern Ireland	9.0	1.0	3.8	-0.2
Chancellor's and other departments	7.9	0.0	5.3	1.3
Reserve				
Privatisation proceeds				
Adjustments				
Planning total	9.1	1.1	6.5	2.4

NOTES

PES Survey baseline database; FSBR deflators; departmental totals include local authority and public corporations figures.

X

<u>Difficult to absorb extra rent of landlord's option to tax?</u>

Normal practice for indirect tax changes to be absorbed like any other price increase. Effect on rents uncertain. Some landlords may not opt to tax. Those who do may be unable to increase rents by 15 per cent because of market conditions. Costs if any relatively small in early Survey years, because of August 1989 starting date and phased implementation. PSA looking at implications for PRS rents.

<u>What difference would the new planning total make?</u>

Under the proposals Chief Secretary has just circulated, Government's objective for reducing share of public spending in national income would continue to relate to total government spending, central and local, just as our concern to reduce burden of taxation relates to central and local government taxes. Change in planning total is to make it a more effective <u>instrument</u> for controlling spending and achieving this objective. It also reinforces local accountability.

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BRIEF E: RUNNING COSTS AND MANPOWER

SURVEY POSITION

Running Costs

				£m
	1988-89	**1989-90**	**1990-91**	**1991-92**
Running costs baseline (growth over previous year in brackets)	13,732	13,918 (1.35%)	14,298 (2.73%)	14,656 (2.50%)
Bids	-	1,012	1,488	1,920
Total (if all bids conceded)	13,732	14,930 (8.75%)	15,786 (5.73%)	16,576 (5.0 %)

Civil Service Manpower

	1988-89	**1989-90**	**1990-91**	**1991-92**
Baseline	591,300	587,300	587,700	587,900
Bids		11,500	14,800	15,900
Total (if all bids conceded)	591,300	598,800	602,600	603,800

OBJECTIVES

- Agreement that the running costs share in planned public expenditure is (as agreed in 1987 Survey) held roughly constant, implying for 1989-90 a cash increase of around 6.5%.

- Significant reductions in running costs bids to meet the roughly constant ratio of running costs to planned public expenditure.

- Reach firm 3 year settlements based on acceptable efficiency gain plans for the majority of departments.

E

- Reduce manpower proposals so that published manpower plans will remain clearly below 600,000 throughout the Survey period (some £200 million rising to £350 million of the bids reflect extra manpower).

DEFENSIVE POINTS

Marginal Receipts Increasing Gross Spend

The modification I propose should give some increase in flexibility and enable us to widen the framework of Parliamentary discussion of Government administration costs by bringing out trends in receipts as well as in gross running costs. Not willing to extend the flexibility beyond those Departments with management plans good enough for agreed 3-year settlements. Even then, important to ensure that any additional provision was no more than marginal - say at most 1 per cent for each Department and even then only if effect on overall running cost totals acceptable.

Why not go for a net running costs regime?

We decided to control running costs gross - ie without reference to receipts - in 1985 because of our commitment to controlling Civil Service size and administrative costs generally. Too early to contemplate any general change. [Will be prepared to consider agencies case by case].

Three Year Settlements

We should be able to reach firm 3 year settlements for the majority of departments. My presumption will be that the later years' provision is realistic and durable. [If between Surveys there should be really significant changes in a Department's circumstances it can argue for review. But not good management to deal with running costs only 12-18 months ahead.] [Of 9 Departments with 3-year settlements last time, three have not bid this time and the rest have bid at much lower levels than others].

Non-3 Year Departments

Management material still seriously unsatisfactory in minority of cases. In these, will insist on retaining low levels of provision for later years and probe very carefully need for bids in 1989-90.

Future Pay Assumptions

As before, Departments invited to make their own assumptions about future pay costs. Will generally try to avoid altering them. But where a Department has assumed high rates of pay increase throughout the Survey Period without reflecting forecast decline in general inflation will invite it to think again.

Forward Cash Baselines Unrealistic

For most departments these are depressed (implying negative real growth) because we deliberately held down the later year settlements for those with no management plans good enough for a 3 year deal. Bids therefore to be expected but scale unacceptable.

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NATIONALISED INDUSTRIES

1. The opening additional bids total (£ million):

1989-90	1990-91	1991-92
347	379	13

These totals exclude Steel and Giro which should be privatised this year. They include Water and Electricity in each year, although the expectation is that these industries will be privatised during the period.

2. The industries will submit revised bids by the end of July.

3. The aim for the industries, for so long as they remain in the public sector, is to reduce overall provision to baseline or less. This formulation avoids any impression that the loss of the large negative EFLs for Electricity (with the main impact in 1991-92) and for Water must be offset by savings from other nationalised industries.

Points to make if necessary

4. The initial bids are much less than in previous years. This should make the task of meeting the aim more manageable. Essential that colleagues ensure revised bids, due end July, are realistic and that they are then scrutinised rigorously.

5. In response to any claims for special treatment: too soon to jump to conclusions before bids are updated and properly analysed.

6. Recognise that handling and analysis complicated by plans to privatise Electricity and Water during the period. But, as Cabinet paper notes:-

   a. essential to maintain rigorous approach to these industries in view of implications for public expenditure up to privatisation and then for proceeds from sales;

F

b. consequences, and presentation, of loss of negative External Financing Requirements will need careful handling in the Autumn Statement and the PEWP. [If pressed: recognise that major negative EFL losses cannot be fully offset by savings in other industries.]

The loss of the negative EFLs is not offset by increased privatisation proceeds. Already assuming £5 billion a year, mainly from Water and Electricity - see separate brief.

7. On particular Departments.

a. Energy Outturn depends critically on plans for Coal and for coal prices, with knock on effect on Electricity. [NB: If Treasury proposals on Coal - Mr Monck to Chancellor of 1 July - were put forward there could be further additions in the Survey period].

b. Transport Of the main industries, Rail are bidding below baseline and LRT above. Difficult to resist LRT bids if they proved soundly based. But prospect of more savings from Rail.

c. DTI Post Office bidding for baseline; modest reductions possible. Shipbuilders show savings if sold this year.

d. DOE May bid for more Water investment. Acknowledge pressures (eg, EC directives) but must look rigorously.

e. Scotland As usual bidding for more for Electricity. Need to scrutinise.

G

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PRIVATISATION PROCEEDS

1. We are continuing to plan for a steady £5 billion a year.

2. The final instalments from BP and Steel make big contributions in 1989-90. Thereafter the main source is Water and Electricity instalments.

3. Colleagues should not assume that proceeds totals can be readily increased because of Water and Electricity.

- unwise to plan for more than £5 billion a year: have to take account of market capacity and appetite post October 1987 crash; bear in mind could also be big demands from Building Society flotations.

- therefore, smoothing out proceeds by instalments and, very probably, by 51% (or thereabouts) rather than 100% sales.

4. No present firm plans for BT sale in the period, though a possibility to be kept in reserve. But not practicable anyway before new price regime settled, and that might be subject to MMC reference.

G

H

LOCAL AUTHORITIES (GB)

Current

1. AEG and "relevant current" expenditure provision for England and Wales in 1989-90 endorsed by Cabinet on 7 July.

England:

- Aggregate Exchequer Grant £13,575 million (up £600 million or 4.6% compared to grant at settlement in 1988-89).

- Expenditure provision £29,140 million (claim on the Reserve £1,385 million in 1989-90).

- Grant percentage about 43% (down from 44.7% in 1988-89).

Wales:

- AEG £1,316 million (up £63 million or 5% on 1988-89 settlement).

- Provision £1,785 million (claim on Reserve £90 million for 1989-90).

- Grant percentage about 65% (down from 66.2% in 1988-89).

2. Will not make the Survey any easier. Local authorities in England and Wales have already pre-empted almost £1½ billion (compared to £900m in 1988 Survey) from the Reserve for 1989-90.

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3. Service issues - allocation of provision to departments and apportionment of AEG between RSG and specific grants - to be discussed later, mainly in autumn.

4. Expenditure provison for 1990-91 and 1991-92 to be discussed in the autumn. (However, figures will then be discarded under the new planning total.)

5. [Revenue Support Grant settlement for Scotland - to be added.]

Capital

1. The baseline for spending on the main local authority capital cash limit (DOE/LA1) represents a £200 million fall between 1988-89 and 1989-90. Spending power from accumulated receipts continues to grow. So the room for allocations consistent with the 1989-90 baseline is likely to be at least £500 million lower than the £2,625 milion allocations for 1989-90.

2. Allocations are distributed in five blocks - Housing, Transport, Education, Personal Social Services and "Other Services". The Chief Secretary's letter of 2 June proposed that baseline allocations should be distributed between the blocks according to a compromise formula , and this has been agreed. Bids (which amount to £1,070 million) have been made on the provisional assumption that baseline alloctions will be £2,100 million. But this figure now looks optimistic. Our current estimate, based on latest outturn information, is that baseline allocations may have to be set at least £250 million lower. This is likely to cause departments to increase their local authority capital bids, adding to Survey pressures. However the prospects for extra Housing and Other Service receipts are also improving and these will help offset departments' bids.

3. LG will be discussing further the level of baseline allocations with DOE and other department concerned, and aim to put agreed recommendations to Ministers by the end of this month. We will also discuss the forecasts of in-year receipts with DOE. The briefing for bilaterals will include points to make when resisting the Survey bids.

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I. Pay developments and prospects

1987-88 Pay round

About 55 per cent of employees have received pay increases in the 1987-88 pay round, which covers settlements between 1 August 1987 to 31 July 1988. Earnings and settlements so far in the current pay round are shown below, together with an estimated outturn, and a comparison of the estimated outturn with the outturn for the previous pay round.

	1987-88 so far	Estimated outturn	Increase on 1986-87 outturn
Settlements			
Whole economy	7¾	6¾-7	¾-1
Public sector	10	7½-7¾	¾-1
- trading	6¼	5¾-6	¾-1
- services	10¼*	8	1
Private sector	6	5¾-6	½-¾
Underlying increase in earnings			
Whole economy	8¾	8¾	1
Public sector	8½	9¼	1¼
- trading	7¼	7	0
- services	9¼*	10½	2¾
Private sector	9	8½	1

*Mainly due to LA Manuals (10.6%) and Nurses (15.3%). The Nurses' pay award not yet included in the earnings figures.

2. In the public services settlements are currently averaging 10¼ per cent. Excluding the settlements for nurses and local authority manuals it would be about 9 per cent. The current level is likely to fall with the inclusion of below average settlements

for some outstanding groups such as teachers and civil servants. The outturn could be about 8 per cent. Earnings are currently rising at 9¼ per cent but the nurses' pay award has not yet reached the earnings figures. By the end of the pay round it is anticipated that earnings will be rising by 10½ per cent - 2¾ per cent up on the 1986-87 outturn.

3. The public service pay bill is about £57 billion: one-third of total public expenditure. The approximate split is: Local Authorities 50 per cent; Review Body groups 25 per cent; collectively bargained Central Government groups 25 per cent.

Prospects for 1988-89 Pay Round

4. In the next pay round earnings for the whole economy are forecast to increase by an average of 7¾ per cent; with increases in the private sector and the public trading sector of around 7½ per cent and 8 per cent in Public Services.

5. The general level of settlements most come down if we are to maintain international competitiveness and contain inflationary pressures. Given the Government's stance on inflation, excessive pay rises will threaten progress on bringing down unemployment.

6. In the public services

(a) Local Authority Groups pressure must be maintained through tough RSG settlements and competitive tendering. It looks as if the threat of competitive tendering is making local authorities more cautious as they are aiming for a 5 per cent settlement with their manuals in 1988/89 compared with 10.6 per cent in 1987/88.

(b) Index Linked Groups Police and the Fire Service are likely to receive around 8¾ per cent in September. Index formulas are most unsatisfactory - they pay no regard to recruitment and retention, or to value for money. The Government is committed to the broad framework of Edmund Davies for the Police, but in due course the uprating formula should be changed from an earnings to a settlement basis. This year we will have to settle for changes in police allowances.

(c) Review Body Groups With large awards for most of the groups this time round our aim should be increases no more than the cost of living. The Government evidence will again emphasise the importance of value for money and affordability etc. With the revised timetables running costs and Health Service budgets will be able to take account of the awards before being finalised.

(d) Civil Service and other Central Government Groups Settlements are constrained by what can be afforded given public expenditure and running cost controls. Our aim is to concentrate pay increases on areas of recruitment and retention difficulty.

Line to Take

7 The 1988-89 outlook implying a growth in the overall public service pay bill of 8 per cent (The same for local authorities and Central Government (including review body groups)) will put public expenditure under pressure. Some colleagues may argue for more "realistic" ie higher public expenditure totals to reflect these pressures. We suggest the following line to take:

i. acknowledge pressure from public service pay;

ii. but not a reason to increase provision;

iii. rather incentive to use existing pay bill more effectively and seek efficiency savings to offset cost of pay settlements with more flexible pay system to deal with particular recruitment and retention pressures;

iv. and need to make finance determine expenditure in the matter of pay;

v. tough RSG settlement to influence Local Authorities;

vi. make clear to Review Bodies that there is a limit on money available for pay.