PART 18 ends:-

S/S DES to CST + att of 10/3/82.

PART 19 begins:-

AW to MCS of 12/3/82.

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. Cmnd. 8464: Public Expenditure on Social Services: reply by Government to Third Report of Select Committee on Social Services, Session 1980-81
HMSO, December 1981

2. Cmnd. 8494-I and II Government's Expenditure Plans, 1982-83 to 1984-85
Volumes One and Two
HMSO, March 1982

Signed C M Wayland Date 21 August 2012

PREM Records Team

Econ Pol
c/c JV

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Prime Minister (2)

MJS 10/3

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury
Parliament Street
LONDON
SW1P 3AG

MS

10 March 1982

Dear Leon,

DRAFT PAPER FOR EXPENDITURE STEERING GROUP - EDUCATION

Thank you for your letter of 9 March about this draft paper.

You are right to say that cash planning has my strong personal support. As Cmnd 8494 puts it (Part 5, paragraph 11) "The switch to planning in cash moves the emphasis away from volume to the actual cash spent in each forward year." But this does not mean that volume plans have no significance. Geoffrey Howe himself said in his Budget speech last year "There is, of course, a case for planning in volume terms as well [as cash]. There is a clear need to plan the number of hospitals or roads or frigates that we are aiming to have in future years." In the debate on the last White Paper on 9 April you added "I accept that those responsible for individual programmes must have as one element in their forward planning the volume of the service they wish to provide." Following from this, our commitment to NATO is described in real terms in Cmnd 8494 and so are our plans for the National Health Service. Coming nearer home, Michael Heseltine made it clear on 21 December that our cash plans for local authority spending next year mean a reduction of about 3½ per cent in real terms if we are right about pay and prices, and targets for individual local authorities next year have also been calculated and expressed in real terms.

Against this background, it seems to me that in a paper for the local authority associations on the implications of our plans for education in the White Paper - which itself talks of a reduction of at least one tenth in real terms in spending on higher education between 1980-81 and 1984-85 - we must first stress the importance of the cash figures and then interpret them. We should describe, as in Part 5 of the White Paper, paragraph 12, the way in which we constructed the figures. The more clearly that local authorities and others understand the implications of the cash figures for what they have to

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do on the ground in future years (and of the added impact of any excessive pay and price increases) the better the chances of restraint. But that then requires us to spell out in some detail what changes in real terms we want to achieve in the education service as a whole and in its component parts. Otherwise we shall have no basis for an informed discussion with the local authorities.

I have looked at the draft paper myself with your concern in mind and am satisfied that, with (a) some amendments to the text to clarify the relationship between figures expressed in cash and those expressed in real terms, and with (b) the addition of headings to the constant price tables that emphasise the primacy of cash,
... those tables are a necessary part of this process. The enclosed text shows what I have in mind: I hope you will be able to tell me quickly that you are content with it so that the paper can be circulated this week.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

Ever,

Keith

DRAFT ESGE PAPER

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THE GOVERNMENT'S EXPENDITURE PLANS 1982-85 (Cmnd): IMPLICATIONS FOR LOCAL AUTHORITY EXPENDITURE ON EDUCATION AND RELATED SERVICES

1. This paper provides a commentary on the policy assumptions which underlie this year's Public Expenditure White Paper (Cmnd) about the expenditure of local authorities on education and related services, identifying in particular changes compared to previous plans set out in Cmnd 8175.

2. As in Cmnd 8175 the planning period is restricted to three years - up to 1984-85. The 1980-81 figures are the actual outturn; and the estimated expenditure figures for 1981-82 are based on local authorities' revised budgets rather than the forecast embodied in the 1981-82 RSG settlement. The plans for 1982-83 as announced in last December's settlement are firm, although it is for individual authorities within the constraint of their statutory responsibilities to decide in the light of local circumstances the actual distribution of resources within the total planned expenditure allowed for in the settlement. For 1983-84 and 1984-85 the plans remain provisional, and for 1984-85 the plans are not disaggregated as between local authority and other expenditure. Therefore this paper focusses on 1983-84, the next grant year, and gives only brief consideration to 1984-85 based on a tentative total for local authority spending on education.

3. The White Paper reiterates the importance the Government attaches to controlling public expenditure in cash terms and expenditure figures are presented as cash figures and not constant price (volume) figures as has been the practice in the past. ~~Expenditure figures in this paper are, however, presented both as cash figures and at November 1981 prices. The latter have been obtained for future years by applying the Government's assumptions on inflation (4% pay, 9% prices in 1982-83; 6% overall in 1983-84 and 5% overall in 1984-85). The outturn of local authority expenditure on education in 1980-81 has been repriced using estimates of actual pay and price increases in the education sector between 1980/81 outturn and November 1981.~~

Cmnd ASSUMPTIONS ABOUT LOCAL AUTHORITY CURRENT EXPENDITURE ON EDUCATION SCHOOL MEALS AND MILK

4. The Government's plans provide for local authority expenditure on education including meals and milk to increase by nearly 20% (£1.5 billion) by 1983-84 compared to 1980-81 and by a further 2 per cent in 1984-85. The cash totals

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for local authority current expenditure on education included in table 2.10 of the White Paper are as follows:

£m cash

	1980-81 outturn	1981-82* estimate	1982-83 plans	1983-84 plans	1984-85 tentative
Education	7650.1	[8485]	8865	9159	9350
Index	100	110.9	115.9	119.7	122.2
Meals and Milk	397	[382]	325	275	270
Index	100	96.2	81.0	69.2	68.0
Total	8047.1	8867	9190	9434	9620
Index	100	110.2	114.2	117.2	119.5

* Based on local authorities' 1981-82 Revised Budgets.

"The level of services which can be provided within these cash totals will depend on the actual movement of pay and prices. If pay increased by 4 per cent and prices by 9 per cent in 1982-83, with overall increases of 6 per cent in 1983-84 and 5 per cent in 1984-85, the factors used in the 1981 Public Expenditure Survey as explained in Cmnd 8494, Part 5, paragraph 12, the cash totals imply a reduction ....."

~~figures are summarised below~~.

~~£m (November 1981 prices)~~

	1980-81 (outturn)	1982-83	1983-84	1984-85
Education	8530.7	8443.6	8230.3	8000
Index	100	99.0	96.5	93.7
School Meals and Milk	423.3	304.1	241.8	230
Index	100	71.8	57.1	54.3
Total	8954.0	8747.7	8472.1	8230
Index	100	97.7	94.6	91.9

5. The cash totals for 1982-83 and later years reflect the two major policy changes introduced since the publication of Cmnd 8175; viz the additional resources for 16-19 education from 1982-83 onwards announced by the Prime Minister on 27 July 1981, and the addition to net AFE expenditure to compensate authorities and institutions for the loss of tuition fee income as a result of the decision to reduce substantially the real value of the tuition fee for home students on designated advanced courses from 1982-83.

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Total	8047.1	8867	9190	9434	9620
Index	100	110.2	114.2	117.2	119.5

* Based on local authorities' 1981-82 Revised Budgets.

~~On theGovernment's inflation assumptions these cash totals imply a reduction~~ of just over 5% in volume terms between 1980-81 and 1983-84 with a further 3% reduction in 1984-85 in total local authority current expenditure on education including school meals and milk. Excluding meals and milk the implied volume reduction on LEA current expenditure is some $3\frac{1}{2}$ per cent by 1983-84 and some 6 per cent by 1984-85 compared to their actual expenditure in 1980-81. ~~These figures are summarised below~~.

£m ~~(November 1981 prices)~~

	1980-81 (outturn)	1982-83	1983-84	1984-85
Education	8530.7	8443.6	8230.3	8000
Index	100	99.0	96.5	93.7
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LEA CURRENT EXPENDITURE 1982-83 - 1984-85

6. The table ~~2~~ below provides a breakdown of the cash totals for LEA expenditure between RSG forecasting heads for 1980-81, 1982-83 and 1983-84 expressed ~~in cash terms and~~ at November 1981 prices ~~compared with actual expenditure in 1980-81~~. The figures for 1982-83 reflect the changes from earlier plans presented in ESGE(81)27 and incorporated in last December's RSG settlement. The 1983-84 figures are a provisional apportionment of the total based on the Cmnd 8175 pattern of expenditure as modified by subsequent policy changes. Both the 1982-83 and 1983-84 figures incorporate the estimating changes revealed by the 1980-81 outturn. The apportionment of the tentative total for 1984-85 will be one of the main items for consideration in the next months.

7. The assumed breakdown of the totals for 1982-83 and 1983-84 between the main areas of LEA current expenditure are as follows:

£m November 1981 prices i.e. on the basis ~~of the factor~~ described at the end of para 4.

	1980-81	1982-83	1983-84
Nursery	31.8	32.4 (101.9)	32.5 (102.2)
Primary	2472.9	2374.3 (96.0)	2293.7 (92.8)
Secondary	3244.6	3295.3 (101.6)	3249.5 (100.2)
Special	341.4	345.5 (101.2)	343.2 (100.5)
Other Schools	359.5	338.3 (94.1)	330.8 (92.0)
PRC*	10.7	0.1	-3.0
SCHOOLS TOTAL	6460.0	6385.9 (98.8)	6248.7 (96.7)
AFE net‡	485.6	503.9	470.8†
NAFE net	782.1	802.6 (102.6)	776.2† (99.2)
Adult	69.0	49.9 (72.3)	40.9 (59.3)
Catering and Residence	33.1	11.4	11.4
PRC*	2.0	-	-0.5
Discretionary Awards etc‡	106.6	110.1	107.4
FHE TOTAL	1478.4	1477.9	1406.2
Administration and Inspection	407.9	405.1 (99.3)	403.0 (98.8)
Child Guidance etc	21.0	20.8 (98.8)	20.3 (96.2)
Youth Service	82.4	82.4 (100.0)	82.4 (100.0)
Other items	80.3	71.5 (89.0)	71.7 (89.3)
OTHER ITEMS TOTAL	591.6	579.8 (98.0)	577.4 (97.6)
GRAND TOTAL	8530.9	8443.6 (99.0)	8230.3 (96.5)
Meals and milk	423.3	304.1 (71.8)	241.8 (57.1)

‡ Comparisons between AFE Expenditure in 1980-81 and the later years are distorted by the addition to compensate for the loss of tuition fee income in the later years.

† Based on a provisional apportionment of the planning total for all higher and further education.

* The 1980-81 figures for PRC are gross figures, the figures for later years are net of salary drift savings compared to 1980-81.

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Pupil and Student Number Projections

8. The pupil and student number projections presented in tables 2.10.1 and 2.10.2 of the White Paper are revised projections based on the latest available information about staying on rates of 16-19 year olds at school, participation rates in NAFE, and actual admissions to AFE last October. Some of these projections were presented to the Steering Group in ESGE(81)27, but they are reproduced in full at Annex A together with some of the assumptions which underlie them. The basis of these latest projections and their implications will be one of the major items for discussion inthe Expenditure Sub-Group in the coming negotiating round. The main features of the revised projections compared to those presented to the Sub-Group last autumn are

(i) some redistribution of projected under-five pupils between nursery schools, nursery classes and reception classes in primary schools.

(ii) a substantial upwards revision of OSLA projected pupil numbers (7% in 1982-83).

(iii) a substantial upwards revision of the projected numbers of 16-19 year olds in NAFE. (These projections will require further revision to take account of the MSC's Youth Training Scheme).

(iv) a downwards revision of projected overseas student numbers both in AFE and NAFE based on admissions last autumn and latest information on applications from overseas students to universities for 1982-83.

9. Annex A also presents the latest available information from last year's school leavers survey about staying on rates in school and participation rates in further education amongst 16-19 year olds. Firmer information on NAFE participation rates will need to await analysis of last November's FESR returns when all the returns have been received.

Schools

Teachers

10. ESGE(81)27 offered revised rate of rundown of teacher numbers compared with ESGE's July report to the Consultative Council taking account of the

actual number of teachers employed by LEAs in September 1981 as revealed by their 618G returns and the suggested apportionment of the additional resources for 16-19 education between schools and NAFE outlined in Annex A to ESGE(81)27. These teacher numbers are included in table 2.10.1 of the White Paper.

	FTE '000s (academic years)								
	1980-81 (actual)		1981-82 (estimated)		1982-83		1983-84		1984-85
	429		418		405		390		380
Implied Year on Year Reduction		-11		-13		-15		-10	

11. Discussions between the Department and the local authority associations about the achievement of this contraction are continuing outside the ESGE forum and the local authorities are themselves studying the problems of contraction under the auspices of LACSAB. As proposed in ESGE(81)27 the 1982-83 RSG Settlement includes some £20m for PRC and redundancy payments to school teachers. The 1983-84 total has also been increased by £20m compared to the Cmnd 8175 total to allow for increased numbers of premature retirements and for redundancy payments to teachers. The assumptions underlying these plans will need further consideration in the light of more up-to-date information on the level of premature retirements this year and of any changes which might be agreed to current arrangements to ease the problems of management of the contraction.

12. As the White Paper makes clear these planned teacher numbers will lead to some tightening of overall staffing standards in schools with overall pupil teacher ratios increasing from 18.6:1 to 18.7:1 in 1983-84 and 1984-85; as the following table shows

	1980-81	1981-82	1982-83	1983-84	1984-85
Pupil Number (000s FTEs)	7970	7759	7513	7293	7121
Teacher Numbers (000s FTEs)	429	418	405	390	380
Overall Pupil Teacher Ratio	18.6:1	18.6:1	18.6:1	18.7:1	18.7:1

The White Paper also acknowledges that the changing age distribution of pupils with secondary numbers falling less rapidly than primary numbers will lead to further tightening of pupil teacher ratios in individual schools.

13. The level of teacher provoision assumed in the White Paper is intended to allow for the employment of about 5000 fte teachers, broadly in line with the level in recent years, to cover release for induction and in-service training. This is in line with the actual number released as shown by the 1980 INIST survey. It had been hoped to repeat the survey this year but the main part of the survey on number of teachers released and expenditure has now been deferred until next year.

Schools Non-Teaching Costs

14. As foreshadowed in ESGE(81)27 the Government has revised the targets for the removal of surplus places downwards to 470,000 by March 1983 and 630,000 by March 1984 compared to the Cmnd 8175 target of 700,000 places by March 1983. These revised targets are reflected in increased non-teaching costs compared to earlier plans. The forecasts of non-teaching costs have also been revised to take account of the lower savings per surplus place taken out of use which the Department now estimates. These changes are subject to reconsideration in the light of authorities' returns to Circular 2/81 and the Department intends to present an analysis of the returns to the ESGE Buildings Sub-Group and subsequently to the Steering Group during the current negotiating round.

15. As in Cmnd 8175 the plans continue to provide for a 2% compound growth factor for expenditure on school books and equipment on 1979-80 expenditure levels with a further addition of £20m in 1982-83 as proposed in ESGE(81)27.

16. The overall effect of these changes in non-teaching costs is a modest increase in the per pupil costs compared to Cmnd 8175.

Special Education

17. Provision for expenditure on special education in Cmnd   is broadly in line with that in Cmnd 8175. It continues to allow for a slower decline in special pupil numbers than in parimary and secondary numbers and for diseconomies of scale in non-teaching costs.

Home to School Transport

18. Despite the shortfall in expenditure in 1980-81 compared to the forecast Cmnd   continues to allow for increased costs per pupil on school transport as the number of schools decline and retains the 1% compound growth in provision

per pupil to the end of the survey period as in Cmnd 8175. Planned expenditure is assumed to fall by just under 3 per cent between 1980-81 and 1983-84.

School Meals and Milk

19. Cmnd envisages that LEAs will secure considerable savings on school meals expenditure given the greater discretion afforded to them by the Education Act 1980. In line with the proposal in ESGE(81)27 the target for 1982-83 has been revised upwards to £325 million from the Cmnd 8175 target to take account of the difficulties LEAs are facing in raising the real level of income from charges at a time when entitlement to free meals is increasing and of reorganising their school meals services to make them more cost effective. Annex B presents an analysis of the autumn 1981 School meals census returns; and offer assumptions about changes in 1982-83 which are consistent with the cash total for £325 million.

20. The provision for later years is broadly in line with that in Cmnd 8175 and reflects the Government's continued view that it is in the interest of the education service as a whole that LEAs continue to seek all possible savings on school meals expenditure so that more essential aspects of education can be protected.

Schools Capital Provision

/Piece to be added later/

FURTHER EDUCATION

21. Cmnd provides disaggregated plans for higher and further education only for 1982-83. For 1983-84 the provisional targets for AFE, NAFE and adult net expenditure in the table at paragraph 7 have been derived by assuming the same split of higher education expenditure between universities, AFE and non-maintained higher education which was applied last year to the Cmnd 8175 targets.

AFE

22. The net expenditure figures presented in paragraph 7 incorporate for 1982-83 and 1983-84 the addition to compensate institutions for the loss of tuition fee income from the substantial reduction in tuition fees. They are not

therefore strictly comparable with the 1980-81 figure. The plans assume the loss of 2000 AFE lecturer posts in each of the next two academic years and allow for expenditure on PRC and redundancy payments of some £10 million to assist with the contraction. As with the contraction of the school teacher force the issues arising from the planned contraction in the lecturer force are the subject of separate consultations between the Department and the local authority associations and are also being considered by the local a authorities themselves under the auspices of LACSAB. The required rate of contraction will however require further consideration in the light of a revised estimate of the actual number of AFE lecturers in 1981-82 which the Department will be preparing shortly on the basis of the January 1982 618G return of lecturer numbers and the split between AFE and NAFE lecturers revealed by last spring's monitoring survey.

23. Because the planned net expenditure figures are not directly comparable

"Cmnd 8494 Chapter 2.10 paragraph 13 says that by 1984-85, allowing for fee and other income, total spending by institutions of higher education is expected to fall by at least one tenth in real terms below the 1980-81 level. The White Paper adds that the level of funding in 1982-83 for each sector of higher education is broadly in line with the planned contraction but that for later years the division of the cash available for higher education has not yet been settled. On this basis the relevant figures in real terms for AFE in 1980-81 and 1982-83, with tentative figures for 1983-84, are as follows:-"

Sales Income)	168.6	120.1	115.2
Gross Expenditure	654.2	621.0	586.0
Index	100	94.9	89.5

* Using actual or proposed fee levels for 1980-81 and 1982-83.

The provisional plans are in line with the Government's planned contraction of higher education as announced in Cmnd 8175 and confirmed in Cmnd .
The Department will be looking to the new National Advisory Body on Local Authority Higher Education to take the lead in advising on the necessary rationalisation of the AFE system.

therefore strictly comparable with the 1980-81 figure. The plans assume the loss of 2000 AFE lecturer posts in each of the next two academic years and allow for expenditure on PRC and redundancy payments of some £10 million to assist with the contraction. As with the contraction of the school teacher force the issues arising from the planned contraction in the lecturer force are the subject of separate consultations between the Department and the local authority associations and are also being considered by the local a authorities themselves under the auspices of LACSAB. The required rate of contraction will however require further consideration in the light of a revised estimate of the actual number of AFE lecturers in 1981-82 which the Department will be preparing shortly on the basis of the January 1982 618G return of lecturer numbers and the split between AFE and NAFE lecturers revealed by last spring's monitoring survey.

23. Because the planned net expenditure figures are not directly comparable with earlier years it is preferable to use implied gross expenditure as the basis for comparison while recognising the inherent undertainties in estimating gross expenditure because of their sensitivity to actual student numbers and in particular overseas student numbers used in forecasting income. ~~The relevant figures are as follows:~~

£m (November 1981 prices i.e. on the basis described at the end of para. 4

	1980-81	1982-83	1983-84
Net AFE Expenditure	485.6	503.9	470.8
Forecast* Income (excluding Sales Income)	168.6	120.1	115.2
Gross Expenditure	654.2	621.0	586.0
Index	100	94.9	89.5

* Using actual or proposed fee levels for 1980-81 and 1982-83.

The provisional plans are in line with the Government's planned contraction of higher education as announced in Cmnd 8175 and confirmed in Cmnd   . The Department will be looking to the new National Advisory Body on Local Authority Higher Education to take the lead in advising on the necessary rationalisation of the AFE system.

NAFE

24. The projections of NAFE student numbers take no account of the impact of MSC's Youth Training Scheme. The cash totals do, however, include NAFE's share of the additional resources for 16-19 education in line with the illustrative apportionment between schools and NAFE presented in Annex A of ESGE(81)27 and for 1982-83 the additional £35 million allowed in the RSG settlement.

25. The Department recognises that the potential impact of the Youth Training Scheme on NAFE provision raises a number of important issues and proposes to put a preliminary paper to the next meeting of the Steering Group. The precise charge which LEAs will wish to make for provision under the Youth Training Scheme is for negotiation between the local authorities and the MSC, but cash has been made available to the MSC for the scheme in Cmnd   to meet the necessary payment to colleges for their contribution.

Adult Education

26. Further examination of the split of the 1980-81 RO1 outturn of expenditure on further education between adult, AFE and NAFE has shown that a more accurate split is as follows:-

	November 1981 £m	
AFE	485.6	(489.8)
NAFE	782.1	(789.8)
Adult	69.0	(58.1)

The previously supplied figures are given in brackets. The main effect is that the reduction in net expenditure on adult education by 1982-83 is somewhat greater than was suggested in ESGE(81)27 with correspondingly slightly smaller reductions in AFE and NAFE net expenditure between 1980-81 and 1982-83. Cmnd   allows for the addition of £10m to planned net expenditure on adult education as agreed in the RSG negotiations but retains the Cmnd 8175 target for 1983-84 implying a further reduction of close to 20% from 1982-83.

Further Education Capital

27. [To be added later]

Discretionary Awards

28. Planned expenditure on discretionary awards reflects the projected increase of student numbers in higher education in 1982-83 compared to 1980-81. The expenditure is net of the savings arising from the reduction in tuition fees for home students in higher education and also reflects the cut in the real value of the maintenance element for 1982-83.

Administration and Inspection

29. The plans take account of the fact that the 1980-81 outturn was somewhat lower than expected but otherwise continue the Cmnd 8175 plans which allowed for a modest increase in expenditure in recognition of the concern expressed by the local athority representatives about the pressures on LEA expenditure in this area.

Other items

30. Cmnd carries forward the Cmnd 8175 plans taking account of the actual outturn in 1980-81 and revised projections of pupil or student numbers where appropriate. Although the plans for expenditure on the Youth Service are lower than in Cmnd 8175 reflecting LEAs actual expenditure in 1980-81, they still provide for current levels of provision to be maintained.

CONCLUSION

31. The Steering Group is invited

(a) to take note; and

(b) to consider whether there are any issues which it would wish to remit specificially to the Expenditure Sub-Group or for separate consideration.

Econ Pol.

BY BAG

p.a.
AR 11/3

UNCLASSIFIED

FROM FCO 091400Z MAR 82

TO CERTAIN MISSIONS AND DEPENDENT TERRITORIES

GUIDANCE TELEGRAM NUMBER 26 OF 9 MARCH 1982

1982 PUBLIC EXPENDITURE WHITE PAPER: OVERSEAS AID

1. The Public Expenditure White Paper published on 9 March gives the Government's spending plans to 1984-85. Figures for 1983-84 and 1984-85 are provisional, and subject to review by Ministers in the 1982 Public Expenditure Survey. For the first time the White Paper presentation is entirely in cash.

LINE TO TAKE

2. Allocations for the Net Aid Programme for the years 1982-83 to 1984-85 reflect a fall of about two per cent (some £19-20m) from previous plans. This is in line with a general cut on most cash-limited programmes. It is largely offset by the Government's agreement that the CDC may borrow up to £15m commercially in foreign currency over the same period.

BACKGROUND (may be drawn on freely)

3. Expenditure plans for 1982-83 were announced by the Chancellor on 2 December 1981 (for overseas aid see Guidance Tel 166 of 2 December). The new information in the White Paper comprises cash figures for 1983-84 - the last year covered by the March 1981 White Paper; and 1984-85 - the "new" year in the latest Public Expenditure Survey.

4. Cash allocations for the Net Aid Programme are: 1982-83 - £950m; 1983-84 - £1,010m; 1984-5 - £1,070m. The Gross Aid Programme - ODA's spending target - in 1982-83 is £1,019m comprising a net public expenditure allocation of £950m, plus recycled capital repayments of £69m. The 1981-82 figure for the Gross Aid Programme is £1,037m

5. Last autumn's Ministerial decisions on public expenditure reduced the previously planned figure for the Net Aid Programme in 1982-83 by about two per cent, in line with a general cut of this amount on cash-limited programmes. The White Paper figures do no more than reflect this cut in later years. The reductions decided in the autumn were largely offset by permission for the CDC to borrow up to £15m a year abroad over the same period (as announced in December 1981).

6. The World Development Movement have alleged that the fall in the Net Aid Programme between 1981-82 and 1982-83 is the largest ever - at 11 per cent in real terms. The reduction is in fact about 9 per cent. This is still the largest year-on-year drop in the Net Aid Programme, but it is mostly attributable to decisions taken in the previous Public Expenditure Survey and published in the March 1981 White Paper.

CARRINGTON
FCO/WHITEHALL
INFORMATION DEPARTMENT

ADDITIONAL DISTRIBUTION
GUIDANCE

Econ Pol
Public Exp.

Prime Minister ② AW JV

MES 9/3

Treasury Chambers, Parliament Street SWIP 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Education
and Science
Elizabeth House
York Road
London SE1 7PH

9 March 1982

Dear Keith,

PUBLIC EXPENDITURE WHITE PAPER: CONSULTATION WITH LOCAL AUTHORITIES

I understand that your officials have today discussed with mine a draft paper commenting on the education chapter of the public expenditure white paper which they propose to circulate for discussion with local authority representatives. Although this draft refers to the importance we attach to cash planning it nevertheless goes on to present figures extensively in "November 1981 prices".

I am writing to make clear that I cannot agree to any paper being sent to local authorities in these terms. As you know, the White Paper figures were agreed in cash terms, and cash terms only. Our discussions in Cabinet were in cash, not constant prices. It is simply not possible now to make up constant price figures for one programme of public expenditure and make them public without undermining the whole basis of cash planning. No other Minister is doing so.

I know that our decision to establish cash planning has your personal support and so I am sure you will understand why it is necessary for me to draw this matter to your attention. I am particularly concerned that your officials are apparently unwilling to undertake that any revised draft will be shown to the Treasury before it is circulated when such an important and sensitive issue of public expenditure control is at stake.

I am copying this letter to the Prime Minister and Sir Robert Armstrong.

LEON BRITTAN

Econ Pol

s/c JV

Prime Minister (2)

MCS 8/3

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 6402

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

8 March 1982

Dear Chief Secretary,

I am replying to your letter of 22 February to Patrick Jenkin in which you propose to legislate in this year's Finance Bill to set off RDG's against future expenditure for the purpose of relief against both PRT and 'ring-fence' Corporation Tax. I have also seen Patrick Jenkin's reply of 24 February, in which he argues that Shell/Esso should be given transitional relief in respect of the fractionator at Mossmorran. As you recognise, this is the only major energy project which would be caught by your proposed legislation in the immediate future.

I note Patrick's comment that your proposal might have the effect that RDG's were not worth claiming in respect of the fractionator. While that may be so, I would not agree that this might prejudice Esso/Shell's decision to go ahead with the cracker. The fractionator would, after all, still go ahead; it is an integral part of the Brent Field development, and as such it is both necessary and highly immobile geographically. Meanwhile the cracker would still qualify for full RDG. I see nothing here that need cause us concern as to the future of the cracker.

In sum, I am content with your proposal, and I do not see a case for giving transitional relief for Shell/Esso, although I would be happy for my officials to discuss the question further with your officials and Patrick's if you and Patrick felt it necessary.

I am copying this letter to the recipients of yours.

Yours sincerely

Janet Chadwick

NIGEL LAWSON

(Approved by the Secretary of State
and signed in his absence)

Prime Minister

You have agreed to this privately with the Chancellor. He is now consulting you and colleagues. So far there have been no comments. Shall I now record your agreement?

Yes

MCS 15/3

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

PRIME MINISTER

LONG-TERM PUBLIC EXPENDITURE PROSPECTS

The White Paper giving details of our public expenditure up to 1984-85 will be published on Budget Day.

2. The prospects for the period beyond 1985 are very worrying. We need to take stock of where we are going in the light of our experience in the last two and a half years.

3. Though the problem stretches well beyond the horizons of a normal Public Expenditure Survey, the decisions we take in the next year or so will tend to reduce our room for manoeuvre in the longer term. We are, for example, running into major problems over defence. If we were to continue to aim for the next ten years or so at the NATO target of annual real increases of 3 per cent, we could find at the end of the period that we were spending something like 7 per cent of our GDP on defence compared with the present 5 per cent.

4. But defence is by no means the only problem. We have also given high priority to some very large civil programmes, such as social security and health. We are committed to maintaining the purchasing power of more than half of social security benefits. We have so far allowed the health programme to grow in real terms. Though as a proportion of GDP education expenditure is falling at present, largely for demographic reasons, the downward trend in the numbers of pupils is likely to reverse in due course. Defence, social security, health, and education together account for over 60 per cent of total public expenditure.

5. Elsewhere, we have found that the scope for reductions is necessarily limited. Indeed some of the smaller programmes (law and order; employment) have required special preference.

6. Clearly it is necessary to achieve a reduction in the burden of the public sector on the economy. It is, and must remain, an essential part of our strategy; and we need to consider how it is to be maintained and developed up to and beyond the next election.

7. In bringing public expenditure under control we have concentrated so far on cash and on the relatively short term. But the longer term prospects extending well beyond the lifetime of this Parliament call for thorough study. I accordingly propose that:-

(a) the Treasury, in consultation with major spending Departments and the CPRS, should immediately set in hand an examination of the likely pattern of public expenditure over the next decade, on the basis of a range of possible assumptions about growth and other factors;

(b) I should report to Cabinet in the light of this study by next June;

(c) colleagues in charge of major spending Departments should ensure that the work is given the necessary priority in their Departments; and

(d) in the meantime we should make no changes in our present expenditure programmes which would pre-empt decisions about the longer term.

8. Copies of this minute go to our Cabinet colleagues, to the Chief Whip, and to Sir Robert Armstrong.

GH

(G.H.)
8 March 1982

s/c JV

Prime Minister

2

MRS 4/3

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

4 March 1982

MS

Dear Secretary of State,

attached will request if required

REGIONAL DEVELOPMENT GRANTS

Thank you for your letter of 24 February. As you will know, I arranged for my officials to meet yours (together with officials from the other departments concerned) on Monday to discuss the implications of the action proposed in my letter of 22 February. My officials reported the outcome to me later that day.

I understand there was no disagreement on the general case for early legislation to deal with the RDG/oil taxation overlap. The official discussions identified two main issues - first, the implications (if any) for the Mossmorran cracker of legislating this year with no transitional provisions to let out part or all of expenditure on the Mossmorran fractionator, and, second, the political and presentational aspects vis-a-vis Shell/Esso.

On the first, my own view - and I think this was not seriously in dispute - is that it is unlikely, though of course we cannot be entirely certain, that Shell/Esso would go as far as to threaten to cancel the cracker at this stage, let alone actually to cancel. The economics of the cracker are not linked with those of the fractionator in any perceptible way. Moreover work on the cracker has progressed considerably since last summer and the amounts at stake for each of the companies in relation to the fractionator, if RDGs are fully taxed, are not large relative to their total expenditures. I conclude that my proposals on RDGs are very unlikely to put the cracker seriously at risk.

The second question obviously involves questions of judgment. On the one hand, Shell/Esso may, if they feel so inclined seek to make some capital either out of alleged inconsistencies in Ministerial

CONFIDENTIAL

attitudes now as compared to last summer, or more specifically on the terms of Keith Joseph's letter to Exxon of 22 May 1980. I think that any such attempt would be synthetic and can be satisfactorily rebutted. The discussions last summer concerned the cracker, not the fractionator. The letter, which followed up a meeting on the cracker, is specifically concerned with "downstream" activities (whereas the fractionator is "upstream"), its comments on the RDG regime and transitional provision even in this context do not amount to absolute assurances, and it does not touch at all on the distinct question of the tax treatment of RDGs. Whilst I would expect Shell/Esso to lobby vigorously for transitional relief, I rather doubt whether they would carry on the debate in public on this issue, or seek to impute 'bad faith' on our part. But if they were to do so, I think we can satisfactorily meet their arguments.

On the other side of the argument, I believe we would be open to serious criticism if, having reached the point of taking action on the overlap (perhaps later than would have been desirable, given that we are not proposing to deal with RDGs paid, or still to be paid, in respect of past expenditure), the legislation were to be accompanied by transitional provisions which would effectively remove from its scope the bulk of the expenditure on the only relevant major project likely to qualify for RDGs in the foreseeable future, particularly when the beneficiaries would be seen to be the same as those already benefiting from other proposed legislation (on ethane valuation) to which we are committed and which is already under criticism from some quarters as discriminatory.

As you know, the Budget timetable did not allow further time for discussion or correspondence, and you will not be surprised to learn that the Chancellor has decided to go ahead with legislation in the Finance Bill to set off for the purposes of PRT and ring fence corporation tax RDGs paid in respect of expenditure incurred after Budget Day (without further transitional provisions). This will be announced in a Revenue Budget Day press release.

I am copying this letter to the Prime Minister, the Secretaries of State for Energy, Scotland, Wales and Northern Ireland and Sir Robert Armstrong and Robin Ibbs.

yours sincerely

pp LEON BRITTAN
(approved by the Chief Secretary & signed in his absence)

(2) AW AD JV

Prime Minister

MCS 3/3

Treasury Chambers, Parliament Street, SW1P 3AG

D B Omand Esq
Private Secretary to the
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

2 March 1982

Dear David,

PUBLIC EXPENDITURE WHITE PAPER: DEFENCE

Thank you for your letter of 25 February. The Chief Secretary was grateful for confirmation of your Secretary of State's agreement to the PEWP wording. He notes that disagreement remains on other issues, but is content to defer resolution of these until the 1982 Survey.

The Chief Secretary is however conscious of the need to settle one question now. He has seen a copy of the Table 2.2 proposed for inclusion in the 1982 Statement on the Defence Estimates. He cannot accept this in its present form. It not only ignores the principles and implications of cash planning: it is also inconsistent with the terms of the 1982 PEWP (Cmnd 8494).

The figures which will be published in Cmnd 8494 are:

1982-83	1983-84	1984-85
14103	15298	16439

These figures were agreed in cash terms, and in cash terms only. 1981 PES discussion was not conducted in constant price terms, and no constant price figures were considered or agreed by the Cabinet. None will be published in the 1982 PEWP. It follows that it is not possible now to make up constant price figures, and to publish them with the implication that they represent agreed expenditure plans. No other Minister is doing so.

The Chief Secretary has therefore asked that Table 2.2 be either omitted, or amended so that all references to this year's Public Expenditure White Paper are correct.

I am copying this letter to the Private Secretaries to the Prime Minister, the Chief Whip and Sir Robert Armstrong.

Yours sincerely
Terry Mathews

T F MATHEWS
Private Secretary

AW

PUBLIC EXPENDITURE WHITE PAPER: DEFENCE

As a result of the move to cash planning announced in March 1981 all the figures in the 1982 White Paper will be in cash. There will be no underlying "volume" figures. As part 1 will explain "the levels of service must be determined in the light of the finance available".

2. MOD have been most reluctant to accept this move to cash. They point to the commitment in The Way Forward, Cmnd 8288, to plan for annual real growth at 3%. They wish therefore to translate the cash plans back into "volume". The Chief Secretary has explained to Mr Nott that it is not now possible to give constant price or "volume" equivalents of the cash plans; there are no agreed forecast deflators. And it would be a negation of cash planning to attempt the exercise.

3. Mr Nott wishes to reopen the recent Public Expenditure Survey, when cash figures were agreed for all programmes and endorsed by Cabinet. The figures agreed for defence were for a cash limit increase of £300m in 1981-82 and additions of £375m in 1982-83, £325m in 1983-84 and £250m in 1984-85 above Cmnd 8175 revalued. Mr Nott has yet to reduce his 1982-83 programme to the agreed figure and is proposing substantial additions to the figures for 1983-84 and 1984-85. Other programmes are being held to the agreed figures and it would be most damaging to increase the defence figures again on top of the massive cash increases which resulted from the public expenditure exercise.

4. The 1981-82 increase (which Mr Nott claimed was essential to avoid an overspend and on which he bases his claims for later years) now appears over generous. The latest Treasury forecasts show an underspend on the revised cash limit of over £200m and in addition to pressing strongly for flexibility between years MOD are urgently trying to accelerate payments from 1982-83. To the extent that they succeed, the "programme gap" in 1982-83, which Mr Nott made so much of at the recent OD meeting, will fall away.

5. Until volume commitments are reconciled with cash planning, disputes such as the current one will recur. The 1983-84 and 1984-85 defence figures are provisional and will be looked at again in the next Survey but it is very damaging for the Ministry of Defence to be seen to be complaining against the figures agreed by Cabinet. Instead of damaging comments about the alleged shortfall against "volume", they should be taking credit for the much larger cash increases so recently agreed. It is primarily MOD's responsibility to put across the Government's defence policy; better and more positive presentation is needed.

CONFIDENTIAL

cc AW
AO
JV

→ ASC

SECRETARY OF STATE

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-XXXXXXX 218 2111/3

MO 8

25th February 1982

Prime Minister (2)

MCS 25/2

Dear Tony,

PUBLIC EXPENDITURE WHITE PAPER

Thank you for your letter of 15th February. I can confirm that the Defence Secretary agreed the PEWP wording on the basis set out in your letter.

My Secretary of State has, however, asked me to make it clear that this agreement on the text does not resolve the issue of substance over the figures for defence expenditure in 1983/84 and 1984/85 which will have to be resolved in this year's public expenditure survey. Cabinet endorsed volume defence plans based on 3% real annual growth and decided that there should be a realistic translation of these plans into cash provision. Mr Nott does not agree, therefore, that there are "inevitable difficulties in seeking to reconcile fully our decision to plan to implement the NATO 3% aim with the Government's commitment to cash planning", and he rejects the Chief Secretary's implication that our volume defence commitment should in effect be overridden by the principles of cash planning. He does not accept the view that under cash planning it is neither appropriate nor possible to translate the cash figures into constant price terms, which he would regard as a partisan and extreme interpretation of cash planning. Constant price figures can be derived both in theory and practice and these will have to be published to underline our commitment to the NATO target.

My Secretary of State has also asked me to say that it was not the case that the additions to the defence budget set out in Sir Robert Armstrong's minute of 2nd December were to meet the "transitional difficulties being encountered in re-shaping the defence programme". The case for the increases was made on the basis of the higher prices on the defence programme actually experienced in 1981/82, and as part of the exercise of translating the agreed volume figures into cash.

I am copying this letter to the recipients of yours.

Yours ever,
David Omand
(D B OMAND)

T F Mathews Esq

CONFIDENTIAL

4 DS5

bc: Mr. Duguid

10 DOWNING STREET

From the Private Secretary

25 February 1982

Dear John,

Long-Term Public Expenditure Prospects

The Prime Minister discussed with the Chancellor this morning his minute of 5 February about the longer term prospects for public expenditure in the period beyond 1985.

The Prime Minister said that she thought that it would be a good idea to mount the study which the Chancellor had in mind. She agreed that the Treasury should undertake this work, in consultation with major spending departments and the CPRS. The matter would need to be handled sensitively, to avoid creating difficulties with this year's regular public expenditure exercise.

I am sending a copy of this letter to David Wright (Cabinet Office).

Yours sincerely,

Michael Scholar

John Kerr, Esq.,
HM Treasury

SECRET

GC.

— AJC

CBI To see

Ecen Pol
c/c AD
AW
JV

(2)

CONFIDENTIAL

Prime Minister

To note.

MCS 24/2

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

24 February 1982

Michael Scholar Esq
Private Secretary
No.10 Downing Street
LONDON SW1

Dear Michael,

EC CONTRIBUTIONS AND THE PUBLIC EXPENDITURE WHITE PAPER

John Wiggins' letter of 16 January 1981 to Michael Alexander drew attention to the figures for payments to the European Community institutions which were to be shown in the public expenditure White Paper. I am writing to draw your attention to the comparable figures that will appear in this year's White Paper. The dominant component is of course our net contribution to the Community budget.

The comparison between the new figures and the last White Paper revalued is as follows:-

Net payments to EC institutions

£ million

	1981-82	1982-83	1983-84	1984-85
Cmnd 8175 revalued	460	501	531	
New White Paper	45	500	580	600
Difference	-415	-1	+49	

As you will see, the 1981-82 estimate of £45 million is much lower than expected last time. But that will hardly come as a surprise. The press are already familiar with a figure of some £55 million for our net contribution in respect of the 1981 budget, which largely explains the low 1981-82 cash flow White Paper figure. These low figures have resulted mainly from unexpectedly high world food prices, which held down CAP expenditure, and from the relatively high sterling exchange rate and higher than expected receipts by the UK.

After the unexpectedly low figure for 1981-82, the estimates for 1982-83 and subsequent financial years bounce back to levels very similar to those projected in last year's White Paper. As the table shows, the figure of £500 million for 1982-83 is almost identical with the corresponding cash figure underlying

/the last White Paper.

the last White Paper. Fears that it might be substantially higher-(Peter Jenkins' letter of 4 August to Michael Alexander) - have proved unfounded.

The text of the new White Paper explains that once again the figures for 1982-83 and subsequent years are based on a 'stylised assumption' about our refunds. The last White Paper assumed that our net contribution after correction would remain constant in real terms. With the change from a constant prices to a cash White Paper, this assumption is no longer so suitable, and the new estimates make the assumption that the arrangements governing 1982 and later years will be much the same as those governing 1980 and 1981, which refunded about two-thirds of the UK's estimated net contribution to the Community budget (excluding overseas aid and certain other items). The White Paper text makes it quite clear that the figures for future years are neither a forecast nor a negotiating objective. This follows the practice in previous years, which has not prejudiced our negotiating position, and will not do so now.

Full briefing will be made available for use with the press as necessary.

I am sending copies of this letter to Brian Fall (FCO) and David Wright (Cabinet Office).

Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

24 FEB 1982

JH 310 CONFIDENTIAL

ck SV

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

24 February 1982

The Rt Hon Leon Brittan QC MP
Chief Secretary
Treasury
Parliament Street
London SW1

Dear Chief Secretary

REGIONAL DEVELOPMENT GRANTS

Thank you for your letter of 22 February.

2 I agree that regional incentives for large capital-intensive projects need to be made more cost-effective and this will be tackled in any longer term review of regional policy.

3 I appreciate that the estimates for the Department's programme for 1983-84 and 1985-86 must remain at the level agreed by the Cabinet. But as things are the reduced figures are unlikely to be sufficient and the possibility of a supplementary for 1982-83 cannot be ruled out.

4 Turning now to your proposals for ring-fence expenditure, I must confirm that it is not practicable to exclude from grant expenditure qualifying for PRT relief. But I agree something has to be done to reduce the incentives and I would be happy for officials to discuss this further.

5 I note what you say about Mossmorran. However, we concluded earlier that any reduction in RDGs on the fractionator ran the risk of damaging prospects for the cracker. Your proposal in effect could mean that RDGs were not worth claiming in respect of the fractionator. I understand that a considerable part of the expenditure has yet to be committed and without any transitional provisions Shell/Esso could be badly hit. In view of the risks involved, I should prefer some transitional relief for the Mossmorran fractionator especially as we know of no other cases that would benefit. If no transition were allowed and the possibility of offsetting selective assistance had to be considered, the tax problem would come up again because SFA is taxable.

6 I appreciate the need to move quickly on this, but I would ask for a little time so that officials from the interested Departments can meet to guage the impact of your proposals, particularly on the Mossmorran project where they will need also to assess the risks involved.

7 I am copying this letter to the Prime Minister, the Secretaries of State for Scotland, Wales and Energy and to Sir Robert Armstrong and Robin Ibbs.

Yours sincerely

Richard Riley

pp PATRICK JENKIN
(approved by the Secretary of State and signed in his absence)

Mr P Dixon
Mr Lovell
Mr Mountfield
Mr Kelly
Miss Peirson
Mr Robson
Mr Wicks
PS/IR
Mr J M Crawley IR
Mr M Haigh IR
Mr Johns IR
Mr Corlett IR
Mr Chivers
Mr A C S Allan

cc Chancellor
FST
EST
MST (C)
MST (L)
Sir D Wass
Mr Ryrie
Mr Middleton
Mr Quinlan
Mr Burgner

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

22 February 1982

Dear Patrick,

REGIONAL DEVELOPMENT GRANTS

I am writing to let you and colleagues know that I have decided not to press for the cuts in expenditure on RDGs which were agreed by Cabinet in connection with last year's survey. I continue to find it very disappointing that you and others have been unable to agree on a way to fulfill your commitments on finding the savings, especially since everyone seems to support the view that a considerable part of this expenditure is wasted on large capital-intensive projects providing very few jobs. This I feel is certainly something which must be tackled in any longer-term review of regional policy and regional incentives, but we shall in any event need to return to the issue at an early date.

The baseline for your programme for 1983-84 and 1984-85 will remain at the level agreed by Cabinet, including the £50 million saving on RDGs. If you cannot find alternative savings or reduced requirements you will have to put in a bid in next year's survey, which will of course be considered in the ordinary way. For 1982-83 I propose to leave your estimate at the level proposed, with the £30 million reduction. If later in the year it appears that expenditure on RDGs will exceed this estimate you will have to put in a supplementary: I shall not now press for administrative action, or for an increase in deferment.

Although I am, with reluctance, prepared not to press the case for any general savings on RDG there is one point on which we must act. You will recall from our discussions of Sullom Voe and Flotta last autumn that onshore oil and gas production facilities qualifying both for RDGs and for PRT and Corporation Tax relief can attract total exchequer support (tax relief plus RDG) well in excess of gross spending. Despite our decision on past expenditure, we were agreed that this should be stopped for the future (E(81)33rd meeting). Now that we are not proceeding with the proposals to exclude all large capital projects we need specific measures to deal with expenditure which falls within the oil tax "ring-fence".

The most straight-forward course would be to ensure that RDGs were never given in such cases. You yourself suggested last year that the scope of RDGs might be limited to exclude "oil terminals." If this could be done to exclude all future expenditure likely to qualify for PRT relief, that would seem to me to be the best answer. But I understand that officials have found difficulty in drawing a new line in exactly the right place, and perhaps you could confirm that that is so.

On that basis I am bound to propose legislation in this year's Finance Bill to net off RDGs against future expenditure for the purpose of relief against both PRT and "ring-fence" Corporation Tax. The position for past expenditure is bad enough (although it must be regarded as water under the bridge); but I do not see how we can allow the excessive allowances which arise from combining RDG and the tax allowances to continue in the future.

For the immediate future I believe that the only major project known to be involved is the Shell/Esso gas fractionater (<u>not</u> the cracker) at Mossmorran. I recognise the special position of the cracker there, but I do not favour any transitional provisions to let out RDGs on money not yet spent on the fractionater. We are already facing considerable criticism on our commitment to legislation on ethane valuation.

You will appreciate that the timetable for Finance Bill legislation is now very tight: I am afraid that I need definite confirmation by the middle of this week that tax legislation is needed to deal with this problem.

I am copying this letter to the Prime Minister, the Secretaries of State for Scotland, Wales and Energy and to Sir Robert Armstrong and Mr Ibbs.

LEON BRITTAN

Econ Pol

①

10 DOWNING STREET

Prime Minister

There was no time today to discuss long-term public expenditure prospects with the Chancellor.

May I set up a short - 15 mins, say before another meeting - meeting with the Chancellor on this?

MCS 17/2

We will deal with it next time not

next Wednesday ~~meeting~~ meeting.

MCS

PRIME MINISTER

Meeting with the Chancellor at 1730 tomorrow

The Chancellor is likely to raise the following issues tomorrow:

(i) The Budget

By the end of this week firm decisions need to be taken on the revenue duties, which have to go to print. The Chancellor ought, perhaps, therefore be asked to let you have a note of what it is he is planning to do. I understand that he is still working on the basis of a PSBR of £9½ billion - £9¾ billion, which gives him room for manoeuvre of about £1½ billion. He is moving to the conclusion that he should do simply 1% on the NIS from August; that the various small packages which have been aired - construction, small business and so on - are unlikely to turn out to be practicable. The choice lies between doing 1½% on the NIS, or of finding some other way of helping companies - either by increasing investment allowances, or perhaps by making the reduced NIS figure run from budget day by means of a rebate when the lower rate comes into effect in August/September; or, alternatively, by doing Rooker-Wise +5%.

Although the Chancellor has kept you closely in touch with the development of his thinking I am sure the moment has come to see something in detail in writing.

(ii) Long-term public expenditure

There is advice from Sir Robert Armstrong and John Hoskyns on the Chancellor's minute to you.

(iii) I understand the Chancellor will also wish to discuss Trident.

MCS

16 February 1982

16 February 1982

POLICY UNIT

SECRET

3

PRIME MINISTER

LONG TERM PUBLIC EXPENDITURE PROSPECTS

1. We think the Chancellor is right to propose a ten-year look at public expenditure. This can only help colleagues towards a more realistic view of spending in the first half of the period and impress upon them the need for quite radical solutions in the social security, health and education fields.

2. Such an exercise can help shape our next manifesto. At the very least, it can help us all to see the importance of avoiding - wherever possible - wide-ranging commitments which later become millstones. If news of this work leaks, as Sir Robert thinks likely, we see this as entirely consistent with an electoral position as the only serious and "responsible" Party.* It is also essential if we are to build up our credibility as the Party of low taxation.

3. We also think that the exercise of looking ten years ahead will be a useful discipline to Whitehall and provide a valuable perspective for the CPRS - whom Geoffrey proposes should be involved.

* This was very much a part of our "Chequers" conclusions.

JOHN HOSKYNS

SECRET

2

MO AD JV AW

for meeting folder Ch/Ex on 17/2 MCS 15/2

Ref. A07490

MR. WHITMORE

The Chancellor of the Exchequer sent the Prime Minister a minute on 5th February, proposing an examination of the likely pattern of public expenditure over the next decade, as a background to the development of strategy up to and beyond the next Election.

2. It is obviously in principle a very good idea that the Government should have before it an idea of the constraints under which public expenditure is likely to be over a longer period. In principle, therefore, I think that the Chancellor's proposal is a good idea, though I wonder whether it is realistic to suppose that this exercise can usefully be completed as early as next June. If it is to go ahead, I wonder whether September or October 1982 would be more realistic, and just keep clear of the 1982 PESC exercise, which will come to a head in October and November.

3. It would be important not to pin too much on the exercise: it will depend upon forecasts of economic activity and growth over a period of ten years, about whose reliability there must be some scepticism.

4. Two other reservations:

(1) Some of the Chancellor's colleagues will be very suspicious that this is just another Treasury ploy for justifying a squeeze in the next round of public expenditure discussions.

(2) The exercise is not likely to lead to the conclusion that the problems of controlling public expenditure are going to get easier (that is an understatement). We must assume that the fact that the exercise is being undertaken, and very probably its conclusions, will become public knowledge. This could complicate the presentation of the Government's economic policies during the next year or two.

RTA

ROBERT ARMSTRONG

15th February, 1982

SECRET

Clive

Await the

threatened

letter from J.N.?

PA

AD
AW
JV

Treasury Chambers, Parliament Street, SWIP 3AG

MLS 16/2

David Omand Esq
Private Secretary to the
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

15 February 1982

Omand says it will not now be coming. He and I agree that the Prime Minister did not need to intervene in the correspondence, even though the [illegible] would still have liked something reaffirming the Government's commitment to increases of 3% p.a. in real terms in defence expenditure.

P.A. [illegible] 18/ii

Dear David,

We spoke on the telephone about the Chief Secretary's letter of 11 February to your Secretary of State concerning the draft text of the forthcoming Public Expenditure White Paper. You explained your Secretary of State's view that the words "in full" should stand in line 2 of the Part 2 piece because the sentence in question simply reproduces the wording used in "The Way Forward" (Cmnd 8288). I put this to the Chief Secretary who, on reflection, was prepared to concede the point. We discussed this again this morning, when you confirmed that your Secretary of State too is content.

This letter is therefore simply to record that we are agreed on the Defence passages in the Public Expenditure White Paper, which shall be as in the drafts annexed to your Secretary of State's minute of 9 February to the Prime Minister with the sole deletion of the words "the basis" in the second sentence of the Part 1 piece.

I am sending copies of this letter to Michael Scholar at No 10, to John Kerr here, to Murdo MacLean and to David Wright.

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

16 FEB 1982

CONFIDENTIAL

original filed on:-
Defence: Budget: Pt 7

PRIME MINISTER

Defence and the Public Expenditure White Paper

I attach immediately below the Chief Secretary's response to Mr. Nott's minute to you about what should be said about defence in the Public Expenditure White Paper (Flag A).

I understand that Mr. Brittan's reply produced, predictably enough, a strong reaction from Mr. Nott who promptly drafted a very stiff answer himself. He has been dissuaded from sending it, and his officials are now preparing something more reasonable.

In the meantime discussion between Treasury and MOD officials has led to the Chief Secretary agreeing in the course of the day that the words "in full" which he had sought in his letter below to omit should be allowed to stand in the text.

His other reservation - about the words "the basis" - is not likely to cause any problem.

MOD officials will be reporting all this to Mr. Nott over the weekend. Subject to his concurrence, we now have an agreed text for the White Paper.

But I am afraid that this is not an end to the matter. Mr. Nott's officials expect that he will still insist on returning to the charge on the general points made by the Chief Secretary in the penultimate paragraph of his letter, and that is why they are drafting the minute to which I have referred in paragraph 2 above. It may be when we see this minute that we shall have to advise you to intervene in the correspondence to try to bring the exchange to a conclusion.

CAW

12 February 1982

CONFIDENTIAL

Prime Minister

This should, surely, settle the dispute?

MCS 11/2

Treasury Chambers, Parliament Street, SW1P 3AG

original filed on:- Defence : Budget: Pt 7

Rt Hon John Nott MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

11 February 1982

Dear John,

Thank you for sending me a copy of your minute of 9 February to the Prime Minister about the problems you perceive in relation to the defence chapter of this year's draft Public Expenditure White Paper.

The form of words for the White Paper, annexed to your minute, omits a second sentence which I wished to include in the Part 2 piece; that is, "The cash provisions throughout the planning period are intended to reflect this commitment". But, in the interests of securing agreement, I am prepared to accept your drafts subject to the deletion of "in full" in line 2 of the Part 2 piece, and of "the basis" in the second sentence of the Part 1 piece. I would expect you to follow a similar line in dealing with this issue in the Statement on Defence Estimates.

The figures in the White Paper are of course those that were agreed in November; these formed the basis of Sir Robert Armstrong's minute of 2 December, and were quoted in paragraph 2 of my memorandum OD(82)4. These decisions should not be reopened now.

I do not share your view of the gravity of the arithmetical problem over the later years' figures. As Sir Robert's minute records, we agreed in November to additions to the defence budget totalling £1250m as follows:

	1981-82	1982-83	1983-84	1984-85
£M	300	375	325	250

It was quite apparent when this agreement was reached that the additions for 1983-84 and 1984-85 were not 3% higher than the £375m increase agreed for 1982-83. But this was because the 1982-83 increase was disproportionately large. The 1982-83 increase was disproportionately large because the problem in that year was so acute; I accepted the need for higher expenditure in the estimates year because of the understandable transitional difficulties being encountered in reshaping the defence programme. It would indeed be unfortunate if the particularly favourable treatment enjoyed by defence in 1982-83 were to be misconstrued by some of our supporters; but I would hope that, with proper presentation, this problem can be overcome. By any criteria, the defence effort postulated by expenditure plans rising from £14bn in 1982-83 to £16.5bn in 1984-85 has to be an impressive one.

More generally, it has to be recognised that there are inevitable difficulties in seeking to reconcile fully our decision to plan to implement the NATO 3% aim with the Government's commitment to cash planning and cash limits; the former is a "volume" target, whereas programmes have to be planned and managed in cash. Once cash totals have been agreed, however, programmes have to live within them. The cardinal principle of cash planning is that levels of service must be determined in the light of the finance available; and this principle must apply to defence as much as to other programmes.

I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Chief Whip and to Sir Robert Armstrong.

LEON BRITTAN

BM

Econ Pol.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

NBPM

MCS 11/2

10 February 1982

AW
AO
JV

Terry Mathews Esq
Private Secretary to
the Chief Secretary
H M Treasury
Parliament Street
LONDON SW1

Dear Terry

PUBLIC EXPENDITURE WHITE PAPER: VOLUME II

My Secretary of State has seen the Chief Secretary's minute to the Prime Minister of 3 February and the draft of the White Paper. He has suggested the attached amendments. I am copying this to the private secretaries to members of the Cabinet and to Sir Robert Armstrong's office.

Yours ever

Richard

RICHARD RILEY
Private Secretary

JH 266

CONFIDENTIAL

PUBLIC EXPENDITURE WHITE PAPER: VOLUME 2

Amendments Proposed by the Secretary of State for Industry

a) page 2.4.7, para 7, delete "and its promotion of education relevant to industrial careers, and" insert "and the Industry/Education Unit which aims to promote closer understanding between industry and the education world especially towards careers in industry; and".

b) page 2.4.10, para 17, add at end "The Government's objective is to return BL to the private sector as soon as possible and to support the company's recovery strategy".

c) page 3.19, para 48, delete "and represent a major challenge to the Corporation" insert "Further moves to make our telecommunications system more customer-responsive and competitive are under consideration by the Government".

d) page 3.21, para 54, delete "profit" insert "surplus".

e) page 3.36, para 100, add at end, "As with other nationalised industries, long-term objectives will be set in consultation with BS which will cover the introduction of private capital among other aims".

Prime Minister
Mrs 9/2
AW
AD
JV

MO 8

original filed on:-
Defence: Budget. Pt 7

p.a. M 11/2

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER: DEFENCE

The Defence Chapter of the draft Public Expenditure White Paper is likely to cause the Government a major problem.

2. In July Cabinet agreed a forward Defence Programme based on a 3% volume growth until 1985-86. The programme was framed in volume terms in accordance with the methods prevailing at that time and it was accepted that it should be sustained in volume terms until 1985-86 by a "fair translation of the volume figures into cash". The Public Expenditure White Paper now proposes publishing "provisional" figures involving only 2.3% real growth in the later PESC years. If this is now to be the planning assumption for the later years - provisional or not - then the basis of the Defence Review has been undermined and equally important, the central feature which led to the Party's acceptance of the defence cuts will seem to have been abandoned.

3. This is a major issue of substance which I believe I must bring to your personal attention. The points which concern me are well brought out in the enclosed letter which my Permanent Secretary sent to Sir Anthony Rawlinson. I believe that the Chief Whip may communicate to you separately giving his view, which I share, of the impact of this question on the Party.

4. If the figures are to be put right then additions are needed of £100M in 1983-84 and £214M in 1984-85. Such figures would, of course, not represent a final commitment by the Government since they would be subject to review in the next Public Expenditure Survey but they would allow us to say that the cash provision for

defence was enabling us to plan to implement the NATO 3% aim. If, however, the figures were to remain as currently proposed in the draft White Paper then we certainly could not describe them as fulfilling the 3% commitment, which is what the present text says.

5. Since Sir Frank Cooper wrote his letter, MOD and Treasury officials have looked again at the text to try and find a way of making it consistent with the figures. Copies are enclosed of their revised wording of the two paragraphs in the PEWP which cause me most concern - paragraph 14 of Part I and paragraph 3 of the Defence Chapter. I have to say that even stressing the provisional nature of the figures in this way does no more than try to conceal the major issue of substance.

6. I am sending copies of this minute to the Chancellor of the Exchequer, the Chief Secretary, the Chief Whip and to Sir Robert Armstrong.

JN

Ministry of Defence
9th February 1982

ANNEX

REVISION OF PARAGRAPH 3, CHAPTER 1 TO PEWP PART 2

The Government adheres to its commitment to plan to implement in full the NATO aim of real increases in defence spending in the region of 3% a year. The figures for 1983-84 and 1984-85, as for all other programmes, are provisional and will be reviewed in the 1982 Survey in the light of this commitment, the economic circumstances and prospects at the time and all other relevant factors.

NEW DRAFT PARAGRAPH 14 TO PEWP PART 1

Provision for defence is intended to reflect the Government's firm decision to aim for real increases in the region of 3% a year in line with the NATO target. Additional provision has been made for 1982-83 and the subsequent two years to cover the cost of carrying forward the 1981 Armed Forces Pay Award and to provide the basis for the restructuring of the defence programme described in "The Way Forward" (Cmnd 8288).

CONFIDENTIAL

CONFIDENTIAL

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 2193 (Direct Dialling)
01-218 9000 (Switchboard)

PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

PUS/82/118
20/1

Sir Anthony Rawlinson KCB
HM Treasury
Parliament St
London SW1

29 January 1982

Dear Anthony.

I am worried that it has not yet proved possible, despite Ministerial correspondence, to draft the Public Expenditure White Paper in such a way as to be acceptable to both our Departments. As you know, my Secretary of State is personally involved in the matter and I believe that he will wish to raise it with the Prime Minister when he returns next Wednesday from his visit to Italy. I very much hope you will agree therefore that we should use the few days to seek to agree at official level upon a text which we can both recommend to our Ministers.

2. The essence of our position is that the figures contained in the draft White Paper show growth (on the basis of the cash planning factors of 6% and 5%) of about 2.3% only in 1983/84 and 1984/85; that any competent observer will be able to work out these figures; and that Defence Ministers could not possibly refuse to translate the cash figures into constant price terms for Parliament (eg in the Statement on Defence Estimates for which there is a standing request by the HCDC), let alone for NATO whose staff can readily work out the figures. Accordingly we could not support a text which stated that the cash figures are in line with the 3% commitment. This simply would not be true.

3. The Treasury position, as I understand it, is that in an era of cash planning it is neither appropriate nor possible (since there are no agreed forecast deflators) to translate the cash figures into constant price terms; that our line will have to be that the cash plans will enable 3% real growth to be achieved but that there are no planned constant price figures to substantiate this; and that Parliament and NATO will have to accept this.

CONFIDENTIAL

4. I must say that I find the position puzzling. I do not see how it can be claimed that the cash figures cannot be translated into constant price terms when they were derived in the first place from plans expressed in constant prices by the application of cash planning factors put forward by the Treasury as the best available. If those factors were good enough for the construction of cash plans, they must be good enough for deflating those plans to constant prices. And, in any case the Treasury's own statement that the cash provision is in line with the commitment to 3% real growth (though incorrect) could only be made if deflators were available.

5. To refuse to give constant price equivalents of our cash plans would be interpreted as resiling and a cover-up. The credibility of the 3% commitment as reaffirmed in Command 8288 would be very quickly undermined if we claim that the published cash provision is in line with 3% real growth but refuse to reveal the underlying figures that support that claim. I know that my Secretary of State would not be prepared to adopt that position.

6. The problem seems to me to stem from an apparent conflict between the twin objectives of cash planning (which the Ministry of Defence accepts and supports) and of a planned 3% real growth commitment in defence. Both are important aspects of Government policy and we should seek not to allow them to work against each other but to reconcile them.

7. On a smaller point, I know that my Secretary of State will not find it possible to accept the wording of the second sentence of Paragraph 14 of Part I of the White Paper which on any account seems unnecessarily tendentious.

8. I shall myself be in Italy next Monday and Tuesday with Mr Nott but Desmond Bryars stands ready to try and find a sensible accommodation.

9. I have sent a copy to Robert Armstrong together with the relevant Ministerial correspondence.

Yours ever

Frank Cooper

FRANK COOPER

Econ Pol

JV
AD
AW

NBPM

MLS 10/2

From: THE PRIVATE SECRETARY

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

9 February 1982

Dear Terry

PUBLIC EXPENDITURE WHITE PAPER:
VOLUMES 1 AND 2

The Home Secretary has received copies of the Chief Secretary's minutes of 26 January and 3 February to the Prime Minister, together with draft texts for the forthcoming Public Expenditure White Paper.

This is simply to let you know that, subject to a number of amendments which have been discussed by officials, in particular in relation to the prisons section of the LOPS text, the Home Secretary is content with the drafts.

Copies of this letter go to the Private Secretaries to the Prime Minister, other members of Cabinet and Sir Robert Armstrong.

Yours sincerely

Colin Walters

C. J. WALTERS

T. F. Matthews, Esq.

CONFIDENTIAL

Econ Pol
Public Exp

(2)

Prime Minister

Mcs 8/2

AW
AD
JV

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

T F Mathews Esq
Private Secretary to the
Chief Secretary
Treasury
Parliament Street
LONDON
SW1P 3AG

8 February 1982

Dear Terry,

PUBLIC EXPENDITURE WHITE PAPER: VOLUME I

The Secretary of State has seen the draft of Volume I of the Public Expenditure White Paper which the Chief Secretary circulated on 26 January and Mr Heseltine's comments of 2 February.

Sir Keith Joseph endorses all the amendments suggested by Mr Heseltine to the passage (paragraphs 46-53) on local authority expenditure, half of which goes on education, and regrets that, as recorded in your letter of 4 February, the Chief Secretary is not prepared to accept two of them. Otherwise Sir Keith has no comments on the draft.

I am sending copies of this letter to the private secretaries to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

Yours sincerely,

Imogen Wilde

MRS IMOGEN WILDE
Private Secretary

Public Ex.

~~£~~ A.D.

Prime Minister ②

MCS 9/2

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon David Howell MP
Secretary of State
Department of Transport
2 Marsham Street
London SW1P 3EB

8 February 1982

Dear David,

DRAFT PEWP: VOLUME 1

Many thanks for your letter of ~~4~~ 7th February.

Your suggestion on paragraph 3 of the Main Points is welcome and I shall certainly incorporate it. I am also removing the reference to transport in paragraph 18.

I would prefer to leave paragraph 23 as it is, although I am grateful for your suggestion. It seems a little undesirable to emphasise the contraction of the trading sector; moreover, that contraction is arguably only partly due to the recession, but I would not want to say "partly" because of the questions that would raise about the extent of the influence of the recession.

Also, I would prefer to keep the term "Special sales of assets". We have been using it ever since 1979, it is now a well-known term of art, and it refers directly to the relevant line in the tables.

I do entirely agree that we should give as positive a flavour as possible to the White Paper, and I certainly intend to seek to put it across that way.

I am copying this letter to the Prime Minister, other members of the Cabinet, and to Sir Robert Armstrong.

Yours,
Leon

LEON BRITTAN

8 FEB 1982

Econ Pol.

Public Exp

Econ Pol.

10 DOWNING STREET

From the Private Secretary

8 February 1982

PUBLIC EXPENDITURE WHITE PAPER:
VOLUME 2

The Prime Minister was grateful for the Chief Secretary's minute of 3 February with which he enclosed a draft of Volume 2 of the Public Expenditure White Paper.

The Prime Minister is content with this draft, subject to the views of colleagues.

I am sending copies of this letter to the Private Secretaries to Members of the Cabinet and to David Wright (Cabinet Office).

M. C. SCHOLAR

T.F. Mathews, Esq.,
HM Treasury.

NBPM
MES

NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Parliament Street
LONDON

8 February 1982

Dear Leon,

PUBLIC EXPENDITURE WHITE PAPER: VOLUME II

I am content with the draft which you circulated with your minute to the Prime Minister of 3 February. I understand that a number of changes have been agreed by my officials and yours subsequent to the circulation of that draft and that those changes will be included in the published version.

I am sending copies of this letter to members of the Cabinet and Sir Robert Armstrong.

Yours ever,

George

c.c. AD.

Prime Minister

NBPM

2 PPS

MCS 9/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon George Younger TD MP
Secretary of State
Scottish Office
Dover House
Whitehall
London SW1A 2AU

8 February 1982

Dear George,

WHITE PAPER ON PUBLIC EXPENDITURE: PART 1

Thank you for your letter of 3 February.

I accept that there is a difficulty here, and I suggest the following wording which, I understand, has been agreed by our officials:-

"Scottish local authorities which plan to spend too much may have their RSG cut."

I am sending copies of this letter to the recipients of yours.

Leon

LEON BRITTAN

1

(2)

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

Prime Minister

A candidate for your Wednesday discussion with the Chancellor?

MCS 8/2

PRIME MINISTER

LONG-TERM PUBLIC EXPENDITURE PROSPECTS

At Budget time we shall as you know be publishing a White Paper giving details of our public expenditure up to 1984-85.

2. I have been considering the prospects for public expenditure in the period beyond 1985. They are very worrying. We need to take stock of where we are going in the light of our experience in the last two and a half years.

3. Though the problem stretches well beyond the horizons of a normal Public Expenditure Survey, the decisions we take in the next year or so will tend to reduce our room for manoeuvre in the longer term. We are, for example, running into major problems over defence. If we were to continue to aim for the next ten years or so at the NATO target of annual real increases of 3 per cent, we could find at the end of the period that we were spending something like 7 per cent of our GDP on defence, compared with the present 5 per cent.

4. But defence is by no means the only problem. We have also given high priority to some very large civil programmes, such as social security and health. We are committed to maintaining the purchasing power of more than half of social security benefits. We have so far allowed the health programme to grow in real terms. Though as a proportion of GDP education expenditure is falling at present, largely for demographic reasons, the downward trend in the numbers of pupils is likely to reverse in due course. Defence, social security, health, and education together account for over 60 per cent of total public expenditure.

5. Elsewhere, we have found that the scope for reductions is necessarily limited. Indeed some of the smaller programmes (law and order; employment) have required special preference.

6. Clearly it is necessary to achieve a reduction in the burden of the public sector on the economy. It is, and must remain, an essential part of our strategy; and we need to consider how it is to be maintained and developed up to and beyond the next election.

7. In bringing public expenditure under control we have concentrated so far on cash and on the relatively short term. But the longer term prospects extending well beyond the lifetime of this Parliament call for thorough study. I am accordingly inclined to propose that:-

(a) the Treasury, in consultation with major spending Departments and the CPRS, should immediately set in hand an examination of the likely pattern of public expenditure over the next decade, on the basis of a range of possible assumptions about growth and other factors;

(b) I should report to Cabinet in the light of this study by next June;

(c) colleagues in charge of major spending Departments should ensure that the work is given the necessary priority in their Departments; and

(d) in the meantime we should make no changes in our presentexpenditure programmes which would pre-empt decisions about the longer term.

8. I am copying this at this stage only to Sir Robert Armstrong. I hope to have an early opportunity of discussing with you the best way of carrying forward the approach that I have suggested.

GH

(G.H.)
5 February 1982

CONFIDENTIAL

Econ Pol
Pub Exp
1

Econ Pol

10 DOWNING STREET

From the Private Secretary

5 February, 1982.

Public Expenditure White Paper: Volume I

The Prime Minister was grateful for the Chief Secretary's minute of 26 January, with which was enclosed a draft of Volume I of the Public Expenditure White Paper.

As I have told you on the telephone, the Prime Minister is content with this draft, subject to the views of her colleagues.

I am sending copies of this letter to the Private Secretaries to the other members of the Cabinet and to David Wright (Cabinet Office).

M. C. SCHOLAR

Terry Mathews, Esq.,
Chief Secretary's Office.

Prime Minister (2)

AW MCS 5/2
AD
JV

Treasury Chambers, Parliament Street, SW1P 3AG

D A Edmonds Esq
Private Secretary to the
Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

4 February 1982

Dear David,

PUBLIC EXPENDITURE WHITE PAPER: VOLUME 1

Thank you for your letter of 2 February conveying your Secretary of State's comments on the draft the Chief Secretary circulated to Cabinet.

The Chief Secretary has considered the points made by your Secretary of State and has asked me to say that, whilst he accepts the force of the general comments in your second paragraph, the White Paper is of course about the Government's plans as they now stand. He feels that some of the suggested amendments would appear to distance the Government from the decisions taken last autumn and that would of course be totally inappropriate.

However, the Chief Secretary accepts the amendments suggested (in the note attached to your letter) to paragraph 3 of the Main Points and to paragraphs 50 and 53 of the main text. He also accepts the first amendment to paragraph 36, and, in order to meet the Secretary of State, he proposes to replace the second (half) sentence of that paragraph by "But the planned level of capital expenditure in 1982-83 means that:".

The Chief Secretary also proposes, in order to help the Secretary of State, to rewrite paragraph 22 as follows:-

> "The cut in cash-limited expenditure applies also to certain capital expenditure, mostly in transport and other environmental services; but because tender prices have fallen, this should have no significant effect on the previous plans for 1982-83 for construction of motorways and trunk roads, water and sewerage works, etc."

The Chief Secretary considers it important to mention the fall in tender prices, in order to explain that the cut in cash provision for some capital programmes is not expected to have any effect on planned output.

The Chief Secretary cannot accept the Secretary of State's other suggestions. On paragraph 35, he feels it is desirable to point out that the plans do show a sizeable percentage increase, which implies some increase in real terms, because the construction industry are concerned about the fall in public sector construction in recent years. Of course outturn may be different, but at least the Government should take credit for a planned increase.

On paragraph 46, the Chief Secretary regards it as unnecessary to give the proposed volume comparisons (as your note says, the information has anyway already been given for 1980-81) and undesirable. The local authorities need to begin to understand that the Government really mean cash planning, and to think in terms of cash themselves where they do not already do so.

On paragraph 48, the Chief Secretary asks me to point out that the Government's decisions last autumn represented what the Cabinet considered could and should be achieved by the local authorities, and he thinks it important to get that message across if there is to be any hope of the local authorities complying. They may not do so in the end, but a neutral posture by the Government would not assist.

Finally, on paragraph 25, the Chief Secretary would prefer not to expand what is merely meant to be a much more concise version of the passage in Cmnd 8175. He asks me to assure you that no change in policy is intended to be implied. Any bid which your Secretary of State chooses to make, for an increase in cash limits, will be considered on exactly the same basis as in the current year.

I am copying this letter to the recipients of yours.

Yours ever,

Terry Mathews

T F MATHEWS
Private Secretary

Prime Minister (2)

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

Mes 5/2

CONFIDENTIAL

cc AD AW JV

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1

4 February 1982

Dear Chief Secretary

DRAFT PUBLIC EXPENDITURE WHITE PAPER: VOLUME 1

I have only one Departmental point. I understand that your officials have agreed to delete the reference to transport in line 5 of paragraph 18.

I hope you will not mind me taking this opportunity to express the strong hope that the whole presentation might perhaps be given a somewhat positive flavour. Although I recognise this is a strictly official document it does nevertheless embrace the whole of our policy and on several points I feel that it could perhaps put our position better.

For example:

1. Paragraph 3 of main points: at the end add "In these ways the Government is planning for the continued upgrading of public services".

2. Could paragraph 23 (on public expenditure and GDP) be put less clinically by saying something like

"For 1981/82, the ratio is expected to be higher (see chart   ). This is because, though the trading sector has contracted owing to the recession, the level of public services has had to be broadly maintained. In 1982/83, the recovery of the trading sector and the containment of public expenditure to be brought into better balance, in line with the Government's long term strategy.

3. The title "Special sales of assets" on page 25 seems an unattractive way of describing an important policy. Could we call it "Public ownership programme" or "Returning assets to the public?".

I give these as examples. I hope they may help. I've no doubt others could be found.

Copies of this go to the Prime Minister, the other members of Cabinet and to Sir Robert Armstrong.

Yours sincerely

P.P. DAVID HOWELL
(Approved by the Secretary of State and signed in his absence)

Econ Pol: Public Exp

Prime Minister

Mrs 3/2

(2)

cc AW ADJV

Econ Pol

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Leon Brittan Esq QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

3 February 1982

Dear Leon,

WHITE PAPER ON PUBLIC EXPENDITURE: PART I

I am generally content with the draft which you circulated with your minute of 26 January to the Prime Minister but I must ask you to amend the last sentence of paragraph 49.

This should read:-

> "Similarly, Scottish local authorities which plan for excessive and unreasonable expenditure may have their RSG cut."

No reference should be made to the possibility that the authorities may be required to reduce their rates as an alternative to a cut in RSG. The power to require a reduction in rates is unlikely to be available before 1983-84 and it would be misleading (and could cause difficulty and embarrassment in the Bill proceedings) to suggest in the White Paper that it might be used in 1982-83.

I am sending copies of this letter to the members of Cabinet and to Sir Robert Armstrong.

Yours ever,

George.

Prime Minister

(2)

MS 3/2

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Patrick Jenkin MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

3 February 1982

Dear Secretary of State

PUBLIC EXPENDITURE WHITE PAPER - VOLUME 1

Thank you for your comments of 1 February on the draft of Part 1 which I circulated to Cabinet.

I see the force in much of what you say, but of course as a Government we did intend to make what amounts to a revolutionary change when we decided to adopt cash planning. Not only is it not feasible to go back to volume plans, but I would not wish to do so.

It is not feasible to produce constant-price equivalents of the cash plans, because we have no detailed forecasts of the price movements of different kinds of public expenditure. And if we had, it would be wrong to publish such volume equivalents. It is very important to maintain the integrity of the cash planning system. We should be giving the wrong signals to Whitehall about the change from volume to cash planning if we were to publish what would be widely regarded as the "real" plans.

We could meet your point to some extent by publishing the plans in "cost terms". This means of course deflating the cash plans by the forecast increase in prices in the economy as a whole (the GDP deflator). But I would not wish to do so. The figures are very uncertain still, particularly the outturn for 1981-82 and the forecast GDP deflator. Small changes in either can make all the difference between apparent real growth and real decline in a programme or the total. Even in the short time since we concluded our decisions on next year's expenditure there have been important changes in estimates of the outturn for 1981-82 and I think it would be very unwise to put to press now anything based on currently available figures.

We can and should make as much as possible of the output of services which is expected from the planned cash expenditure. I have tried to bring out the effects on construction output, in the Main Points of Part 1; and there is quite a lot of information about output (though largely historic) supplied by Departments in Part 2. It would be helpful if more Departments felt able to produce forecasts of output, but although my officials have been pressing them for more, and I understand there is some improvement on last year's White Paper, there is not enough to make a big story.

I do agree however that we could usefully show how far we have cut back the planned totals we inherited. We did this in last year's White Paper and we could do so again, by including the following table in the Main Points:

	£ billion cash					
	79-80	80-81	81-82	82-83	83-84	84-85
January 1979 White Paper (Cmnd 7439)	80.0	97.5	110.5	120.0	-	-
March 1981 White Paper (Cmnd 8175)	77.2	93.4	104.7	110.4	114.2	-
Estimated outturns / present plans	77.2	93.4	106.4	115.3	121.0	128.3

The inclusion of the first line has to be heavily qualified by a footnote, because the Labour Government were not planning in cash. The revaluation of their plans is by the factors used to revalue Cmnd 8175, and that needs explaining. But the results can then be compared with our plans.

I am grateful to you for prompting the thought, and I hope that this, and the other information in the White Paper, will meet your points as far as is possible.

But in addition I shall see if we can go further in the direction that you suggest in the Press Notice. The advantage of doing it this way is that we will have more up to date out-turn figures, and also any comparative points we are able to make will not be so prone to be interpreted as a return to thinking in volume terms as they could be if they were incorporated in the White Paper itself.

I am copying this letter to the recipients of yours.

yours sincerely

LEON BRITTAN

PP (approved by the Chief Secretary & signed in his absence)

(4)

Prime Minister

Content, subject to the views of colleagues?

MCS 4/2

Yes MT

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

PUBLIC EXPENDITURE WHITE PAPER: VOLUME 2

I sent you and our Cabinet colleagues last week a draft of Volume 1. I now enclose a draft of Volume 2. I would ask for any comments by next Tuesday, 9 February, at the latest.

2. The draft has again been largely cleared with other Departments at official level. The figures in the tables are still subjecd to minor change.

I am sending copies to members of Cabinet and Sir Robert Armstrong.

L.B.

LEON BRITTAN

3 February 1982

VOLUME TWO

CONTENTS

2.1 DEFENCE

Table 2.01

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Ministry of Defence									
Defence Budget	6,187	6,824	7,505	9,230	11,186	12,618	14,087		
Royal Ordnance Factories	-4	-4	-9	-4	-4	16	15		
Total	6,183	6,820	7,495	9,226	11,182	12,634	14,102	15,300	16,440

MINISTRY OF DEFENCE

2.1 DEFENCE

1. Over 90 per cent of defence expenditure is subject to cash limits. The relevant cash limits for 1982-83 are listed in table 4.1 and cover all defence expenditure except that on Service pensions.

Defence Budget

2. The Government's defence policy objectives and programme plans will be described in the 1982 Statement on the Defence Estimates to be published shortly.

3. The cash provision throughout the planning period is in line with the Government's NATO undertaking to aim for real increases in defence spending in the region of 3 per cent a year.

4. The figure for 1981-82 is the latest forecast of outturn. It is still subject to uncertainty. But defence spending in 1981-82 is expected to be within the revised cash provision announced on 2 December 1981.

Royal Ordnance Factories

5. The defence programme includes net repayment to/borrowing from the National Loan Fund by the Royal Ordnance Factories Trading Fund. The increased net borrowing in 1981-82 and 1982-83 is required because of the loss of Iranian orders and a general reduction in the level of sales. The future of the ROFs, including the scope for privatisation, is under review.

2.2 OVERSEAS AID AND OTHER OVERSEAS SERVICES

Table 2.02

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Foreign and Commonwealth Office -ODA									
Overseas aid	502	601	727	801	921	1,005	974	1,040	1,090
Overseas aid administration	10	11	11	15	19	22	22	100	110
Other external relations	24	39	40	52	63	72	75		
Total	536	651	779	868	1,003	1,099	1,071	1,140	1,210
Special assistance to Crown Agents		90			-4				
Total FCO (ODA)	536	741	779	868	999	1,098	1,070	1,140	1,210
Foreign and Commonwealth Office - other									
Overseas representation	165	166	181	200	226	268	298		
Overseas information	53	56	65	75	94	104	111		
Other external relations	59	57	68	98	92	130	138		
Military aid	1	2	6	7	10	10	14		
Total FCO (other)	278	281	320	380	422	512	561	590	630
Total FCO	814	1,022	1,099	1,248	1,421	1,610	1,632	1,740	1,830
Commonwealth War Graves Commission	5	5	6	7	8	8	9	10	10
--									
Net contributions to the European Community Institutions	220	555	731	851	288	45	500	580	600
Total programme	1,038	1,582	1,836	2,106	1,717	1,663	2,140	2,330	2,440

2.2 OVERSEAS AID AND OTHER OVERSEAS SERVICES

1. Table 2.2 covers the Overseas Development Administration's expenditure on overseas aid and overseas aid administration and the Foreign & Commonwealth Office's expenditure on overseas representation, official information services, military aid, various grants and services and grants in aid to the BBC external services and the British Council. The relevant cash limits are shown (with the prefix II) in the list of votes in table 4.1 of this White Paper.

FOREIGN & COMMONWEALTH OFFICE (ODA)

Overseas Aid

2. In addition to the Net Aid Programme, repayments of capital on past aid loans are also available to be used as new aid grants or loans by the ODA. Adding these sums to the Net Aid Programme gives the Gross Aid Programme, which is the ODA's spending target. It covers bilateral financial aid to developing countries and technical co-operation; and contributions to certain multilateral institutions, notably IDA, and including the UK's share of concessional assistance to developing countries provided through the European Community Budget and through the EDF.

3. The Gross Aid Programme is £1,019 million in 1982-83, comprising net public

expenditure provision of £950 million (Table 2.2 above), plus capital repayments of £69 million. The 1981-82 figure is £1,037 million. (As expenditure in 1980-81 was £6 million higher than planned a corresponding reduction has been made in the Net Aid figure for 1982-83.)

Commonwealth Development Corporation

4. This is the estimated net investment by the Corporation additional to that financed from the net aid programme. This investment is funded from the Corporation's own resources and, from 1982-83, by borrowing overseas. As announced in December 1981, the CDC is being permitted to borrow abroad up to £15m in foreign currency in each of the three years 1982-83 to 1984-85.

Overseas Aid Administration

5. The provision covers the administrative costs of the Overseas Development Administration (ODA) wing of the Foreign & Commonwealth Office. It covers headquarters in London and East Kilbride, five Development Divisions overseas, and the costs of pension administration carried out by the Crown Agents for ODA. In 1982-83, it also includes the costs of the dispersal of the Crown Agents' Pensions Division to East Kilbride. Expenditure on the ODA's Scientific and Special Units comes from Overseas Aid.

Other External Relations (part) - Superannuation

6. The provision covers pensions supplements and other pension-related payments to about 60,000 former employees of overseas governments. In approximately two-thirds of these cases, the basic pensions are paid from the Overseas Aid Programme (programme 2.5), being liabilities taken over from developing countries. The remainder, while still attracting supplement, are paid by the overseas governments concerned. The supplements are awarded by the UK government in line with other public sector pension increases.

FOREIGN AND COMMONWEALTH OFFICE (OTHER)

Overseas Representation

7 This expenditure covers the cost of the Foreign and Commonwealth Office (FCO); resident British diplomatic and consular representation in some 130 countries; delegations to international organisations and conferences; and the passport offices in the UK.

8 The decisions on public expenditure announced by the Chancellor of the Exchequer on 2 December included a ~~cut~~ reduction of £3 million in total FCO (Other) expenditure from the cash equivalent of Cmnd 8175 plans. Of this £3 million cut £2.75 million in 1982-83 and subsequent years has been taken on this programme with the remaining £0.25 million falling on Overseas Information and Other External Relations.

9 In the case of Overseas Representation the reduction is being made by savings in expenditure on administration including travel, locally-engaged staff and communications; there will also be a slowing down in the purchase of property for the diplomatic estate overseas and a cut in spending on maintenance. No closures of overseas posts are planned and the existing range of services will be maintained. Staff numbers will continue to fall over the next two years as the FCO makes its contribution to the general reduction in Civil Service manpower. The four year programme of rigorous inspections of all overseas posts continues as do the general efficiency studies at home, including a proposed Rayner Scrutiny of the Passport Office

10 Responsibility for the India Office Library and Records will be transferred to the British Library with effect from 1 April 1982. This will result in a reduction of 92 in FCO's manpower and a transfer of funds (£1.2 million in 1982-83) to the DES. From the same date the FCO will assume responsibility for the Government Hospitality Fund with a consequent transfer of 26 staff and funds (£1.3 million in 1982-83) from the former Civil Service Department.

Overseas Information

11 The main purposes of information work are to promote wider understanding of the UK overseas, and to encourage exports and inward investment.

/The ......

The overseas information programme comprises:

(a) grants in aid to meet the cost of the BBC's external broadcasting and monitoring services. The former grant has been increased over and above the cash equivalent of Cmnd 8175 plans by £5.8 million in 1983-84 and £8.0 million in 1984-85 to provide both for additional expenditure on a planned programme designed to improve the audibility of the External Services throughout the world and also to modernise Bush House. The figures are net after taking account of savings on vernacular and transcription services.

(b) a grant in aid in respect of the FCO's share of British Council expenditure incurred to promote wider knowledge abroad of the UK and of the English language, and to foster cultural relations with other countries. The Council is at present represented in eighty-two countries overseas;

(c) expenditure at home and abroad on the transmitter stations operated by the FCO and on the FCO's other operational activities. The latter has been reduced by £50,000 from the cash implied by Cmnd 8175 as a consequence of the 2 December decisions on public expenditure.

Other external relations

12 Most of this expenditure is on various international commitments and subscriptions. These include UK subscriptions to the UN, OECD, the Council of Europe, and the NATO Civil budget; grants to various organisations, eg the Commonwealth Institutes and support for conferences, scholarships etc.

13 Provision is made from 1982-83 for the UK contribution to the Multinational Force and Observers in Sinai estimated at £0.6 million a year.

14 As a result of the 2 December decisions on public expenditure; less money will be available for grants to non-governmental organisations and for miscellaneous projects and services. This represents a reduction from the cash implied by Cmnd 8175 of £0.2 million in 1982-83 and subsequent years.

/Military ......

Military Aid

15 This programme consists of courses in Britain for service personnel from and the loan of British service personnel to developing countries for military training purposes.

16 Extra provision of £3 million in 1982-83, £2 million in 1983-84 and £1 million in 1984-85 is made for the enhancement of the Belize Defence Force consequent upon the granting of independence to that country on 21 September 1981.

COMMONWEALTH WAR GRAVES COMMISSION

17 The UK Government contributes nearly 78 per cent towards the expenditure incurred by the Commonwealth War Graves Commission (CWGC) whose purpose it is to maintain the graves of, and Memorials to, the Commonwealth dead of the two World Wars. The CWGC has identified areas where its work can be carried out more efficiently and consequently has made and is continuing to make appropriate savings. The UK grant to the CWGC for 1982/83 is £8,386,000 and is not subject to cash limits.

NET PAYMENTS TO EUROPEAN COMMUNITY INSTITUTIONS

18 The United Kingdom's net payments to European Community institutions, shown in Table 2.2, are made up of three components: net ~~contributions~~ payments to the European Community budget (excluding the United Kingdom share of the cost of overseas aid expenditure by the Community, which is included within the aid programme); contributions to the capital and reserves of the European Investment Bank (EIB); and receipts from the European Coal and Steel Community (ECSC).

19. The main item is net payments to the European Community budget. As foreseen in Cmnd 8175, these net payments have been substantially abated in 1980-81 and 1981-82 by the refunds provided for in the Council agreement of 30 May 1980. The refunds have enabled public spending on other programmes to be higher than would otherwise have been possible.

20 . Our net payments to the budget have been further reduced because high world food prices have produced savings on the Community's agricultural support. The consequent reductions in our gross payments to the budget have exceeded the reductions in our gross receipts.

21 . The level of our net payments to the Community budget in 1982-83 and subsequent years will depend on the outcome of the negotiations on a longer-term solution to the budget problem provided for in the Council agreement of 30 May 1980. The figures in this White Paper make the stylised assumption that the arrangements governing 1982 and later years will be much the same as those governing 1980 and 1981, which refunded about two-thirds of the UK's estimated net contributions to the Community budget (excluding overseas aid and certain other items). The assumption is neither a forecast nor a negotiating objective.

22. The three accompanying tables give further details. Table 2.2.1 estimates the cash flow of payments to and receipts from the Community budget in each financial year. Table 2.2.2 estimates the United Kingdom's net contribution in respect of the Community budget for each calendar year 1979 to 1981. Arrangements applicable to 1982 have not yet been determined. Table 2.2.3 gives a breakdown of UK receipts from the Community budget.

23. The United Kingdom's gross contributions to the Community budget are made under the 'Own Resources' system, established by a Council Decision on 12 April 1970. Under this system, which has applied in full to the six original member states since 1978 and to the United Kingdom, Denmark and Ireland in full since 1980, member states pay over monthly to the Community agricultural levies, customs duties and the yield of a value added tax not exceeding 1 per cent of the value of transactions included in a harmonised base agreed in 1977. The budget is financed almost entirely from these own resources. The projections in this White Paper assume that the existing basis of 'own resources' will be maintained, and in particular that the 1 per cent limit on VAT own resources will remain in force. The rate of VAT own resources provided for in the 1982 Community budget as adopted is just over 0.9 per cent. Gross contributions by the United Kingdom under the 'own resources' system are estimated to amount to just over 23 per cent of total Community revenue in 1982.

24 Gross receipts from the budget by UK public sector bodies (other than negotiated refunds) come mainly from the Agricultural Guidance and Guarantee Fund, the Social and Regional Funds, and refunds in respect of 'own resources' collection costs. The expenditure by the Intervention Board for Agricultural Produce and other public authorities in the United Kingdom which gives rise to these receipts scores as public expenditure in the programme concerned. The UK's share of total receipts (other than negotiated refunds) in 1981 and 1982 taken together is expected to be a little over 10 per cent.

25. The UK's negotiated refunds in respect of the 1980 and 1981 Community budgets have been determined by the Council agreement of 30 May 1980. The agreement provided for prescribed totals of net refunds to be made to the UK through two routes - (a) partial refunds of gross contributions under an amended version of the Financial Mechanism originally negotiated in 1975 and (b) Community contributions in respect of certain UK public investment programmes, principally in the regions, under a new scheme of 'supplementary measures' for the United Kingdom. In the event, we have not qualified for refunds under the Financial Mechanism'. Our whole entitlement has therefore taken the form of 'supplementary measures'. The Community has contributed to the cost of public investment programmes in the North, North-West, Yorkshire and Humberside, and South-West regions of England, and in Scotland, Wales and Northern Ireland. The Community has also contributed to certain trunk roads schemes outside these regions. The main categories of investment have been roads, rail, water and sewerage, advance factories, telecommunications, and Northern Ireland housing. The United Kingdom has contributed through the 'own resources' system to the financing of these 'supplementary measures'; but gross payments to the UK have been calculated so as to produce the agreed net amounts.

26. For the years after 1981, the Community is committed by the 30 May 1980 agreement to seek to avoid the recurrence of unacceptable budgetary situations for any member state by means of structural changes. The Commission produced a report measures to restructure the Community budget in June 1981, and negotiations between member states continue.

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EUROPEAN COMMUNITY BUDGET

UK PAYMENTS AND RECEIPTS BY UK FINANCIAL YEARS

TABLE 2.2.1

	GROSS PAYMENTS	GROSS RECEIPTS	NEGOTIATED REFUNDS	NET PAYMENTS: INCLUDING[1] OVERSEAS AID	NET PAYMENTS: EXCLUDING[2] OVERSEAS AID
1976-77	544	320	-	224	205
1977-78	941	382	-	559	540
1978-79	1323	555	-	768	743
1979-80	1665	781	-	884	839
1980-81	1900	970	645	285	225
1981-82	2320	1160	1000	160	60
1982-83	2820	2190		630	520
1983-84	3110	2400		710	590
1984-85	3410	2680		730	600

1) Payments in respect of overseas aid are included in programme 2.5 in table 2.2.

2) Included within programme 2.7 in table 2.2

TABLE 2.2.2

UK CONTRIBUTIONS AND RECEIPTS ARISING OUT OF SUCCESIVE COMMUNITY BUDGETS(1)

£ Million Cash

	1979	1980	1981
Gross Contribution(2)	1625	1877	1995
Receipts Other than refunds	661	872	1034
Net Contribution before refunds	964	1005	961
Negotiated refunds (net)(3)	-	650	820
Net Contribution after refunds	964	355	141

(1) This table is intended to indicate the net financial obligations on the United Kingdom which result from successive Community Budgets. It differs from the other tables in this chapter by bringing together as far as possible all the transactions in respect of successive annual Community budgets, irrespective of when the actual receipts and payments take place, and by showing the negotiated refunds against the annual budget in respect of which they are paid.

(2) Excluding UK contribution to negotiated refunds.

(3) The 1981 figure for negotiated refunds assumes an exchange rate of £1 equals 1.72 ecu, the average rate for the last quarter of 1981.

Gross receipts from the Community budget

Table 2.2.3 £ million

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82 estimated
Receipts other than negotiated refunds						
EAGGF Guarantee Fund	182	175	311	380	556	720
EAGGF Guidance Fund	13	32	24	38	45	62
Social Fund	28	44	65	117	90	90
Regional Development Fund	40	47	46	116	127	143
Refund of own resources collection costs	53	79	100	112	110	110
Other receipts	4	5	9	18	43	35
Total of above	320	382	555	781	971	1160
Negotiated refunds						
Financial Mechanism	-	-	-	-	211 (1)	-211 (1)
Supplementary measures	-	-	-	-	434	1211
Total negotiated refunds	-	-	-	-	645	1000

(1) As explained in paragraph 25, the Financial Mechanism instalment received in 1980-81 was repaid and converted into supplementary measures in 1981-82.

2.2.11

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Report from the Commission of the European Communities to the Council pursuant to the Mandate of 30May 1980 (Bulletin of the European Communities Supplement 1/81)

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Statement by the Lord Privy Seal on 27 October 1980 on the implementation of the 30 May 1980 agreement on budget refunds to the UK (OR 232, WA)

2.2.12

2.3 AGRICULTURE FISHERIES FOOD AND FORESTRY

Table 2.03 — £ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Ministry of Agriculture Fisheries and Food									
Price guarantees on products not supported by CAP, production grants and subsidies	43	45	41	30	71	69.	51		
Support for capital and other improvements	46	65	78	114	139	120.	117	220	230
Support for agriculture in special areas	32	18	16	42 (2)	43	39.	40		
Other assistance to agricultural production food processing and marketing	63	59	58	75	79	92.	97	260	280
Central and miscellaneous services	86	91	92	108	124	152.	154		
Food subsidies	236	171	10						
Support for the fishing industry	10	8	8	14	29	40.	53	50	50
Land drainage and urban and rural flood protection	59	77	80	101	106	128.	144	150	150
Thames tidal defences	42	43	72	138	131	133.	126	50	10
Total MAFF(1)	617	576	455	622	722	772.	782	730	720
Intervention Board for Agricultural Produce									
Market support under Common Agricultural Policy (CAP) of the EC	182	259	338	362	608	709.	674	680	700
Central and miscellaneous services	6	5	6	8	9	16.	17	20	20
Total IBAP	188	264	344	370	617	725.	691	690	720
Forestry Commission									
Forestry	28	27	30	46	45	59.	62	60	60
Department of Trade									
Food subsidies	162	17							
Total programme	995	884	830	1,038	1,384	1,557.	1,534	1,480	1,500

(1) Excludes expenditure by MAFF on civil defence (see table 2.9)

2) Includes payments deferred from 1978-79 due to industrial action.

CONFIDENTIAL

1. About 30% of the expenditure in table 2.3 is either governed by cash limits ~~or~~ and a further 5 per cent is taken into account in the assessment of rate support grant. The remaining expenditure is mainly on market regulation, agricultural support and the control of animal diseases. The relevant cash limits are shown (with the prefix III) in the list of votes in table 4.1 of this White Paper.

2. Programme 3 covers expenditure by the Ministry of Agriculture, Fisheries and Food (MAFF) mainly in England and Northern Ireland but in some cases in Great Britain or the United Kingdom, together with expenditure by the Intervention Board (IBAP) in the United Kingdom and the Forestry Commission in Great Britain. The remaining expenditure in Scotland and Wales is included in tables 2.15 and 2.16 respectively.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD AND
INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

Agriculture and food

3. The arrangements for supporting the main agricultural commodities and for grants are subject to the rules of the Common Agricultural Policy (CAP), except for wool, which is outside the scope of the CAP, and potatoes for which there is no Community regime yet. Support levels under the CAP are determined by common prices, which are fixed in European Currency Units by the Council of Ministers, and the "representative" or "green" rate of exchange by which these common prices are converted into national currencies. Expenditure on market regulation and agricultural support depends largely on decisions on support levels, which are taken each year in the context of Community and national agricultural reviews, and on market developments.

4. Apart from the EC subsidy element of local authority current expenditure on school milk and on smallholdings, all expenditure is by central government. Four-fifths of the central government spending is current expenditure, of which about 70 per cent is on grants and subsidies, with the balance on goods and services. The capital expenditure by central government is mainly on grants to farmers and growers for investment, together with net expenditure by IBAP on intervention stocks. Cash limits now apply to about one quarter of the central government spending and to all capital expenditure by local authorities.

5. Most of the expenditure incurred by IBAP on market support under the CAP together with part of the expenditure by MAFF on production grants and subsidies, capital grants and support in special areas, is met by receipts from the Community budget which are taken into account in programme 2 (overseas aid and other overseas services).

Developments

6. For 1980-81 actual expenditure was about £30 million (3 per cent) above the cash equivalent of the Cmnd 8175 plans. The increase was mainly due to additional expenditure on market regulation under the CAP.

7. For 1981-82 the forecast outturn is about £200 million (20 per cent) above the cash implied by Cmnd 8175 plans; again, this is mainly due to additional expenditure on market regulation under the CAP and also to increased expenditure on the premium schemes for sheep and suckler cows and under the price guarantee arrangements for potatoes and wool.

8. The economic condition and prospects of agriculture in the United Kingdom are reviewed each year and the conclusions published in the "Annual Review of Agriculture" White Paper. The most recent White

Paper in this series shows that the volume of net product of the agricultural industry, which provides an indication of the industry's contribution to the volume of national product, continues to be substantially higher than in the early 1970s. Although the growth of agricultural production has led to some reduction in the volume of food and feed imports, the main effect has been to increase exports of these items. As a result, the United Kingdom's net trade balance in food and feed that can be produced in this country has improved markedly, as is shown by estimates of our self-sufficiency which have risen from about 60% in the early 1970s to 75% in 1980.

Price guarantees, production grants and subsidies, capital grants and support in special areas

9. The provision for 1982-83 and 1983-84 is about £10 million and £30 million respectively above the cash implied by Cmnd 8175 plans; this is mainly due to increases in provision for the annual premium on ewes and the compensatory allowances for livestock farmers in less-favoured areas, and to a supplement to the suckler cow premium for producers in Northern Ireland. These schemes and some other grants and subsidies form part of the CAP, while capital grants are paid under both EC and national schemes.

10. The annual provision for certain production grants and subsidies and the hill livestock compensatory allowances is broadly constant in cash terms from 1982-83 onwards with no allowance for changes in rates of aid.

Other assistance to agricultural production, central and miscellaneous services

11. The main services in these programmes reflect expenditure by the Ministry on agricultural and food research, advisory services, the

eradication and control of animal diseases, a grant in aid to the Agricultural Training Board, and the staff and administrative costs of MAFF and IBAP. The provision for 1982-83 and 1983-84 is about £10 million and £20 million respectively below the cash implied by CMND 8175 plans mainly due to further savings in staff costs and administration and the continuing sales of land.

Market support under the CAP

12. The cost of most of these measures is pre-funded from the Guarantee Section of the Community budget, the receipts being credited to programme 2. The main exception is expenditure on the purchase and storage of intervention stocks, where the Community budget meets only the loss on disposal plus a flat rate allowance per tonne of stocks held in respect of storage, handling and financing charges. Since the publication of Cmnd 8175 IBAP has taken over from the Education Department in Great Britain the payment of the EC school milk subsidy.

13. The expenditure projections include allowance for the effects of future price increases in line with the general cash factors. The forecasts for 1982-83 and 1983-84 are about £80 million and £60 million respectively higher than the cash implied by Cmnd 8175 plans. That for 1982-83 reflects a revised view of market and production trends, while for later years provision is made on a conventional basis.

Fisheries

14. Central government is responsible for capital expenditure on assistance to fishermen and current expenditure on research and development and sea fisheries protection. Most of the capital expenditure is in the form of grants and loans. All expenditure by central government is subject to cash limits as well as a small amount of capital expenditure by local authorities for the improvement of fishing facilities at harbours.

15. Expenditure in 1980-81 was lower than the cash total forecast in Cmnd 8175, mainly because of reduced expenditure on grants and loans for fishing vessels. The outturn forecast for 1981-82 is some £6 million more than the cash implied by Cmnd 8175 plans. This is an increase due to the temporary support measures announced in March 1981, offset in part by lower expenditure on sea fisheries protection.

16. The programmes of the three fisheries departments have the general objective of making economic use of our available fisheries resources, so as to help assure a regular supply of fish to consumers. Landings by United Kingdom vessels of fresh and frozen fish (including shell fish) in 1979 and 1980 were around 840,000 tonnes and 760,000 tonnes respectively; they accounted for about 69 per cent of total supplies, excluding canned fish. The fishing fleet provides direct employment for about 16,700 full-time workers and over 6,500 part-time workers. About one half of those regularly employed, and over three-quarters of those employed part-time are in England and Wales and most of the remainder are in Scotland.

17. The conditions in which the industry will be operating in the future will be heavily influenced by the outcome of discussions still in progress in the EC. These discussions cover future fishing opportunities within waters falling under the jurisdiction of EC member states and in waters of third countries, together with developments in the EC's common fisheries policy including measures for restructuring the fishing fleets of member states. Once these discussions are complete, new expenditure is likely to be needed. Provision has accordingly been made for higher expenditure, but the detailed application of the new funds cannot yet be determined.

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2. 3. 6

Land Drainage, flood protection and Thames Tidal Defences

18. Seventy per cent of these programmes in 1982-83 consists of capital expenditure. Responsibility is divided between regional water authorities, internal drainage boards and local authorities. Two-thirds of the capital expenditure will occur on the Thames Tidal Defences. Of the remainder about 55 per cent is for the protection of urban areas (including protection from tidal flooding) and 45 per cent is for the improvement of drainage affecting agricultural land. The average rate of central government grant paid in respect of arterial drainage is between 50 and 55 per cent; sea defence schemes attract a supplement of 15 per cent. Rates of grant for the Thames Tidal Defence works mainly range between 75 per cent and 85 per cent.

19. Current expenditure on maintenance costs and non-grant aidable capital expenditure incurred by regional water authorities is financed by a precept upon local authorities.

20. Expenditure in 1980-81 was about £20 million below the cash implied by Cmnd 8175 plans. The underspending mainly occurred on arterial drainage. Expenditure in 1981-82 is virtually unchanged from the cash implied by Cmnd 8175 plans.

21. Provision in 1982-83 is about £10 million higher and that in 1983-84 about £5 million lower than the cash totals implied by Cmnd 8175 plans. This reflects a reduction in expenditure on arterial drainage and an increase on the Thames Tidal Defences where the Water Authorities concerned propose to make good slippage in earlier years. The proportion of current expenditure to total expenditure on these programmes rises in later years as work on the Thames Tidal Defences is completed.

FORESTRY COMMISSION

22 The objectives of the Forestry Commission are to promote the interests of forestry, the establishment and maintenance of adequate reserves of growing trees, the production and supply of timber and the development of the recreational potential of the forests it manages. The provision set out in Table 2.3 covers the activities of the Forestry Enterprise (a Government trading service) and the Forestry Authority.

23 To reduce the net call the Forestry Enterprise makes on the Exchequer, the Commission, under the powers contained in the Forestry Act 1981, is providing opportunities for private investment through the sale and sale and leaseback of a proportion of its woodlands and land awaiting planting. The receipts from this source are included in the special sale of assets line.

24 The Forestry Enterprise programme for the 3 years, 1982-83-1984-85 currently provides for new planting of some 22 500 hectares and the harvesting of some 8.6 million cubic metres of timber together with the maintenance of the existing plantations and recreation facilities, including annual expenditure of some £3.5 million on forest recreation.

25 The Forestry Authority programme comprises provision for the cost of research, the control of felling in private woodlands, technical advice and the payment of grants for planting timber producing species at the new rates announced on 28 July 1981.

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2.3.9

2.4 INDUSTRY,ENERGY,TRADE AND EMPLOYMENT

Table 2.04 £ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Summary by total									
Department of Industry	993	980	1,094	1,062	1,628	2,134	1,447	1,080	930
Department of Energy	253	279	385	445	526	715	1,101	530	570
Department of Trade	171	169	162	196	229	251	271	260	280
Department of Employment	731	959	1,045	1,236	1,956	2,446	2,675	2,790	2,970
Export credits guarantee department	705	-145	359	-54	-135	85	367	190	310
Other	220	6	3	4	6	18	6	10	10
Total	3,073	2,248	3,048	2,887	4,210	5,650	5,867	4,860	5,060
Department of Industry									
Regional and general industrial support									
Regional development grants	392	385	406	312	474	598	353		
Provision of land and buildings	15	17	24	24	30	45	23		
Selective assistance to industry in assisted areas	25	24	68	54	42	52	50		
Other regional support				1		1	1		
Residual expenditure under repealed sections of the Local Employment Act 1972	-6	-5	-5	-6	-2	-1			
Selective assistance to individual industries,firms and undertakings	51	46	93	53	49	62	68		
National Enterprise Board	23	33	45	70	49	41	25		
Investment grants	26	7	3	1					
National Research and Development Corporation	-5	-6	-6						
Other support services			1	1	2	3	4		
Future industrial support						6	12		
Total	519	502	629	509	644	807	536	680	580
Scientific and technological assistance									
General industrial research and development	43	46	57	86	208	158	167		
Aircraft and aero-engine general research and development programme	20	20	16	19	48	33	33		
Space	34	35	34	37	86	45	50		
Total	98	100	106	142	344	236	249	280	300

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Table 2.04(Continued) £ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Support for aerospace shipbuilding steel and vehicle manufacture									
Concorde development and production	48	48	42	23	36	32	19		
Finance for Rolls Royce Ltd	72	2	12	104	117	193	91		
Other aircraft and aero-engine projects and assistance	1	5	50			5	5		
Refinancing of home shipbuilding lending	71	-91	-18	-29	-31	-45	-38		
Interest support costs	44	22	38	59	67	55	58		
Assistance to the shipbuilding industry	14	35	20	48	70	82	72		
Assistance to the steel industry	2	3	8	22	40	100	43		
Finance for BL Ltd.	100	325	174	150	300	620	360		
Total	351	349	326	376	599	1,043	612	60	–
Other central and miscellaneous services	25	29	32	35	42	48	51	50	50
Total Department of Industry	993	980	1,094	1,062	1,628	2,134	1,447	1,080	930
Department of Energy Regional and general industrial support									
Selective assistance to individual industries,firms and undertakings	6	11	14	20	28	26	27		
Other support services	3	9	3	2	1	2	5		
Total	9	20	16	22	29	27	32	30	20
Scientific and technological assistance									
Non-nuclear research and development	11	18	16	28	33	45	42		
Nuclear	137	109	127	146	186	220	223		
Total	148	127	143	174	218	264	265	270	280
Support for other nationalised industries(- other than transport industries)									
Coal Industry Acts social grants	62	68	71	79	93	143	167		
Coal Industry Acts-									

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operational grants	11	24	117	181	167	246	599		
Pneumoconiosis scheme									
Other compensation	9	8	5	6	5	9	12		
Total	82	100	193	266	265	398	778	200	230
Other central and miscellaneous services	15	32	31	-16	14	25	26	30	30
Total Department of Energy	253	279	385	445	526	715	1,101	530	570
Department of Trade									
Regional and general industrial support									
Promotion of tourism	14	15	17	22	25	28	31	30	30
Other support services	1		1		1				
Total	15	15	18	23	26	28	31	30	30
Export promotion and trade co-operation	16	17	19	22	19	22	24		
Regulation of domestic trade and industry and consumer protection	26	34	40	45	50	63	70	100	110
Shipping	11	15	16	20	25	34	29	30	30
Civil aviation authority	45	31	23	25	35	20	18		
Capital investment by local authorities at airports	2	2	5	16	23	31	42	40	50
Other civil aviation services	25	25	10	6	-1		4		
Other central and miscellaneous services	31	31	32	38	52	54	53	50	50
Total Department of Trade	171	169	162	196	229	251	271	260	280
Export Credit Guarantee Department									
International trade									
Refinancing of fixed rate export credits	505	-263	140	-407	-629	-430	-245		
Cost escalation guarantees		1	-1		13	28	35		
Interest support costs	200	116	220	352	481	487	572		
Mixed credit matching facility							5		
Total Export Credit Guarantee Department	705	-145	359	-54	-135	85	367	190	310
Friendly Societies Registry and Office of Fair Trading									
Regulation of domestic trade and industry and consumer protection	2	3	2	3	4	5	6	10	10
Department of Employment									

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General labour market services	35	39	55	107	115	172	246		
Services for the seriously disabled	32	36	40	50	67	77	83		
Redundancy and maternity fund payments	103	107	108	162	356	513	426		
Special employment measures	130	268	253	209	552	540	442		[illegible]
Central services	20	25	23	28	31	36	37		[illegible]
Advisory conciliation and arbitration service	7	8	9	10	12	13	13		10
Health and safety at work	38	42	46	56	70	81	86		[illegible]
Manpower services commission	367	433	508	611	748	1,009	1,331		
Careers service grant	1	1	2	3	5	7	11		
--									
Total Department of Employment	731	959	1,045	1,236	1,956	2,446	2,675	2,790	2,970
--									
Department of Health and Social Security									
Regional and general industrial support									
Selective assistance to industries, firms and undertakings					1	13	1	10	–
Regional employment premium	217	3							
Compensation for price restraint to nationalised industries									
Total programme	3,073	2,248	3,048	2,887	4,210	5,650	5,867	4,860	5,060
Department of Trade									
Civil Aviation Authority (net overseas and market borrowing (1)	1	–1	12	10	18	18	19	20	0

1) Included in line 4 of table 1.1.

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This programme provides mainly for industrial support and employment services, though it covers a wide variety of expenditure. It is nearly all expenditure by Central Government including grant aided bodies such as the Manpower Services Commission. About 60 .. per cent of the total is subject to cash limits which are shown (with the prefix IV) in the list of votes in table 4.1 of this White Paper. In addition, the bulk of the provision in this programme for support and assistance for nationalised industries is included in the external financing limits for each of the industries concerned, which are shown in Part 3.

Department of Industry

Regional and general industrial support

Most of this expenditure is on regional policy with regional development grants dominating other regional measures including the provision of land and factories and selective assistance for employment-linked investment. The forecast expenditure under these measures takes account of the implementation on 1 August 1982 of the further changes in assisted area coverage announced in July 1979 intended to concentrate assistance on areas of greatest need. The programme also includes selective investment for qualifying projects under nationwide schemes and the financing of the National Enterprise Board.

The regional development grant scheme is aimed at encouraging investment by manufacturing industry in the Development Areas. Investment in new plant, machinery, buildings and works qualifies for grants at 22 per cent in Special Development Areas and 15 per cent in Development Areas, though payments continue to be subject to a four-month deferment.

Expenditure on the provision of land and buildings is undertaken by the English Industrial Estates Corporation in the English assisted areas. The market for small factory units remains firmer and the Corporation is expanding its efforts in that area rapidly: at the end of 1981 it had over 500 units of less than 2500 square feet under construction and 900 more planned. (The Corporation also builds and manages small factories and workshops in rural areas on behalf of the Development Commission; provision for this is made in the Department of the Environment's programme Table 2.8.) Following the Industry Act 1980, the Corporation may now undertake developments in partnership with the private sector. The decrease in expenditure envisaged for 1982-3 is due partly to the Corporation's efforts to encourage private sector participation, but also to the depressed industrial property market which has led to higher-than-usual factory stocks, and hence to a decision by the Corporation to reduce its building programme.

4 Selective assistance to industry in assisted areas may be provided for investment projects which create or safeguard employment in the assisted areas of Great Britain. It is available in all assisted areas in addition to the regional development grants which are provided in Development and Special Development Areas. Assistance is limited to the minimum necessary for the project to go ahead in the assisted areas.

5 Most of the expenditure under selective assistance to individual industries, firms and undertakings is for payments by the Department of Industry under the previous Government's sectoral schemes, and the Accelerated Projects, Selective Investment and Energy Conservation Schemes. With the exception of the Microelectronics Industry Support Programme, all of these have now closed to applications. Two new schemes were announced by the Chancellor of the Exchequer on 10 March 1981. The Coal Fired Boiler Scheme is designed to encourage industry and agriculture to switch from oil to coal-fired boilers and thus to promote industrial efficiency by reducing unit costs. The Small Firms Loan Guarantee Scheme is intended to facilitate an increase in the number of small business start-ups and expansions, by encouraging lending institutions to back potentially viable propositions which would otherwise have failed to attract funds. A further scheme for the rationalisation and restructuring of the private sector steel industry was announced on 14 December 1981 by the Secretary of State for Industry.

6 Provision for the National Enterprise Board is restricted to the funding needed to fulfil the limited tasks specified in the guidelines issued in August 1980. These give the NEB a catalytic investment rôle especially in connection with advanced technology companies, small firms, and undertakings in the English assisted areas. In all these cases the NEB is

expected to seek as much private investment as possible and to sell its own holdings as soon as practicable. The NEB's responsibility to dispose of investments is reflected in its new financial duty, issued on 25 November 1981. This requires the Board to aim to achieve from 1 January 1981 a cumulative return on capital invested which is comparable with the return on equity investments in private sector industrial undertakings and meets the cost to the Government of public funds invested by the Board. The NEB now operates in collaboration with the National Research Development Corporation under the joint name of the British Technology Group.

7 Provision for other support services covers the Small Firms Service, the Department of Industry's support for technical training and its promotion of education relevant to industrial careers, and miscellaneous grants. Increased resources are being devoted to the Small Firms Service, and it is undertaking experimental schemes with COSIRA to see how the combined resources of the two organisations can best be deployed in the interests of small firms.

8 The provision for future industrial support represents an unallocated portion of the Department's total provision; it gives some limited flexibility for the Department to enter into new commitments for which no provision has yet been made, or to accommodate changes in the timing of expenditure under existing measures.

Scientific and technological assistance

9 This programme covers the net costs of the Department's research establishments, industrial R & D and other support, aircraft and aeroengine general R & D, and the space technology programme.

10 Support for industrial R & D, mainly through the Department's Requirements Boards and the Product and Process Development Scheme, is increasingly aimed at the new technologies including information technology, advanced production techniques such as robotics, computer-aided manufacture and flexible manufacturing systems, microprocessor applications, advanced instrumentation and fibre-optics. The bulk of expenditure on space technology takes the form of contributions to the European Space Agency covering the UK's share in the Agency's programmes. Increased support is being provided for the UK contributions for the L-Sat (large satellite) project.

Support for aerospace, shipbuilding, steel and vehicle manufacture

11 The provision for Concorde relates mainly to the UK share of the cost of supporting the aircraft and engines in airline service. The expenditure is net of forecast receipts from the sales to airline operators of spares and modifications. The Concorde programme has been comprehensively reviewed against new assumptions about aircraft and engine utilisation, and substantial reductions in net costs are envisaged as reported to Parliament in a Memorandum by the Department of Industry on 2 December 1981.

Finance for Rolls Royce Limited

12 Finance for Rolls Royce Limited includes the provision of equity and launch aid assistance in support of the development of the RB211-535 engine and further versions of the -524 engine. The Government is entitled to receive levies on future sales of these engines and of other engines (Avon, Dart etc).

13 The provision in the other aircraft and aeroengine projects and assistance programme includes payments of interest support

for the purchase of Airbus aircraft by UK airlines and receipts of levies on sales of civil aircraft airframes which were developed with Government aid.

14 The programme for <u>refinancing and interest support of home shipbuilding lending</u> includes guaranteed fixed-interest credit facilities for financing domestic orders for building ships in UK yards; it operates in parallel with a similar scheme for export credit. The programme covers the refinancing of bank loans and the cost of supporting the subsidised fixed rate of interest. New commitments to refinance ended on 31 March 1980, but past commitments will continue to affect the cost of these measures for several years. A one-year scheme was introduced on 30 October 1980 designed to encourage the premature repayment of loans by offering a discount reflecting the saving of future interest support. and the value of the parallel early repayment of the associated refinance loan.

15 The main element in the provision for <u>assistance to shipbuilding</u> is for the merchant shipbuilding intervention fund. Up to 31 March 1981 the Fund has helped obtain orders totalling approximately 1,358,000 gross registered tons and has provided over 97.5 thousand man years of work for the yards concerned, as well as a substantial amount of additional employment in support industries. A £120m fund covered the two year period up to 15 July 1981 and an additional tranche of £45m is available for support to 15 July 1982. Provision has also been included to meet the cost of the redundancy payments scheme and powers are being sought to extend the scheme for a further two years until June 1985 as necessary. The shipbuilding cost escalation scheme which was closed to applications in June 1980 is also included in this programme but expenditure should fall sharply after 1981-2.

16 Under <u>support for steel</u> the Department of Industry makes payments under the readaptation scheme to assist steelworkers

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made redundant by closures meeting Treaty of Paris conditions. Up to half the cost will be reimbursed from the Budget of the European Community, with receipts being credited to contributions to the European Community etc (net) under Programme 2. The provision has been increased to cover the additional redundancy costs now expected.

17. The provision for finance for BL Limited covers the Government's contribution to the funding of the company's programme of restructuring and new investment. The Government has accepted BL's 1982 Corporate Plan and has confirmed the availability of the Government funding for 1982-83 which was approved in January 1981. No decisions have yet been taken about sources of funding in 1983-84 or thereafter and no provision is included in this programme for those years.

2.4.10

DEPARTMENT OF ENERGY

Industrial Support

Selective assistance to individual firms and undertakings

18 This expenditure is confined to commitments under the Offshore Supplies Interest Relief Grant Scheme which closed for applicationsin July 1979. Expenditure increased to £28m in 1980-81 and is expected to remain broadly at that level in 1981-82 and 1982-83; it will then decline.

Other support services

19 The Department contributes to the cost of surveillance and protection of offshore oil and gas installations which is undertaken by the Ministry of Defence.

Research and development

Non-nuclear research and development

20 This research falls into the following main areas: offshore oil and gas operations, including work in support of the Departments statutory responsibilities for the safety of offshore installations; offshore geological studies; research into and development of new energy sources, coal utilisation, and energy conservation. ure .

Nuclear research and development

21 The net provision for the United Kingdom Atomic Energy Authority (UKAEA) accounts for most of the expenditure in this sub-programme. The gross provision for the Authority in 1982-83 is some £418m but this is offset by sales and other receipts of some £197m. The Authority carries out research and development on the basic technology of thermal and fast reactors and

their fuel cycles

, the safety of nuclear plant and reactors, including the pressurized water reactor , and the management of radioactive wastes .

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It carries out research also in a number of areas of basic science of importance to the nuclear industry . It carries out in collaboration with other countries in the European Atomic Energy Community (Euratom) a programme of work on plasma physics and fusion energy and provision is included for its contribution to the Joint European Torus (JET) fusion experiment based at Culham . The Authority undertakes also work on repayment for industry and government including work in non-nuclear fields.

22 This sub-programme includes also certain expenditure by the Department of Energy mainly on subscriptions and contributions to international organisations.

Support for nationalised industries

Assistance to the coal industry

Social grants

23 Provision is made for continuation throughout the survey period of the Redundant Mineworkers Payments Scheme (RMPS) and for grants to the National Coal Board to meet part of the costs of alleviating the effects of colliery closures and of meeting the deficiency in the Mineworkers Pension Scheme in respect of workers who left the industry before 1975. Expenditure on these grants and the RMPS increased substantially following the improvement in benefits announced on 19 March 1981. The expenditure is not subject directly to cash limits but the grants to the Board count towards its external financing limits.

Operational and deficit grants

24 Following the withdrawal in February 1981 of the National Coal Board's plan for accelerated pit closures and subsequent discussions with both sides of the industry, the Government agreed to increase its grants for 1981-82 to over £460m. Some £219m of this depends on passage of new legislation and the figures in this White Paper assume that this will be paid in 1982-83 together with grants for that year. The operational and deficit grants are subject to cash limits and count also towards the Board's external financing limits. The industry's plans and financing requirements beyond 1982-83 are under review so no provision has been made in this programme for grants for 1983-84 and 1984-85. However a provisional forecast of the Boards total requirements for external finance in those years has been included in table 3.1.

Compensation for accelerating capital investment

25 The department pays compensation to the Central Electricity Generating Board for the costs of bringing forward the construction of Drax B Power Station in order to maintain employment. The payments are subject to cash limits.

Central and miscellaneous services

26. Provision is made for the Department's salaries and general administrative expenses and includes payments to the Central Computer and Telecommunications Agency and other Government Departments for services now provided on a repayment basis. There were 1198 staff at 1 April 1981 and this is expected to fall to 1096 by 1 April 1984.

27 Expenditure on energy conservation and for conservation demonstration projects in industry is expected to rise from just over £3 million in 1980-81 to about £5½ million in 1981-82 and a continuing increase is planned during the survey period. No provision is made for net expenditure on the Government's oil storage and pipeline system as costs are offset by charges to users and sales of stocks of oil.

28. Provision of some £1 million a year, which is not subject to cash limits, is made for fees payable to the British National Oil Corporation for handling oil taken in lieu of royalty from continental shelf licencees. In 1980-81 sales of such oil realised nearly £920 million. The proceeds are at present paid into the National Oil Account under Section 40 of the Petroleum and Submarine Pipeline Act 1945.

DEPARTMENT OF TRADE

Export Promotion

29 This covers net expenditure managed by the British Overseas Trade Board (BOTB) on export promotion, and subscriptions to international trade organisations. The main items of export promotion expenditure are assistance to British firms participating in overseas trade fairs and missions, and expenditure on the Overseas Projects Fund, the Market Entry Guarantee Scheme and the British Export Marketing Centre in Tokyo. The programme also includes British Standards technical help to exporters, assistance with market research in the interests of exports, and selective grants to non-official trade organisations.

30 In 1980/81 7034 British firms participated in 295 overseas trade fairs; 2642 firms took part in 219 overseas missions, and the British Export Marketing Centre, Tokyo, held 7 exhibitions attracting 165 British firms. During the year more than 90 firms received payments totalling £4.8 million from the Overseas Projects Fund.

Tourism

31 This heading covers grants-in-aid to the British Tourist Authority and the English Tourist Board, together with grants and loans for tourist projects.

Regulation of domestic trade and industry and consumer protection

32 Provision is made for expenditure by the Department of Trade for the Patent Office, associated international subscriptions, and the Department's Insurance and Companies Divisions and the Insolvency Service. The figures are net of fees levied by the Patent Office, Companies Registration Office and Insolvency Service.

33 Provision is also made for expenditure on the Monopolies and Mergers Commission, the British Standards Institution, Nationalised Industry Consumer Councils, and for local authority expenditure on trading standards and consumer protection.

Shipping

34 This covers expenditure on the Coastguard, the inspection and surveying of ships

and equipment, the examination and licensing of seafarers, search and rescue, research, and the UK subscription to the Intergovernmental Maritime Consultative Organisation (IMCO). Routine expenditure on measures to combat oil and chemical pollution at sea is covered, but no provision is made for the direct operational costs incurred in dealing with oil or other spill emergencies, the incidence of which cannot be predicted. A contribution towards the costs of civil hydrographic work in 1982-83 is also included, as are the construction costs of a new building for the IMCO headquarters. This building, which is scheduled to be completed in 1982, will be let to IMCO at a subsidised rent.

Civil Aviation Services

35 This programme includes support for the Civil Aviation Authority (CAA), capital expenditure by local authorities on aerodromes, and other civil aviation services. Over the past four years the number of terminal passengers at UK airports has increased by 29 per cent and the number of air transport movement by 28 per cent. This increased demand has put pressure on navigational services and other facilities.

36 The CAA, which is the main provider of air traffic control and en-route navigational services, also has licensing and regulatory functions. It has achieved full recovery costs on its functions except for the Highlands and Islands Aerodromes, and on en-route navigational services in the UK's airspace where the rates of charge are determined by Eurocontrol. Losses on the Highlands and Islands aerodromes are met by the Scottish Development Department. Full recovery of the cost of en-route navigational services will be achieved by 1983/84 when new charging arrangements approved by Eurocontrol come into full effect. Provision is made for loans to help finance capital investment. The Authority's foreign borrowing is included in the public expenditure planning total.

37 The major projects at local authority airports are a new terminal at Birmingham, runway and apron extension at Leeds/Bradford and Manchester and terminal developments at Luton, Manchester and Newcastle. The development of regional airports is expected to involve a higher level of spending on the part of local authorities than has been the case for many years. The actual level and distribution of this expenditure will depend partly on local authorities decisions.

38 The programme also includes the UK subscriptions to Eurocontrol and the International Civil Aviation Organisation, research on aircraft noise, airport planning and some royal flights in civil aircraft.

EXPORT CREDITS GUARANTEE DEPARTMENT

39 Apart from its insurance activities which it aims to operate at no net cost to public funds, ECGD is responsible for four public expenditure programmes. Two of these, the provision of loans and interest support in connection with fixed rate export finance, arise from matching our principal trading competitors who offer fixed rate extended credit terms. The former involves ECGD in making loans to banks to refinance a proportion of their fixed rate sterling export lending, whilst under the latter the banks are assured of a commercial rate of return on their unrefinanced fixed rate export lending.

40 The net repayment of <u>refinance</u> to the Government is expected to continue in each of the next few years. This arises from the policy of successive governments of reducing the provision of refinance for sterling credits, culminating in the withdrawal of the facility from 1 April 1980. Once-for-all reductions in expenditure have been achieved in 1981-82 as a result of the Trustee Savings Banks' agreement to take on an additional £200 million of outstanding refinance and an increase in the Co-operative Banks' contribution to £25 million. The Trustee Savings Banks will also take over a further £50 million of refinance in 1982-83. The estimates of future net repayments may be subject to revision because of changes in the timing of drawings and repayments.

41 <u>Interest Support</u> comprises the net cost of providing banks with a commercial rate of return on their own sterling and foreign currency lending together with the net cost of interest on the Government borrowing needed to refinance sterling export credit. Following international agreement higher minimum interest rates will apply to business signed up after November 1981, leading to progressive reductions in expenditure from 1982-83 onwards. However, forecasts may be subject to substantial review depending primarily on future levels of market interest rates.

42 The third ECGD facility involving public expenditure is the cost escalation scheme. This provides some protection against increases in certain costs of completing export contracts for large capital goods. The estimate relates to commitments made and expected to be made by 26 March 1982 when the Department's present authority to provide cost escalation cover expires. Parliamentary approval is being sought for renewal of the scheme for a further year to 26 March 1983. The higher expenditure expected in 1982-83 is attributable largely to commitments under which most of the premium is received in advance of the bulk of claims payments. The forecast is subject to considerable uncertainty since it is based on assumptions about future levels of cost increase and the extent of demand for protection under the Scheme.

43 The fourth ECGD facility involving public expenditure is the mixed credits matching facility. This is designed to provide more effective support to British exporters' sales efforts where they are competing with foreign offers on concessionary terms arising from the mixing of aid and trade credits. The United Kingdom remains an active supporter of international efforts to restrict and eventually to ban the use of unusually soft export credits which distort normal patterns of commercial trading. This limited facility is therefore defensive in purpose and is subject to review in 1982 in the light of its usage and of progress in international talks to control the use of mixed credits.

2.4.17

DEPARTMENT OF EMPLOYMENT

Employment and training

44 This programme provides for the cost of services and measures to improve the functioning of the labour market, alleviate the effects of high unemployment and improve the health and safety of people at work. It does not cover expenditure on the unemployment benefit service, which appears in the social security programme.

45 Some 97 per cent of the total expenditure is incurred throughout Great Britain by the Department of Employment Group, consisting of the Department itself, the Manpower Services Commission (MSC), the Advisory, Conciliation and Arbitration Service and the Health and Safety Commission. The balance is incurred by local authorities in the provision of sheltered employment throughout Great Britain and of the careers service in England. Only two of the sub-programmes are not subject to cash limits. These are Redundancy and Maternity Fund payments and special employment measures.

46 Expenditure in 1981-82 is expected to be around £100 million more than planned in Cmnd 8175. This increase reflects additional spending of some £150 million on the Youth Opportunities Programme, support for skills training and the extension of the job release scheme, all of which were announced by the Prime Minister in July 1981. It also stems from higher than forecast demand for redundancy payments, and further loans to the National Dock Labour Board to help meet the cost of severance payments to registered dockworkers. The total of these extra costs will be offset in part by a reduction in expenditure of around £150 million on the Temporary Short-Time Working Compensation Scheme due to lower demand for the scheme.

47 Although payments under the latter scheme will continue to fall in 1982-83, and lower demands upon the Redundancy Fund are also expected, the programme total is some £ 260 million higher than in 1981-82. As announced in July and December 1981, extra resources have been provided for the extension of the Job Release Scheme, the introduction of the Young Workers Scheme, the maintenance of the Community Enterprise Programme at a higher level of 30,000 places and the extension of the Youth Opportunities Programme, which will be gradually replaced by the new Youth Training Scheme.

48 The European Social Fund reimburses the Government for part of the cost of a number of employment and training measures in Great Britain run by the Department of Employment and the MSC. In 1980-81 these receipts totalled £75 million, including £27 million for retraining of adults in areas of high unemployment, £31 million for provision of training and work experience for young people, £8 million for the special training measures run through Industrial Training Boards and £5 million for training the disabled. In addition to these receipts, which are paid into the Consolidated Fund, the Social Fund makes payments through the Department of Employment to certain Industrial Training Boards, nationalised industries, local authorities and other organisations to cover part of the costs of training projects. In 1980-81 these payments amounted to £6 million. All of these receipts are taken into account in the net contribution to the European Communities in programme 2.

49 General labour market services

The main items of expenditure are Community Industry (CI), the Community Enterprise Programme (CEP) and the careers service in England. CI and CEP are administered by the MSC on behalf of the Department of Employment. CI, which currently provides 7,000 temporary jobs for disadvantaged young people, is expected to continue at that level in 1982-83. Similar provision has been made for later years subject to review. Following the autumn 1981 review of special employment measures, funds were made available for the expansion of CEP. The programme will now offer 30,000 instead of 25,000 temporary jobs for long-term unemployed adults from March 1982. Provision has been made for continuation at that level, subject to further review. Expenditure by local authorities on the general careers service ranks for rate support grant. Additional specific grants are made by central government as part of the special employment measures. These fund specialist careers officer posts in areas of high unemployment.

50 Expenditure on services for seriously disabled people covers the provision of sheltered employment, which is planned to continue broadly at the 1981-82 level. The MSC acts as agent of the Department in the payment of grants and loans to Remploy and of grants to those local authorities and voluntary bodies which provide the employment. About 60 per cent of the total is for grants and loans to Remploy, a limited company providing work for an average of 8,350 seriously disabled workers. A further 5,000 are employed in local authority and voluntary body workshops. Costs include capital expenditure for re-equipping some workshops to enable them to undertake long-term priority suppliers contracts in the public sector fields.

51 Redundancy and Maternity Pay Fund Payments. Cmnd 8175 assumed that the number of payments from the Redundancy Fund would fall from 750,000 in 1981-82 to 325,000 in 1983-84. The number of payments is now expected to reach a higher level of 900,000 in 1981-82, falling to some 670,000 by 1982-83 and continuing to fall in later years. Provision has been made for 127,000 payments from the Maternity Pay Fund in 1981-82 and 1982-83,

and 130,000 thereafter.

52 Since 1975-76, the Department of Employment has operated some special employment measures to mitigate the worst effects of high unemployment. The existing measures are the Temporary Short-Time Working Scheme (TSTWCS), which encourages employers to adopt short time working as an alternative to redundancy; and the Job Release Scheme (JRS), which enables employees approaching statutory pensionable age to make way for unemployed people in return for a weekly allowance. Under TSTWCS, employers receive, for a period of nine months, 50 per cent of normal wages paid to staff working short-time. Following a recent decline in demand for the scheme, provision is made for its gradual run down and for its closure in March 1984. The maximum period of support will be reduced from nine months to six months from July 1982. Provision for the Job Release Scheme takes account of the lower ages of entry announced by the Prime Minister in July 1981. From November 1981, able-bodied men of 63 became eligible for the scheme and from February 1982 the age limit was further reduced to 62. Disabled men and women continue to be eligible from ages 60 and 59 respectively. Expenditure on the scheme is forecast to be about two thirds higher in 1982-83 than in 1981-82; and the number of recipients is expected to reach 95,000 by March 1983. The plans assume that the scheme will continue in its present form until March 1984 and be subject to review thereafter. A new employment measure, the Young Workers Scheme, was introduced in January 1982. It is designed to encourage employers to take on more young people at wage rates which reflect their lack of training and relative inexperience. The scheme provides for a weekly payment of £15 or £7.50 to employers of young full-time workers who receive a wage of less than £40, or between £40 and £45 a week respectively. Plans assume that the number of young workers for whom payment is made will reach 130,000 by the end of 1982-83. Provision

continues into the later years, but the future of the scheme is subject to review. Apart from these three special employment measures, the sub-programme includes grants to trade unions towards the cost of holding postal ballots; payments under the Pneumoconiosis etc (Workers Compensation) Act 1979; and loans to the National Dock Labour Board to help meet the cost of severance payments to registered dockworkers.

53 Central Services cover salaries and general administrative expenses of the Department of Employment; the provisions reflect a planned reduction in staff numbers to 1 April 1984. Provision is also made for the cost of industrial tribunals, the Employment Appeal Tribunal and the Office of Manpower Economics.

54 The provision for the Advisory, Conciliation and Arbitration Service takes account of planned reductions in staff numbers to 1 April 1984.

55 The Health and Safety Commission and Executive were established to help improve the health, safety and welfare of persons at work, and to protect the public against risks arising from the activities of persons at work. The Commission's grant-in-aid is largely required for salaries and related administrative costs and the plans take account of a reduction in staff levels of some 8 per cent by April 1984. Provision has been made over the years 1982-83 to 1984-85 towards the cost of dispersing staff to Merseyside. Expenditure in 1981-82 is expected to be below the level planned in Cmnd 8175 owing to delays in building work and the slippage in the dispersal programme.

56 Although the whole of the expenditure allocation for the Manpower Services Commission (MSC) appeared in this programme the Commission, ~~The Manpower Service Commission (MSC) is financed by a grant-in-aid~~, is financed by a grant in aid borne on a Vote of the Department of Employment, but funded in part by the Scottish Economic Planning Department and by the Welsh Office. The

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Scottish and Welsh contributions reflect that part of the cost of the MSC's plans and programmes for Scotland and Wales which can be identified separately. In 1981-82 these contributions were £151 million for Scotland and £81 million for Wales.

57 The MSC's services fall into the three main operational areas of (a) Employment Service and employment rehabilitation; (b) industrial training; and (c) Special Programmes. Across the MSC a progressive scaling down of the staffing level by some 7½ per cent between 1 April 1981 and 1 April 1985 is reflected in planned expenditure.

58 Expenditure on the placing service of the Employment Service has been reduced by more efficient use of resources and a continuing fall in the number of staff. Further savings are envisaged in 1982-83 with the introduction of voluntary registration, a slowing down of the jobcentre programme, and further staff reductions. Facilities for about 14,500 people a year are available on various types of employment rehabilitation courses, mainly in the MSC's own centres. A number of pilot ventures are currently in hand to determine whether there are better and more cost-effective ways of providing an employment rehabilitation service.

59 The re-styled professional and executive recruitment service (PER) based on self-selection through a weekly job magazine has been well received by both jobseekers and employers and has reduced staff and financial costs substantially. In 1982-83 savings in operating costs will accrue from the introduction of voluntary registration.

The [illegible] S/S [illegible] 13.12.81.

following [illegible] There will be further savings

2.4.23

through confining advisory and support services for unemployed workers at PER level to those which are generally available in jobcentres. This will substantially reduce Exchequer support in 1982-83 for the social aspect of PER work and eliminate it completely thereafter. Despite the recession PER's underlying financial position has improved reflecting reduced costs and an increase in recruitment business.

The figures in the following table show the development of the employment services and the MSC's forecasts for 1982-83.

Table | Thousands

	Employment Service other than PER			Professional and Executive Register		
	Vacancies Notified	Registrations	Placings	Vacancies Notified	Registrations	Placings
Actual						
1976-77	2130	5510	1480	28	197	9
1977-78	2360	5810	1610	24	199	9
1978-79	2670	5980	1805	18	174	7
1979-80	2730	6388	1904	17	171	7
1980-81	2098	6654	1549	15	294	5
Estimated						
1981-82	1900	5900	1400	18	350	7
1982-83	2000	5500	1500	20	250	8

60 The Employment Transfer Scheme is designed to encourage unemployed people who might not otherwise have done so to move to other areas to fill vacancies that cannot be filled locally. It is anticipated that about 6000 people will move during 1981-82 which is about the same number as in 1980-81.

Starting in 1981-82, an Enterprise Allowance pilot scheme will be undertaken in three locations, providing a payment of £40 a week for a maximum of one year to unemployed or redundant workers who set up their own business. If the expected take-up is achieved, the cost will amount to £2.4 million spread over three years. The scheme will be financed from money allocated for CEP.

61 Industrial training expenditure includes grants by the MSC to industrial training boards (ITBs) and other bodies to promote training in industry and also payments to individuals attending approved training courses under the Training Opportunities Scheme (TOPS). It has included also the MSC's grants to meet the operating expenses of ITBs. Following the sector by sector review by the MSC of industrial and commercial training, the Secretary of State for Employment announced on 16 November 1981 that certain ITBs would be wound up in 1982-83 but that the Exchequer would continue to fund their operating costs until March 1982 instead of 31 December 1981, as previously planned. Thereafter, during 1982-83, the Exchequer would pay the net operating and winding up costs of the boards which closed; the reserves of these boards will be applied towards meeting these costs.

62 Following publication in December 1981 of the White Paper "A New Training Initiative: A Programme for Action" (Cmnd 8455), important changes in the operation of all the MSC's training programmes are in train. These include using the Training for Skills Programme increasingly to support the modernisation of apprenticeships and other traditional skill training arrangements; substantially expanding the Youth Opportunities (see para) and Unified Vocational Preparation Programmes in both quality and quantity, and developing new adult training provision, for example through the Open Tech Programme. This will expand the opportunities of technical training for those who cannot use traditional methods. Participants will typically use a range of printed and audio-visual learning materials, working independently, either in college or at home, but with access to tutorial and practical help and facilities.

63 The future scale and pattern of TOPS will continue to be subject to an annual review in the light of labour market conditions and availability of resources. Under this scheme, training is provided in skillcentres, colleges of further education, employers' establishments, residential colleges for the disabled and other institutions. The courses vary in length, but the average in skillcentres is about 20 weeks, in colleges of further education about 23 weeks, and in employers' establishments

about 13 weeks. Reductions in the cost of the programme in 1981-82 and later years will be achieved through a combination of measures, including the rationalisation of the skillcentres system, the closure of some skillcentre classes and reductions in other courses particularly in the clerical and commercial field and in Heavy Goods Vehicle Driving Training. On the other hand, upgrading of skills courses (skillplus) will become more prevalent, and additional training will be undertaken in computer and technician skills.

Details of the numbers trained and expected to be trained are given in the table below:

TOPS Training: Numbers Trained (1)

Table 2.4.3

thousands

	Total	Skillcentres	Colleges of Further Education	Others including Employers Establishments
Actual				
1976-77	91.4	23.1	53.3	15.0
1977-78	98.9	24.6	57.1	17.2
1978-79	69.4	22.7	37.1	9.6
1979-80	74.5	21.9	41.6	11.0
1980-81	66.4	23.5	32.7	10.2
Estimated				
1981-82	61.0	22.6	30.1	8.3
1982-83	58.9	24.5	27.4	7.0

(1) Figures from 1978-79 do not include young people for whom financial provision is made in the Youth Opportunities Programme.

The MSC also provides certain direct training services to employers at a charge. In 1981/82 these have provided training for about 18,500 in the Commissions centres and within industry. The present economic situation and a move towards full cost recovery fees have reduced demand for these services.

64 The Youth Opportunities Programme (YOP) continues to provide increasing numbers of young people with skills, knowledge and work experience. In 1980-81 360,000 young people entered the programme. The resources made available for 1981-82 should provide for around 550,000 entrants, the main focus being on 16 and 17 year old unemployed school leavers. The Government have asked the MSC to undertake to offer 1981 school leavers a suitable place on the programme by Christmas 1981, and this undertaking should largely be met.

65 On 15 December 1981, the Secretary of State for Employment, referring to the longer term strategy for training outlined in the White Paper "A New Training Initiative - A Programme For Action", gave details of the new training programme for unemployed young people. September 1983, a new Youth Training Scheme will replace YOP, providing unemployed 16 year old school leavers with a full year's training in basic skills which employers will require in future. In the meantime, YOP is being expanded and developed to provide 630,000 places in 1982-83, including the introduction of 100,000 of the new-style training places. In the first full year, the new scheme is expected to provide places for 300,000 young people at any one time, at a cost of about £1 billion a year. In addition, the MSC has established a working group to examine ways of developing a more far-reaching training programme within existing resources. The Group is expected to report on its findings by April 1982.

2.4.27

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2.5 Government Lending to Nationalized Industries

Discussion of this programme is included in Part 3.

2.6 TRANSPORT

Table 2.06

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Department of Transport									
Motorways and trunk roads etc									
Capital	366	284	281	341	407	470	536		
Current	62	68	86	106	117	169	166		
Total	427	351	367	447	524	639	702	730	770
Local transport									
Capital									
Roads-new construction and improvement	303	243	267	353	433	336	469		
Car parks	14	10	13	13	21	15	21	800	850
Public transport investment	148	154	173	217	232	250	265		
Current									
Roads-maintenance	385	418	498	567	665	692	787		
Car parks	-4	-5	-9	-9	-14	-18	-23		
Road safety etc	6	6	6	8	9	13	12		
Local authority administration	134	145	155	181	226	230	170		
Passenger transport subsidies									
British Rail	18	26	29	32	40	47	54	1490	1540
Bus,underground and ferry services	180	155	168	197	280	484	260		
Concessionary fares	74	81	97	112	136	155	163		
Total	1,257	1,232	1,397	1,670	2,028	2,204	2,177	2,290	2,390
Central Government subsidies to transport industries									
British rail									
Passenger subsidies	457	479	494	641	660	877	930		
Level crossing grant									
Replacement grant									
Pensions									
Other subsidies									
National Freight Company	70	31	14	11	2	8	9		
New bus grants to nationalised industries and private operators	19	27	27	34	36	27	18		
Other central government support	1	2	2	4		6	6		
Total	507	535	537	690	698	919	964	1,000	1,050
Ports	58	64	59	60	-98	116	168	150	110

Table 2.06(Continued)

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Other transport services									
Roads and transport administration	21	21	23	28	181	36	38		
Transport research and other services	15	10	9	13	72	27	24		
Total	36	31	32	41	254	63	62	70	70
Driver and vehicle licensing(1)	53	49	48	50	65	73	82	90	90
Total Department of Transport	2,339	2,263	2,440	2,958	3,470	4,014	4,155	4,330	4,470
Department of the Environment									
Other transport services									
Roads and transport administration	4	5	6	8	12	14	13		
Transport research and other services	6	6	5	6	8	9	9		
Total Department of the Environment	10	11	12	14	20	22	22	20	20
Total programme	2,349	2,273	2,452	2,972	3,490	4,036	4,177	4,350	4,500

(1) Driver and vehicle licensing and registration and collection of related fees and duty

1. About half the expenditure on this programme is incurred by local authorities. Of this, roughly one-third is capital expenditure, covered by the cash limit on local authority capital expenditure shown in table 4.16 of this White Paper. Local authority current expenditure (which is mainly on road maintenance, subsidies for public transport, concessionary fares and administration) is eligible for rate support and transport supplementary grants, which are subject to cash limits. Almost all of the remaining expenditure is incurred by central government. Of this expenditure, about one-third is for motorway and truck road construction and maintenance and is directly cash limited, as is expenditure on roads and transport administration, research and driver and vehicle licensing. Most of the remainder of the central government expenditure is for support to transport industries, chiefly British Rail, and either directly subject to a cash limit or covered by the external financing limits of the industries concerned. In the case of subsidies to British Rail there is a cash ceiling on grant related to the calender year within the external financing limits related to financial years. The direct cash limits on central government expenditure in the programme are shown (with the prefix VI) in the list of Votes in table 4.1 of this White Paper. The external financing limits are shown in table 3.5.

DEPARTMENT OF TRANSPORT

2. The responsibilities of the Secretary of State for Transport are mainly restricted to England except for driver and vehicle licensing (UK), ports and British Rail (GB) and the National Bus Company (England and Wales). (Transport expenditures by the Secretaries of State for Scotland and Wales are in tables 2.15 and 2.16 respectively, while expenditure on civil aviation and shipping is in table 2.4). Over three-quarters of Department of Transport staff are employed on the various driver and vehicle licensing and testing schemes referred to in paragraphs 19 and 20, their costs being met from the fees charged. The manpower targets set for the Department entail a reduction by 1 April 1984 of about 3,200 (23 per cent) in staff in post at April 1979, about one quarter of which will be a consequence of the proposed transfer out of the public sector of the testing of heavy goods and public service vehicles.

3. Owing to increased grants to British Rail, higher local authority current expenditure and to additional support to the ports of London and Liverpool, partly offset by reduced provision for road construction, expenditure in 1981-82 and subsequent years is expected to be on average about 8 per cent above the cash equivalent of the provision in Cmnd 8175.

4. In 1980-81, projects in the assisted areas, mainly local road and port schemes, received grants totalling some £14.4 million from the European Regional Development Fund. In addition, there will be receipts from the Community Budget under the "supplementary measures" scheme described in the text relating to programme 2.7.

MOTORWAYS AND TRUNK ROADS

5. The White Paper "Policy for Roads: England 1981" (Command) explains that the Government's main priorities for spending on trunk roads in England are, first, roads which aid economic recovery and development; second, roads which bring environmental benefit; and third, which preserve the investment already made.

6. Spending on English motorways and trunk roads in 1980-81 was £524m. A bigger increase in road construction prices than anticipated caused the letting of some contracts to be delayed for short periods towards the end

of the year in order to keep within the overall cash limit for road construction and maintenance. In the event spending was kept to just £5m (less than 1%) below the limit. Conversely in 1981-82 a substantial fall in tender prices and lower than expected increases in the cost of work in progress is enabling all available construction schemes to be let, and a further increase in motorway reconstruction work to be carried out, at an estimated cost of £638m, some £41m below the cash provision.

7. For 1982-83 the total cash available will be £702m which represents a reduction of £34m from the cash implied by Command 8175 plans. But as most of the spending will be on contracts already let the levelling-off of road construction prices means that this should still enable the construction programme to proceed at the level originally planned. The total available for maintenance should allow the motorway reconstruction programme to continue at the same rate as in 1981-82, though some savings are planned from other parts of the maintenance budget.

8. The levels of expenditure now planned envisage the completion of about 400 miles of new motorways and trunk roads in the period 1981-82 to 1984-85 including 55 miles of the M25 London orbital route. Through traffic will be taken out of about 30 more towns and villages each year and the use of higher standard roads would save about 2000 accidents a year. In addition, about 200 miles of motorway will be reconstructed over the four years.

9. The new roads built during this period will provide measurable economic benefits in cost, time and accident savings to travellers and in the movement of goods. The ratio of those benefits to costs is expected to be of the order of [.........] after discounting at 7% a year (in real terms).

LOCAL TRANSPORT

10. Local transport spending in 1980-81 was £123m above the planned level. Of this excess, £104m (an overspend of 8½%) was on current expenditure, largely revenue support, and £19m (an overspend of 3%) on capital.

11. Although the final picture for 1981-82 is still uncertain it seems likely that spending on capital will be about £600m, £110m (15½%) below the cash implied by Cmnd 8175 plans. The level of current expenditure implied

by local authorities' revised budgets for 1981-82 is £1603m, some £327 (26%) above the cash implied by Cmnd 8175 plans. Of this overspend, £269m was planned for revenue support. Although the operating losses on local transport undertakings are likely to be close to the level shown, the actual amount of subsidy paid by local authorities (which is the figure counting as public expenditure) will be at least £100m less than this, as a result of the House of Lords ruling that the increased amount of revenue support to London Transport provided by the incoming GLC Labour administration was illegal.

12. For 1982-83 and later years the current expenditure provision has been increased (by between 5½% and 8% compared with Cmnd 8175) because overspending in 1981-82 means that local authorities will not be able to achieve the previously planned levels for these years. The new target for 1982-83 is a cash increase on items other than revenue support of 3½% compared with 1981-82 likely outturn. For revenue support, the 1982-83 figure is 40% less in cash than authorities' revised budgets for 1981-82. This reduction will require an end to cheap fares policies in the metropolitan areas and London. For 1983-84 and 1984-85, the proposed current expenditure cash totals are 4% and 8% respectively above the 1982-83 provision. The Government believe that these targets can be achieved by responsible pay settlements, increasing efficiency, and avoidance of waste. These should enable revenue support to be contained and administrative costs to be reduced.

13. Capital expenditure provision in 1982-83 is about 8% below the provision in Cmnd 8175. The smaller increases in road construction prices over the last year or so should enable output to be close to the level originally planned. After allowing for all committed expenditure, totalling over £300m, it should enable expenditure to be incurred on more than 50 new road schemes each costing more than £1m, including 35 by-passes taking through traffic out of towns and villages. For public transport, it allows for further work on the Tyne and Wear Metro, as well as the purchase of new buses and equipment and construction of depots and garages by London Transport, the Passenger Transport Executives (PTEs) and municipal bus undertakings. For 1983-84 and 1984-85 the planned cash provision is 6½% and 12½% respectively above the 1982-83 level. This should enable progress on the local transport capital programme to be fully maintained.

tral government support to transport industries

14. Under European Community regulations, the Government must compensate the British Railways Board (BRB) for the costs which they incur in the efficient discharge of the public service obligation (PSO) imposed upon them by the Government to provide passenger railway services comparable with those provided in 1974. PSO grant reflects the difference between BRB's receipts and their expenses and the amount originally claimed can be adjusted, within a pre-set cash ceiling, to take account of certain factors outside the Board's control, such as increased costs of materials or taxation changes. The grant includes an element to cover the cost of replacing assets in the railway business. The Board are also reimbursed - under a separate European Community regulation - for half the costs of operating and maintaining certain level crossings. PSO and level crossings grants in 1980-81 were broadly in line with Cmnd 7841. In 1981 however, the Governments had to provide the Board with more cash assistance than originally envisaged because of the difficulties faced by the Board in rapidly reducing costs as passenger revenues fell sharply. The Government consequently decided to increase the cash ceiling on PSO grant and the outturn in 1981-82 is likely to be some £113 million above the cash equivalent of provision in Cmnd 8175.

15. Provision is also made for grant to the National Freight Company (NFC) to meet the cost of rail travel concessions extended to employees and pensioners formerly employed by BRB and transferred to the (then) National Freight Corporation. Under the Transport Act 1980, the Government pays the BRB and NFC rail-based pension funds the difference between the total amount of pension payments made in respect of their pre-1975 liabilities and the proportion of those payments which can be met from the related assets of the funds. The cost of funding the comparable element of the road-based pension schemes is to be met from the proceeds of the sale of NFC to the private sector.

16. The provision for new bus grants (towards the cost of buses for use on stage services) reflects the Government's decision to phase out the grant by 1984. In order to avoid double counting, expenditure is shown here only for grants to nationalised industries and to the private sector; investment in new buses by the local authority sector appears under local transport.

17. Other central government support consists of the grant payable under the Railways Act 1974 towards the costs of providing rail freight handling facilities and wagons in cases where a transfer of traffic from road to rail will produce worthwhile environmental benefits. The Report of the Inquiry into Lorries, People and the Environment

concluded that the grant scheme gave good value. In 1981, grants worth about £4 million have been approved, affecting almost two million tonnes of traffic. Under the Transport Act 1981, a similar scheme has been extended to inland waterways.

Ports

18. Rather more than a third of the 1982-83 provision is for investment by public trust ports and local authority harbours and for net lending to the private sector ports. The rest covers grants and loans by central government to the Port of London Authority (PLA) and Mersey Docks and Harbour Company (MDHC) under the Ports (Financial Assistance) Act 1981. Investment is aimed at providing adequate modern port facilities, usually in response to particular traffic proposals. Assistance to PLA and MDHC is to enable them to continue trading while they secure the reductions in manpower and any other improvements in efficiency necessary for a return to profitability by the end of 1982. As presaged in Cmnd 8175, outturn for 1980-81 has proved to be rather higher than planned in Cmnd 7841, as a result of the timing of the PLA staff severance programme. For 1981-82, outturn will be considerably higher than the Cmnd 8175 provision, because of greater support to PLA and MDHC then had been estimated when the White Paper was prepared.

Other transport services

19. This sub-programme includes expenditure on central government administration, transport research and development and certain minor items. Provision has also been made for receipts of fees for services such as driving and vehicle tests, expected to amount to some £34 million in 1981-82.

Driver and Vehicle Licensing

20. This sub-programme covers expenditure on driver and vehicle licensing and registration and the collection of driver licence fees and motor vehicle excise duty: it is primarily a tax collection function as expenditure of some £82 million enables the collection of about £1,600 million in fees and duty. Vehicle excise duty is now being collected at approximately 3,000 post offices as well as at 53 local vehicle licensing offices (recently reduced from 81 offices). Primarily as a result of the greater use of the Post Office, salaries and associated costs are expected to decline from over 50 per cent of total expenditure in recent years to about 35 per cent by 1983-84. Provision is made over the survey period for the replacement of the present computer and allied equipment at Swansea.

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2.7 HOUSING

Table 2.07

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Department of the Environment									
Current expenditure									
General subsidies:									
Central government subsidies to local authority housing	794	849	1,004	1,274	1,423	915.	592		
Rate fund contributions to local authority housing	148	147	208	330	439	373.	325		
Subsidies to new towns	62	78	87	101	114	118.	119		
Housing association revenue Deficit grants	14	16	19	24	30	40.	38		
Total general subsidies	1,018	1,090	1,318	1,729	2,006	1,446.	1,074		
Rent rebates:									
Central government	76	79	78	89	137	367.			
Rate fund contributions	70	82	87	100	123	47.			
Rent allowances:									
Central government	26	37	35	38	44	53.			
Rate fund contributions						6.			
Total income related Subsidies	172	198	200	227	304	473.			
Option mortgage scheme	136	147	143	184	222	240.	300		
Administration									
Central government	11	12	15	19	22	30.	28		
Local authorities	108	56	75	71	70	98.	95		
Total current expenditure	1,444	1,504	1,751	2,229	2,624	2,287.	1,496		
Capital expenditure									
Local authority gross expenditure									
Land	102	59	53	46	26	35.			
New dwellings	1,318	1,263	1,105	1,078	972	700.			
Acquisitions	100	62	68	59	26	27.			
Improvement investment	340	370	506	757	695	650.			
Other	69	61	56	68	77	77.			
Improvement grants	66	66	98	134	144	187.			
Gross lending to private persons for house purchase and improvements	183	122	173	260	119	90.			
Loans and grants to the housing associations	215	225	184	188	169	137.			
Total local authority gross expenditure	2,393	2,227	2,245	2,590	2,229	1,903.	2,470		
New towns gross investment									

2.7.1

Land	12	3	7	8	4	5.			
New dwellings	165	140	120	149	155	100.			
Improvements	2	4	2	4	6	7.			
Total new towns Gross investment	180	147	130	161	164	112.	73		
Sales and repayments									
Land and dwellings									
local authorities	-68	-157	-363	-510	-747	-1,410.			
New towns	-12	-11	-20	-33	-40	-50.			
Associated lending-gross	44	89	202	365	498	305.			
Repayments	-29	-33	-40	-44	-59	-80.			
Repayments of loans to private persons for house purchase and improvements	-210	-270	-292	-241	-220	-250.			
Repayment of loans to housing associations	-3	-3	-6	-3	-7	-17.			
Total sales and repayments	-278	-386	-521	-468	-575	-1,002.	-1,097		
Housing corporation schemes net loans and grants to housing associations	254	288	324	397	495	491.	530		
Savings bonus and loans scheme for first time purchasers(net)and other lending(net)	-3	-4	-3	-3		-1.	8		
Total capital expenditure	2,545	2,271	2,174	2,677	2,313	1,502.	1,983		
Total programme	3,988	3,775	3,926	4,906	4,937	3,790.	3,478	2,830	2,940

2.7.2

Housing

1. The total expenditure in table 2.7 in 1982-83 is £3.3 billion. Expenditure on capital programmes is subject to cash control. The Government has allocated £1,875m to local authorities to spend on capital investment. Authorities can supplement their capital allocations by a proportion of their capital receipts; for 1982-83 it is estimated that they will be able to use an additional £593m of housing receipts. Local authority capital expenditure is, however, now covered by a single cash limit and, under the Local Government Planning and Land Act 1980, authorities have freedom to vire resources between services within the total of their capital allocations for all services. New town housing investment and receipts have been incorporated within the overall new towns net capital cash limit which also covers provision for roads and commercial and industrial expenditure. Housing Corporation expenditure and receipts are also subject to net cash limits. The relevant cash controls are shown in table A4 of this White Paper mainly in respect of non-voted expenditure, but also including central government administrative expenditure.

Department of the Environment

2. Public expenditure on housing includes 2 main elements - capital investment by local authorities, new town development corporations, and the Housing Corporation, which at present makes up 49% of the total; and revenue subsidies to public sector housing (including rent rebates and allowances) from central government and local government, which account for 42%. The capital programme includes expenditure on new dwellings and improvements, and loan and grants to private individuals for house purchase and improvements, less sales and certain repayments of loans. Central government assists home buyers through the Option Mortgage and First Time Purchasers schemes.

Policies

3. The major changes in housing expenditure provision reflects the proposals for housing benefit contained in the Social Security and Housing Benefits Bill and the proposals for deducting relief on mortgage interest payments at source rather than through abatement of tax liability.

4. From the 1st April 1983 it is proposed that the Option Mortgage Scheme should be subsumed in the arrangements announced for deducting mortgage interest relief

at source. Under the new arrangements mortgagors of lower income will benefit from the same percentage relief as standard tax ratepayers and a separate Option Mortgage Scheme will not be needed. Provision has been made in the housing programme for the Option Mortgage Scheme for the current financial year but not for 1983-84 and 1984-85, and the housing programme totals in those years have been reduced accordingly. Public expenditure associated with the new arrangements will be borne on programme 13 (Inland Revenue).

5. Housing benefits will provide assistance with housing for those on lower income and will replace rent rebates and allowances - previously funded through the Housing Programme - as well as rate rebates and allowances and the associated administration costs and the housing element in supplementary benefit. In anticipation of the new housing benefit scheme taking effect provision for rent rebates and allowances has been transferred from the housing programme to the Social Security programme (Chapter 12). The housing programme will thus no longer bear the cost of any personal housing subsidies.

6. Whilst the Government's policy is to concentrate rent subsidies on people in need it continues to seek to give every opportunity for people to buy their own home through council house sales, land release for starter homeschemes, shared ownership, improvement for sale and the use of local authority mortgate guarantee powers. The demand for the Right to Buy amongst council house tenants is reflected in the much increased level of receipts from sales of council dwellings estimated for 1982-83. Taken together, the policy on subsidies and the growing volume of capital receipts have allowed the Government to provide for a slightly increased level of gross housing investment activity in 1982-83.

Outturn for 1980-81

7. The outturn for the programme as a whole was some £310m above provision. Within the total, outturn for current expenditure was some £180m above provision. In cash terms, in spite of the moratorium on new local authority housing commitments and the measures taken by the Housing Corporation referred to in paragraph 8 of Command 8175, the capital outturn was some £130m above provision, including overspending of £23m on the related cash limits.

Housing Expenditure in Recent Years

~~[illegible] effects of public [illegible]~~ :

The following tables analyse some of the main effects of public expenditure on housing in recent years:

~~Permanent new dwellings started : Public Sector : England~~

Permanent new dwellings started : Public Sector : England

Table 2.7.1

Number of dwellings

	Local Authorities	New Towns	Housing Associations	Total Public (1)
1976	107,600	11,900	27,500	148,800
1977	81,100	8,600	26,300	117,100
1978	67,600	7,000	17,900	93,100
1979	47,500	7,300	14,200	69,400
1980	27,900	5,500	12,900	46,400
1981(2)				

(1) Including Government Departments
(2) To be completed

Permanent new dwellings completed: Public Sector: England

Table 2.7.2

Number of dwellings

	Local Authorities	New Towns	Housing Associations	Total Public (1)
1976	105,200	11,600	14,400	132,500
1977	101,900	12,400	24,200	140,000
1978	83,700	8,600	20,600	113,900
1979	66,700	7,100	16,300	91,100
1980	67,700	7,000	18,800	94,000
1981(2)				

(1) Including Government Departments
(2) To be completed

Public Sector Improvements,(1) work completed: England

Table 2.7.3

Number of dwellings

	Local Authorities	New Towns(2)	Housing Associations grant aided	Total
1976	39,000	..	13,400	52,400
1977	37,600	..	18,800	56,300
1978	60,900	..	13,100	74,000
1979	76,000	..	17,200	93,200
1980	77,000	300	15,000	92,300
1981(3)				

(1) Figures include all renovations ~~and show work approved upto 1977~~ Before 1978, figures relate to approvals not work completed.
(2) Available from 2nd Quarter 1980 only
(3) To be completed.

2.7.3

Private Sector Improvement Grants Paid : England (1)

~~Private Sector Improvement Grants Paid: England (1)~~

Table 2.7.4 Number of dwellings

	Private owners and tenants (2)
1976	68,700
1977	57,000
1978	57,600
1979	65,400
1980	74,500
1981(3)	

(1) Including all renovation grants
(2) From 4th quarter 1980 including grants paid to tenants in the public and private sectors
(3) To be completed

Local Authorities Loans To Private Persons For House Purchase: England(1)

Table 2.7.5 Number of dwellings

	All dwellings
1976	22,400
1977	20,800
1978	23,100
1979	31,500
1980	15,000
1981 (2)	

(1) Excluding loans to local authority tenants buying their council dwellings
(2) To be completed

Housing Association Investment(1) (including private finance): England

Table 2.7.6 £ Million at outturn prices

	1978 - 79	1979 - 80	1980 - 81	1981 - 82(2)
Fair Rent Housing: New Housebuilding	320	330	361	315
Rehabilitation	208	260	316	295
Home Ownership	-	-	-	40
Total	528	590	677	650
of which privately financed	17	-	-	-

(1) Figures exclude capitalised interest
(2) Provisional

2.7A

Recipients of rent rebates and allowances(1) : England and Wales

Table 2.7.7 Thousands

	Rent Rebates	Rent allowances	Total
1976-77	2,000	600	2,600
1977-78	2,100	600	2,700
1978-79	2,100	600	2,600
1979-80	2,100	500	2,600
1980-81	,200	500	2,700
1981-82(2)			

(1) Including tenants receiving rebates and allowances indirectly through the supplementary benefit system

(2) To be provided

Gross unrebated rents(1) : England and Wales

Table 2.7.8 £ at outturn prices

	Average amount per dwelling per week	As a percentage of average weekly earnings(2)
1976-77	4.91	6.8
1977-78	5.58	7.1
1978-79	5.90	6.6
1979-80	6.48	6.4
1980-81	8.18	6.6
1981-82 (provisional)	11.50	8.2

(1) Rents are averages of local authority rents for the financial year. They are unrebated and exclude rates

(2) Average weekly earnings (April) for full time men (21 years and over) in all industries and services in Great Britain (excluding those whose pay was affected by absence)

Prospects for 1981/82

8 ~~9~~. Some underspend on the programme as a whole seems likely. One important factor is the higher than expected level of receipts from the sale of council houses and land. Some overspend on current expenditure is anticipated on account mainly of continuing high levels of interest rates.

Progress and Plans

9 ~~10~~. The levels of Exchequer and local subsidies achieved will depend on the level of interest rates, the rents which local authorities charge and expenditure on management and maintenance. In determining reckonable income for 1982/83 for the purposes of the new subsidy system the Government set the expected increase in the local contribution to housing costs at £2.50 per dwelling per week. The provision for housing in the years 1983/84 to 1984/85 has been maintained at the level envisaged in CMND 8175. The relative shares of capital and current expenditure and the further breakdown of the programme for these years have yet to be determined.

5F

2.7.6

2.8 OTHER ENVIRONMENTAL SERVICES

Table 2.08

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Department of the Environment									
Water services(other than land drainage and flood protection)	470	446	469	508	562	684.	642	710	750
British Waterways Board	12	15	20	23	26	28.	38		
Local environmental services									
Capital	386	379	406	452	687	336.	390		
Current	972	1,092	1,234	1,503	1,737	1,943.	1,985		
Local authority rate collection	62	71	78	101	128	145.	145		
Records and registration of births, deaths and marriages	7	7	7	8	11	12.	13	2900	3010
Urban programme	6	8	47	83	112	146.	202		
Urban development corporations						82.	64		
Community ownership of development land	18	14	33	18					
Royal palaces and royal parks	8	8	9	13	14	15.	17		
Historic buildings and ancient monuments	10	10	13	18	20	28.	28		
The Heritage	2	2	2	3	7	2.	2	250	260
Regional and general industrial support	7	8	11	16	16	21.	21		
Central and miscellaneous services	81	85	99	108	129	144.	149		
Total DOE	2,051	2,157	2,448	2,873	3,377	3,620.	3,741	3,860	4,020
(Derelict land (prev. in LES Capital)	10	13	20	21	30	33	46		

PROGRAMME 2.8 OTHER ENVIRONMENTAL SERVICES

1. Certain cash limits, as shown in Part I of this White Paper, apply to expenditure in 1982-83. Capital expenditure by local authorities is subject to the cash limit shown in table 4.16: external financing limits apply to public expenditure on Urban Development Corporations and the British Waterways Board and influence the capital expenditure of the regional water authorities: these external financing limits are also shown in table 4.16 Together, these elements comprise about one-third of the programme. Much of the remainder is current expenditure by local authorities, eligible for rate support grant (RSG) and national parks supplementary grant which are themselves subject to cash limits. Central government expenditure in this programme is comparatively small and most of it is subject to cash limits shown (with the prefix VIII) in the list of votes in table 4.1 of this White Paper.

REGIONAL WATER AUTHORITIES (ENGLAND)

2. The expenditure shown consists of capital expenditure by the nine regional water authorities in England. Each water authority is allocated a share of the total provision for capital expenditure and a limit is set on the amount which each can finance from external sources.

3. The Water Authorities have been benefiting from the fall in construction tender prices between 1980-81 and 1981-82. The effect of these keener prices working through should mean that the 1982-83 allocation will allow a slight increase in the amount of work done compared with 1981-82. This should allow Water Authorities to continue to meet urgent public health needs and provide services for new industrial development and new housing, while maintaining the general standards of service.

4. The main services, with the percentage of capital expenditure on them in 1980-81 in brackets are: water conservation and supply (39 per cent); sewerage and sewage disposal (57 per cent). Other services include fisheries, amenity and recreation (4 per cent).

5. Public water supply in England averages about 14,700 megalitres a day, of which 11,200 is supplied by the regional water authorities. Ninety-nine per cent of dwellings receive a piped supply. Of the total put into public supply some 40 per cent is used in the home, 30 per cent is metered and used by industry, commerce, agriculture and those domestic consumers who have opted for a measured supply; and the remaining 30 per cent represents unmetered supplies to commercial properties, fire-fighting and leakages in the system. In addition direct use of raw water under licence from rivers and boreholes for agriculture, industrial and other purposes, especially for cooling, amounts to some 12,500 megalitres per day.

6. Demand for piped water supply is expected to increase at the rate of about 1 per cent per annum over the next five years and the demand for sewerage and sewage treatment services is expected to rise broadly in line with the demand for water. Over the next five years a rising proportion of total investment is planned for waste water disposal and the repair and renewal of underground services.

7. There will be receipts from the Community budget in respect of this expenditure under the supplementary measures arrangements described in the text relating to programme [2.2]

BRITISH WATERWAYS BOARD

8. The expenditure shown consists mainly of grants paid to the British Waterways Board to cover operating losses which arise because the costs of essential maintenance of their waterways exceeds the revenue that can be generated. It also includes capital payments for particular projects from the ~~extensive~~ existing backlog of maintenance and for the replacement of essential maintenance plant and equipment. Grant to the Board is to be increased by 33 per cent in 1982-83 compared to 1981-82 to enable this backlog of work to be reduced. It is intended to at least maintain the grant at its higher levels in the later years.

2

2-8-2

LOCAL ENVIRONMENTAL SERVICES

9. These services are provided mainly by local authorities and comprise refuse collection and disposal, provision of parks and recreational facilities, administration offices and services, environmental health, activities carried out under planning powers (including assistance to industry), coast protection, and the reclamation of derelict land, as well as other smaller services such as private street works, civic theatres, retail markets and cemeteries and crematoria.

10. ~~Certain~~ Included here is capital expenditure by new town development corporations ~~is also included here. It is expenditure~~ on the provision of necessary infrastructure for industrial and commercial development and for a limited programme of advance factories.

11. The provision for current expenditure for 1982-83 onwards has been adjusted, along with other local authority current expenditure service provisions, in accordance with the Chancellor's statement on 2 December 1981. There have also been classification adjustments to the capital expenditure provision to allow for the changed treatment of leased assets consequent on the Local Government Planning and Land Act 1980, and for the proposed treatment of grants to local authorities by certain centrally funded bodies as capital receipts.

12. ~~Almost all~~ Capital expenditure by local authorities on local environmental services is included in the new capital control system introduced in 1981-82, ~~covered by the capital expenditure control system~~ under which local authorities are free to use their annual expenditure allocations as they wish, except where special earmarked allocations are given for large coast protection and sea defence scheme for major works at regional airports and for certain other projects of national or regional importance. The low level of forecast outturn for 1981-82 is due in part to reduced gross expenditure, and in part to higher than expected levels of sales.

URBAN PROGRAMME, DERELICT LAND, AND URBAN DEVELOPMENT CORPORATIONS

13. The Urban Programme consists of a special allocation of resources set aside for the inner cities from the normal resources available in main expenditure programmes. Local authority expenditure on ~~the programme~~ approved projects is grant-aided at a rate of 75 per cent by central government. The majority (£202 million in 1982-83) of the Urban Programme is included in the figures in table 2.8 above, although there are significant additional contributions (£70 million in 1982-83) included in other Departmental programme tables.

14. The Government's general objectives for the Urban Programme are to make the inner cities places where people want to live and work, and where private investors and institutions are prepared to put their money. This particularly requires a stimulus for capital programmes and the construction industry and to further these and other policies directed to the regeneration of the inner cities the total resources being made available to the Urban Programme in 1982-83 are being substantially increased.

15. The Government are promoting a range of new inner city initiatives in Merseyside which are being supported by a task force led by the Secretary of State for the Environment comprising individuals drawn from central government departments, local government and the private sector. More generally, the Government has set up a Financial Institutions Group consisting of 26 managers seconded for a year from the major banks, building societies, insurance companies and pension funds. They will work with central Government to develop new approaches and ideas for securing urban regeneration. They are particularly concerned to examine mechanisms to enable public and private sector to work together more effectively.

16. The provision for expenditure on the reclamation of derelict land in 1982-83 has been increased and in considering bids for allocations, the Government are looking particularly for joint public/private sector schemes and schemes that will lead on to housing, industrial, or commercial development of reclaimed land in urban areas.

17. The London Docklands Development Corporation and the Merseyside Development Corporation were set up in 1981 under the Local Government, Planning and Land Act 1980 with the objective of securing the regeneration of their areas. They are undertaking substantial programmes of land acquisition, reclamation and disposal to the private sector and of environmental improvement and infrastructure provision. They aim to secure the greatest possible involvement of private sector funds and activity. The bulk of expenditure in 1981-82 has been on land acquisition, but ~~T~~the Government expect to authorise some £50~~m~~ million worth of schemes in 1982-83 compared with up to £15~~m~~ million that the UDCs are expected to spend on works in 1981-82.

ROYAL PALACES AND ROYAL PARKS: HISTORIC BUILDINGS AND ANCIENT MONUMENTS

18. This covers the maintenance, etc, of royal palaces and royal parks in England; a grant to the National Heritage Mamorial Fund; grants for the repair and maintenance of historic buildings and churches, and for schemes of architectural conservation and environmental improvement; expenditure on the purchase, maintenance and display of ancient monuments and emergency excavations; and payments to the Inland Revenue for assets accepted in lieu of capital transfer tax. All these elements form part of the Government's policy of preserving and maintaining the national heritage both directly and by encouraging owners to keep buildings in good repair.

CENTRAL AND MISCELLANEOUS ENVIRONMENTAL SERVICES

19. Most of this expenditure is on departmental administration, environmental research, environmental bodies (including the Sports Council, the Nature Conservancy Council, and the Countryside Commission) [and, for the first time, on those activities of the Ordnance Survey which the Ordnance Survey Review Committee recommended should be underwritten by the Exchequer in the national interest but which have hitherto been supported by a separate Vote.] It also includes expenditure from the Development Fund on advance factory building, assistance to small firms, and social measures in rural areas.

20. Emphasis will continue to be placed on participation by private industry in the formulation and conduct of research programmes. The Hydraulics Research Station will be privatised during 1982-83. Within the provision for environmental bodies, emphasis is being given to the Sports Council's activities in inner urban areas and to the additional activities of the Nature Conservancy Council under the Wildlife and Countryside Act. The provision also reflects the change to grant-in-aid status of the Countryside Commission.

2.-8-5

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2.9 LAW, ORDER, AND PROTECTIVE SERVICES

Table 2.09

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Home Office									
Administration of justice									
Court services etc									
Capital	11	9	7	7	7	13.	19		
Current	63	69	80	96	126	142.	156		
Sub Total	73	79	87	102	133	155.	174		
Revenue from fees and fines in magistrates courts	-59	-71	-67	-83	-101	-116.	-124		
Total	14	8	19	19	32	38.	49	60	60
Treatment of offenders									
Prisons									
Capital	27	28	26	24	32	37.	53		
Current	169	192	226	278	366	406.	436	530	570
Probation and after-care									
Capital	4	3	2	1	2	3.	4		
Current	54	59	67	84	111	129.	137	150	160
Total	254	282	321	388	512	575.	630	690	730
General protective services									
Police									
Capital	49	42	41	45	49	88.	96		
Current	915	993	1,109	1,437	1,730	2,041.	2,219	2490	2620
Fire									
Capital	10	10	10	11	9	16.	18		
Current	224	230	278	344	421	430.	481		
Other									
Capital								530	550
Current	1	1	2	2	2	3.	3		
Total	1,200	1,276	1,439	1,839	2,210	2,578.	2,816	3,020	3,170
Community services									
Capital									
Current	9	11	13	18	24	24.	23		
Central and miscellaneous services								130	140
Capital	2	1	1	1	2	4.	2		
Current	48	52	55	64	85	99.	100		
Total Home Office-excluding civil defence	1,527	1,631	1,849	2,329	2,865	3,319.	3,621	3,900	4,100
d Chancellors' partment									
Administration of justice									
Court services etc									

Capital	3	4	7	20	30	31.	23		
Current	39	46	52	63	79	103.	112		
Legal aid	70	82	93	110	156	204.	250		
Other legal services	8	9	11	13	17	20.	23		
Total Lord Chancellors' Department	120	141	162	206	282	358.	408	460	510
Northern Ireland court service									
Court services									
Capital					1	2.	2		
Current	2	2	3	4	5	5.	5		
Total Northern Ireland court service	2	3	3	4	6	7.	8	10	10

2.9.2

2.9 LAW, ORDER, AND PROTECTIVE SERVICES

Table 2.09 (Continued)

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Treasury Solicitor's Office									
Crown prosecutions	2	2	3	3	3	4.	5		
Other legal services			1	1	2	1.	1		
Central and miscellaneous services	4	5	5	6	8	9.	9		
Total Treasury Solicitors office	7	7	8	10	13	14.	15	20	20
Crown Office									
Crown prosecutions and other legal services	1	1	1	2	2	3.	4		
Central and miscellaneous services	3	4	4	6	7	9.	9		
Total Crown Office	4	5	6	7	9	12.	13	10	10
Home Office Ministry of Agriculture Fisheries and Food, Department of Health and Social Security, Department of the Environment, Department of Transport and Department of Industry									
Civil defence									
Capital	6	1	1	14	2	6.	14		
Current	11	11	12	14	19	30.	36		
Total civil defence	17	12	13	29	22	36.	50	50	60
Total programme	1,676	1,798	2,041	2,586	3,197	3,747.	4,115	4,450	4,700

Of the total expenditure /£ billion 7 in 1982-83 in table 2.9 above, some three-quarters is incurred initially by local authorities, mainly on the police. Local authority expenditure is eligible for specific grants which are not subject to cash limits and is also relevant expenditure for rate support grant purposes. The block grant for all local authority current expenditure is, however, subject to cash limits. Moreover, cash limits apply directly to about one-fifth of the programme, including virtually all capital expenditure and current expenditure incurred initially by central government. The other main areas of expenditure incurred by central government and not currently subject to cash limits are legal aid, prosecution costs from central funds and criminal injuries compensation. The cash limits are shown in table 4.1 with prefix IX, though a small proportion of expenditure is included in XIV for Crown Court and prison buildings.

2. This chapter deals with expenditure on the administration of justice, on dealing with offenders within penal institutions or in the community and on general protective services, mainly police and fire. It also includes expenditure on civil defence, the control of immigration, the advancement of equal opportunities and the promotion of good community relations, including grants towards certain voluntary services, and central administration by the government departments concerned.

Recent developments

3. Expenditure on the total programme for 1980-81 was virtually as forecast. For 1981-82, expenditure is expected to be rather higher than forecast, mainly because of increased police expenditure on manpower and the costs of the urban unrest in the summer of 1981.

4. Whilst the law and order services have not been exempt from the general search for savings, and economies have been made, it has been possible - in accordance with the government's priorities - to make provision for continued growth in services over the Survey period.

Administration of Justice

Court Services: Magistrates' Courts

5. In 1980, the number of defendants proceeded against for indictable offences (including those triable either summarily or at the Crown Court) in magistrates' courts was, for the first time, more than 0.5 million. The total of 507,000 such defendants was about 10 per cent higher than the number (about 460,000) in each of the two previous years and brought the average annual increase over the period 1973 to 1980 to about 5 per cent a year. The number of persons proceeded against for summary offences (1,872,000) was 18 per cent higher than in 1979, and the average annual increase for these offences over the period 1973 to 1980 was about 2 per cent a year.

Total number of people proceeded against at magistrates' courts

Table 2.9.1

	Thousands (approximate figure)
1973	1970
1977	2093
1978	2019
1979	2049
1980	2378

The plans are intended to take account of an expected rise of between 2 and 3 per cent a year in the amount of court business, but ~~on~~ with the assumption that later in the period savings accrue in consequence of the proposed extension of the fixed penalty system to certain offences involving moving vehicles. It is expected that, throughout the period, the running costs of the magistrates' courts will continue to be offset more or less completely by receipts from fines and fees.

6. Compared with Cmnd 8175, the capital programme for magistrates' courts is somewhat reduced, but it is sufficient for the existing approved programme of major schemes to be carried through. More starts are planned in 1984-85.

2.9 Law, Order and Protective Services

7. Higher Courts

Current expenditure on the Higher Courts is substantially related to the volume of criminal cases coming before the Crown Courts and the cost of services that deal with the case load. The plans provide for a continuing increase in criminal business, which is forecast to rise from a current level of 60,00 commitals in 1981-82 to some 65,000 in 1984-85. However, cases disposed of in 1981-82 continue to exceed commitals by about 5%, reflecting an increase number in courtrooms coming into operation and the continuing increase in judge power, thereby reducing the average backlog in waiting times for defendants. In the civil courts the running costs are mainly offset by court fees. Further information on the work of the courts is published annually in Judicial Statistics.

8. Costs from Central Funds

These payments result from orders made by the criminal courts where costs in indictable cases to be met from central funds. The expenditure consists mainly of police prosecution costs but also includes witnesses' allowances and the costs of acquitted defendants.

9. Capital Expenditure

During 1981-82, five additional court rooms were brought into operation under the higher court programme with about 50 more scheduled for use by 1984-85.

10. Northern Ireland Court Service

This programme now includes legal aid expenditure (at about £4m a year) in Northern Ireland, which has been transferred to the Lord Chancellor. The plans include the administrative costs of the scheme. Current expenditure on the courts is forecast to increase from £5m to £6m over the planning period with current expenditure on civil business mainly offset by court fees. Capital expenditure plans on courts in Northern Ireland provide for 11 new court rooms to be built up to 1984-85, of which 9 are additional. It is intended to make starts on 8 courtrooms by 1984-85.

11. Legal Aid

The provision for legal aid covers net expenditure on civil legal aid, legal advice and assistance and criminal legal aid, together with the costs incurred by the Law Society in the administration of the legal aid fund in England and Wales. The plans assume no further improvements in either the coverage of legal aid or, in real terms, in the financial conditions governing eligibility. The provision for criminal legal aid, which account for more than 50% of the total for legal aid, allows for assumed increases in the number of cases coming before the courts in the period up to 1984-85.

Criminal Injuries Compensation

12. The Criminal Injuries Compensation Scheme enables claims for personal injuries attributable to crimes of violence to be dealt with broadly on the same basis as civil law damages. In 1980-81 the Criminal Injuries Compensation Board settled for Great Britain over 26,000 applications for compensation and made over 20,000 awards at a total cost of nearly £21.5 million. The cash provision is expected to be sufficient to meet an increase of 5% in the number of awards, compared with 1980-81. An agreed proportion (20%) of the expenditure is recovered from the SHHD and is met from Programme 15.

The Penal System

Prisons

13. The daily average inmate population in the first half of 1980-81 was about 43,800. During the rest of the year statistics were distorted by the industrial action of prison officers which began in October 1980. On the basis of previous trends, the prison population could be projected to rise to nearly 48,000 in 1984-85. The population will however be affected by any movement towards shorter sentences and by the use made of powers proposed in the Criminal Justice Bill, including the proposal to amend section 47 of the Criminal Law Act 1977 (partly suspended sentences) which [will shortly be] [has recently been] brought into force. The cash planning figures have been increased to allow the completion of building schemes already in progress and which are designed to provide 2600 new or refurbished places; and to allow for the continuation of a programme of two new starts a year up to and including 1984-85. Additional provision has been made for an enhanced capital building programme and for prison officer manpower to rise to 17,165 by 1 April 1983. The forecast of current expenditure is net of expected revenue from prison industries and farms, and the plans assume improved financial performance.

PRISON SERVICE (ENGLAND AND WALES)

EXPENDITURE IN £MILLION CASH

2.9.2.

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1. a. Total net expenditure	196.5	220.2	251.8	302.7	398.8	443.0	489.6	528.1	574.9
2. a. Daily average inmate population	41,548	41,697	41,801	42,570	43,800	44,940	46,040	47,100	47,800
3. a. Total average numbers of outstations non-industrial staff in post	19,294	19,693	20,032	20,612	21,196	21,854	21,929	21,929	21,929
4. Staff/inmate Ratio line 3a to line 2a	1:2.1	1:2.1	1:2.1	1:2.1	1:21	1:21	1:2.1	1:2.1	1:2.2
5. a. Total number of inmate places available at end of financial year	36,956	37,773	37,890	38,526	39,034	39,612	40,141	40,727	41,379
b. Index of total number of inmate places (1981-2=100)	93.29	95.36	95.65	97.26	98.54	100	101.34	102.81	104.46

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14 Table 2.9.2 provides a simple framework within which the allocation of resources may be related to their planned use and projected types.

[Prison Department to provide equivalent table to that on pages 96 and 97 of Cmnd 8175]

Probation and After Care

15 A very significant increase in the use made by the courts of probation service disposals took place in 1980, notably an increase of 40% in community service orders, and preliminary figures show a continuing increase in 1981. The cash provision for the running costs of the probation service in 1982-83 is expected to permit growth of 3% in the level of staff and support services compared with 1981-82, excluding probation officers working in prisons and officers under training. Thereafter provision is made for growth of about 1% a year until March 1985. There is also provision for an increase by that date from 1660 to 1737 places in approved probation and bail hostels, for some expansion in other non-custodial facilities, and for some new probation offices, mainly within the programme for new courthouse schemes.

General Protective Services

Police

16 High recruitment and low wastage brought strength at 31 March 1981 to just over 118,000, or about 1,200 more than was forecast in Cmnd 8175. This trend has continued and the plans assume that police strength will reach 119,750 by 31 March 1982 and 121,000 (500 short of total establishment) by 31 March 1984. The strength of the Metropolitan Police is at its highest ever, only about (6%) short of establishment, which is likely to be reached by 1983. Outside London, forces are at or near their authorised establishments. If the forecast for any year is exceeded, further provision will be made both for the cost of additional manpower within individual establishments and for the essential associated expenditure on equipment, training and other support services.

17 There were just over 44,000 police civilians (including traffic wardens and cadets) on 31 March 1981, about 250 above the figure assumed in the previous plans. It is expected that civilian support staff will continue to increase in numbers, as forces continue the policy of securing economies by replacing police officers with civilians, where the duties of the post do not require police powers and training. This increase is expected to be offset by reductions in cadet strengths and a slower rate of growth in traffic wardens. The plans assume a net reduction in the total number of police civilians to 44,100 by 31 March 1985 (1,500 below the figure assumed in Cmnd 8175). The capital provision for police buildings has been reduced but is sufficient to cover the approved programme of major starts already begun and a further modest programme of new starts in 1983-84 and 1984-85. No specific provision has been made for the resource implications for the police of Lord Scarman's report on the Brixton Disorder (Cmnd 8427). Nor has allowance been made in Programme IX for any changes arising from the Report of the Royal Commission on Criminal Procedure (Cmnd 8092).

Fire Services

18 The programme assumes that fire authorities should reduce their level of activity compared with previous years, but that fire cover will continue to be maintained in accordance with recommended minimum standards. Allowance is made for a small building programme and for the essential replacement of old appliances.

Civil Defence

19 The programme assumes continuing improvement in the level of preparedness for civil defence.

Community Services

20 The Commission for Racial Equality and the Equal Opportunities Commission are assumed to continue at broadly their present levels of activity, although they are not exempt from the general need for economy. The cash plans assume that grants by the Voluntary

Services Unit to about 50 voluntary organisations will continue at broadly the present levels (about £8 million), and should enable its initiatives for the stimulation of local voluntary activity to be carried out. [There is continued provision over the Survey period for the reception and resettlement of refugees.]

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2.10 EDUCATION AND SCIENCE, ARTS AND LIBRARIES

Table 2.10

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82(1)	1982-83	1983-84	1984-85
Department of Education and Science									
Education and science									
Schools									
Under fives									
Capital	6	7	13	10	9	10.	12	10	
Current	127	128	146	177	222	245.	254	260	
Primary, secondary and other									
Capital	384	323	276	313	376	303.	256	250	
Primary									
Current	1,280	1,369	1,506	1,706	2,086	2,269.	2,309	2,360	
Secondary									
Current	1,666	1,817	2,057	2,354	2,952	3,318.	3,488	3,640	
Special schools									
Current	169	187	214	249	309	346.	362	380	7670
Other(supporting services, and fees at non maintained schools)									
Current	118	124	119	130	150	164.	170	180	
Transport	90	99	117	136	160	183.	195	200	
Meals (2)	370	352	376	409	391	372.	314	260	
Milk (2)	12	12	12	12	6	10.	10	10	
Higher and further education (including teacher training) (3)									
Universities									
Capital	102	76	82	107	116	129.	122	130	
Non-Universities									
Capital	71	63	60	77	109	90.	76	60	
Universities									
Current	625	580	650	787	1,015	1,037.	1,262		
Voluntary and direct grant									
Current	47	45	45	53	69	72.	85	2720	3980
Maintained sector advanced									
Current	290	295	322	370	444	471.	539		
Student awards(1)	316	472	541	629	758	912.	775		
Maintained sector non-advanced (except adult education)									
Current	432	449	495	581	713	802.	845	870	
Adult	43	45	53	63	69	74.	72	70	
Miscellaneous educational services, research and administration									
Youth service									
Capital	6	4	6	8	8	6.	7	10	
Current	43	48	53	65	78	87.	90	100	
Research and other services (2)									
Capital	4	4	5	7	14	4.	4		
									660

Current	29	33	34	41	47	51.	49	50	
Administration									
Capital									
Current	236	251	277	322	396	437.	454	480	
Total education									
Capital	573	476	442	522	631	542.	477	470	470
Current	5,893	6,305	7,017	8,084	9,864	10,850.	11,273	11,590	11,840
Total.	6,466	6,781	7,459	8,606	10,496	11,392.	11,750	12,050	12,310
Research councils,etc									
Capital	36	36	50	64	69	66.	74	80	80
Current	203	223	246	276	324	384.	407	430	450
--									
Total education and science									
Capital	609	512	492	586	700	608.	551	550	550
Current	6,096	6,527	7,263	8,360	10,188	11,233.	11,680	12,020	12,290
Total Education and Science	6,705	7,039	7,754	8,946	10,888	11,841.	12,231	12,560	12,840
Arts and libraries									
Central government									
Capital	15	7	14	10		6.	13		
Current	85	100	111	144	175	186.	204		
Local authorities									
Capital	14	11	10	16	24	17.	17		
Current	164	181	204	234	278	310.	302		
Total arts and libraries	278	299	340	404	476	519.	537	560	580
Total programme	6,982	7,338	8,094	9,350	11,364	12,361.	12,768	13,120	13,420

1) The 1981-82 figures incorporate a provisional distribution by sector of total spending by local authorities on education based on their revised budgets - see paragraph 2 of following text.

2) The figures for school meals and milk exclude EC subsidy in respect of milk and milk-based products which has been transferred to Programme 3 (Intervention Board for Agricultural Produce) to reflect adoption by the Board during 1981 of responsibility for administering the subsidy. ~~The~~ ~~gross~~ Expenditure on school meals and milk including the EC subsidy is:-

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Meals: "	369.7	352.4	378.7	414.6	397.9	375.6	318.5	268.5	262.0
Milk:	11.9	14.0	20.9	22.0	12.3	18.1	19.0	18.7	19.0

3) The change in the trend of higher education and student awards figures between 1981-82 and 1982-83 reflects the reduction in tuition fees - see paragraph 14 of the following text.

1. The programme covers those areas of education and science which are the responsibility of the Secretary of State for Education and Science. About four fifths of the programme is expenditure by local authorities in England, principally on schools (including meals, milk and transport) but also on institutions of higher and further education. The cash available to local authorities for current expenditure will be influenced by the cash limits on the Rate Support Grant and other Government grants which are shown in table 4.1 of the White Paper. Local authority capital expenditure on education is included in the relevant cash limit also shown in table 4.1. The remaining quarter of the programme is expenditure by central Government. The largest part of this not subject to cash limits relates to student awards in England and Wales. Cash limited central Government expenditure covers the universities in Great Britain, voluntary and direct grant colleges in England and civil science in the United Kingdom. All this expenditure is subject to the relevant cash limits shown (with the prefix X) in the list of Votes in table 4.1 of this White Paper.

2. Spending by local authorities on education (including school meals and milk) in 1980-81 was some £250 million or 3½ per cent above the RSG settlement target. Within this total, much of the excess spending was on school meals and milk. On the basis of local authorities' revised budgets, their spending on education (including school meals and milk) in 1981-82 is expected to be some £500 million, or nearly 6 per cent in excess of the planned level, with expenditure on school meals and milk again substantially in excess of target.

3. Central Government expenditure on education and science in 1980-81 was close to the planned level; and in 1981-82 it is expected to be some £75 million above the planned level, mainly as a result of increased spending on student awards.

EDUCATION

4. Expenditure on education is planned to increase above budgeted spending in 1981-82 by just over 3 per cent in 1982-83, 6 per cent in 1983-84 and just over 8 per cent in 1984-85. Pay and price increases will need to be accommodated within these totals. These plans allow for a level of spending in 1982-83 which takes into account local authorities' revised budgets in 1981-82, and for a continuation of the policies in

Cmnd 8175 in later years. These include further savings on school meals, the contraction of higher education and the elimination of the remaining subsidy for overseas students starting their courses before October 1980. It is the Government's intention that savings in these areas will secure a measure of protection for the schools, where there will be an 8 per cent fall in pupil numbers between 1981-82 and 1984-85. There is additional provision to meet the cost of a large expansion in the number of 16 year olds expected to stay on in full-time education in school or college. The Government look to local authorities, universities and their other partners in the education service to manage their respective sectors within these plans so as to secure maximum educational value for the benefits of all plans and students.

Schools

5. Table 2.10.1 [following sheet] shows the numbers of pupils in schools, participation rates for those outside compulsory school age and the numbers of teachers consistent with these expenditure plans.

6. The plans assume savings on provision for under fives mainly through a reducing number in reception classes in primary schools. The capital expenditure plans allow for a small increase in starts on nursery projects, mainly those for converting surplus primary school accommodation to nursery use.

TABLE 2.10.1

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'000 (except as indicated)

Academic Year	1976-7	1977-8	1978-9	1979-80	1980-81	1981-82	1982-83	1983-4	1984-5
	actual					projected			
England									
Total school population (including special schools)	8740	8666	8562	8397	8184	7973	7725	7504	7330
Pupil numbers:									
Under fives	432	415	429	429	428	423	416	407	398
All other primary	4387	4275	4138	3980	3797	3630	3445	3329	3286
Secondary									
Under school leaving age	3525	3577	3589	3573	3530	3462	3408	3321	3209
Over school leaving age	274	275	283	293	310	340	340	333	325
Total (excluding special schools)	8618	8542	8439	8275	8065	7855	7609	7390	7218
School participation rates %:									
Under fives	33.5	34.4	37.3	39.0	40.2	39.0	36.4	33.8	33.2
Over school leaving age	19.7	19.3	19.2	19.4	20.1	21.8	22.0	21.8	21.7
Teachers: numbers employed (full-time equivalents)	433	436	441	438	429	418	405	390	380
Pupil, teacher ratios overall	19.7	19.4	18.9	18.7	18.6	18.6	18.6	18.7	18.7
Special schools									
Pupils	122	124	123	122	120	118	116	114	112
Teachers	16	17	17	18	17	17	17	17	16

Notes:

a) The table relates to all maintained schools and includes pupils under fives supported through the Urban Programme.

b) Pupil and teacher numbers are as at January in the relevant academic year.

c) The under fives & special school pupils are numbers participating, not full-time equivalents.

d) Participation rates for under fives express the number of children under five in nursery & primary schools, part-time or full-time, as a percentage of three & four year olds in the population.

e) The secondary over school leaving age participation rate expresses the number over school leaving age as a percentage of the comparable 16 and 17 year old population.

f) Teacher numbers cover all teaching staff being paid, whether in school or not (eg released for in-service training) at the relevant date. It will be for local authorities to decide how best to deploy their teachers between age groups and for this reason no distribution is shown within schools.

g) Pupil:teacher ratios are derived arithmetically from actual and projected populations shown in the table and principally for the reasons in note (f) above, are not a measure of pupil:teacher ratios within schools. Numbers of pupils under five years of age include part-time pupils who are each counted as 0.5 when deriving pupil:teacher ratios.

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7. In setting the provision for teachers, account has been taken of the change in pupil projections compared with Cmnd 8175, and, in particular, the plans reflect numbers of 16 year olds staying on in full-time education. As in Cmnd 8175, allowance has been made for the higher cost of teachers' salaries as the teacher force becomes more senior (following the recruitment of large numbers of young teachers in the 1960s and early 1970s). The Government have also had regard to the estimated 7000 extra teachers in post in 1981-82 compared with the planned number. The plans envisage that, in the period up to 1984-85, the number of teachers will be reduced from the higher number in 1981-82 broadly in line with the reduction in the projected total number of pupils, but with some tightening of staffing standards especially as the balance of pupil population continues to shift to older age groups. The Government look to local authorities in co-operation with their teachers so to manage the contraction of the teacher force as to minimise its impact on curricular opportunities. The plans make provision for an increase in the level of early retirements, in line with the present trends, and for some redundancy among teachers. Generally the release of teachers to in-service training and induction is allowed for at the current rate but provision for the training and further training of teachers in certain subjects after 1982-83 is the subject of consultation.

8. For costs other than teaching, the plans assume continuing constraint, including reductions in the number of non-teaching staff. In the wake of the substantial reduction in spending on ~~provision for~~ school books and equipment which occurred in 1979-80 and 1980-81, the plans include an additional £20 million in 1982-83 to enable local authorities to restore levels of provision on books and equipment to those applying in 1978-79.

9. The Government look to local authorities to exploit to the full the educational and financial benefits of taking surplus school places out of use. Although there has been some increase in the rate at which surplus places have been taken out of use, it is not now practicable to meet the target in Cmnd 8175. Accordingly the plans assume that 470,000 temporary and permanent places will have been taken out of use between 1975 and 1983-84 (compared with 700,000 in Cmnd 8175) and 630,000 places by 1984-85.

10. Capital expenditure will continue to fall, reflecting lower basic need for additional places in schools. The plans assume some increase in new starts on improvements including those which assist the removal of surplus places.

11. The plans allow for successive intakes of pupils to the assisted places scheme which will cost £25 million in 1984-85.

2-10-6

School meals and milk

12. The plans assume further reductions each year in the net cash cost of the school meals service so that by 1984-85 the Government's original plans for expenditure in this area will have been met.

Higher and further education

13. The contraction of higher education planned in Cmnd 8175 is maintained: by 1984-85, allowing for income from fees and other sources, total spending by institutions of higher education is expected to fall by at least 10 per cent in real terms below the 1980-81 level. The level of funding in 1982-83 for each sector of higher education is broadly in line with the planned contraction. For later years the division of the cash available for higher education has not yet been settled.

14. In order to sustain present high standards within the resources available, some restructuring of courses and departments will be necessary. This will mean the loss of about 10,000 teaching posts (1 in 6), a significant number by redundancy or early retirement, as well as reductions in expenditure on non-teaching staff and other costs. The plans make provision for an orderly rundown including, for 1982-83, nearly £25 million for advanced further education and a specific addition of £50 million for the universities. The reduction in the tuition fee for home students on designated advanced courses from £900 to £480 in September 1982 and the consequential increase in the proportion of the funds allocated directly to institutions will assist the management of restructuring.

15. Planned expenditure on student awards allows for this reduction in fees and assumes some fall in home student intakes from September 1982 as shown in table 2.10.2 [following sheet]. It also allows for the level of maintenance award and parental contributions in 1982-83 already announced.

16. As shown in Table 2.10.2 [sheet following] the plans provide for an increase of nearly 25 per cent in the number of 16-19 year olds on full-time courses in non-advanced further education. Over and above this, there will be additional students in colleges under the Government's

Youth Training Scheme and through schemes of Unified Vocational Preparation (see Chapter 2.4). As in Cmnd 8175, a significant tightening of staffing standards is assumed.

TABLE 2.10.2

'000 Home students (full-time & sandwich)

Higher Education

	1980-81	1981-82	1982-83	1983-84	1984-85
	actual	provisional		projections	
Undergraduates in universities (GB) and advanced course students elsewhere (England), excluding postgraduates	394	409	408	399	384
of which admissions	136	140	131	127	122
Postgraduates	41	41	38	37	36

Non-advanced further education

'000 Home students (full-time equivalent)

	Provisional Actual 1980-81	Forecast 1981-82	Planned 1982-83	Planned 1983-84	Planned 1984-85
Cmnd 8175	485 (planned)	491	494	495	-
- of which, 16 to 19 year olds on full-time & sandwich courses	209 (planned)	214	215	215	-
These plans	482	490	518	512	505
- of which, 16 to 19 year olds on full-time & sandwich courses	214	235	266	265	263

Note

Excludes additional students participating as part of the MSC training scheme referred to in Chapter [ ] 2-10-8

6

17. The rate of decline for adult education planned in Cmnd 8175 is expected to continue but for 1982-83 the reduction has been moderated in recognition of difficulties in securing increases in income from fees.

18. Plans for capital expenditure assume that standards of provision for furniture and equipment grant in universities will be maintained and that new building work will be directed mainly towards the provision of additional places in non-advanced further education.

SCIENCE

19. The Science Budget provides in particular the main income of the Research Councils, from which they fund work intended to further scientific knowledge and to help maintain a capacity for fundamental research. Their activities embrace the conduct of research in their own maintained or aided establishments and units, selective support for research and postgraduate training in higher education institutions, mainly universities, and the provision (in Council establishments or through subscriptions to international research ventures) of certain central facilities for use by the scientific community. The plans for the Science Budget set a level of provision similar to that for 1981-82.

Arts and Libraries

Planned central and local government expenditure on arts and libraries provides for national museums and art galleries in England, the British Library and the live arts, and for assistance to local museums and arts bodies. About 60% of the provision is for expenditure by local authorities in England on libraries, museums and art galleries.

Within central government expenditure, provision is made for work to begin ~~for~~ on the British Library Euston Building, for setting up the administration of Public Lending Right, and for the continued protection of the national heritage.

The overall level of provision allows for some increase in pay and prices but implies also a continuing need for economies. There ~~continues to be~~ remains an important role for private sponsorship to provide funds for new developments. In the local authority sector ~~it~~ the provision implies a significant reduction compared with local authorities' latest budgets. However, it is for local government to make its own choices between services, within the limits of statutory obligations, in taking the necessary steps to realise the Government's overall plans for local authority expenditure.

2-10-10

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10

2.11 HEALTH AND PERSONAL SOCIAL SERVICES

Table 2.11

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Department of Health and Social Security									
National Health Service									
Hospital and community health services									
Current	3,488	3,902	4,385	5,291	6,820	7,555	8,133	8,620	9,050
Capital	356	315	358	395	540	633	674	690	720
Family practitioner services									
Current	993	1,122	1,329	1,548	1,922	2,235	2,396	2,580	2,750
Capital			1	1	1	1	2		
Central health services									
Other health services									
Current	76	85	96	124	162	186	205	240	250
Capital	4	4	5	10	10	20	25		
Central and miscellaneous services									
Current	113	125	136	158	195	234	253	260	270
Capital	1	1	1	1	1	3	3		
Total National Health Service									
Current	4,671	5,235	5,946	7,122	9,100	10,210	10,986	11,670	12,300
Capital	361	320	365	407	552	658	703	720	750
Personal social services									
Local authority services									
Current	836	937	1,061	1,305	1,618	1,806	1,857	1,970	2,080
Capital	64	43	47	57	77	67	102	110	110
Central government services									
Current	4	5	6	7	8	10	9	10	10
Capital	1	1		1	1	1	2		
Total									
Current	840	941	1,067	1,312	1,626	1,816	1,866	1,980	2,090
Capital	66	44	47	58	78	68	104	110	120
Total health and personal social services									
Current	5,510	6,176	7,013	8,434	10,726	12,026	12,852	13,650	14,390
Capital	427	364	412	465	630	726	808	830	860
Total programme	5,937	6,540	7,425	8,899	11,356	12,752	13,660	14,480	15,250

2.11. Health and Personal Social Services

1. Expenditure in table 2.11 above is shown, net of income from charges (about £664 million in 1982/83) but includes expenditure financed from NHS contributions estimated at £1385 million in 1982/83.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

2. Over 85 per cent of the programme consists of central government expenditure on health, mainly through health authorities and family practitioner committees. The hospital and community health services and central health services account for about 80 per cent of health spending and are cash limited. Spending on family practitioner services (general medical, dental, ophthalmic and pharmaceutical services) . is not cash limited. The remainder of the programme consists of expenditure on personal social services which is almost wholly by local authorities but is financed by central government to the extent implied in the Rate Support Grant. That expenditure is subject to the cash limits imposed on the totality of the Rate Support Grant and on local authority capital expenditure, which are shown in table 4.1. The other relevant cash limits are also shown (but with the prefix XI) in the list of votes in table 4.1.

3. Table 2.11.1 shows gross spending on health and personal social services.

2.11 Health and Personal Social Services

Health and personal social services gross expenditure (England)

Table 2.11.1 £ million (Cash)

	1980-81	1981-82	1982-83	1983-84	1984-85
Health					
Hospital and community health services					
Current	6981	7620	8201	8690	9130
Capital	525	633	658	690	720
Family practitioner services					
Current	2138	2392	2717	2930	3120
Capital	1	1	2		
Central health services					
Other health services					
Current	167	188	209	250	250
Capital	12	21	20		
Central and miscellaneous services					
Current	200	236	250	260	280
Capital	1	3	3		
Total NHS					
Current	9486	10436	11377	12100	12750
Capital	539	658	683	720	750
Personal social services					
Local authority services					
Current	1892	2066	2123	2250	2380
Capital	74	67	102	110	120
Central government services					
Current	9	9	9	10	10
Capital	1	2	3		
Total PSS					
Current	1901	2075	2132	2260	2390
Capital	75	69	105	110	120
Total health and personal social services					
Current	11387	12511	13509	14360	15140
Capital	614	727	788	830	870
Total	12001	13238	14297	15190	16010

Past expenditure and provision of services

4. Details of the main services provided over the period 1978 to 1980 are below.

2.11 Health and Personal Social Services

Health Service (England)

Table 2.11.2

thousands

	1978	1979	1980 (provisional)
Primary care			
GP - average list size	2.31	2.29	2.25
Health visitor cases	3,597	3,734	3,817
Home nurse cases	3,157	3,249	3,421
Prescriptions dispensed	307,097	304,556	303,334
Courses of dental treatment	27,105	27,165	28,614
Patients supplied with lenses	4,035	4,206	4,368
Number of sight tests	7,850	8,113	8,318
In-patient services			
Acute and other hospital specialties			
Available beds	150	147	145
Cases	4,204	4,180	4,376
Throughput (cases per available bed)	28.0	28.4	30.2
Length of stay (days)	9.4	9.3	8.8
Geriatric and younger disabled			
Available beds	58	57	57
Cases	241	243	268
Throughput (cases per available bed)	4.2	4.3	4.7
Length of stay (days)	80.5	78.4	70.8
Obstetrics			
Available beds	19	19	18
Cases	731	783	818
Throughput (cases per available bed)	38.3	42.0	44.4
Length of stay (days)	6.4	6.0	5.7
Mentally ill			
Available beds	91	89	87
Mentally handicapped			
Available beds	51	50	49
Out-patient attendances			
Acute and other	28,407	28,424	29,379
Accident and emergency	13,360	13,219	13,053
Geriatric and younger disabled	240	224	256
Obstetrics and GP Maternity	3,622	3,819	3,897
Mentally ill	1,661	1,612	1,691
Mentally handicapped	21	20	19
Hospital day places	25	23	26
Private patients (1)			
In-patient services (2)			
Authorised pay beds (3)	2.7	2.4	2.4
Cases	92.2	91.1	98.6
Out-patient attendances	111.0	131.9	152.5 (4)

1. Refers to private patients using NHS facilities and does not include private hospitals and nursing homes.
2. Also included in the relevant categories above.
3. Not reserved exclusively for private patients
4. This figure also includes attendances at diagnostic and rehabilitation departments.

2.11 Health and personal social services

Personal social services (England)

Table 2.11.3

thousands

	1978	1979	1980 (provisional)
Residential accommodation(residents)(1)			
Elderly	118	117	119
Younger disabled	10.2	10.0	9.3
Mentally ill	4.7	4.9	4.9
Mentally handicapped (Adults & Children)...	13.1	13.7	14.5
Children	34.5	32.9	32.5
Day care places(1)			
Multi-purpose centres	11.1	12.3	12.8
Elderly	17.8	18.9	20.0
Younger disabled	10.4	10.5	9.8
Mentally ill	4.7	5.3	5.7
Mentally handicapped	40.9	42.4	42.3
All-day nurseries	29.1	30.0	30.3
Local authority domiciliary services(1)			
Home helps(whole time equivalent staff) ...	42.9	44.7	46.6
Main meals served	41,075	40,949	41,738

Note: Figures given are those at March of each year, except for (i) staff numbers, which are those at September of each year, and (ii) the number of meals served, which is given as a cumulative total for the year ending 31 March.

(1) Includes services made available to local authorities by voluntary organisations etc.

2.11 Health and Personal Social Services

5. Estimated current expenditure in various age groups expressed per head of the total population of that age group is shown in table 2.11.4 below. This table illustrates the cost to health and personal social services of births and of caring for the very elderly whose numbers are still rising (see table 2.11.5).

Estimated current expenditure per head 1979-80 (England)

Table 2.11.4.

£cash

	Total	All births	0-4	5-15	16-64	65-74	75+
Hospital and community health	115	615	120	50	65	220	545
Family practitioner services	30	60	30	25	25	40	75
Personal social services ...	30	10	40	40	10	45	170
Total	175	685	190	115	100	305	790

Includes modification for patient dependency

Population Statistics (England)

Table 2.11.5

Millions

Year	Total	All births	0-4	5-15	16-64	65-74	75+
1975	46.4	0.6	3.2	8.2	28.4	4.2	2.3
1980	46.5	0.6	2.8	7.7	29.0	4.3	2.7
1985*	46.7	0.7	3.2	6.7	29.9	4.1	2.9

*1979 - based forecast

2.11 Health and Personal Social Services

6. The following table sets out the percentage change in current expenditure on the main services in cash terms since 1978-79.

Increase in current expenditure 1978-79 to 1981-82

Table 2.11.6 — Percentages

	1979-80 over 1978-79	1980-81 over 1979-80	1981-82+ over 1980-81
Hospital and community health services (gross)	20.6	29.1	10.5
Family practitioner services (gross)	17.4	25.7	17.0
Personal social services (net)	23.0	24.0	11.6

+ Provisional outturn

7. For hospital and community health services, the cash provision is planned to provide growth of about 4 per cent in services between 1978-79 and 1981-82. Growth over the three years has been used to meet the needs of increased numbers of very elderly people, to provide for advances in medical treatment and to continue the process of remedying inbalances in service provision between Health Regions. Increases in manpower for the main component groups over the period 1978-1980 (figures for 1981 are not yet available) are shown in Table 2.11.7 below. Family practitioner services are expected to increase by about 4 per cent over the three years. Demand for dental and ophthalmic services has risen, and general medical services are also increasing with a rise in the number of doctors and additional ancillary help.

8. Personal social services grew by about 7.4 per cent between 1978-79 and 1980-81. Part of this growth was needed to meet the needs of the increasing numbers of very elderly. Outturn in 1981-82 seems likely (on the basis of revised budgets for that year) to be some 12 per cent above 1980-81 in cash, in which case services overall will be about the same as in the previous year.

NHS directly employed staff (whole-time equivalents) (England)

Table 2.11. 7 , thousands(1)

	1978	1979	1980
Medical and Dental(2) (hospital and community)	36	37	38
Nursing and Midwifery(3)	351	358	370
Professional and Technical	57	60	62
Works	6	6	6
Maintenance	20	20	21
Administrative and Clerical	100	103	105
Ambulance (incl. Officers)	17	17	18
Ancillary	172	172	172
Total	760	773	792

(1) Figures rounded and therefore may not sum to the totals.

(2) Excludes hospital practitioners, part-time medical officers (clinical assistants), general medical practitioners participating in Hospital Staff Funds and occasional sessional staff in the community health services. Includes locums.

(3) Includes agency nurses and midwives and health visitor students. Excludes student nurses (Community).

2.11. Health and Personal Social Services

Future plans

Hospital and Community Health Services

9. Demands for health services are growing, in particular because of the costs of treating the increasing number of very elderly people, who on average use more health services than other age groups (see tables 2.11.4 and 2.11.5). However the overall effect of demographic changes is now somewhat lower than in recent years; it is estimated that the effect will be to increase demand for hospital and community health services by about 0.6 per cent a year over the next 3 years.

10. Plans for future health spending must however be formulated with strict regard to the total of public expenditure which the economy can sustain. The Government believe that the best way of meeting new needs is by increasing the efficiency of the health service. The restructuring of the health service, which takes effect from 1 April 1982, will in itself save staff and money over the next 3 years. In addition, the new District Authorities will be better placed than the previous Area and District structure to identify ways of saving money and to carry them into effect at local level. Unit managers and the proposed Management Advisory Service will have an important part to play. The Government is introducing new arrangements for bringing Regional Health Authorities to account for the services in their regions. In this context, the Government also proposes the development of indicators to suggest where performance at local level might be improved. This should help authorities and managers at all levels in the search for savings and contribute to improving the accountability of the Health Service.

11. The Government has asked the new District Health Authorities to save at least £17 million by increased efficiency in their first year of operation, 1982-83. This represents about 0.2 per cent of their total budget. In 1983-84 and 1984-85, the Government expects them to make further savings of at least ½ per cent a year.

12. Provided efficiency savings of £17 million are achieved, the cash provision for current expenditure on hospital and community health services in 1982-83 will permit a 1.7 per cent growth in services compared with that planned for 1981-82, on present assumptions about future increases in costs. Special provision of £27 million has been made to allow for the known tendency of prices of goods and services purchased by health authorities to increase faster than prices generally.

2.11 Health and Personal Social Services

The 1.7 per cent increase in services is in line with previous plans. To help finance this protection for health expenditure, there will be an increase in the employee's National Health Service contribution from April 1982. For 1983-84 and 1984-85, the Government considers that health authorities should be able to increase efficiency enough to provide further growth in services of about 0.5 per cent a year. The Government will consider during the 1982 survey whether the provision should be revised having regard to the availability of resources and the scope for improved efficiency.

Gross and net current expemditure on hospital and community health services (England)

Table 2.11.8 £m (cash)

	1981-82	1982-83	1983-84	1984-85
Gross............................	7620	8201	8690	9130
Net	7555	8132	8620	9050

Family Practitioner Services

13. Planned expenditure on the family practitioner services, which are not cash limited, reflects expected demand for general medical, dental, ophthalmic and pharmaceutical services. The Government now expect demand in future to be slightly lower than was allowed for in Cmnd 8175 and the provision for 1982-83 and subsequently is reduced accordingly. The figures also reflect the Government's expectation that further economies will be made by reducing prescribing costs. As with hospital and community health services,allowance has also been made for the tendency for the prices of goods and services purchased for the family practitioner services to increase faster than prices in general.

14. Charges are being increased in April 1982 to take account of higher costs and to help offset the growth in expenditure on these services. Prescription charges will be increased from £1.00 to £1.30. The annual prepayment certificate for prescriptions will be increased from £15 to £20. The maximum charge for routine dental treatment will be increased from £9 to £13, and that for special dental treatment including crowns will be increased from £60 to £90. Subject to this maximum, charges for special dental treatment will in general rise to between 50 per cent and 60 per cent of cost - at present most are between 20 per cent and 60 per cent. The charge for spectacle frames will remain at cost. A new scale of charges for lenses will bring charges more closely in line with costs, and the maximum charge will be increased from £8.30 to £15.00 per lens. All the present exemptions from family practitioner service charges are being retained.

15. Income from charges at present meets about 9½ per cent of the cost of the family practitioner services compared to 8 per cent in 1979-80. The new scale of charges will increase this proportion to about 11 per cent.

Gross and net current expenditure on family practitioner services (England)

Table 2.11.9 £ million (cash)

	1980-81 Outturn			1981-82 Estimated outturn			1982-83 Planned		
	Gross	Charges	Net	Gross	Charges	Net	Gross	Charges	Net
General medical services	617	-	617	711	-	711	771	-	771
General dental services	419	92	327	492	118	374	529	151	378
General ophthalmic services	104	29	75	141	35	106	167	51	116
Pharmaceutical services	976	73	903	1132	88	1044	1235	104	1131
Total	2116	194	1922	2476	241	2235	2702	306	2396

Central health and miscellaneous services

16. The cash provision is expected to allow some growth in these services in 1982-83 and for services to be maintained in later years. Within the total, provision will be made to meet the cost to the central services of improved safeguards for detained mentally disordered patients set out in the Mental Health (Amendment) Bill, and

the cost of implementing the recommendations of the Rampton Hospital Review Team. Allowance will also be made for increased demand for welfare milk. To accommodate this expenditure, some other services will be pruned and further savings will be achieved by better use of resources. The rebuilding and expansion of the Blood Products Laboratory and the development of the central Public Health laboratories will be funded by resources transferred from hospital and community health services capital. Civil Service manpower continues to be reduced in line with Government Policy.

Personal social services.

17. The figures for current expenditure in future years reflect the Government's call for further economies in local authority spending. The 1982-83 figure for personal social services is 3 per cent more than 1981-82 budgets. Allowing for likely pay and price increases this implies a need for economies. In the later years, cash increases of 6 per cent in both 1983-84 and 1984-85 are shown. These are higher than the respective increases in cash provisions for overall local authority spending (2 per cent in 1982-83, 4 per cent in 1983-84 and 3 per cent in 1984-85) to take account of pressures on personal social services such as increasing numbers of the very elderly. The figures are necessarily tentative; it is for local authorities to make their own choice between services within the limits of their statutory obligations.

2.11 Health and Personal Social Services

18. Spending on the personal social services is enhanced by the use of joint finance from the health programme. The planned level of allocations to add to unspent balances from previous years is £85 million in 1982-83, £90 million in 1983-84 and £94 million in 1984-85.

19. Apart from a statutory minimum charge for the elderly and physically handicapped cared for in local authority residential accommodation, individual local authorities largely determine the charges to be made for their services. The following table shows current expenditure and charges for the last 3 years.

Gross and net current cost of local authority services (England)

Table 2.11.80 £ million (cash)

	1978-79			1979-80			1980-81(1)		
	Gross	Charges	Net	Gross	Charges	Net	Gross	Charges	Net
Residential care	655	171	484	795	195	600	974	227	747
Day care	156	13	143	187	15	172	234	17	217
Community care	260	17	243	311	22	289	375	30	345
Other	192	1	191	245	1	244	309	1	308
Total	1263	202	1061	1538	233	1305	1892	275	1617

(1) 1980-81 figures are provisional

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2.12 SOCIAL SECURITY

Table 2.12

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84 (1)	1984-85 (1)
Department of Health and Social Security									
Contributory benefits (i.e those paid from the National Insurance Fund)									
Retirement pensions	5,662	6,613	7,552	8,814	10,541	12,048	13,496	14,700	15,600
Invalidity benefit	565	704	840	995	1,150	1,265	1,401		
Industrial disablement benefit	167	191	216	244	282	323	356	2000	2100
Widows' pensions and industrial death benefit etc	409	443	479	531	602	672	724	800	800
Lump-sum payment to contributory pensioners etc(2)				96	98	99	99	100	100
Sickness and injury benefits and maternity allowance	617	723	801	780	808	754	718		
Widows allowance and death grants	72	74	81	91	94	104	103	500	500
Unemployment benefits	559	629	632	653	1,280	1,983	1,991	2,000	2,100
Total contributory benefit expenditure	8,051	9,377	10,601	12,204	14,856	17,248	18,888	20,100	21,300
Non-contributory benefits (i.e those met from Voted expenditure)									
Old persons' pensions	36	36	37	36	38	39	38		
War pensions	283	310	340	375	424	482	510	600	600
Attendance allowance and invalid care allowance	116	146	172	207	248	292	325		
Non-contributory invalidity pension	34	44	69	85	108	126	141	800	800
Mobility allowance	8	20	47	79	125	168	205		
Lump-sum payment to non-contributory pensioners etc(2)		98	101	5	5	5	5		
Supplementary pensions	573	665	801	895	1,079	1,412	1,589		
Supplementary allowances	1,140	1,410	1,455	1,541	2,093	3,363	4,486	4400	4700
Child benefit(3)	544	874	1,798	2,830	3,005	3,474	3,778		
Family income supplement	18	25	24	27	42	59	70	4100	4,400
Maternity allowances	15	15	16	16	16	17	19	—	—
Rent rebates							573	1,700	1,800
Rent allowances							83	400	400
Total non-contributory benefit expenditure	2,768	3,643	4,859	6,097	7,185	9,437	11,823	12,000	12,700
Administration and miscellaneous services	548	592	669	767	964	1,185	1,191	1,250	1,310
LA administration of housing benefit							23	20	30
Total Department of Health and Social Security	11,366	13,612	16,129	19,067	23,004	27,870	31,924	33,300	35,300

Department of Employment(4) Administration	23	35	36	39	53	85	95	110	110
Total programme (5)	11,389	13,646	16,165	19,106	23,057	27,955	32,019	33,500	35,400

(1) Benefit expenditure rounded to nearest 100 and administration costs to nearest 10.

(2) Lump sum payments to pensioners etc are payable with the relevant qualifying benefit.

(3) Family allowances and child interim benefit in 1976-77.

(4) Costs of paying supplementary benefit to the unemployed. (The cost of paying unemployment benefit is included in DHSS administration).

(5) Programme reflects transfers from other programmes to cover changes in assistance with housing costs.

2-12.2

number of people who claim their entitlement to benefit at the prescribed rates (see table 4.1). About per cent of the programme is for expenditure on contributory benefits financed from the National Insurance Fund, and about per cent for expenditure on non-contributory benefits financed out of money voted by Parliament. The balance is the cost of administration and miscellaneous services.

2 The presentation of the programme broadly follows that shown in Cmnd 8175. Provision has been made, however, for expenditure on certain housing benefits for which DHSS are to assume responsibility from DOE, Scottish and Welsh Office (see paragraph 13). Maternity grant has been transferred from the contributory to the non-contributory part of the table, following the decision to make it a non-contributory benefit from 1982. All figures are on a cash basis.

3 The following table shows the total expenditure on social security benefits by broad groups of beneficiary (except the sums paid to local authorities for housing benefits - for which detailed break-downs are not available).

Total expenditure by broad groups of beneficiaries
(with the supplementary benefits component of the total shown in brackets)

Table 2.12.1 £ million

	Elderly	Disabled and long-term sick(1)	Short-term sick	Unemployed	Widows and orphans	Family(2)
1976-77						
1977-78						
1978-79						
1979-80						
1980-81						
1981-82						
1982-83						
1983-84						
1984-85						

2.12 SOCIAL SECURITY

1 The social security programme remains the largest single programme and accounts for about per cent of public expenditure. Under the proposals for a reformed housing benefit scheme, local authorities will be responsible for expenditure on assistance with housing costs. This apart, the expenditure is incurred by central Government on the social security benefits listed in table 2.12 and the associated administration costs. Cash limits are applied to the costs of central government administration but not to expenditure on benefits which is entirely dependent on the

(1) Includes specific benefits for the disabled, invalidity benefit (payable after 28 weeks incapacity) supplementary allowances paid on account of extended incapacity and associated lump sums.

(2) Includes child benefit (family allowances in 1976-77), one-parent benefit, family income supplement, maternity benefit and supplementary allowances paid to one-parent families and those looking after elderly parents. It does not reflect the value of the former child tax allowance whose broad values were shown in table 2.12.1 of Cmnd 7841.

(3) Reflecting the proposed Employers Statutory Sick Pay Scheme.

4 The expenditure on social security benefit shows a substantial cash increase over the survey period. This is due mainly to the assumption that most benefit rates will be increased annually in line with prices but also reflects an increase in the number of beneficiaries (see table 2.12.2, particularly for benefits paid to unemployed people. Expenditure on those above retirement age represents about per cent of the total expenditure.

Recent developments

November 1981: Benefit upratings

5 The rates of most social security benefits are increased each November. The practice is that, at Budget time, the Secretary of State is required to estimate the expected movement of prices from the uprating in the previous November to the following November. He then applies the factor in his estimate, with rounding adjustments, to the specific rates of benefit. For most contributory benefits, this is a statutory minimum requirement. The November 1981 uprating however was adjusted to take account of the fact that the previous year's uprating (November 1980) had been based on an overestimate - by 1% - of the movement of prices over the period from November 1980 - November 1981. Under powers given by the Social Security Act 1981 therefore the November 1981 uprating was adjusted accordingly.

6 The basic retirement pension went up to £29.60 a week for a single people and to £47.35 for a married couple. The standard

rates of unemployment and sickness benefit were increased to £22.50 a week for a single person and £35.40 for a married couple. Child benefit was increased by just over 10 per cent to £5.25 a week for each child, and one parent benefit (formerly called Child Benefit Increase) to £3.30 a week. Christmas bonus of £10 was paid to retirement pensioners and other long-term beneficiaries. Mobility allowance was increased by almost 14 per cent to £16.50 a week. The rates of invalidity allowances paid to invalidity pensioners under retirement age were increased to the level paid to those over retirement age so as to restore the 5 per cent abatement introduced at the 1980 uprating.

7 The main rates of supplementary benefit were increased on the same basis as national insurance benefits. Eligibility for the long-term rate of supplementary benefit was extended to unemployed men over 60, who do not register for work. A list of the main rates for all benefits is contained in the statement by the Secretary of State for Social Services on 11 March 1981 (Official Report cols 898-903).

November 1982 uprating

8 Social security benefits will be uprated as usual in November 1982 and the details of the uprating for all the main benefits will be announced following the Budget. For this White Paper the expenditure projections are based on the assumptions quoted in paragraphs 14 and 15. The programme also reflects the announcement made by the Chancellor of the Exchequer on 2 December 1981 that, for certain benefits (retirement pension and linked long-term benefits) the uprating will also reflect the amount (2 per cent) by which the actual price movement from November 1980 to November 1981 was higher than the estimate made at the time of the March 1981 Budget.

Outturn

9 Expenditure on social security in 1980-81 was £61 million less than estimated in Cmnd 8175. For 1981-82, expenditure is expected to be higher than estimated in Cmnd 8175 by about £455 million or just over $1\frac{3}{4}$ per cent. The main reasons for this are:- the assumption of a higher number of unemployed (see paragraph 14); a revision of the estimates of the level of support that the unemployed will require; and postponement to 1982-83 of once-for-all savings from the switch to payment of child benefit to some mothers at four-weekly intervals. These increases are partially offset by a continued drop in claims to sickness benefit and invalidity benefit.

2-12.7

The future

10 Estimated expenditure on this programme for the years from 1982-83 to 1984-85 reflect not only assumptions about changes in the demographic and economic factors which influence expenditure, but also, as in previous years, policy changes in the social security field and the effects of implementing Government proposals aimed at containing the level of public expenditure. These proposals affect not only benefit expenditure but administrative costs as well.

11 The Government has introduced legislation (the Social Security and Housing Benefits Bill 1981) which has expenditure implications in a number of areas. First, the Bill places on employers rather than the State the responsibility from April 1983 for payment of a minimum level of sick pay during the first eight weeks of sickness. The public expenditure savings resulting from this change are estimated at /£385 million in a full year including about £70 million administrative savings resulting from a reduction of around 3,000 posts7.

12 The Bill also replaces the existing schemes of assistance with housing costs administered by local authorities through rate rebates and rent rebates and allowances and by the DHSS through supplementary benefit provisions. The Bill seeks to rationalise the present schemes by placing the administration of all rent and rates assistance with the local authorities. DHSS would assume the central government responsibilities in this field. The new system is planned to come into operation in /April 19837. The reforms proposed will be achieved without adding to existing resources but there will be a reduction in the overall cost of administration which will be directed into assistance for individuals. A reduction of up to 2,300 in DHSS manpower is expected, although local authorities will require 1,500-1,600 additional local authority staff. As a result of this change, DHSS hope to introduce a simplified procedure for handling supplementary benefit claims from unemployed people. It is hoped that this in turn will lead to a reduction of a further 1,400 posts.

13 The Bill contains a number of miscellaneous provisions including the abolition of injury benefit from April 1983. This particular

change, which is estimated to save about 300 staff, was proposed in the White Paper on the reform of the industrial injuries scheme (Cmnd 8402) published in December 1981. The Government is also making provision in the Bill for industrial disablement benefit to be made available 15 weeks after an accident or the development of a prescribed industrial disease. These changes — the costs of which balance out — are the first steps towards implementation of the package of reforms presented in that White Paper.

Estimating assumptions

14 For the purpose of the expenditure projections it was assumed that prices would rise by 10 per cent between November 1981 and November 1982, by 6 per cent between November 1982 and November 1983, and by 5 per cent between November 1983 and November 1984. It was also assumed that the number of unemployed (persons (excluding school leavers etc) would average 2.6 million in 1981-82 and 2.9 million in 1982-83 and subsequent years. The comparable figures assumed for school leavers, adult students and temporarily stopped were 220,000 in 1981-82 and 225,000 in subsequent years. These are illustrative assumptions only. A variation of 100,000 in the unemployed (excluding school leavers etc) is estimated to vary benefit costs in 1982-83 by about £165 million.

15 Table 2.12.2 shows the estimated average numbers receiving the main benefits on which the expenditure figures in table 2.12 are based. It shows that the number of retirement pensioners will increase each year during the remainder of the survey period. The large increase in the number of qualifying children for child benefit between 1976-77 and 1977-78 reflects the payment for the first child in a family on the introduction of the child benefit scheme in April 1977. The figures for unemployment benefit and supplementary allowances reflects the assumptions about unemployment. The numbers receiving sickness benefit show a large drop in 1983-84 because of the transfer to employers of responsibility for payment during the first eight weeks of sickness in a tax year.

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2-12.10

2.13 OTHER PUBLIC SERVICES

Table 2.13

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Houses of Parliament	21	23	32	41	51	52.	53	60	30
HM Treasury									
Parliamentary election expenses				26					
Financial administration (including Bank of England services)	55	60	60	69	96	110.	116		
Exchange control	12	13	13	10					
UK coinage	12	14	15	21	22	24.	26	180	200
Computers and telecommunications	7	6	8	8	5	9.	8		
Other services	6	7	7	9	12	15.	16		
Customs and Excise	150	156	173	195	240	267.	278	290	310
Inland Revenue	338	357	395	451	555	599.	632	660	700
Her Majesty's Stationery Office	2	2	2	2	36	21.	18	20	20
Manpower and personel office	15	15	17	20	22	25.	24	30	30
National Savings Department	85	81	81	98	133	147.	139	150	150
Records, registrations and surveys	22	19	13	12	34	68.	38	60	60
Other services	8	7	9	12	14	19.	19		
Total programme	735	761	824	973	1,219	1,357.	1,367	1,440	1,500

2.13.1

1. Expenditure on this programme is mainly on the functioning and election of Parliament, the collection of taxes and the administration of national savings and the Bank of England's note issue, debt management etc. About [ ] per cent of it is cash limited in 1982-83. The relevant cash controls are listed (with the prefax XIII) in table 4.1 of this White Paper.

HOUSES OF PARLIAMENT

2. This expenditure provides for the functioning of Parliament and the cost of the Privy Council Office and its Ministers. For Parliament it includes the accommodation and works services in the Palace of Westminster etc, the pay and allowances of Members and Peers, the Exchequer contributions to Members' pensions, financial aid to opposition parties, the pay and pensions of the staff of both Houses, and the administrative costs other than computers (shown under HM Treasury) and services provided by Her Majesty's Stationery Office (shown under HMSO). This expenditure is incurred by the House of Commons and House of Lords offices, the House of Commons Commission, Privy Council Office and the Property Services Agency of the Department of the Environment.

HM TREASURY

3. Expenditure shown under HM Treasury includes the adminstrative costs of the Treasury, including the costs of the Central Computer and Telecommunications Agency and staff formerly in the Civil Service Department responsible for Civil Service pay, superannuation and manpower; expenditure by the Bank of England on the note issue, debt management and the management of the exchange equalisation account.

4. The following table shows the production of bank notes and, for debt management, gives a broad indication of the level of activity in British government securities on the Bank of England register. The latter closely reflects market activity and is liable to considerable fluctuations.

Note issue and debt management

Table 2.13.1

Year ended February	1977	1978	1979	1980	1981
Production of bank notes (millions)	1,666	1,778	1,795	1,992	1,851
British Government Securities					
Transfers processed (thousands)	1,025	1,123	968	1,106	1,220
Number of accounts (thousands)	2,044	2,032	2,118	2,225	2,274

2.13.2

5. Expenditure shown under HM Treasury also includes the Treasury's payments to the Royal Mint for its services, payments from the Consolidated Fund for the Queen's Civil List and other members of the Royal Family, Royal Household and Civil List pensions, and supplementary grants to the Royal Trustees from the Treasury Vote. Provision is also made for the salaries of UK members of the European Parliament and for an inquiry into the pay of the non-industrial Civil Service.

CUSTOMS AND EXCISE

6. The Department collects and accounts for revenue in respect of VAT and car tax; excise duties, principally on hydrocarbon oils, tobacco, alcoholic liquors and betting and gaming; and customs duties and levies on imported goods. The Department is also responsible for carrying out non revenue functions such as the compilation of overseas trade statistics; the enforcement of import prohibitions, eg against dfugs and pornography, and of import licensing.

7. Expenditure by Customs and Excise consists almost entirely of pay and related administrative costs. In 1980-81 about 43 per cent of total expenditure was attributable to the collection of VAT and car tax, some 14 per cent to excise duties, some 22 per cent to customs duties, levies and associated non revenue work and some 21 per cent to preventive work and fraud investigation. The total net revenue collected in 1980-81 amounted to some 22,027 million and the ratio of administrative costs to net revenue collected was about 1.36 per cent.

8. The administrative expenses of Customs and Excise were about 16 per cent higher in 1980-81 compared with 1979-80; there were reductions in the volume of resources used, and in particular manpower usage fell by about 3 per cent.

9. The expenditure shown for future years assumes that demands on the Department remain broadly constant but variations occur rising from the timing of capital expenditure on computer hardware and from staff reductions. In practice future needs may be affected by changes in the level and location of trading activity in the UK, the volume and source of overseas trade, EC regulations and future budgetary changes.

INLAND REVENUE

10. The Department is responsible for the management and collection of the direct taxes together with the rating and other services provided by the Valuation Office. The Department also collects National Insurance Surcharge and National Insurance contributions on behalf of the Department of Health and Social Security and the Department of Health and Social Services Northern Ireland and is reimbursed for these services from the Consolidated Fund and the National Insurance Fund respectively.

11. In 1980-81 about 87 per cent of the net expenditure of the Department was accounted for by the costs of administering the taxes on income, profits and capital including Petroleum Revenue Tax and Development Land Tax. Capital Transfer Tax and Estate Duty accounted for a further 2 per cent and stamp duties for about 1 per cent. The work of the Valuation Office accounted for the remaining 10 per cent. These proportions are the same as in the two previous years. Total net Inland Revenue receipts in 1980-81 were just under £33 billion and the receipts for 1981-82 are expected to be just over £39 billion. The Department also collected National Insurance contributions amounting to just over £16 billion; for 1981-82 the receipts are expected to be about £20 billion.

12. The ratio of collection expenses to net tax receipts rose from 1.89 per cent in 1979-80 to 1.98 per cent in 1980-81. If National Insurance receipts and the cost of their collection is taken into account the ratio of collection expenses to net receipts in 1980-81 is 1.40 per cent compared with 1.31 per cent in 1979-80.

13. The Inland Revenue's administrative expenses borne on its own vote in 1980-81 were some 23 per cent higher than in 1979-80. There were reductions in the volume of resources used: in particular the total manpower usage was 6 per cent down compared with the previous year. Present estimates of the outturn for 1981-82 show an increase of about 5 per cent over the expenditure in 1980-81.

14. The figures for future expenditure include the first stages of the programme for computerising PAYE. This project will not be completed until the late 1980's and the bulk of the total expenditure, and of the consequent staff savings, falls outside the review period.

15. Also included is provision for the public expenditure element of payments to be made under the scheme for giving tax relief at source on most mortgage interest paid. This scheme is due to come into operation on 1 April 1983. The new provision is covered by a transfer from programme 7.2 (Housing: Option Mortgage Schemes) since the existing option mortgage schemes will be wound up as a consequence of the new tax arrangements.

HER MAJESTY'S STATIONERY OFFICE

16 Her Majesty's Stationery Office (HMSO) became a trading fund under the Government Trading Funds Act 1973 1 April 1980. The expenditure shown here includes the cost of supplies and services rendered free of charge to Parliament and the UK Members of the European Assembly, the subsidy which reduces on the price of Reports of ~~publishing~~ Parliamentary debates (Hansard), and the cost of the half-price concession on all Government publications purchased by public libraries.

The remainder, borrowing by the trading fund, is mainly to finance fixed capital investment, including the continued improvement of the Parliamentary printing facilities and the modernisation of other printing presses.

CENTRAL MANAGEMENT OF THE CIVIL SERVICE - MANAGEMENT AND PERSONNEL OFFICE

17. This covers expenditure by the Management and Personnel Office on the central management of the civil service recruitment and training. It also provides for expenditure on the office of the Parliamentary Counsel. The expenditure is mainly in respect of pay and general administrative expenses.

DEPARTMENT FOR NATIONAL SAVINGS: DRAFT TEXT FOR INCLUSION IN THE GOVERNMENT'S EXPENDITURE PLANS 1982-83 TO 1984-85 WHITE PAPER

18. The Government looks to National Savings for a substantial contribution to the borrowing requirements of central government. In his budget statement on 10 March 1981 the Chancellor confirmed his intention for National Savings to contribute £3 billion to the PSBR in 1981-82. This target was increased to £3.5 billion in July 1981.

19. The Department for National Savings provides a wide range of products to encourage personal saving. The main funding contribution comes from index-linked Savings Certificates now without any age restriction, fixed interest Savings Certificates with new issues brought out from time to time in the light of market conditions, the National Savings Bank Investment Account, Save as you Earn and Premium Bonds.

20. The administrative expenses of the National Savings Bank Ordinary Account are to be brought within the public expenditure system as from 1 April 1982. Although the change will not take effect until 1 April 1982 the cost of managing the Ordinary Account has been included in table 2.13 for all years for comparative purposes.

21. As a result of the change in treatment of the expenses of the National Savings Bank Ordinary Account the whole of the DNS Vote will be cash limited from 1 April 1982.

	Balances held on 31.3.81 £ million	Change since 31.3.80 £ million	Management Costs	
			1979-80 £ million	1980-81 £ million
NSB Ordinary	1740.1	- 80.9	50.2	62.5
NSB Invac	2320.3	+ 714.9	4.9	6.1
National Savings Certificates (1)	3727.7	+ 1903.8	19.8	27.0
Save as You Earn (1)	556.1	+ 115.9	3.3	5.0
British Savings Bonds (2)	421.2	- 169.6)		
Government Stock	755.1	+ 49.1)	6.8	6.2
Premium Savings Bonds	1461.5	+ 56.2	21.9	27.5

(1) Includes principal plus accrued interest/bonus/index-linked increase

(2) Withdrawn from sale 1 January 1980

RECORDS, REGISTRATIONS AND SURVEYS

22. This item comprises expenditure by the Charity Commission, Land Registry, Public Records Office, Ordnance Survey, and Office of Population, Censuses and Surveys.

23. The Land Registry's programme of gross expenditure over the period of the survey provides for the continued anticipated growth in registered conveyancing in England and Wales, including the sale of council houses for which provision was made in the Housing Act 1980. Subject to the effects of any marked fluctuation in the property market, receipts are expected to cover expenditure throughout the survey period.

THE ORDNANCE SURVEY

24 This White Paper assumes that Ordnance Survey will continue as a vote financed body. In its response to the Report from the Review Committee on the longer term policy and activities of Ordnance Survey, published on 30 October 1979, the Government said that it was continuing to consider the possibility of financing the department by means of a trading fund. In the interim it continues to be financed partly by voted monies and partly by receipts from the sale of maps, copyright fees etc.

THE OFFICE OF POPULATION CENSUSES AND SURVEYS

25. Provision for the Office of Population Censuses and Surveys includes expenditure on social surveys carried out as allied services for government departments and surveys carried out on repayment terms for the Statistical Office of the European Community. The reduction in the cash provision over the period of the survey reflects the completion of the England and Wales 1981 Census field work in 1981-82.

OTHER SERVICES

26. This item covers expenditure by the Cabinet Office, Parliamentary Commissioner, Public Trustee, Exchequer and Audit Department and net borrowing by the Royal Mint (a negative item).

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2.14 COMMON SERVICES

Table 2.14

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Property Services Agency									
Capital expenditure	92	72	64	73	315	61.	55		
Rent	69	80	87	99	117	121.	136		
Maintenance and other running costs	89	100	108	129	-425	156.	160		
Transport services	7	8	7	9	91	11.	12		
Departmental administration	32	28	29	37	40	48.	47		
Total Property Services Agency	288	288	295	347	138	398.	411	440	460
Central Office of Information	23	23	30	36	38	42.	42	40	50
Paymaster General's Office									
Civil superannuation	276	307	365	444	585	867.	863	980	1,070
Other services	4	8	6	6	8	11.	10	10	10
Total Paymaster General's Office	280	314	371	450	593	878.	873	990	1,080
Rates on government property	116	139	156	173	212	280.	307	330	350
Government actuary					1	1.	1		
Total programme	708	765	852	1,007	982	1,597.	1,633	1,800	1,930

2.14.1

Analysis of Capital and Current Expenditure

Table 2.14.1. £ million

	1979-80	1980-81	1981-82	1982-83
Capital (1):				
Building Work				
HQ, regional and provincial offices	22	16	17	12
Dispersal	3	1	2	1
Other work including adaptations and improvements	28	30	31	38
Furniture	21	18	16	17
Disposals etc	- 5	- 9	- 7	- 13
Current:				
Rent	125	143	155	170
Maintenance	73	71	83	83
Landlords services	16	20	22	25
Fuel and miscellaneous	69	81	92	91
Transport	9	10	11	12
Receipts	- 55	- 72	- 74	- 75
Administration (net)	37	44	~~51~~ 48	47

(1) Excluding net borrowing from or repayment to the National Loans Fund by PSA Supplies which is included under capital expenditure in Table 2.14.

2.

2.14.2

1. Expenditure on this programme is entirely by central government and includes expenditure on goods and services by the Property Services Agency, the Central Office of Information and the Paymaster General's Office. Some [ ] per cent of this expenditure is cash-limited. The relevant cash controls are listed (with the prefix XIV) in Table 4.1 of this White Paper.

PROPERTY SERVICES AGENCY

2. Expenditure by the Property Services Agency provides civil accommodation services, mainly offices, to meet the needs of Government departments. The coverage of the programme has been changed since Cmnd 8175 in two respects; receipt of rents and service charges are now included and the cost of design work etc on new prisons in England and Wales formerly included in the Office Programme has been transferred to the Prison Programme (see Chapter 9.2). Expenditure to 1982/83 is expected to be split as shown in table 2.14.1; allocations in subsequent years are subject to review.

3. Net expenditure in 1980/81 was £350 m, £11 m less than forecast. The shortfall was mainly due to prices of fuel increasing less than feared, together with savings on administration costs. The outturn in 1981/82 is expected to be about £400 m, £5 m less than previously forecast. As in 1980/81 there are expected to be savings on fuel; in addition it is expected that payments of rent will be lower mainly because the effect of rent reviews and renewals of leases has not been as great as previously forecast.

4. The provisions for 1982/83 and subsequent years are 2% to 3% less than those shown in Cmnd 8175. Within the total the allocation for current expenditure has been reduced and that for capital expenditure increased. In 1982/83 extra capital expenditure will be incurred mainly on work on Unemployment Benefit Offices to deal with overcrowding. In subsequent years the increased capital provision will meet the cost of a major new office building to house staff dispersed to Glasgow, preliminary work on which has already started, in addition to the existing programme of work on accommodation for computerisation schemes including PAYE. Current expenditure is projected to fall in line with the plan to reduce the size of the office estate by about 2% a year. This in turn is expected to be achieved largely as a consequence of the cuts in the number of non-industrial Civil Servants, about 65% of whom are accommodated on the office estate. Running costs also assume that expenditure on fuel will be reduced as a result of energy conservation measures; a 12% saving on 1978/79 consumption should be achieved by the end of 1981/82 when a new target will be set. Table 2.14.2 shows the size of the estate up to 1981 and the target figure for 1984.

2.14.4

Size and composition of the common user office estate (excluding space occupied by repayment bodies)

(London figures in brackets)

Table 2.14.2

thousands of square metres of agents' letting area

Position at March	Total Area	Percentage in Crown Ownership	Annual Charge Crown	Annual Charge Leased
1974	6,247 (2,481)	40 (33)	+ 11 (0)	+ 131 (+ 23)
1978	7,059 (2,665)	39 (32)	+ 50 (0)	- 21 (- 11)
1979	7,123 (2,640)	40 (31)	+ 54 (- 21)	+ 10 (- 4)
1980	7,012 (2,515)	39 (30)	- 85 (- 63)	- 26 (- 62)
1981	6,996 (2,495)	40 (30)	+ 3 (- 19)	- 19 (- 1)
1984	6,615			

Note: Figures for 1974 were kept on a different basis from that used after 1978.

5. Expenditure on rents is at present well below what would have to be paid if all property were held on leases at current market rents since the estate still contains many old leases taken at low rents which are not subject to frequent rent reviews. Each year, however, some of these old leases fall in and are replaced with leases at a current market rent, normally reviewed at 5 year intervals. The increase in the average rents paid in recent years is shown by table 2.14.3.

Average rents paid by the PSA in 1978-81 at current prices (office space)

Table 2.14.3

£ per square metre agents' letting area

-	London	Elsewhere
1978	29.8	14.9
1979	34.7	16.9
1980	38.0	18.2
1981	39.9	20.8

2.14.5

6. PSA Non-industrial staff numbers engaged on the office programme have been reduced from 8,600 in April 1979 to 6,500 in April 1981 and are projected to fall to 5,900 by April 1983. Savings on staff costs have been partly offset by increased payments to consultants engaged on design work on specialised building programmes such as courts and special hospitals; such design costs are included in the office programme at present although the cost of the construction work falls in the relevant public expenditure programme.

7. The receipts shown under current expenditure in table 2.14.1 relate in roughly equal proportions to payments from the National Insurance and Industrial Injuries Funds in respect of accommodation occupied by Civil Servants administering the Fund and to receipts of rent and services charges for PSA property occupied by repayment customers.

PAYMASTER GENERAL'S OFFICE

Civil Superannuation

This covers net expenditure on superannuation and redundancy compensation benefits for civil servants and their dependants. Because of industrial action, expenditure incurred in March 1981 could not be brought to account in 1980-81 and additional provision was taken in 1981-82 to cover it. To enable consistent comparisons to be made, it has been assumed below that this additional provision was in fact brought to account in 1980-81.

Expenditure in 1980-81 was some 2½ per cent below the cash equivalent of the Cmnd 8175 figure because of higher than expected receipts and a small overprovision for new awards. The forecast outturn for 1981-82 is expected to be some 5 per cent below Cmnd 8175 plans, mainly because some of the costs associated with the rundown of the Civil Service expected to fall in that year will now be incurred in 1982-83. On 30 September 1981, pensions averaging £1811 a year were in payment to 302,874 retired civil servants, and pensions averaging £613 a year were being paid to 97,249 widows and other dependants.

The plans for future years assume that normal age retirements will remain at their present high level and that there will be further early retirements as a result of measures taken to reduce the size of the Civil Service. The number of deaths of pensioners is expected to remain stable.

The number of pensions in payment is also expected to rise because of reduced re-employment opportunities.

Other Services

The Paymaster General's Office acts as banker for most Government Departments and for certain non-Exchequer bodies and is responsible for the payment of a million public service pensions. The department also provides monthly statistics of government expenditure for HM Treasury. The reduced provision in 1982-83 is because no major purchase of computer equipment will be required in the year.

CENTRAL OFFICE OF INFORMATION

This covers expenditure on publicity services carried out by the Central Office of Information for other government departments at home and for the Foreign and Commonwealth Office overseas. The major campaigns are for road safety, energy conservation, recruitment for the armed forces and the prison service, and support for the export drive.

Net expenditure in 1980-81 was £37.9 million, £7.5 million below provision mainly due to a reduced need for recruitment advertising. The outturn for 1981-82 is likely to be about £1.5 million below forecast for the same reason.

The provision of [ ] for 1982-83 is close to the 1981-82 outturn. It reflects a rundown in manpower and a reduction in funds available for publicity.

2-14.8

2.15 SCOTLAND(1)

Table 2.15

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Agriculture, fisheries, food and forestry	94	84	81	124	156	166	155	170	180
Industry, energy trade and employment (excluding tourism)	83	73	91	111	137	143	166	170	180
Other public services	64	68	77	86	105	120	120	130	130
Common services						1	1		
Other services(2):									
Industry, energy trade and employment (tourism only)	2	3	3	4	5	6	8	10	10
Roads and transport	234	272	324	372	434	494	499	530	560
Housing	559	572	610	780	829	830	743	650	640
Other environmental services	311	312	374	468	534	552	585	600	620
Law, order and protective services	161	170	192	243	302	345	405	440	460
Education and science, arts and libraries	779	834	936	1,043	1,312	1,377	1,489	1,530	1,570
Health and personal social services	794	883	1,026	1,233	1,550	1,774	1,911	2,050	2,160
Total other services	2,840	3,046	3,465	4,144	4,967	5,378	5,640	5,820	6,010
Total expenditure within the Secretary of States responsibility	3,080	3,271	3,714	4,464	5,365	5,808	6,082	6,280	6,500

(1) This programme covers expenditure in Scotland which is within the responsibility of the Secretary of State including some on specialized accomodation services undertaken on his behalf by the Department of Environment - PSA.

(2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of State. Expenditure on agriculture, fisheries, food and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a

greater extent than others by national and EC policies.

2- 15.2

2.15 Scotland

1. The total cash expenditure in table 2.15 in 1982-83 is £6.1 billion. About per cent of this expenditure will be subject to direct cash controls in 1982-83, covering certain central government votes relating to expenditure on goods and services and the local authority capital expenditure cash limits (one of which also includes the capital expenditure of certain public corporations). Local Authorities' current expenditure is not directly controlled. However Rate Support Grant (RSG), which is by far the greatest source of Exchequer support to local authorities, is subject to a cash limit . Direct cash limits on central government voted expenditure are shown (with the prefix XV) in table 4.1) together with the other relevant cash controls.

2. Table 2.15 covers expenditure in Scotland within the responsibility of the Secretary of State for Scotland including some expenditure on specialised accommodation such as courts, prisons and laboratories undertaken on his behalf by the Department of the Environment - PSA. The table does not cover the external financing requirements of the nationalised industries for which the Secretary of State is responsible (see Part 3) nor does it cover the expenditure by the Manpower Services Commission in Scotland, which appears with the Commission's other expenditure in Great Britain in table 2.4. Expenditure in Scotland which is the responsibility of other Ministers will be found in the tables relating to those Ministers' responsibilities. In particular expenditure by the Lord Advocate will be found in table 2.9 and expenditure by the Property Services Agency (other than that on specialised accommodation referred to above) in support of programmes for which the Secretary of State for Scotland is responsible is in table 2.14.

3. The services within the Secretary of State's programme fall into two categories. The first category, covering agriculture, fisheries, food and forestry and industry, energy, trade and employment, contains services that are influenced to a greater extent than others by United Kingdom and European Community policies. The provision for these services is separately determined and is not freely transferable to any other service. The second category, the "other services" in the table, form a block of services for which aggregate provision is adjusted by taking account of changes to comparable English or English and Welsh programmes and for which, within the total, the Secretary of State has discretion to apportion expenditure among the individual Services. From 1982-83 expenditure on other public services and common services will be included in this category.

4. Expenditure on the Secretary of State's programme is variously incurred by central government, by other public corporations and by local authorities. Local authority current and capital expenditure accounts for the largest portion - about 53 per cent of all expenditure in the programme. A summary of local authority expenditure (including a small amount which is the responsibility of other Ministers) is shown in table 2.15.1.

Outturn 1980-81 and prospective outturn 1981-82

5. In 1980-81 expenditure overall was broadly in line with the plan. Within the total however expenditure on services covered by cash limits (including local authority capital) was some £47m lower than planned and local authority current expenditure on services relevant for RSG (excluding housing) was about £70m (4 per cent) more than planned for in the RSG settlement for that year. As far as 1981-82 is concerned local authorities budgeted to spend almost 9 per cent more than provided for in the RSG settlement for that year, but, as the result of voluntary savings by some authorities and selective action by the Secretary of State under the Local Government (Miscellaneous Provisions) (Scotland) Act, 1981 together with general abatement of grant, outturn for the year is expected to be less than the budget total but still above the government's plans. Other expenditure is expected to be broadly as planned.

The future years

6. The figures for future years allow for annual net increases in cash terms of 5 per cent in 1982-83 and around 3.5 per cent in each of the two later years. Within these totals priority is given to the law and order, health and social work programmes.

Details for individual programmes are given in the notes on individual services. Provision forlocal authority current expenditure in 1982-83 has been made in the RSG settlement notified to local authorities in December 1981. The Report on Rate Support Grant (Scotland) Order 1982 explains the background to the relevant expenditure figure taken into account in the RSG settlement. Local authorities will require to make continuing reductions in expenditure if their spending levels are to be in line with those proposed by the Government. The apportionment in table 2.15 of total expenditure to services in the years 1983-84 and 1984-85 is tentative at this stage.

Scotland

LOCAL AUTHORITY EXPENDITURE IN SCOTLAND

Table 2.15.1

£million at cash prices

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Current Expenditure							
Agriculture, fisheries, food and forestry	-	-	-	-	-	-	-
Industry, energy, trade and employment	6	6	7	8	10	13	13
Transport	98	124	148	173	235	215	235
Housing	41	55	57	82	64	78	71
Other environmental services	175	191	224	278	340	327	370
Law, order and protective services	117	123	144	184	222	247	289
Education and science, arts and libraries	604	644	748	835	1062	1107	1217
Health and social work	110	117	142	180	193	238	261
Other public services	21	23	25	29	34	37	41
Total current expenditure (PES basis)	1172	1283	1495	1769	2160	2262	2497
Capital Expenditure							
Agriculture, fisheries, food and forestry	1	1	1	1	2	3	2
Industry, energy, trade and employment	-	-	-	-	-	1	2
Transport	83	85	109	118	102	148	133
Housing	220	216	221	268	260	318	317
Other environmental services	123	107	127	162	166	180	167
Law, order and protective services	10	10	9	10	13	14	15
Education and science, arts and libraries	82	76	63	62	65	69	65
Health and social work	11	8	8	11	13	15	16
Total capital expenditure (PES basis)	530	503	538	632	621	748	717

2.15.5

Agriculture, fisheries, food and forestry

7. Most of the provision is for services operated on a UK basis and the commentary on programme 3 is generally applicable. The provision reflects the continuation of present policies and takes account of increases in the provision for hill livestock compensatory allowances and revised estimates of costs of support for agriculture and fishing.

Industry, energy, trade and employment

8. Expenditure on selective financial assistance is forecast to fall by about £1.3 million over the Survey period reflecting the current level of economic activity, the revision of the assisted areas, and the more stringent criteria governing the provision of selective assistance introduced in July 1979. The provisions made for the Scottish Development Agency and the Highlands and Islands Development Board will continue at broadly their current levels. SDA expenditure is primarily for the purposes of attracting new industry and investment and of promoting the development of industrial infrastructure, especially through the provision of factories. HIDB, which is charged with the economic and social development of its area, undertakes similar industrial functions and also provides assistance to agriculture, fisheries, tourism and social development projects. The compensation payment to the North of Scotland Hydro Electric Board towards losses incurred under the 1968 contract for the supply of electricity to the British Aluminium Company at Invergordon has ceased as a result of the closure of the Invergordon pland and the agreement of the parties to terminate the 1968 contract. Provision for the Highlands and Islands Development Board has been increased by £10m million over the next 3 years to allow for special efforts in the Invergordon area to assist in counteracting the effects of the smelter closure.

Tourism

9. The expenditure on tourism covers grant-in-aid to the Scottish Tourist Board and grants and loans for tourist projects. Additional provision has been allocated for each year of the Survey period to enable the Board to support a new network of area tourist organisations.

Transport

10. Expenditure is planned to increase by about 13 per cent between 1981-82 and the end of the Survey period. Progress on the motorway and trunk road programme will

continue on strategic routes, with schemes on A1, A9 A74, A75 and A94. The Government's commitment to subsidise shipping and civil aviation services will be maintained. Local authorities should be able to proceed with their priority projects although at a slightly slower rate than previously planned.

Housing

11. Expenditure on public sector housing is forecast to fall by about £106 million (14 per cent) between 1981-82 and 1984-85 after taking account of the transfer of resources to DHSS for rent rebates and allowances and the proposed change in the treatment of mortgage interest (see below). For 1982-83 (as in 1981-82), to ensure that the total planned resources for local authority housing will not be exceeded, individual local authorities will receive their full capital allocation only if their rate fund contribution to their housing revenue account is within the limits set by Government; otherwise the capital allocation will be reduced by an amount directly related to the amount of the excess of the rate fund contribution over the limit. For later years the breakdown of the programme between capital and current expenditure and between agencies has still to be decided, but it will reflect the Government's intention to reduce the overall level of subsidies in order to protect capital expenditure as far as possible. New building is likely to be concentrated on areas and groups with special needs and priority given to the modernisation of existing dwellings, with housing associations continuing to play an important part. This policy will be complemented by the promotion of private sector building and the encouragement of owner-occupation. Tables 2.15.2-2.15.4 give further details about the housing programme. In the light of the proposed introduction of Housing Benefit provision for rent rebates and rent allowances and the associated administrative costs will be included in Programme 12 (Social Security); the Housing programme total has been reduced by the appropriate amount. Changes are also proposed in the arrangements for income tax allowances on mortgage interest which will make a separate Option Mortgage Scheme unnecessary; public expenditure associated with these new arrangements is included in programme 13 (Inland Revenue) for 1983-84 and beyond.

<u>Other environmental services</u>

12. Provision for this programme is planned to rise by about 12 per cent by the last year of the Survey compared with 1981-82. Within the total provision priority is given to essential and job creating services, such as refuse collection and disposal, industrial site development by local authorities and industrial and commercial development by the New Town Development Corporations. A suitable transfer of resources has been made available to the Countryside Commission for Scotland

PERMANENT NEW DWELLINGS: PUBLIC SECTOR: SCOTLAND

(a) Completed
(b) Started

	Local Authorities		New Towns		SSHA		Housing Associations		Number of Dwellings Total(1)	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
1975	16,056	12,326	3,636	3,683	3,062	2,612	766	592	23,952	19,706
1976	14,361	7,572	3,980	2,665	2,813	2,547	1,152	1,362	22,823	14,605
1977	9,119	5,829	3,167	1,673	2,042	1,631	546	629	15,188	9,840
1978	6,686	4,185	1,510	2,202	1,711	1,174	1,127	1,365	11,316	9,132
1979	4,755	4,858	2,018	984	1,084	1,046	544	1,014	8,607	7,922
1980	5,048	2,770	1,288	1,155	1,119	1,511	869	1,261	8,357	6,702
1981(P)	4,500	2,100	1,300	700	1,600	200	2,000	750	9,400	3,750

(1) Totals include Government Departments

(P) Provisional

TABLE 2.15.3

PUBLIC SECTOR IMPROVEMENTS: WORK APPROVED: SCOTLAND

Number of Dwellings

	Local Authority	New Towns	SSHA	Housing Associations	Total
1975	20,800	100	3,800	500	25,200
1976	26,800	100	8,900	200	36,000
1977	36,200	-	20,200	300	56,700
1978	35,200	100	9,500	1,400	46,200
1979	21,800	-	12,800	2,700	37,300
1980	17,400	-	4,900	2,800	25,100
1981(P)	18,500	-	1,500	1,300	21,300

Local authority figures from 1978 relate to work completed
(P) Provisional

GROSS (UNREBATED) RENTS(1) SCOTLAND

TABLE 2.15.4

£ cash ~~at outturn prices~~

	Average amount per dwelling - per week	As percentage of average weekly earnings(2)
1975-76	2.90	4.8
1976-77	3.47	4.8
1977-78	4.02	5.1
1978-79	4.46	5.0
1979-80	4.92	4.9
1980-81	5.88	4.8
1981-82(P)	7.65	5.5

(1) Rents are averages for the financial year.

(2) Males aged 21 and over in full time employment at April each year.

(P) Provisional.

reflecting their new statutory power under the Countryside (Scotland) Act 1981 to grant aid local authorities for functions previously exercised by them as the Secretary of State's agency.

Law, order and protective services

13. Planned expenditure on law, order and protective services accords with the Government's priorities and is intended to cover continued growth in police manpower, estimated increased costs of legal aid, improvement and construction of prison buildings, development of civil defence the maintenance of fire cover in accordance with minimum standards ~~period~~ and for some developments in accordance with the Government's priorities. Table 2.15.5 provides further information about the prison service.

Prison Service - Scotland

Table 2.15.5

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1. Total net expenditure £million	27.5	36.1	43.1	42.5	49.0	53.0
2. Daily average inmate population	4,616	4,822	4,915	4,955	4,985	4,985
3. Total average numbers of out-stations non-industrial staff in post	2,513	2,620	2,630	2,630	2,630	2,630
4. Total number of inmate places available at end of financial year	5,146	5,146	5,146	5,190	5,176	5,227

Education and science, arts and libraries

14. Expenditure is planned to increase by about £180 million or 13 per cent between 1981-82 and the end of the Survey period. In 1982-83 provision has been made for redundancy payments to primary teachers whose numbers are greater than the forecast numbers of pupils require. For non-teaching costs the plans assume continuing constraint including reductions in the number of non-teaching staff. Capital spending on new school building reflects the decreased needs as the number of pupils declines. In further education, the plans include additional resources of £25 million over the period 1982-83 to 1984-85 to increase the

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2.15.14

2.16 WALES(1)

Table 2.16

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Agriculture, fisheries, food and forestry	31	28	24	48	60	62	67	70	80
Industry, energy trade and employment (excluding tourism)	10	29	49	64	83	104	87	80	90
Other services(2)									
Industry, energy trade and employment (tourism only)	2	2	3	3	4	5	5	10	10
Roads and transport	146	140	165	198	230	256	290	310	320
Housing	197	176	184	225	228	174	169	130	120
Other environmental services	149	162	186	211	247	262	275	280	300
Education and science, arts and libraries(3)	350	367	412	465	567	627	645	680	700
Health and personal social services	358	402	460	543	692	791	850	900	950
Other public services	16	16	19	26	30	35	36	40	40
--									
Total other services	1,218	1,266	1,428	1,671	1,998	2,150	2,271	2,340	2,430
Total expenditure within the Secretary of States responsibility(3)	1,259	1,323	1,500	1,783	2,141	2,316	2,426	2,500	2,600
(3) of which: Support for the Welsh language									

(1) This programme includes only that expenditure in Wales which is within the responsibility of the Secretary of State. There is expenditure in Wales in other programmes.

(2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of state. Expenditure on agriculture, fisheries, food and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a greater extent than

others by national and EC policies	.	.

2.16.1

1 Some [46] per cent of the expenditure in Table 2.16 will be subject to cash controls in 1982-83, comprising certain central Government votes relating to expenditure on goods and services, the local authority capital expenditure cash limits, the cash limits on the capital expenditure of certain public corporations and the external financing limits of the Welsh Water Authority. In addition local authorities' current expenditure will be influenced by cash limits on Rate Support Grant (RSG) and on other Government grants which will make up about two-thirds of relevant expenditure. Direct cash limits on central Government voted expenditure are shown (with the prefix XVI) in table 4.1 together with local authority capital expenditure and other relevant cash controls.

2 Table 2.16 covers expenditure in Wales within the responsibility of the Secretary of State for Wales. Expenditure in Wales which is the responsibility of other Ministers is included in the tables relating to those Ministers' responsibilities; in particular the expenditure in Wales by the Secretary of State for the Home Department will be found in table 2.9; expenditure by the Property Services Agency in support of the programmes for which the Secretary of State for Wales is responsible is in table 2.14; expenditure by the Manpower Services Commission in Wales appears with the Commission's other expenditure in Great Britain in table 2.4.

3 The services within the Secretary of State's programme fall into two categories. The first category, which includes agriculture, fisheries, food and forestry and also industry, energy, trade and employment, comprises services that are influenced to a greater extent than others by United Kingdom and European Community policies. The provision for these services is separately determined and is not freely transferable to any other service. The second category, the "other services" in the table, forms a block of services for which aggregate provision is adjusted by taking account of changes to comparable English or English and Scottish programmes and for which, within the total, the Secretary of State has discretion to apportion expenditure among the individual services.

4 Expenditure on the programme is divided between central Government, public corporations and local authorities. Local authority expenditure in Wales is shown in table 2.16.1. It accounts for about 50% of the total expenditure in the programme. The provision for local authority current expenditure in 1982-83 has been increased by £94 million from the planned level in Cmnd 8175 for 1981-82 .. 16
pay and prices move in line with the government's assumptions
the plans for the 1982-83 RSG
allow virtually the same level of service as envisaged in the 1981-82 RSG settlement. The plans for local authority capital expenditure are 14% more than those for 1981-82 and 32% more than expected outturn. There has been an increase in the plans for capital expenditure on housing, transport and the urban programme. Details of the individual services are given in paragraphs 10 onwards.

Outturn 1980-81 and prospective outturn 1981-82

5. In 1980-81 the provisional outturn on the programme was not overall significantly different from the planned expenditure level in Cmnd 8175. Central government expenditure in 1981-82 is also expected to accord closely with planned levels. Local authority current expenditure in 1981-82 is estimated to be close to the Secretary of State's target at November 1980 prices. Local authority Capital expenditure is estimated to be about £~~29~~ 21 million or ~~15~~ 10 per cent below the cash limit. The reason for the underspend is partly due to the higher than anticipated level of capital receipts and also local authorities cautious response to the new local authority capital expenditure control scheme.

Future Years.

6. The figures for the last 2 years allow for annual increases of 3% and 4% respectively.

2.16.4

Local Authority Expenditure in Wales

Table 2.16.1

£m at Cash Prices (3)

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
CURRENT EXPENDITURE (1)(2)							
Agriculture, Fisheries Food and Forestry	-	-	-	-	-	1	1
Industry, Energy, Trade and Employment (exc Tourism)	1	1	2	2	3	3	3
Roads and Transport	49	56	64	72	81	93	100
Housing	8	7	9	15	16	17	13
Other Environmental Services	84	94	108	125	142	152	156
Education and Science, Arts and Libraries	315	338	379	431	519	573	595
Health and Personal Social Services	46	51	58	71	87	98	101
Other Public Services	4	4	4	7	8	11	12
Local authority current expenditure within the Secretary of State's responsibility	507	551	624	723	856	948	981
Home Office Services (5)	62	67	76	97	118	135	148
Other Services	20	29	31	35	44	53	44
Total Local Authority current expenditure in Wales	589	647	731	855	1,018	1,136	1,173
CAPITAL EXPENDITURE (4)							
Agriculture, Fisheries, Food and Forestry	-	-	-	-	-	0	0
Industry, Energy, Trade and Employment (exc Tourism)	-	-	-	-	-	0	0
Roads and Transport	31	30	3~~0~~8	49	55	49	68
Housing	116	85	83	104	90	50	93
Other Environmental Services	25	27	33	49	58	55	62
Education and Science, Arts and Libraries	27	21	23	24	36	39	35
Health and Personal Social Services	5	4	4	6	6	6	6
Total local authority capital expenditure within the Secretary of State's responsibility	203	167	181	232	245	199	264
Home Office Services (5)	3	1	1	3	2	5	6
Other Services	-	-	-	-	-	1	1
Total ~~(6)~~ local authority capital expenditure in Wales	206	168	182	235	247	205	271
Total ~~(6)~~ local authority expenditure in Wales	795	815	913	1,090	1,265	1,341	1,444

Table 2.16.1 Continued

(1) The figures shown from 1981-82 onwards for current expenditure form the basis of separate Welsh RSG settlements first introduced in that year. Figures for earlier years include approximations derived by apportioning combined totals for England and Wales.

(2) Local authority current expenditure is not directly controlled by central Government. Local authorities are free to decide on its level and distribution, but there are cash limits on certain central Government grants.

(3) Figures for 1981-82 are local authorities own budgets.

(4) From 1981-82 local authority capital expenditure has been controlled by cash limits with some freedom for local authorities to determine its distribution among services.

(5) This reflects a notional split of England and Wales expenditure on law, order and protective services.

2.16.5

Agriculture, Fisheries, Food and Forestry

7 Most of the provision is for services operated on a UK basis and the commentary on table 2.3 is generally applicable. The forecast outturn in Wales for 1981-82 is about £9 million higher than originally planned in Cmnd 8175. This includes an extra £6.7 million for increased hill livestock compensatory allowance and £2.3 million for the premium scheme under the CAP, arising from a 7½% price increase for the sheepmeat sector and a change in the method of paying the premium. The provision for future years has been similarly affected. In 1982-83 the provision for hill livestock compensatory allowances and the sheep premium scheme has been increased by £10.3 million and £4.6 million respectively and is broadly constant from 1982-83 onwards with no allowance for changes in rates of aid. Each of the future years also includes additional provision of around £1 million to cover expenditure expected to arise from European Community initiatives under the existing capital grant schemes.

Industry, Energy, Trade and Employment

8 The provision for industry, energy, trade and employment in Wales relates almost exclusively to industrial support and is almost wholly controlled by cash limits. Selective assistance to industry in assisted areas is available from the Welsh Office in addition to regional development grants provided by the Department of Industry. Provision for the development of industrial infrastructure by the Welsh Development Agency is set around £50 million for each year of the period; The Development Board for Rural Wales is concerned with promoting the social and economic development of Mid-Wales, including the designated new town at Newtown, Powys. These activities amount to about £7 million a year. The provision for employment includes the cost of the Careers Service in Wales; it does not cover expenditure in Wales by the Manpower Services Commission which is included in the Commission's expenditure throughout Great Britain in table 2.4.

Tourism

9 The expenditure on tourism covers grant-in-aid to the Wales Tourist Board and grants and loans for Tourist projects.

Roads and Transport

10 The roads and transport programme will continue to give priority to improvements to strategic routes which contribute to industrial growth and economic regeneration. In South Wales the most significant route is the M4/A48/A40. The major part of

the motorway section was completed during 1981 with the opening of the M4 Bridgend Northern By-Pass. Up-grading of the A55 in North Wales has now assumed top priority in the programme with a view to completing most of the work by the end of the decade. The counties' road improvement programmes complement the trunk road programme and have received additional resources to ensure that maximum benefit is derived from the investment in the strategic network.

Housing

11 Current expenditure on housing has been reduced due to a transfer to the Department of Health and Social Security of the provision for rent rebates and allowances and the cessation of the Option Mortgage Scheme from 1 April 1983. The reduction in current expenditure in 1982-83 also reflects a decision to make rents bear a greater share of the revenue costs of housing. Capital provision in 1982-83 has been enhanced by the transfer of £13.5m from outside the housing programme and represents an increase of ~~16%~~ 58% over the likely outturn for 1981-82. The housing association movement continues to receive a favourable allocation of resources in accordance with its past performance and its priorities for the rehabilitation of older properties and housing for special needs. The relative shares of capital and current expenditure for the years 1983-84 and 1984-85 have yet to be determined.

[HOUSING]

Permanent new dwellings started: public sector: Wales

Table 2.16.2

Number of dwellings

	LA	New Towns	HA	GD	Total public sector
1976	6,662	350	331	12	7,355
1977	3,606	288	1,285	8	5,187
1978	3,680	322	1,184	12	5,198
1979	3,019	160	657	4	3,840
1980	2,343	96	384	8	2,831
1981 (provisional)	1,163	41	452	6	1,662

Permanent new dwellings completed: public sector: Wales

Table 2.16.3

Number of dwellings

1976	6,864	505	182	103	7,654
1977	6,575	315	388	13	7,291
1978	4,111	348	1,072	16	5,547
1979	3,010	316	1,016	9	4,351
1980	3,493	209	917	3	4,622
1981 (provisional)	3,510	160	525	6	4,201

Gross unrebated rents: Wales

Table 2.16.4

£ at outturn prices

	Average per Dwelling per week(1)	as a per cent of average weekly earnings (2)
76-7	4.46	6.4
77-8	5.14	6.7
78-9	5.78	6.7
79-80	6.32	6.5
80-81	7.85	6.4
81-82 (provisional)	11.43	8.1

(1) At April each year. Unrebated and excluding rates. Local authority dwellings

(2) Average weekly earnings (April) for full-time men 21 and over in all industries and services in Great Britain (excluding those whose pay was affected by absence).

Other Environmental Services

12 About three-quarters of expenditure on other environmental services consists of local authority expenditure on local environmental services, current and capital. Increased provision for the Urban Programme in 1982-83 takes account of the Government's policy to further assist industrial, economic and social improvements in areas of special social need. The figures also include provision for capital expenditure on water conservation and supply, sewage disposal and sewerage and arterial drainage. The reduced water services provision for 1982-83 and future years arises out of the general need for public expenditure savings.

Education and Science, Arts and Libraries

~~The present plans, which have been formulated on the basis of the Government's announced factors for pay and price increases, provide for educational provision in Wales to be maintained at broadly the level envisaged in Cmnd 8175.~~ 15 Overall expenditure on education, arts, libraries and museums is assumed to increase over 1981-82 levels by 3% in 1982-83, 8% in 1983-84 and 12% in 1984-85. The plans take into account the fact that local authority budgets for education for 1981-82 were higher than assumed in Cmnd 8175, but the reductions assumed in that document are expected to have been secured by 1983-84. In particular further economies are expected in the school meals service where planned reductions have not so far been achieved. School teacher numbers are assumed to fall generally in line with falling school rolls over the period, the overall pupil-teacher ratio being maintained at the Cmnd 8175 planned level of 18.1:1. Additional resources - £3 million in 1982-83 rising to £5 million in 1984-85 - have been made available to enable more 16-19 year olds to stay on in full time education at school or college.

PUPILS AND TEACHERS IN MAINTAINED SCHOOLS : WALES

Table [A]

Full-time equivalents (thousands)

	1979-80 (Actual)	1980-81 (Actual)	1981-82	1982-83	1983-84	1984-85
Pupils (1)						
Nursery Schools	3.0	2.9	2.9	3.1	3.2	3.3
Primary Schools						
Under 5s	34.7	33.8	34.2	36.0	37.5	38.2
5s and over	254.9	243.9	234.2	222.4	214.4	211.3
Secondary Schools						
U.S.L.A.	220.4	218.0	215.4	213.6	210.6	205.2
O.S.L.A.	20.4	21.6	22.5	22.1	21.8	21.5
TOTAL	533.4	520.2	509.2	497.2	487.5	479.5
Teachers in Service (2)	29.5	28.9	28.1	27.5	26.9	26.5

(1) Pupil numbers in nursery, primary and secondary schools at January each year.
(2) Figures include seconded teachers

2.16.10

Pupil/Teacher Ratios for Maintained Schools

Table (B)

Number of pupils

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Pupil/Teacher Ratio Overall	18.1	18.0	18.1	18.1	18.1	18.1

Health and Personal Social Services

14 The provision for health services in 1982-83, which reflects efficiency savings and increased income from charges, will enable existing standards of care to be maintained while providing for demographic growth and enable progress to continue on the equalisation of financial allocations to health authorities. A comprehensive capital building programme, mainly aimed at modernisation, will include continuing work on five new district general hospitals and work on a further one at Llanelli is expected to commence. A special allocation of funds will be made to health authorities to enable them to reduce the backlog of maintenance of buildings. Funds will be made available for the development of voluntary work opportunities for unemployed people in social services and health. The provision for current expenditure by local authorities on personal social services reflects the realism of the distribution of expenditure according to local needs and authorities have been asked to protect as far as possible services for the most vulnerable. Provision for Family Practitioner Services reflects increased demand but takes account of increased income from charges. The figures for 1983-84 and 1984-85 are subject to review next year.

2.16.11

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2·16.13

2.17 NORTHERN IRELAND

Table 2.17

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83	1983-84	1984-85
Northern Ireland Office									
Law,order and protective services	164	171	197	241	300	325.	347		
Other public services	3	3	3	4	4	7.	6		
Common services	1	1							
Total Northern Ireland Office	168	174	201	245	305	333.	354	370	390
Northern Ireland Departments									
Agriculture,fisheries,food and forestry	47	70	93	69	52	59.	77	70	70
Industry,energy,trade and employment	222	232	284	308	358	403.	416	420	440
Transport	73	87	101	116	122	129.	106	120	130
Housing	177	171	187	215	244	245.	305	340	350
Other environmental services	75	82	91	104	121	134.	150	160	170
Law,order and protective services	5	6	7	8	10	12.	14	10	20
Education and science, arts and libraries	262	297	340	389	458	501.	534	560	580
Health and personal social services	240	270	314	382	484	546.	579	610	650
Social security	341	410	494	586	711	860.	985	1,070	1,150
Other public services	10	10	11	14	17	21.	21	20	20
Common services	7	5	11	15	21	26.	28	30	30
Total Northern Ireland Departments	1,459	1,640	1,934	2,207	2,599	2,934.	3,212	3,410	3,600
--									
Total	1,627	1,815	2,134	2,452	2,904	3,267.	3,566	3,780	4,000

2-17.1

1. For 1982-83 some [ ] per cent of the total will be subject to cash controls, which comprise certain Central Government Votes relating to expenditure on goods and services, and the services provided by the Northern Ireland Departments analogous to GB services covered by cash limits. The relevant cash controls are shown in table 4.16 of this White Paper.

2. Figures in the table relate solely to the responsibilities of the Secretary of State for Northern Ireland and cover expenditure by the Northern Ireland Office, Northern Ireland Departments, Area Boards, District Councils etc. They therefore exclude expenditure in Northern Ireland by the Ministry of Agriculture, Fisheries and Food which is included in the figures contained in table 2.3 . They also exclude expenditure by the Intervention Board for Agricultural Produce on market regulation operations to implement the Common Agricultural Policy in the United Kingdom as a whole (table 2.3); extra costs attributable to the army's task in Northern Ireland which are included within the figures in table 2.1 and are likely to be £ 149 million in 1981-82; and expenditure by the Lord Chancellor's Department on court services which is included in table 2.1. Receipts from the European Social Fund (which reimburses the Government for part of the cost of a number of training programmes) and from the European Regional Development Fund (which provides assistance towards the development of industry and infrastructure in the poorer regions of the European Communities) are taken into account in the net contributions to the European Communities (table 2.2). In 1980-81 actual receipts in Northern Ireland from the Social Fund were £23 million and from the ERDF were £21 million. Annual commitments from these two funds are now running in excess of £50 million. Receipts from the European Agriculture Fund which cannot be attributed

accurately on a regional basis are also taken into account in table 2.2 as are receipts under Article 235.

3. The outturn for the financial year 1980-81 was very close to the expenditure targets for the year. During the year £55 million was provided from the Contingency Reserve to allow electricity tariffs to be brought more into line with those in England and Wales, to provide additional funds for industrial development and support and to cater for increased costs in the law, order and protective services programme.

4. Northern Ireland continues to be severely affected by the worldwide recession and while total industrial output including output in the manufacturing sector has shown some revival, job losses have continued as elsewhere in the UK. In January 1982 seasonally adjusted unemployment stood at 18.1 per cent.

5. In the allocation of public expenditure, therefore, the enhanced provision for the Industry, Energy, Trade and Employment programmes achieved over the past two years has been maintained. In this area, the allocations reflect the priority given to industrial support and development, the continuation of the agreed policy for electricity tariffs, and the introduction of the new comprehensive Youth Training Programme for young people. All these measures contribute to the overall objective which is to place Northern Ireland in a position to take full advantage of improvement in the world economy and to seize all available local opportunities for growth.

6. The drive to promote fresh inward investment and broaden the existing industrial base continues. Results have not been as good

as in earlier years nevertheless. In 1981 in the face of very difficult circumstances over [2450] jobs were promoted by the Department of Commerce and the Northern Ireland Development Agency, whilst in the small firms sector the Local Enterprise Development Unit promoted over [1150] jobs. At the same time many thousands of jobs in existing firms including Harland and Wolff and Shorts were maintained by the provision of appropriate support. For the future the creation of the Industrial Development Board will produce an important concentration of effort in this sector, building on the base already established.

7. The new Youth Training Programme which it is planned to introduce in September 1982 is specially geared to the needs of Northern Ireland. It will offer a guaranteed year of training to 16 year old school leavers who are unable to find employment as well as a range of training opportunities to other young people in the 16/17 age group. The programme is expected to cover 15,000 such young people in 1982-83 and will also offer work preparation or training opportunities for young people staying on at school and those in employment.

8. For Electricity, allocations have been made in each year to enable the NIES to maintain the policy announced in 1981 that Electricity tariffs in Northern Ireland should be maintained at the level of the highest Area Boards in England and Wales despite the much higher generating costs in Northern Ireland arising from its greater dependence on oil. The existing 5 per cent differential on domestic tariffs will therefore be removed with effect from 1982-83.

9. The agriculture industry continues to provide a signficant share of Norhtern Ireland's gross output. A review of agriculture in

in the Province taking into account UK and EC arrangements has resulted in a substantial increase in the resources to be made available for agriculture over the Survey period. The disbursement of the additional resources is the subject of discussion with the EC authorities. The Government will continue to seek the maximum aid from EC funds for Northern Ireland farming.

10. The overall standard of housing in Northern Ireland is a matter of considerable concern. Housing has therefore been accorded the top priority within the social and encironmental programmes. The planned programme reflects a substantial increase in each year over earlier plans. The physicial programme is being planned on the basis that throughout the period receipts from the EC will become available at the level for which provision is made in the draft Regulations presented to the Council of Ministers on 19 November 1981 and under the arrangements acceptable to HMG proposed for the 1982 element of the Community Budget. It provides for a build-up of new public sector starts from 4500 in 1982-83 to 5250 in 1983-84, as well as improvement of the existing housing stock throughout the survey period at the increased levels of recent years. Should the EC receipts not become available, the physical programme will have to be reviewed. The public expenditure figures for housing will continue to be kept under review in the light of the availability of support from the EC and of changing assumptions about rental income and house sale receipts.

Housing completions by the Northern Ireland Housing Executive

Table 2.17.1

1975	1976	1977	1978	1979	1980
4885	6518	7676	5681	3436	2507

The figures in the table reflect the move during the above period away from new building towards improvement in the existing stock. The programme now planned will reverse the decline in completions, while maintaining the effort to upgrade the existing stock.

11. Although priority is being given to Industry, Energy, Trade and Employment and to Housing, substantial programmes will continue to be maintained in the social services, and the allocations for health and personal social services and for education and allied services have been increased as compared with previous plans. Prudent and economic management of resources will continue to be necessary to ensure that the most effective use is made of these allocations.

12. [The provision for current expenditure of Health and Social Services Boards is [ ] per cent over the 1981-82 level which is comparable to the rate of increase in Great Britain. The service should be able to keep pace with medical advances and react effectively to demographic change. In addition, it will be possible to make a start on some new hospital and community schemes.]

13. The Education service will make a substantial contribution to the operation of the Youth Training Programme and this is taken into account in the provision for education and allied services. The provision also takes account of demographic changes in the structure of the population which must be reflected in the services provided. Priority will continue to be given to maintaining standards in the classroom.

Pupil Numbers

Table 2.17.2 thousands

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Primary pupil numbers (1)	204	201	196	192	191	191
Secondary pupil	159	159	159	159	156	154
Total pupils	363	360	355	351	347	344
Teacher numbers (excluding teachers in special schools)	19	19	19	19	19	18
Pupil/teacher ratio	18.7	18.6	18.7	18.6	18.6	18.6

(1) Including nursery school and grammar schools/preparatory departments but excluding special schools.

(2) Excluding grammar schools/preparatory departments.

NB (a) The table relates to grant-aided nursery, primary and secondary schools. Special schools are excluded. Pupil numbers are as at January.

(b) Teacher numbers comprise full-time and full-time equivalent of part-time. Substitutes are excluded.

(c) Teacher numbers take account of teachers in schools and of extra teachers for the programme of induction and in-service training. Principally for this reason the pupil/teacher ratios cannot be taken as a measure of effective staffing standards in schools.

14. The Government will continue to give priority to the law and order programme and will make available all necessary resources to combat terrorism.

2-17.7

15. The planned programmes confirm the Government's continued determination, within the resources available, to respond to Northern Ireland's special needs. Public expenditure per capita in Northern Ireland will continue to be substantially higher than on comparable programmes in Great Britain. In addition to the major priorities referred to above, additional provision has been made to help deal with the special social and environmental difficulties in Belfast and to help with the re-development of Londonderry city centre. Within the total plans, the proportion of capital expenditure has been increased.

16. For the purposes of social security expenditure projections it has been assumed that unemployment (excluding school leavers) in Northern Ireland would average 101,000 in 1981-82, 108,000 in 1982-83 and 116,000 in subsequent years. The comparable assumptions for school leavers, adult students and temporarily stopped are 12,500 in 1981-82, 7,500 in 1982-83 and 5,500 in subsequent years.

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SOCIAL SECURITY: ESTIMATED NUMBERS RECEIVING THE MAIN BENEFITS AT ANY ONE TIME

Table 2.17.3 thousands

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
Retirement pensions	173.1	175.0	181.0	182.0	190.0	192.9
Invalidity benefit	25.5	26.0	28.0	28.0	30.5	32.2
Industrial disablement benefit	4.0	4.0	5.0	5.0	4.4	4.5
Widows' pensions and industrial death benefit	19.0	19.0	17.0	16.0	15.2	15.0
[illegible] persons' pensions	5.3	5.0	5.0	4.0	4.1	4.0
Attendance allowance	12.7	13.0	14.0	16.0	15.5	16.1
Non-contributory invalidity pension	6.6	10.0	9.0	9.0	9.8	10.1
Invalid care allowance	0.7	0.9	1.0	1.0	0.7	0.7
Mobility allowance	1.2	1.8	3.0	4.0	5.1	5.9
Supplementary benefit	112.0	117.0	120.0	121.0	129.0	150.0
Child benefit (up to 1976-77 family allowance including child interim benefit) (1)	298.0	496.0	488.0	480.0	492.5	493.1
Family income supplement	7.4	8.0	8.0	8.0	8.5	11.0
Sickness and injury benefits and maternity allowance (2)	30.5	30.0	33.0	35.0	27.1	31.6
Unemployment benefit	35.0	28.0	30.0	25.0	38.5	51.8
Widows' allowance, maternity and death grants (3)	40.6	40.0	40.0	40.0	41.0	40.8

(1) These figures are the numbers of children for whom allowances/benefit were paid.

(2) These figures include the numbers of awards of maternity allowance during the year (for an average of 17 weeks).

(3) These figures show the number of awards of widows' allowance, maternity and death grants in year. Widows' allowance is awarded for 26 weeks: maternity and death grants are lump-sum payments.

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PART THREE: NATIONALISED INDUSTRIES' CAPITAL REQUIREMENTS AND FINANCING

1. This part of the White Paper sets out the nationalised industries' capital requirements and the means by which they are financed. It explains how these plans affect the public expenditure planning total. The commentaries on individual industries in paragraph 12 onwards describe their capital investment and financing plans in the context of their recent and prospective business performance.

Nationalised industries and public expenditure

2. The industries' total external finance is part of the public expenditure planning total. It consists of certain grants and borrowing. Grants to the industries, whether to finance current or capital expenditure, are included in the programmes concerned (Tables 2.4, 2.6, 2.8 and 2.15). The industries' total net borrowing, which primarily finances their investment programmes, is included as memorandum item B in Table 1.1. It comprises net Government lending - loans from the NLF, public dividend capital and issues under Section 18 of the Iron and Steel Act 1975 - and the industries' net overseas and market borrowing, including short term borrowing and leasing. For individual industries, external finance is controlled in the coming year by the external financing limits.

3. The totals for each of the three future years in Table 3.1 above exclude figures for the National Freight Company

Limited, which is expected to be sold before the end of 1981-82. Figures for the British National Oil Corporation and the British Transport Docks Board are excluded for 1983-84 and 1984-85 on the assumption of a sale of shares and removal from the public sector in 1982-83.

4. The industries' requirements for external finance depend on the size of their investment programmes and on their ability to generate their own funds to finance this. Table 3.1 above shows the relative contribution of internal and external funds to the finance of the industries' total capital requirements. The industries' contribution to public expenditure over the three years of the Survey period is now expected to be £7.4 billion (£4.5 billion grants and £2.9 billion net borrowing) in the survey period. This is some £4.1 billion higher than the cash equivalent of the projections in Cmnd 8175, after allowing for the effects of the gas levy and the changes in coverage noted in paragraph 3 above. The industries' forecasts are sensitive to general trading conditions and the the projections in Table 3.1 are inevitably uncertain; but these levels of external finance should be sufficient to permit some increase in the industries' investment plans in aggregate, despite substantially lower internal resources than forecast a year ago, largely because of reductions in revenue resulting from lower demand. Even so, the industries will continue to finance two-thirds of more of their investment from their internally generated funds. Between 1981-82 and 1984-85 the industries' contribution to public expenditure is expected to fall by about £1¼ billion.

Captial requirements and financing

5. Table 3.2 sets out in more detail the industries' capital requirements, showing each industry's fixed asset spending plans. The industries' plans in aggregate allow for a higher level of fixed asset spending in each year of the Survey than in Cmnd 8175. After allowing for the different treatment of the National Freight Company, the British Transport Docks Board and the British National Oil Corporation, the new investment plans are some £200 million higher in 1982-83, £500 million higher in 1983-84 and £700 million higher in 1984-85, an increase of a little under £1½ billion in the three years taken together.

6. Tables 3.3 to 3.5 set out each industry's financing requirements in 1980-81, 1981-82 and 1982-83. For 1980-81 and 1981-82 they show outturn or estimated outturn against the industries' EFLs. For 1982-83 the table shows the EFLs announced by the Chancellor of Exchequer on 2 December 1981 (except for the Scottish Electricity Boards - see paragraph 18 below).

1980-81 and 1981-82

7. The figures for 1980-81 in Table 3.3B are final outturn figures, updating ~~those~~ the estimated outturn shown in Table 3.4 ~~of~~ Cmnd 8175 . The original external financing limits are shown in Table 3.3A, which has been reproduced from the 1980-81 Financial Statement and Budget Report. ~~were increased for~~ They were increased for 6 industries - British Steel, the Post Office, British Airways, British Rail, Scottish Transport Group and British Shipbuilders. The additional finance of £0.9 billion was found from the Contingency Reserve. In addition, three industries - the National Coal Board, the British Transport Docks Board and the Post Office ~~all~~ overran their EFLs.

Table 3.4A shows the original EFLs for the current year, as set out in the 1981-82 Financial Statement and Budget Report, and

8. Table 3.4B ~~shows~~ gives estimated outturn figures. ~~for the current year.~~ These figures are inevitably subject to revision but the aggregate external finance is expected to be about £0.7 billion above the totals shown in Cmnd 8175, excluding the effect of the gas levy. Increases were made in EFLs of the British Gas Corporation and the Electricity Supply industry in England and Wales associated with the energy price measures in the 1981 Budget. In addition, the British National Oil Corporation's external financing was increased to reflect the new North Sea fiscal regime announced at the same time. During the year, a number of increases in external financing limits have been announced, including the National Coal Board (£231 million), British Telecom (£200 million), Post Office and National Girobank (£7 million) and British Airways (£53 million). The British Railways Board's EFL of £867 million plus £53 million to finance withdrawal from the Collect and Deliver parcels business was also revised, to £920 million for the business as a whole. One industry - the British Transport Docks Board - is currently forecasting an overshoot, but action is in hand to minimise this. These changes take no account of use by the industries of the special arrangements for end-year flexibility announced by the Chancellor on 4 August 1980. If funds are required for this purpose they will be found from the Contingency Reserve.

1982-83

9. Table 3.5 gives the financing figures for 1982-83. They constitute the industries' external financing limits except in the case of the British National Oil Corporation. By far

the largest amounts of external finance, about £2 billion in total, are for the NCB and BR. Virtually the whole of the sum for BR is a grant payment to enable them to maintain the present rail network. Funds for the NCB are divided between social, deficit and operating grants and borrowing for investment. The breakdown of the components of each industry's financing requirements is based on preliminary estimates and is likely to change.

Later years

10. The capital expenditure and financing figures for the later years of the survey period are particularly uncertain both in aggregate and for particular industries. They depend both on general trading conditions as well as on the industries success in maintaining control over their current costs, especially wage costs and improving their efficiency and productivity. These figures are reviewed each year in the light of the industries' performance and their corporate plan.

11. The following paragraphs give the background to the capital investment and financing plans of each of the nationalised industries.

National Coal Board

12. Sales of coal fell from some 125 million tonnes in 1979-80 to 118 million tonnes in 1980-81. The home market for coal has remained depressed but the Board has increased exports so that total sales are expected to be over 120 million tonnes in 1981-82. Within that total about ⅔ of sales were to the British electricity boards, 16 per cent to British industry, 5 per cent to domestic consumers and 7 per cent was exported. Output has continued slightly above its level in 1979-80 so the Boards' stocks of coal rose by nearly 9 million tonnes in 1980-81 and are expected to rise again in 1981-82 by 2-3 million tonnes. Output per man shift is expected to be about 3 per cent higher in 1981-82 than in 1980-81.

13. The increase in coal stocking costs was the principal reason that the Board exceeded its external financing limit by £52m in 1980-81. Following the withdrawal in February 1981 of the Board's plan for accelerated pit closures and subsequent discussions with both sides of the industry, the Government set the Board an external financing limit of £1117m for 1981-82. A limit of £1026m for 1982-83 was announced in December 1981.

14. Within those external financing limits, the Government provides grants towards the Board's deficit on profit and loss account and to help meet the social costs of pit closures and the mineworkers pension scheme. Following the tripartite discussions in early 1981, the Government agreed to increase the operational and deficit grants to over £460m in 1981-82. Payment of some £219m of this depends on passage of new legislation and the figures in this White Paper assume that this will be paid in 1982-83 together with the grants for that year. Social grants are expected to amount to some £94m in 1981-82 and £104m in 1982-83.

15. The Board expect to spend £805m on fixed assets in 1981-82 and provision for £886m (about a 10 per cent increase over 1981-82) has been made in 1982-83.

16. The industry's plans and financing requirements beyond 1982-83 are under review. The Government's aim is that the coal industry should play its part efficiently and competitively in supplying the nation's energy needs and should move towards a position of financial viability.

Electricity Supply Industry

17. A medium term financial target was announced in January 1980 for the industry in England and Wales. This was to achieve an average return of 1.8 per cent on average net assets over the three years 1980-81 to 1982-83. The actual return for 1980-81 was 1.7 per cent. In the same year, the industry was £47 million within its financing limit of £187 million, partly as a consequence of fuel prices being lower than forecast. It expects to remain within its limit for 1981-82 of -£165 million.

18. In 1980-81 external finance for the two Scottish Electricity Boards, the South of Scotland Electricity Board (SSEB) and the North of Scotland Hydro-Electric Board (NSHEB), totalled £74 million, well within the Boards' combined external financing limit. The shortfall was due mainly to better than expected performance of generating plant. The EFLs for 1981-82 were set at £77 million for the SSEB and £32 million for the NSHEB, but have been revised following the closure of the Invergordon aluminium smelter, to £154 million for the SSEB and -£45 million for the NSHEB. The closure will also have affected the Boards' combined requirements for external finance in 1982-83 and subsequent years, reducing this substantially. The figures in this White Paper reflect the Boards' initial assessments of the position. The Government is considering these assessments with the Boards and will in due course announce revised external financing limits, in place of those announced by the Chancellor of the Exchequer on 2 December 1981.

19. The electricity supply industry as a whole is forecasting slower growth of total electricity requirement and Simultaneous Maximum Demand (SMD) than in Cmnd 8175. The year by year figures are as follows:-

Table 3. — Electricity sales and demand

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Total electricity requirements (terawatt hours)	250.3	240.9	237.2	236.8	238.8	241.5
SMD (gigawatts) England and Wales	45.5	43.0	42.9	42.9	43.0	43.4
SMD (gigawatts) Scotland	5.9	5.7	5.8	5.9	6.0	6.2

These figures reflect the effect of the recession on sales of electricity; and also ~~A particular factor~~ in Scotland ~~has been~~ the recent closure of the aluminium smelter at Invergordon, as noted above.

20. In May 1981 the Monopolies and Mergers Commission published a report on the efficiency and costs of the CEGB's operation of its system for the generation and supply of electricity in bulk. The report, whilst commending a number of aspects of the Board's operations, made some criticisms of its investment appraisal techniques and included a number of recommendations. The CEGB are following up the Commission's recommendations in consultation with the Government.

21. The main items in the industries' investment programme continue to be new generation capacity. Construction of the Advanced Gas Cooled Reactor power stations (AGRs) at Heysham and Torness are proceeding, and contracts for the main nuclear components (steam boilers and gas circulators) were placed in March last year. The CEGB have applied for consent to construct a 1100 megawatt (MW) Pressurized Water Reactor (PWR) nuclear power station at Sizewell in Suffolk. As announced by the Secretary of State for Energy a public inquiry into this proposal will start in January 1983.

22. In April 1981 the Secretaries of State for Energy and the Environment approved the CEGB's planning application to site the UK converter station for the 2000 MW Cross Channel Link, between the UK and France, at Sellindge in Kent. In June 1981 the CEGB and Electricite de France entered into formal contracts for the construction and operation of the Link, and contracts have already been placed for the supply of the UK's cables, converter valves and associated terminal equipment.

23. Over the period to November 1983-84 the CEGB plans to commission 8.5 GW of new generating capacity. The substitution of new low cost plant for old will reduce the overall costs of power generation. In October 1982 the Board plans to remove from the system 3.3 GW of older capacity (i.e. 21 power stations) - although 1400 MW of this will be retained as reserve capacity.

Over the same period, the Scottish Electricity Boards plan to commission the second generating set at Peterhead power station (630 MW) and to retire 55 MW of generating capacity.

24. British Gas Corporation

The Corporation's 1980-81 EFL of -£400m was bettered by £9m, and the Corporation is on course to meet the target return on net assets at current cost of 3½% over the period 1980-81 to 1982-83. The Corporation has agreed a performance aim of reducing unit costs, excluding the cost of gas purchases, by 5% in real terms over the financial target period.

25. The impact of the recession can clearly be seen by comparing the Corporation's latest review of gas sales with the forecasts contained in Cmnd 8175.

Table 3. — Gas sales

million therms

	1980-81		1981-82		1982-83	
	Cmnd 8175	Actual Sales	Cmnd 8175	Latest Review	Cmnd 8175	Latest Review
Domestic	8500	8380	8700	8800	8800	9100
Commercial	2100	2147	2300	2300	2500	2400
Industrial	6000	5859	6600	5800	7100	5900
Total	16600	16386	17600	16900	18400	17400

	1983-84		1984-85
	Cmnd 8175	Latest Review	Latest Review only
Domestic	9000	9500	9800
Commercial	2600	2500	2600
Industrial	7200	6200	6400
Total	18800	18200	18800

26. The Corporation's EFL for 1981-82 was set before the introduction of the gas levy, and is in pre-levy terms. The financial forecasts for 1981-82 in table 3.48 therefore do not take account of the levy, unlike the forecasts for later years, although an adjustment to reflect the expected effect of the levy is included in table 3.1. The expected payments of gas levy and taxation by the Corporation are as follows:-

Table 3. — Payments of gas levy & taxation

	1981-82	1982-83	1983-84	1984-85
£ million	542	816	1164	1376

27. The majority of the Corporation's capital investment programme is designed to improve the industry's supply/~~demand~~ position which continues to be ~~exposed~~ tight in the medium term.. The major components are the development of the Morecambe Bay gas field and the conversion of the partially depleted Rough field to a seasonal store. In addition the Corporation is planning a substantial amount of expenditure on maintaining and strengthening the integrity of the transmission and distribution network. All of this expenditure is forecast to be financed without recourse to NLF borrowing.

28. The Oil and Gas (Enterprise) Bill now before Parliament empowers BGC to carry out certain disposals and permits the Secretary of State to direct them to exercise these powers. The Government intends that these provisions should be used to transfer to private ownership BGC's offshore oil interests. The Bill also introduces competition in the supply of gas by pipe, by removing BGC's statutory purchasing rights and restricting its monopoly of supply to those consumers who have a statutory right to demand a supply from the Corporation. In order to encourage competition the Bill contains provisions to facilitate the use by other gas suppliers of BGC pipelines. The financial forecasts do not take these proposals into account.

British National Oil Corporation

29. The Oil and Gas (Enterprise) Bill now before Parliament will enable the introduction of private equity capital into the Corporation's upstream activities and will end the Corporation's access to the National Oil Account (NOA). The Government hopes that the sale of a majority of shares in a company holding the Corporation's upstream interests will take place before the end of 1982. These forecasts therefore contain no provisions for the Corporation's external financing requirements or its capital expenditure for years after 1982-83. The Corporation's trading activities will remain in the public sector but are not expected to involve significant capital expenditure and any external financing requirement is expected to amount to a very small sum, which may be positive or negative according to trading results.

30. Uncertainty about oil price movements and about the pace of expenditure on joint venture projects in the North Sea make it difficult to forecast with confidence the Corporation's net external financing requirement (EFR). As in the past, therefore, the Corporation's forecast EFR is not expressed as a limit for the coming year. However, for 1981-82 the Corporation expects to keep within the target of -£220m set by the Government.

31. Discussions are in progress on a financial regime, including a financial objective, for the Corporation's trading activities.

32. The bulk of the Corporation's capital investment is required for its existing North Sea licence interests, which include ten oil and gas fields either in production or under development, a number of other fields where development decisions can be expected in the next few years, and a continuing programme of further exploration. It is also envisaged that certain limited expenditure will be needed for exploration work on recently acquired interests overseas.

33. BNOC has used two main sources of external finance for its capital expenditure programme: the proceeds of sales under the 1977 Forward Oil Purchase Agreement with BritOil Inc, and the National Oil Account (NOA). At the end of 1981-82 the Corporation's

net drawings are forecast at £139m under the BritOil arrangements and £165m from the NOA.

34. Because of the weaker state of the oil market BNOC has not made arrangements in 1981-82 to receive advance payments for oil it intends to deliver in 1982-83. This has been taken into account in the 1981-82 special sales of assets figure in line 5 of Table 1.1.

British Steel Corporation

35. During 1981 BSC successfully implemented the cost saving programme, put forward in their December 1980 Corporate Plan, including a reduction of 20,000 in their labour force. There was a general recovery in steel prices in the European Community in the second half of 1981. This followed agreement in June 1981 in a package of measures aimed at restoring market stability and the phasing out of subsidies to steel producers in the ECSC. As a result BSC were by December 1981 expecting to achieve their targets of halving the loss in 1981-82 compared with 1980-81, and remaining within their EFL for 1981-82 of £730 million.

36. A provisional 3 year Plan which BSC put forward to the Government in December 1981 provided for further signifcant improvements in performance in 1982-83, including a new round of productivity de-manning, and a return to profitability in 1983-84 and 1984-85. In presenting this Plan, the BSC Chairman made clear that its success depended on the maintenance of the agreed ECSC steel price structure and on the US steel market remaining open to BSC products.

37. However, in January 1982, a number of US steel companies initiated anti-dumping and countervailing duty suits against ECSC steel producers, including BSC. This, coupled with disruption to steel production and damage to stocks and machinery by exceptionally severe weather conditions (particularly in South Wales), led the Corporation to reassess the outlook for the remainder of 1981-82 and the basis on which the new Plan for 1982-83 had been prepared.

38. At the time of going to print this reassessment has not been completed and Ministers have not taken final decisions on the external financing figures for 1982-83. The figures shown in Table 3.5 are based on the provisional EFL announced to Parliament on 2 December and may need to be amended.

British Telecommunications Corporation

39. British Telecom (BT) made a profit after interest of £181 million in 1980-81. This represented a return on net assets of 4.4 per cent compared with a target of 5 per cent. ~~(the return defined as profit before interest after historic and supplementary depreciation, taken as a proportion of net assets at replacement cost). The shortfall was due in substantial part to the recession hitting turnover, although an increase in the business depreciation provisions also had an effect.~~ Cost increases were inadequately contained; this combined with a reduction in turnover due to the recession and some increase in the business depreciation provisions provide the main explanation for the shortfall.

40. These factors also contributed to an increase of about 5 per cent in real unit costs during the year. As a result of this increase and the reduction in unit costs secured in the previous two years, BT obtained a reduction of only 9 per cent in real unit costs over the first three years of the period covered by its performance objective compared with the industry's performance aim of reducing real unit costs by 5 per cent cent a year over the 5 years 1978-79 to 1982-83 .

41. BT's budgeted contribution to the Post Office's external financing limit for 1980-81 was to make a net repayment of £122 million. In the event, BT made a net repayment of £109 million, the small deficiency was due primarily to the effects of the recession on revenue and to the aftermath of an industrial dispute in 1979-80 affecting control of stores and stock levels.

42. In 1981-82 BT's income is showing signs of recovery. The business expects to make a return on net assets in 1981-82 rather above the 5 per cent target for that year announced to Parliament by the Minister of State for Industry on 2 June 1981. But there will probably still be some further deterioration in real unit costs per unit of output as a result of cost pressures flowing through from high pay settlements in 1980-81.

a sustained effort to reduce costs and improve efficiency, while improving services to the public and continuing to expand and

43. For the future, BT plan ~~to~~ ~~continue to~~ modernise the network. ~~and to expand to meet increasing demand for its services. while improving the standard of those services.~~ The following table indicates the main components in the expansion and usage of the system now foreseen for the period to 1985-86:

Table 3. —

Expansion of size and use of telecommunications system

	1980-81	1985-86
Size of system (thousands):		
Working telephone connections	18400	22500
Working telex connections	90	116
Data transmission terminals	82	162
Residential Penetration per 100 households	74	86
Telephone calls (millions):		
Inland (effective calls)	20200	25050
Overseas (million paid minutes)	1410	3300

~~While/lower than envisaged in Cmnd 8175, the growth foreseen and the modernisation required call for a substantial investment effort.~~ ~~somewhat~~

44. BT's external financing limit for 1981-82 was increased on 2 June 1981 by £200 million to £380 million, to facilitate an increased investment level of £1900 million, compared with

£1545 million in 1980-81. A further substantial increase in investment levels is planned for 1982-83 to 1984-85. Approximately one third of BT's investment will be directed at modernisation and improvements to the quality of service, a further third to meet projected growth in demand, with most of the balance being accounted for by investment in subscriber appartus, (an area now open to competition) accommodation for plant and people and computers.

45. A main aim is to replace electro-mechnical exchanges by electronic and digital exchange equipment, and to move the trunk transmission network to a digital basis. This will provide improved services, needed in particular for such developments as electronic funds transfer and high speed data transmission. The cost of maintaining the new equipment will also be lower.

46. The Government would be prepared to approve a higher level of expenditure by BT on fixed assets in 1982-83 to 1984-85 than that shown in table 3.2 if BT were able to finance them by cost savings; through a bond issue (if agreement is reached to such an issue) and through the injection of private capital into BT activities capable of being run by subsidiary companies.

47. As in the past much of BT's investment will continue to be provided by internally generated funds. Price rises are projected to be below the rate of inflation on average (although rises may be greater for certain services at present supplied on an uneconomic basis.) Manpower is to be held at or under its present level of 250,000 and efficiency increased by the application of new technology and improved working practices.

48. The Government continues to pursue a policy of liberalising the supply of telecommunications equipment and services. Competition is being introduced into the supply of terminals for connection to the BT network (other than the prime telephone

instrument) phased on a product by product basis in the period up to 1983. The supply of value added services on the network by private operations will also be extended and the possible establishment of a separate additional network is being considered. These developments are already providing a fundamental change in BT's operating environment and represent a major challenge to the corporation.

Post Office

49. The British Telecommunications Act 1981 brought about the formal separation of British Telecommunications from the Post Office and their creation as independent corporations from 1 October 1981. The Post Office continues to be responsible for the National Girobank.

50. The Act also contained powers to introduce competition into some areas formerly within the postal monopoly. These powers have so far been used to suspend the monopoly in respect of time-sensitive mail, to license charities to deliver Christmas cards and steps are being taken to license document exchanges to transfer mail between exchanges. Provisions were also included in the Act to allow business for a wider range of public sector bodies to be transacted across Post Office counters. This should enable the counters to compensate for the loss of business entailed in the changes in the DHSS arrangements for the payment of social security benefits.

51. For the year 1980-81, before separation, the Posts and Telecommunications businesses had a single EFL of £135 million of which a net repayment of £13 million was allocated to the postal business and National Girobank together. Although National Girobank did slightly better than its allocation, Posts and National Girobank overall had a ~~[illegible]~~ shortfall of £10.5 million due primarily to the effect of the recession on revenue from certain services particularly parcels and overseas mail.

52. The EFL set for the Post Office and National Girobank in 1981-82 was £16 million. This has since been revised to £23 million to allow for the additional £7.3 million injected into the National Girobank in the course of the year which was necessary to enable its investment programme to proceed following the enactment of the tax on banks' non-interest bearing deposits.

Post Office (Posts)

53. Investment in fixed assets will be £115 million in 1982-83. This includes additional investment in areas now open to competition, particularly premium services; and also additional essential building renovation or replacement. The forecast trend in traffic is as follows:-

Table 3. — Mails Traffic — thousand million items

1974-75	1980-81	1984-85
11.1	10.1	10.1

54. The financial target for the years 1980-81 to 1982-83 is 2 per cent on turnover, approximately equivalent to a return of 4.3% (after depreciation but before interest payable) on mean net assets at replacement cost. In 1980-81 the postal business ~~made~~ achieved a profit of £23.3 million (before other gains of £5.9 million), ~~in 1980-81.~~ ~~This represents~~ equivalent to 1.1 per cent on turnover. The shortfall on the financial target, as with the consequential shortfall on its EFL, arose from the lower than expected revenues already mentioned. The business is expected to meet it financial target for 1981-82.

55. The five years' performance aim for the postal business announced in the White Paper, "The Post Office" (Cmnd 7292) was for posts unit costs to be held constant in real terms in the period 1977-78 to 1982-83. ~~In the event the business expects real unit costs which had risen by 4.3% by the end of 1980-81 to have been held at that level~~ Real unit costs rose by 4.3 per cent between 1977-78 and the end of 1980-81. The business expects to hold them at this level until the end 1981-82. Following a review during the past year it has now accepted a more stringent ~~a new~~ performance objective for subsequent years. ~~has been set.~~ Taking 1981-82 as a base, posts real unit costs will be reduced by 5 per cent over the three years from 1982-83 to 1984-85, with 2 per cent of the reduction in 1982-83. The EFL for 1982-83 takes account of savings expected to arise from this cost reduction.

56. Following the report of the Monopolies and Mergers Commission into the Inner London Letter Post, the Post Office agreed an objective of improving productivity in the Inner London area by 15 per cent in the three years from April 1980 with the possibility of further improvements thereafter. In the first year an improvement of 4.6 per cent has been recorded and a further gain of around 5 per cent is expected in the year 1981-82

National Girobank

57. The investment programme is in aggregate very little changed compared to Cmnd 8175.

58. National Girobank's financial target for the years 1979-80 to 1981-82 is to earn an average annual return ~~(after historic and supplementary depreciation but before NLF interest and taxati~~ of 13% on its historic mean net assets plus an additional amount of £5 million over the three year period. Its earnings on this basis in the first two years of £11.2 million and £7.2 million more than met this target and forecasts for performance in 1981-82 indicate that the target will be met in that year also.

59. However, as the result of the provision of £7.3 million for the levy on banks non-interest bearing deposits which Girobank made in their accounts for 1980-81, it had a net loss on its operation in that year of £1.8 million.

British Airways

60 British Airways' results for 1980-81 were dominated by the effects of the recession on air transport demand, as were the results of many other world airlines. British Airways' passenger traffic was 5 per cent (1.4 million passengers) down on 1979-80 as a result, and overall revenue was over £400 million beneath budget. Savings in operating expenditure and increased staff productivity of 6 per cent per unit of output only partially mitigated the decline in revenue, and this led to the airline incurring an operating deficit of £95 million over the year, which became a loss after interest and tax of £145 million(on an historic cost basis). This compares with an operating profit of £29 million in 1979-80. As a consequence of these losses, and despite reductions in capital expenditure, it was necessary to increase British Airways' external financing limit by £85 million to £304 million. The airline's current cost return on mean net assets over the year was minus 9.7 per cent which compares with the statutory financial target for the period 1979-80 to 1981-82 of 6 per cent per annum.

61. The current financial year has not seen any recovery in air transport demand. Additionally, some revenue was lost as a result of the air traffic controllers' dispute in the first half of the year, and the airline has faced the effects of increased competition. British Airways has offset the correspo ing decline in internal resources through the sale of assets and aircraft surplus to requirements, and through the series of economy measures announced in September 1981 to cut costs and increase competitiveness. These measures included withdrawal from several international routes, station closures, and the establishment of a special redundancy scheme aimed at reducing the airline's workforce by 8,000 employees before June 1982.

62. The main effect of the economy measures will be in 1982-83 and subsequent years. The aim is to restore British Airways to profitability in 1982-83 although there still remain uncertainties about the development of trading conditions in the international civil air transport industry.

63. Although the redundancy scheme will be self-financing, its initial cost has put a short term pressure on British Airway's cash flow. Accordingly the Government announced on January that British Airways' external financing limit of £101m for the year would be increased by £53m, to be used solely for redundancy purposes, and repaid in the next financial year. The repayment of the redundancy facility has been taken into account in setting British Airways' external financing limit for 1982-83.

64. British Airways' capital investment programme over the next three years has the main objective of introducing ~~quite~~ quiet fuel-efficient Boeing 757 aircraft to replace the airline's Trident fleet. This reflects British Airways' main strategy over the longer term of seeking to reduce all costs to the level of the most efficient carriers. In this way the airline expects to achieve growth in an increasingly competitive market. The Government is currently discussing with British Airways a new financial target to come into effect from April 1982, and the airline's performance aims.

65. The Civil Aviation (Amendment) Act, which received Royal Assent in January, increased British Airways' statutory borrowing limit from £1,000 to £1,200m, with provision for further increases to a maximum of £1,600m. The Act is designed to cater for British Airways needs for borrowings for investment and for other purposes over the next five years. Almost all of British Airway's external finance is raised in the form of overseas borrowings.

British Airports Authority

66. 1980-81 was the first year of the Authority's new financial target and the return achieved was 5.9 per cent against the target of an average of 6 per cent per annum on net assets revalued at current cost over the three year period to 1982-83. The Authority has two performance aims covering the same period; an average growth in the number of passengers handled per employee of 3 per cent per annum and an average reduction in operating costs per passenger of 2½ per cent per annum. In 1980-81, the first year of the period, despite a reduction in budgetted staff numbers and costs the results were -1.1 per cent and +1.3 per cent due mainly to a substantial reduction in the number of passengers during the year. The Authority was nevertheless able to operate within its external financing limit. In 1981-82 the Authority is expected to remain profitable and to operate within its external financing limit and, although traffic is not expected to increase significantly, to make better progress in meeting its performance aims.

67. A recovery in growth of traffic is expected in 1982-83 though at a slower rate than previously forecast. This prolonged recession in growth of business, which has affected air transport worldwide, covers the period of the financial target. Even so the Authority expects to achieve an average return better than 4 per cent helped by further savings in costs and staff numbers.

68. The Authority has embarked on a major investment programme covering the expansion of their South East airports though due to downward revision of traffic forecasts this is likely to take place over a longer period than previously expected. The construction of a fourth terminal at Heathrow was authorised and started in 1981 and is expected to be completed in 1985. A decision on the second terminal at Gatwick has not yet been taken. The public inquiry into the proposed development

of a new terminal and related facilities at Stansted is now in progress. About 60 per cent of the Authority's planned capital expenditure over the next three years is devoted to new major projects.

69. The major part of the finance for the investment programme is expected to be available from internally generated funds but the balance will be financed by new borrowing. Powers to increase BAA's statutory borrowing ceiling have been taken under the Civil Aviation Amendment Act 1982.

British Railways Board

70. The British Railways Board achieved their revised external financing limit (EFL) for 1980-81 of £790m. However, during 1981 the Board suffered a serious loss of passenger revenue, and the Government agreed as an exceptional measure to accept a revised claim for grant under the Public Service Obligation of £755m for 1981, £110m higher than the original claim. The external financing limit for 1981-82 was also revised, from £867m plus an allowance of up to £53m for the costs of withdrawing from the Collected and Delivered Parcels service, to an overall limit of £920. The Board no longer expect to meet the interim financial targets set in 1980 for the freight and inter-city businesses.

71. In the light of deterioration of the Board's finances, the Government has agreed to set in hand a review of railway finances to be conducted jointly by the Department and the Board under an independent chairman. In the meantime the Board is continuing its efforts to match capacity to demand and improve efficiency.

72. The Government and the Board have agreed that private capital should be introduced into certain of the Board's subsidiary businesses, and the Transport Act 1981 supplements the Board's existing powers for this. The Board have so far disposed of a majority of their interest in five British Transport Hotels, and British Rail Hovercraft has been merged with Hoverlloyd to form a new operating company, Hoverspeed; these businesses are now outside the public sector. The Board plan a continuing programme of transfers to the private sector; this will help to contain their need for external finance within the EFL of £950m for 1982-83.

73. In June 1981 the Secretary of State announced that he was inviting the Board to prepare and submit a 10 year programme of electrification schemes, together with new plans to achieve a fully commercial performance in the inter-city and freight businesses by 1985. In December 1981, the Government approved a separate proposal for the electrification of the routes to Ipswich, Norwich and Harwich.

The approval of successive electrification projects will be conditional on the profitability of the investment in question and on the achievement of necessary improvements in productivity.

74. Investment in the railway business chiefly entails the replacement and renewal of existing assets. About one third of all rail investment is in signalling and other infrastructure and, under the accounting conventions which were adopted following the Railways Act 1974, is charged to revenue.

75. The Board's investment ceiling at present is set at the same level envisaged in previous White Papers - £462 million in 1982-83, £497 million in 1983-84 and £528 million in 1984-85. These ceilings will be subject to review in the light of the Board's new plans for the inter-city and freight businesses, and their programme for mainline electrification. The figures included in Table 3.2 reflect the Board's current assessment of the amount of investment which can be financed within the agreed external financing figures. The level of investment achieved may therefore be higher if the Board succeed in generating additional internal resources.

76. The levels of external finance included in this White Paper are higher than those underlying Cmnd 8175, largely because of the fall in revenue which the Board have suffered, and despite the measures being taken by the Board to reduce their costs. This has also led to an increased requirement for grant support for passenger services.

77. Grant support for the Board's passenger services is shown in Table 2.6 under the provision for central Government subsidies and for passenger transport subsidies by local authorities. The Board do not receive support for the operations of their non-passenger business. For 1981 the Board's revised claim for Passenger Service Obligation grant represented 41 per cent of the costs attributable to the passenger business. The costs include expenditure on track and signalling for the passenger railway and also the special replacement allowance towards the costs of renewing the passenger railway.

British Transport Docks Board

78. The British Transport Docks Board (BTDB) operates 19 ports throughout Great Britain. In 1980 these handled 71.7 million tonnes, about a quarter of the total port traffic in Great Britain; this represented a fall of 12.9% compared with 1979. Since a large proportion of BTDB's costs cannot be escaped in the short term, and since their ability to increase charges is restricted by the competition from other ports, the fall in traffic had a significant effect on their results and they were unable to achieve their external financing limit for 1980-81 of -£10 million. This was despite vigorous measures taken by the Board to contain costs as far as possible which ensured that BTDB's profits for 1980 after interest and taxation amounted to £8 million.

79. 1981 was also a difficult year for the Board as traffic levels remained depressed and there were serious and long running industrial disputes at Southampton. BTDB made concerted efforts to reduce their costs and the size of their labour force; but the severance payments involved meant that their financing requirements for 1981-82 increased and BTDB do not now expect to meet their EFL of -£5 million. The steps they have taken will however leave them in a much stronger position for the future. The EFL of -£7 million for 1982-83 implies that they will continue to reduce their borrowings as well as financing all their capital requirements from internal resources.

80. The Transport Act 1981 provides powers for a new Companies Act holding company to be set up which would have power to control a reconstituted BTDB, to be known as Associated British Ports, as if it were a wholly owned subsidiary. On the assumption that the Secretary of State for Transport sells shares in the holding company to private investors in the course of 1982-83 and control of the company passes to the private sector, figures for BTDB are excluded from this White Paper for the years after 1982-83 and a new medium term financial target has not been set to replace that which expired in 1980.

British Waterways Board

81. The Board is responsible for the upkeep of some 2,000 miles of waterways throughout Britain. About 300 miles of commercial waterways are maintained for freight traffic and 1100 miles for navigation by pleasure craft. The net work has considerable land drainage and water supply functions. The Board has its own docks, warehouses, inland freight terminals and a small freight carrying fleet.

82. The Board's major task is to maintain the navig able waterways. Its major source of finance is Government grant (borne on Programme 8) although it also generates income from charges and dues. The Board met its EFL in 1980-81 and ~~expected~~ expects to do so again in 1981-82. Grant to the Board is to be increased by 33 per cent in 1982-83 compared with 1981-82 (financed by offsetting savings on Programme 8) to assist the Board in dealing with the backlog of maintenance work which has built up in recent years.

83. These increased levels of finance are being accompanied by a wide-ranging review by management consultants of the Board's operations, the efficiency and cost effectiveness of the Board and the scope for increasing net income and any opportunities for privately financed investment. This will form the basis for consideration of medium term financial targets and performance aims for the Board's operations.

84. The largest item of the investment programme is the Sheffield and South Yorkshire Navigational Project which should be completed in 1983. The capital costs of the project is being financed by NLF borrowing and grants from the South Yorkshire County Council and the European Regional Development Fund.

National Bus Company

85. The National Bus Company (NBC) through its 40 subsidiary companies, provides the great majority of stage carriage bus services in rural areas in England and Wales, as well as a large number of urban bus services, and a network of long distance express coach services known as National Express.

86. In 1980 NBC suffered a severe reduction in demand on stage carriage services, and passenger journeys fell by nearly 7% to 1,587 million. In response, NBC pruned and replanned services; scheduled vehicle miles on stage carriage services were reduced by 3.3%, and the number of buses operated was reduced by 12%. The number of employees fell by 5000 or 8%. However, because of the time-lag between a fall in demand and adjustments to services to bring them into line, NBC made a loss in 1980 on a current cost basis of £34.7 million (£11.8 million on a historic cost basis) after interest payments of £17.2 million, compared to a loss of £14 million (£6.2 million profit on a historic cost basis) in 1979. Nevertheless, NBC succeeded in remaining within its External Financing Limit of £85 million for 1980-81.

87. During 1981, NBC made further substantial reductions in the mileage of stage carriage services to match the declining demand. National Express, by contrast, was able, from late 1980 onwards, to take advantage of the relaxation in licensing provided by the Transport Act 1980 to offer faster and more frequent express coach services, with lower fares, on the main trunk routes. Despite the similar action taken by competing private operators, National Express has achieved a significant gain in passengers and has improved its financial contribution to NBC. NBC as a whole in 1981 substantially improved its performance on profit and loss account, and also expects to achieve its EFL of £75m for 1981-82.

88. In May 1981 the Secretary of State for Transport announced that he had set NBC a financial target of achieving a current cost operating surplus before interest of £18.5 million (at 1980 outturn prices) by 1985. NBC were also given a performance aim for 1981 of reducing operating costs per vehicle mile by 3 per cent in real terms,

and they have achieved this. Discussions are continuing with the Company on a performance aim to replace the one just expired. NBC expect that demand for stage carriage services will continue to decline. To achieve the substantial improvement in profits implied by the financial target, NBC's policy is to match services to the falling demand, to secure substantial improvements in productivity and to increase fares in real terms. The Transport Bill now before Parliament provides enabling powers for the introduction of private capital into NBC; the opportunities these powers will create are being examined in relation to NBC's Express and Holidays businesses, and to certain of their property interests.

89. The great majority of NBC's investment is in the replacement of vehicles; as foreshadowed in Cmnd 8175, NBC's requirements for the next few years are now substantially less than had previously been expected, because of the reductions in services and the more productive use of vehicles.

90. The NBC along with other bus operators receives revenue support from local authorities for services which the authority considers socially necessary but which cannot be operated commercially, and receives new bus grant from central government. Provision for these grants is included in table 2.6. New bus grant will be phased out by 31 March 1984.

The National Freight Company Ltd

91. The Government expect to have sold all its shares in the National Freight Company Limited by the end of 1981-82 to a company owned by the management and employees of the Company. The Company will therefore no longer be part of the public sector, and its plans have been excluded from this White Paper.

Scottish Transport Group

92. The Scottish Transport Group runs bus services throughout Scotland; shipping and haulage services on the West Coast of Scotland; and a number of ancilliary travel related activities. Bus operations account for over 80% of the Group's turnover.

93. In 1980, passenger journeys fell by 4% reflecting reduced demand for bus services. The Group responded by reducing vehicle numbers by 5% and staff by 10%. One man operations were extended to cover 88% of total stage mileage. These difficult trading conditions were reflected in a current cost operating profit of £2.5 million, compared with the £3.1 million implied by the Group's financial target which requires ~~a current cost operating profit amounting to~~ an average rate of return of 4½% per annum on net fixed assets ~~or~~ at current cost over the period to 31 December 1981. The Group as a whole met its revised EFL of £12 million for 1980-81 and the performance of the different businesses was in line with the performance aims set for the Group.

94. The outturn for the Group for 1981-82 is provisionally expected slightly to exceed a return of 4½ per cent so recouping the small shortfall against target recorded last year. Within their ferry activities, the Group expect, as required, to break even after taking central government revenue support into account. As a result of progress towards greater cost efficiency - achieved in large measure through reductions in bus numbers and manpower - the group is expected in 1981-82 to operate well within its external financing limit.

95. The Group's planned capital expenditure is principally for bus replacement, but provision is also made for investment in fixtures such as bus depots and ferry terminals and in ferry replacement. Capital expenditure of £14 million planned in 1982-83 represents a small increase over the 1981-82 level of £13 million, but within this total bus investment is projected to fall in both money and volume terms while increased allowance has been made for new ship tonnage.

96. The Group anticipate that the current difficult trading conditions will continue into 1982-83 but that they will be able to progress towards greater efficiency in operations ensuring that they achieve the medium term financial targets set for them.

BRITISH SHIPBUILDERS

97. British Shipbuilders' (BS') performance in 1981-82 is expected to show a substantial improvement on that in 1980-81. Losses in 1980-81 were ~~With losses~~ within the target (outturn £36; target £90m) and external financing within the limit (outturn £173m, limit £185m). For 1981-82, BS forecasts that outturn on external finance and trading loss respectively will be within the lower targets of £150m and £25m after crediting Intervention Fund (equivalent to about £75m before crediting Intervention Fund).

98. The improvement in current performance reflects continuing benefits from restructuring, higher capacity utilisation and more favourable market conditions. This improvement is expected to continue. Job opportunities in surface warship building for the Ministry of Defence will decline compared with current levels and BS will need to increase naval exports.

99. Capital expenditure on fixed assets in 1981-82 is forecast to be higher, at £37m, than the £17m recorded in the previous year. Further increases are likely for 1982-83 and later years, much of them for the modernisation of facilities at Vickers for the construction of the Trident submarine. BS investment plans are being considered within the review of their Corporate Plan, which was still in progress at the time of going to press.

100. British Shipbuilders' principal sources of external finance are public dividend capital and Intervention Fund assistance. No change in the source of finance is at present envisaged ~~at this time~~ but the industry's external financing requirement is expected to diminish year by year. The Government will set the level of financial support for 1982-83 when it has completed its review of BS's Corporate Plan for 1982-83 to 1984-85 and consulted the European Commission. A provisional 1982-83 EFL of £125m has already been announced. The present tranche of Intervention Fund assistance (£45m) expires in mid-July 1982.

FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES

3.37

Table 3.1

£million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82 (1)	1982-83	1983-84	1984-85
Total capital requirements	4,383	3,562	4,456	4,540	5,525	6,540	7,740	8,250	8,900
Total internal resources	2,140	2,146	2,436	1,927 (2)	2,626 (2)	3,150 (2)	5,000	5,700	6,800
Government lending (net)									
Loans	-216	-700	-171	673	922	890	540		
PDC and issues under Section 18 of the Iron and Steel Act 1975	500	482	864	1,184	1,353	930	570		
Total	284	-218	693	1,857	2,275	1,820	1,110	1,250	1.150
Overseas and market borrowing (net)									
Overseas	1,346	456	82	-285	-141	-220	-260		
Market	-95	-	9	-747	-71	-	-		
Short-term borrowing and leasing	17	468	355	701	-254	400	60		
Total	1,268	924	446	-331	-466	180	-200	-	-400
Total net borrowing	1,552	706	1,139	1,526	1,809	2,000	910	1,250	750
Grants	691	710	881	1,087	1,090	1,390	1,830	1,300	1,350
Total external finance	2,243	1,416	2,020	2,613	2,899	3,390	2,740	2,550	2,100

(1) 1981-82 figures include effect of gas levy (£33m)
(2) Excludes proceeds of BNOC advances payment for oil.

PF

NATIONALISED INDUSTRIES CAPITAL REQUIREMENTS

TABLE 3.2

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
Expenditure on fixed assets in the UK(1)									
National Coal Board	300	364	495	665	810	805	886	-(2)	-(2)
Electricity Council and Boards	704	671	715	834	1005	1184	1,370	1,535	1,760
North of Scotland Hydro-Electric Board	76	63	48	46	43	39	54	49	49
South of Scotland Electricity Board	56	43	53	65	132	333	421	427	398
British Gas Corporation	271	235	280	402	570	574	918	960	899
British National Oil Corporation	160	206	243	218	212	335	407		
British Steel Corporation	596	502	334	289	178	193	194	-(2)	-(2)
British Telecom	816	844	993	1,215	1,545	1,898	2,380	2,725	2,960
Post Office	39	35	42	64	76	121	115	104	142
Girobank	-	1	5	5	8	6	9	6	6
British Airways Board	156	202	219	289	266	168	254	336	392
British Airports Authority	42	37	33	54	78	93	172	199	186
British Railways Board	248	276	349	381	334	317	302	308	340
British Transport Docks Board	8	10	9	13	10	10	13		
British Waterways Board	2	2	2	4	5	6	3	2	3
National Freight Company Ltd	23	30	36	35	36				
National Bus Company	40	46	54	60	59	50	50	64	77
Scottish Transport Group	10	10	17	16	16	13	14	14	15
British Aerospace		19	26	42	56				
British Shipbuilders		20	27	18	17	37	49	-(2)	-(2)
Total expenditure on fixed assets	3,546	3,616	3,980	4,715	5,456	6,183	7,612	6,729	7,225
Changes in working capital	725	-2	602	11	162	410	175	~~308~~ 1,519	~~437~~ 1,658
Other capital requirements	112	-52	-126	-186	-93	-52	-46	~~1,191~~	~~1,221~~
~~Shortfall~~									
Total capital requirements	4,383	3,562	4,456	4,540	5,525	6,541	7,741	8,248	8,883

(1) Including the capital value of assets leased. Gross of sales of fixed assets. No later year figures are included for:

(a) BNOC on the assumption that shares are sold ~~of a sale of shares~~ in the Corporation's upstream business in 1982-83 and it passes into private sector control.

(b) BTDB on the assumption that shares are sold ~~of a sale of shares~~ in a successor company in 1982-83 and it passes into private sector control.

(c) NFC Ltd. Sale of shares to a management led consortium is expected to be completed by March 1982. ~~The sale to the public of shares in a successor company took place on~~

(2) The level of the NCB, BSC and BS investment programmes for these years has yet to be determined, but notional allowances, consistent with the provisional external financing figures, have been included in "other capital requirements".

~~(3) The government would be prepared to approve higher BT investment figures for the period 1982-83 to 1984-85 if the corporation can generate additional resources as discussed in the text.~~

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FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES
1980-81 (MARCH 1980 BUDGET FORECAST)

Table 3.3 A

£ million cash

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Nationalised industries	Capital requirements(2)			Financed by(2)			
					External finance		
	Fixed assets in the U.K.	Other	Total	Total internal resources(3)	Government grants(4)	Net borrowing issues of PDC and leasing	Total(5)
National Coal Board	812	−18	794	−40	253	581	834
Electricity (England and Wales)	961	335	1,296	1,109	6	181	187
North of Scotland Hydro-Electric Board	52	39	91	32	16	43	59
South of Scotland Electricity Board	131	17	148	75	—	73	73
British Gas Corporation	589	155	744	1,144	—	−400	−400
British National Oil Corporation	300	28	328	528	—	−200(6)	−200
British Steel Corporation	250	70(7)	320	−130	—	450(7)	450(7)
Post Office	1,541	139(8)	1,680	1,615	—	65(8)	65(8)
British Airways Board	390	3	393	163	—	230	230
British Airports Authority	99	—	99	79	1	19	20
British Railways Board	366	−110	256	−494	661	89	750
British Transport Docks Board	20	2	22	32	—	−10	−10
British Waterways Board	7	—	7	−23	26	4	30
National Freight Corporation	48	4	52	28	4	20	24
National Bus Company	71	2	73	−12	64	21	85
Scottish Transport Group	15	—	15	6	13	−4	9
British Shipbuilders	30	21	51	−69	38	82	120
Deduction for shortfall	−130	—	−130	—	—	−130	−130
TOTAL	5,552	687	6,239	4,043	1,082	1,114(9)	2,196

(1) No figures are included for British Aerospace in view of the assumption, subject to the passage of the British Aerospace Bill, of a sale of shares in a successor company in 1980–81.
(2) The capital value of leased assets is included.
(3) Comprising balance of revenue, depreciation and provisions, sales of fixed assets and other capital receipts (including Regional Development Grants).
(4) Shows subsidies and capital grants to be received in the year.
(5) Except in the case of BNOC, the figure shown against each industry is its external financing limit for the year.
(6) Includes BNOC's net payments into the National Oil Account.
(7) Excludes an amount to be brought forward from 1979–80 in respect of liabilities which the BSC have been unable to settle during the steel strike, currently estimated at £150 million.
(8) The PO figures will be adjusted when the final figure for the effect of the billing dispute is known. The latest estimated effect is −£360 million.
(9) Of which:

Government loans	600
Overseas borrowing	−55
Other domestic borrowing/lending	−260
PDC issues and other issues under Section 18 of the Iron and Steel Act 1975	650
Leasing	180

7/m

FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES
1980-81 (OUTTURN)

Table 3.3 B

£million cash

	Capital requirements			Internally generated funds					External finance			
	Fixed assets in the UK (1)	Other (2)	Total	Current cost operating profit (3)	Interest dividends and tax (4)	Deprec-iation etc (5)	Other receipts and payments (6)	Total	Govern-ment grants for revenue and capital purposes	Net borrowing from: Govern-ment (NLF and PDC)	Net borrowing from: Market, overseas and leasing	Total external financing outturn (7)
National Coal Board	810	-9	801	-300	-257	409	65	-83	243	624	17	884
Electricity (England and Wales)	1,005	284	1,289	303	-580	1,346	80	1,149	5	296	-161	140
North of Scotland Hydro-Electric Board	43	35	78	72	-61	21	4	36	16	147	-121	42
South of Scotland Electricity Board	132	-10	122	93	-76	66	7	90	-	-46	78	32
British Gas Corporation	570	-14	556	383	2	537	43	965(8)	-	-	-409	-409
British National Oil Corporation	212	47	259	357	-13	132	-	476	-	-140(9)	-77	-217
British Steel Corporation	178	144	322	-465	-184	-183	35	-797	-	1,183	-64	1,119
British Telecom	1,545	-285	1,260	719	-538	1,180	8	1,369	-	-11	-98	-109
Post Office and Girobank	84	-86	-2	21	8	-37	9	1	-	21	-24	-3
British Airways Board	266	8	274	-148	-80	161	37	-30	-	4	300	304
British Airports Authority	78	20	98	36	-9	53	-	80	-	-1	19	18
British Railways Board	334	-138	196	-707	-71	64	120	-594	669	84	37	790
British Transport Docks Board	10	1	11	8	-9	6	5	10	-	-8	9	1
British Waterways Board	5	1	6	-25	-2	1	2	-24	26	4	-	30
National Freight Company Limited	36	-2	34	-5	-11	23	17	24	5	-	5	10
National Bus Company	59	-4	55	-40	-19	18	11	-30	66	13	6	85
Scottish Transport Group	16	-2	14	-10(11)	-1(11)	12(11)	1(11)	2	21	-2	-7	12
British Aerospace (10)	56	2	58					61	-	-3	-	-3
British Shipbuilders	17	77	94	-116	4	29	4	-79	39	110	24	173
Total	5,456	69	5,525					2,626	1,090	2,275(12)	-466(12)	2,899

(1) The capital value of leased assets is included.
(2) Includes fixed assets abroad, net investment in UK companies, net investment in long and medium-term financial assets and changes in working capital (including stocks and work in progress).
(3) Some industries use historic cost as the basis of their main accounts. ~~and~~ the figures in this column may differ from those for operating profit in those accounts.
(4) The total figure for interest alone is ~~ac~~ £1,842 million.
(5) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.
(6) Includes proceeds from sales of fixed assets (where not credited to the special disposals programme) and other capital receipts
(7) Except in the case of BNOC, the figure shown against each industry is the outturn against its external financing limit for the year.
(8) Excludes the proceeds of advance payments for oil.
(9) Includes BNOC's net payments into the National Oil Account.
(10) BAe figures are in respect of the period 1 April 1980 to 31 December 1980. The undertakings of the Corporation were vested in a successor company on 1 January 1981 under the terms of the British Aerospace Act 1980. The majority of shares in the company were sold to the public on 4 February 1981.
(11) BAe data on a current cost basis are not available.
(12) ~~Further details of these totals are~~ shown in the 1980-81 column of Table 3.1.
A further breakdown by source of finance is

Because of this, and the exclusion of Government grants for revenue purposes,

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FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES
1981-82 (MARCH 1981 BUDGET FORECAST)

Table 3.4 A

£million cash

	Capital requirements([2])			Financed by([2])							
				Internal resources([3])					External finance		
	Fixed assets in the UK	Other	Total	Current cost operating profit	Interest, dividends and tax([4])	Depreciation etc.([5])	Other receipts and payments	Total	Government grants([6])	Net borrowing, issues of PDC([7]) and leasing	Total ([8])
National Coal Board	888	−29	859	−269	−294	525	11	−27	267	619	886
Electricity (England and Wales)	1,221	6	1,227	412	−594	1,386	188	1,392	9	−174	−165
North of Scotland Hydro-Electric Board	44	35	79	47	−64	60	4	47	14	18	32
South of Scotland Electricity Board	239	−66	173	−34	−87	180	37	96	—	77	77
British Gas Corporation([9]) ...	733	136	869	627	−111	489	181	1,186	—	−317	−317
British National Oil Corporation([9])	370	19	389	438	−14	288	37	749	—	−360 ([10])	−360
British Steel Corporation ...	198	149	347	−399	−152	281	−113	−383	—	730	730
Post Office: Telecommunications	2,148	38	2,186	1,100	−545	1,440	11	2,006	—	180	180
Posts and Giro ...	146	−4	142	59	−7	69	5	126	—	16	16
British Airways Board	203	5	208	18	−113	193	9	107	—	101	101
British Airports Authority ...	95	2	97	25	−17	71	4	83	1	13	14
British Railways Board... ...	382	−97	285	−885	−81	233	98	−635	780	140	920 ([11])
British Transport Docks Board	13	2	15	4	−7	22	1	20	—	−5	−5
British Waterways Board ...	6	—	6	−26	−3	1	2	−26	29	3	32
National Freight Company Ltd.	45	3	48	3	−7	27	18	41	2	5	7 ([11])
National Bus Company ...	52	7	59	−46	−22	49	3	−16	60	15	75
Scottish Transport Group ...	16	−1	15	−12	−5	15	—	−2	22	−5	17
British Shipbuilders	30	50	80	([12])	−3	([12])	([12])	−70	43	107	150
TOTAL	6,829	255	7,084		−2,126			4,694	1,227	1,163 ([13])	2,390

([1]) No figures are included for British Aerospace. The sale to the public of shares in a successor company took place in February 1981, leaving the Government holding 48·4 per cent.
([2]) The capital value of leased assets is included.
([3]) The current cost breakdown of internal resources in general reflects broad adjustments to historic cost data.
([4]) The total figure for interest alone is −£1,933 million.
([5]) Including cost of sales adjustment, monetary working capital adjustment, and other items not involving the movement of funds.
([6]) Shows subsidies and capital grants received during the year.
([7]) Including issues under Section 18 of the Iron and Steel Act 1975.
([8]) Except in the case of BNOC, the figure shown against each industry is the external financing limit for the year.
([9]) In the case of BGC and BNOC the figures exclude the impact of the proposed gas levy and of changes to North Sea taxation.
([10]) Includes BNOC's net payments into the National Oil Account.
([11]) Includes £53 million in the case of BR and £13 million in the case of NFC available solely to finance costs arising as a result of BR's decision to withdraw from its Collect and Deliver parcels business.
([12]) Current cost figures not available.
([13]) Of which:

Government loans	891
Issues of PDC (including issues under Section 18 of the Iron and Steel Act 1975) ...	927
Overseas borrowing	−544
Market borrowing	−311
Short-term borrowing and leasing	200

Table 3.4 B

FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES (1)
1981-82 (ESTIMATED OUTTURN)

£million cash

	Capital requirements			Internally generated funds					External finance			
	Fixed assets in the UK (2)	Other (3)	Total	Current cost operating profit (4)	Interest dividends and tax (5)	Deprec-iation etc (6)	Other receipts and payments (7)	Total	Government grants for revenue and capital purposes	Net borrowing from: Govern-ment (NLF and PDC)	Net borrowing from: Market overseas and leasing	Total external financing estimated outturn (8)
National Coal Board	805	2	807	-466	-365	516	5	-310	340	818	-41	1,117
Electricity (England and Wales)	1,184	-60	1,124	376	-609	1,454	83	1,304	9	-49	-140	-180
North of Scotland Hydro-Electric Board	39	-37	2	70	-61	35	7	51	-	-52	3	-49
South of Scotland Electricity Board	333	-100	233	91	-90	75	7	83	-	207	-57	150 (9)
British Gas Corporation	574	279	853	623	-103	609	41	1,170	-	-	-317	-317
British National Oil Corporation	335	-40	295	481	-161	219	-	539	-	-221 (10)	-23	-244
British Steel Corporation	193	113	306	-373	-88	-28	65	-424	-	809	-79	730
British Telecom	1,898	323	2,221	1,061	-573	1,343	10	1,841	-	180	200	380
Post Office and Girobank	127	15	142	51	-2	67	6	122	-	-9	29	20
British Airways Board	168	-14	154	-106	-112	201	17	-	-	17	137	154
British Airports Authority	93	-7	86	22	-18	67	1	72	1	13	-	14
British Railways Board	317	-127	190	-996	-80	229	117	-730	875	-7	52	920
British Transport Docks Board	10	-1	9	4	-8	5	2	3	-	-	6	6
British Waterways Board	6	-	6	-26	-2	1	1	-26	29	2	1	32
National Bus Company	50	4	54	-20	-23	19	3	-21	65	3	7	75
Scottish Transport Group	13	-	13	-7	-3	13	-	3	21	-2	-9	10
British Shipbuilders	37	21	58	-94	2	-	8	-84	54	107	-19	142
Total	6,183	370	6,553	691	-2,296	4,825	373	3,593	1,393	1,816 (11)	-249 (11)	2,960

3-42

(1) No figures are included for the National Freight Company Limited. ~~The majority of shares in the company were sold to the public on~~ 1982 Sale of shares to a management led consortium is expected to be completed by March 1982.
(2) The capital value of leased assets is included.
(3) Includes fixed assets abroad, net investment in UK companies, net investment in long and medium-term financial assets and changes in working capital (including stocks and work in progress).
(4) Some industries use historic cost as the basis of their main accounts ~~and~~ Because of this, and the exclusion of Government grants for revenue purposes, the figures in this column may differ from those for operating profit in those accounts.
(5) The total figure for interest alone is -£1,960 million. That for taxation is -£336 million including BGC (-£165m) and BNOC (-£136m).
(6) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.
(7) Includes proceeds from sales of fixed assets (where not credited to the special disposals programme) and other capital receipts.
(8) Except in the case of BNOC, the figure shown against each industry is the estimated outturn against its external financing limit for the year.
(9) Excludes effect of gas levy (£433m)
~~(10) Excludes proceeds of BNOC advance payments for oil.~~
(10) Includes BNOC's net payments into the National Oil Account.
(11) ~~Further details of these totals are~~ A fuller breakdown by source of finance is shown in the 1981-82 column of Table 3.1.

FINANCING REQUIREMENTS OF THE NATIONALISED INDUSTRIES (1)
1982-83 (FORECAST)

Table 3.5

£million cash

	Capital requirements			Internally generated funds					External finance			
	Fixed assets in the UK (2)	Other (3)	Total	Current cost operating profit (4)	Interest dividends and tax (5)	Deprec-oation etc (6)	Other receipts and payments (7)	Total	Government grants for revenue and capital purposes	Net borrowing from: Govern-ment (NLF and PDC)	Net borrowing from: Market overseas and leasing	External Financing Limit (8)
National Coal Board	886	-29	857	-344	-429	599	5	-169	703	318	5	1,026
Electricity (England and Wales)	1,370	-38	1,332	569	-652	1,639	95	1,651	12	-300	-31	-319
North of Scotland Hydro-Electric Board	54	8	62	73	-62	35	7	53	-	78	-69	9
South of Scotland Electricity Board	421	-117	304	124	-121	91	4	98	-	205	1	206
British Gas Corporation	918	163	1,081	542	-220	717	44	1,083	-	-	-2	-2
British National Oil Corporation	407	-4	403	- (9)	- (9)	- (9)	- (9)	488	-	-81 (10)	-4	-85
British Steel Corporation	194	137	331	-78	-84	95	48	-19	-	483	-133	350
British Telecom	2,380	97	2,477	1,146	-617	1,602	6	2,137	-	286	54	340
Post Office and Girobank	124	-11	113	54	-	78	6	138	-	-12	-13	-25
British Airways Board	254	3	257	70	-121	236	81	266	-	12	-21	-9
British Airports Authority	172	-24	148	45	-19	73	1	100	-	47	1	48
British Railways Board	302	-109	193	-1,089	-83	257	158	-757	946	-	4	950
British Transport Docks Board	13	2	15	- (9)	-	- (9)	- (9)	22	-	-	-7	-7
British Waterways Board	3	2	5	-34	-3	1	1	-35	38	2	-	40
National Bus Company	50	5	55	-13	-25	20	2	-16	58	1	12	71
Scottish Transport Group	14	-	14	-15	-5	13	-	-7	22	-2	1	21
British Shipbuilders	49	45	94	-67	-	32	4	-31	47	78	-	125
Total	7,612	129	7,741					5,002	1,825	1,115 (11)	-201 (11)	2,739

(1) No figures are included for the National Freight Company Limited. ~~The majority of shares in the company were sold to the public on 1982.~~ Sale of shares to a management led consortium is expected to be completed by March 1982.
(2) The capital value of leased assets is included.
(3) Includes fixed assets abroad, net investment in UK companies, net investment in long and medium-term financial assets and changes in working capital (including stocks and work in progress).
(4) Some industries use historic costs as the basis of their main accounts ~~and~~ the figures in this column may differ from those for operating profit in those accounts. For BGC the operating profit is after charging £704m for the gas levy.
(5) The total figure for interest alone is £2,179 million excluding BNOC and BTDB. That for taxation is -£259 million (including BGC £237m)
(6) Includes cost of sales adjustment, monetary working capital adjustment and other items not involving the movement of funds.
(7) Includes proceeds from sales of fixed assets (where not credited to the special disposals programme) and other capital receipts.
(8) ~~Except in the case of BNOC, the figure shown against each industry is its external financing limit for the year.~~
(9) Details of internally generated funds are not given on the assumption ~~of sales to the public in 1982-83 of shares~~ that shares in BNOC's upstream business, and in a successor company to the BTDB, are sold to the public in 1982-83 with control of both bodies passing to the private sector.
(10) Includes BNOC's net payments into the National Oil Account.
(11) ~~Further details of these totals are~~ shown in the 1982-83 column of Table 3.1.

The figure for BNOC is a forecast external financing requirement and does not represent a formal limit.

Because of this, and the exclusion of Government grants for revenue purposes,

A further breakdown by source of finance is

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Part 4 - List of tables

Cash limits 198~~1~~2-8~~2~~3

Table 4.1

1 Voted expenditure

Class and Vote(1)	Accounting Department	Description of Expenditure	Cash Limit £ thousand
Class I – Defence			
1	Ministry of Defence(2)	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	~~4,905,522~~
2	Ministry of Defence(2)	Procurement	~~5,506,310~~
4	Property Services Agency(2)	Defence accommodation services	~~677,729~~
5	Ministry of Defence(2)	Dockyard services	~~445,780~~
Class II—Overseas Aid and Other Overseas Services			
1	Foreign and Commonwealth Office	Overseas representation: diplomatic and consular services	~~206,972~~
2	Property Services Agency	Overseas representation: accommodation services etc	~~36,123~~
3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	~~61,898~~
4	Foreign and Commonwealth Office	British Council	~~34,226~~
5	Foreign and Commonwealth Office	Foreign and Commonwealth services	~~26,183~~
8	Cabinet Office	Secret service	~~61,000~~
10	Overseas Development Administration	Overseas aid	~~979,600~~
11	Overseas Development Administration	Overseas aid administration	~~20,800~~
Class III—Agriculture, Fisheries and Forestry			
3	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	~~78,607~~
4	Intervention Board for Agricultural Produce	Central administration	~~15,624~~
5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	~~29,712~~
6	Forestry Commission	Forestry	~~59,195~~
7	Ministry of Agriculture, Fisheries and Food	Departmental administration	~~144,887~~
Class IV—Industry, Energy, Trade and Employment			
2	Department of Industry	Miscellaneous support services	~~60,230~~
4	Department of Trade	Pay and general administrative expenses, export promotion, shipping and civil aviation services etc	~~158,730~~
5	Department of Energy	~~Operational grants to the National Coal Board, research and development and miscellaneous services~~ Industrial support	~~242,485~~
6	Deparment of Industry	Scientific and technological assistance	~~234,810~~
7	Department of Energy	Scientific and technological assistance: nuclear energy	~~225,975~~
9	Export Credits Guarantee Department	Central services	~~18,835~~
11	Registry of Friendly Societies	Pay and general administrative expenses	~~1,012~~
12	Office of Fair Trading	Pay and general administrative expenses	~~4,457~~

4.1

Class and Vote([1])	Accounting Department	Description of Expenditure	Cash Limit £ thousand
13	Department of Employment	Labour market services	~~189,242~~
15	Department of Employment	Advisory, conciliation and arbitration service	~~12,738~~
16	Department of Employment	Manpower Services Commission	~~734,077~~([3])
17	Department of Employment	Administration	~~123,475~~
18	Department of Industry	Central and miscellaneous services	~~48,667~~
19	Department of Energy	Administrative and miscellaneous services	~~15,993~~
20	Department of Employment	Health and Safety Commission	~~80,816~~
Class VI—~~Roads and~~ Transport			
1	Department of Transport	Roads etc, England	~~695,396~~
2	Department of Transport	Transport services	~~85,617~~
4	Department of Transport	Central and miscellaneous services	~~54,376~~
5	Department of Transport	Driver and vehicle licensing	~~73,410~~
Class VIII—Other Environmental Services			
2	Department of the Environment	Central environmental services etc	~~85,035~~
4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments and the national heritage	~~47,396~~
5	Department of the Environment	Central administration and environmental research	~~151,369~~
7	Department of the Environment	Urban Development Corporations, England	~~70,255~~
Class IX—Law, Order and Protective Services			
1	Lord Chancellor's Department	Administration of justice, England and Wales	~~34,946~~
2	Northern Ireland Court Service	Administration of justice, Northern Ireland	~~7,319~~
7	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	~~40,596~~
8	Home Office	Prisons, England and Wales	~~440,737~~
9	Home Office	General protective services and civil defence, England and Wales	~~51,630~~
11	Home Office	Central and administrative services	~~118,056~~
12	Treasury Solicitor	Pay and general administrative expenses	~~8,871~~
13	~~Crown Office~~ The Crown Agent	Pay and general administrative expenses	~~8,907~~
Class X—Education and ~~Libraries, Science and Arts~~ science, arts and libraries			
2	Department of Education and Science	Universities etc	~~1,166,681~~
4	Department of Education and Science	Educational services	~~104,032~~
5	Department of Education and Science	Central administration	~~31,924~~
6	Department of Education and Science	Agricultural Research Council	~~42,134~~
7	Department of Education and Science	Medical Research Council	~~101,739~~
8	Department of Education and Science	Natural Environment Research Council	~~52,641~~
9	Department of Education and Science	Science and Engineering Research Council	~~217,190~~

4.2

Class and Vote(1)	Accounting Department	Description of Expenditure	Cash Limit £ thousand
10	Department of Education and Science	Social Science Research Council	~~20,956~~
11	Trustees of the British Museum (Natural History)	British Museum (Natural History)	~~8,512~~
12	Department of Education and Science	Other science	~~4,206~~
13	Trustees of the British Museum	British Museum	~~11,116~~
14	Department of Education and Science	Science Museum	~~6,448~~
15	Department of Education and Science	Victoria and Albert Museum	~~8,850~~
16	Trustees of the Imperial War Museum	Imperial War Museum	~~3,844~~
17	Trustees of the National Gallery	National Gallery	~~5,697~~
18	Trustees of the National Maritime Museum	National Maritime Museum	~~3,622~~
19	Trustees of the National Portrait Gallery	National Portrait Gallery	~~1,606~~
20	Trustees of the Tate Gallery	Tate Gallery	~~4,708~~
21	Trustees of the Wallace Collection	Wallace Collection	~~671~~
22	Department of Education and Science	Arts, the Arts Council etc	~~95,221~~
23	Department of Education and Science	Libraries, England	38,948
Class XI—Health and Personal Social Services			
1	Department of Health and Social Security	Health and personal social services, England	~~7,618,881~~
Class XII—Social Security			
4	Department of Health and Social Security	Administration and miscellaneous services	~~552,140~~
Class XIII—Other Public Services			
3	Privy Council Office	Pay and general administrative expenses	~~668~~
4	Treasury	Pay and general administrative expenses	21,878
5	Customs and Excise Department	Pay, general administrative and capital expenditure	260,396
6	Inland Revenue	Pay and general administrative expenses	587,969
8	Exchequer and Audit Department	~~Economic and financial administration~~ Pay and general administrative expenses	~~8,382~~
9	National Investment and Loans Office	Pay and general administrative expenses	~~1~~
10	Department for National Savings	Pay and general administrative expenses	~~79,179~~
12	~~Civil Service Department~~	Central management of the Civil Service	~~37,193~~
13	Treasury ~~Civil Service Department~~	Computers and telecommunications	~~8,914~~
14	Treasury ~~Civil Service Department~~	Civil Service catering services	~~1~~
15	Public Record Office	Pay and general administrative expenses	~~3,563~~
16	Office of Population Censuses and Surveys	Pay and general administrative expenses	49,626
17	Land Registry	Pay, general administrative and capital expenditure	~~48,329~~
18	Charity Commission	Pay and general administrative expenses	~~3,319~~
~~19~~	~~Ordnance Survey~~	~~Pay and general administrative expenses on mapping services~~	18,590

Management and Personnel Office

4.3

Class and Vote(1)	Accounting Department	Description of Expenditure	Cash Limit £ thousand
19 ~~20~~	Cabinet Office	Pay and general administrative expenses	~~10,284~~
20 ~~21~~	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	~~1,222~~
21 ~~22~~	Public Trustee	Pay and general administrative expenses	~~1~~
22 ~~24~~	Her Majesty's Stationery Office	Payments to the trading fund	~~5,954~~
Class XIV—Common Services			
1	Property Services Agency	Office and general accommodation services	~~466,786~~
2	Property Services Agency	Administration and miscellaneous services	~~249,908~~
3	Central Office of Information	Publicity and departmental administration	~~41,653~~
6	Government Actuary's Department	Pay and general administrative expenses	~~583~~
7	Paymaster General's Office	Pay and general administrative expenses	~~10,048~~
Class XV—Scotland			
2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries and herring industry, Scotland	~~57,181~~
3	Scottish Economic Planning Department	Regional and general industrial support, Scotland	~~117,627~~
4	Scottish Economic Planning Department	Manpower Services Commission, Scotland	~~96,963~~
6	Scottish Development Department	Roads, transport and environmental services, Scotland	~~142,345~~
11	Scottish Courts Administration	Administration of justice, Scotland	~~967~~
14	Scottish Home and Health Department	Prisons, hospitals and community health services etc, Scotland	~~1,190,459~~
15	Scottish Education Department	Education, libraries, arts and social work, Scotland	~~99,071~~
17	Trustees of the National Library of Scotland	National Library of Scotland	~~2,710~~
18	Board of Trustees for the National Galleries of Scotland	National Galleries of Scotland	~~2,263~~
19	Board of Trustees for the National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	~~728~~
21	Scottish Record Office	Pay and general administrative expenses	~~875~~
22	Registrar General's Office, Scotland	Pay and general administrative expenses	~~6,472~~
23	Department of the Registers of Scotland	Pay and general administrative expenses	~~1~~
24	Scottish Office	Pay and general administrative expenses	~~71,983~~
Class XVI—Wales			
1	Welsh Office	Tourism, roads and transport services, housing, other environmental services, education, libraries, arts, health and personal social services Wales	~~621,578~~
4	Welsh Office	Manpower Services Commission, Wales	~~2,031~~
5	Welsh Office	Agricultural services, support for the fishing industry, regional and industrial development Wales	~~81,017~~
7	Welsh Office	Pay and general administrative expenses	~~23,880~~

Class and Vote(¹)	Accounting (l.c) Department	Description of (l.c) Expenditure	Cash (l.c) Limit £ thousand
Class XVII—Northern Ireland			
1	Northern Ireland Office	Law, order ~~and~~ protective (l.c) services and miscellaneous	~~325,965~~
~~2~~	~~Northern Ireland Office~~	~~Central and miscellaneous services~~	~~7,329~~
Class XVIII—Rate (l.c) Support (l.c) Grant, (l.c) Financial (l.c) Transactions etc			
1	Department of the Environment	Rate support grants (198~~1~~2–8~~2~~3) to local revenues, England	~~9,027,000~~
2	Welsh Office	Rate support grants (198~~1~~2–8~~2~~3) to local revenues, Wales	~~744,500~~
3	Department of the Environment	National parks supplementary grants (198~~1~~2–8~~2~~3) England	~~4,500~~
4	Welsh Office	National parks supplementary grants (198~~1~~2–8~~2~~3) Wales	~~1,360~~
5	Scottish Office	Rate support grants (198~~1~~2–8~~2~~3) to local revenues, Scotland	~~1,597,100~~
15	Crown Estate Office	Pay and general administrative expenses	~~1,174~~
19	Department of Transport	Transport supplementary grants (198~~1~~2–8~~2~~3) England	~~416,500~~
20	Welsh Office	Transport supplementary grants (198~~1~~2–8~~2~~3) Wales	~~40,000~~
	Total		~~44,185,433~~

(¹) Those Votes not listed are not subject to cash limits.

(²) By agreement with the Treasury, these four Defence Votes are managed as a single cash limit.

(³) This amount is net of contributions from the Scottish and Welsh Offices and payments from the National Insurance Fund. The total grant in aid which is also a cash limit is ~~£889,744,000~~.

4.5

Table ~~1.6~~ 4.1 continued Cash limits 198~~1~~2-8~~2~~3

2 Other central government expenditure and the external financing requirements of certain other bodies

l.c. Cash block	Department	Description of expenditure (l.c.)	Cash limit (l.c.) £ million
BOE 1	Bank of England	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	~~76·3~~
NID 1	Northern Ireland Departments	Services analogous to Great Britain services covered by cash limits	~~1,699·7~~
RWA 1	Department of the Environment and Welsh Office	External financing requirements of Regional Water Authorities in England and Wales	~~453·0~~
UDC 1	Department of the Environment	External financing requirements of Urban Development Corporations	~~82·2~~
CAA 1	Department of Trade	External financing requirements of the Civil Aviation Authority	~~46·7~~
Total			~~2,357·9~~

Note: The limits on nationalised industries' requirements for external finance are shown in table 3·5.

3 Capital expenditure of local authorities and certain other bodies

l.c. Cash block	Department	Description of expenditure (l.c.)	Cash limit (l.c.) £ million
DOE/LA1	Department of the Environment	Capital expenditure in England by local authorities on roads and transport, housing, schools, further education and teacher training, personal social services, the urban programme and other environmental services	~~2,159·9~~
DOE/NT1	Department of the Environment	Capital expenditure in England by new towns on housing, ~~and~~ roads and	~~140·2~~
~~DOE/NT2~~	~~Department of the Environment~~	~~Capital expenditure in England by new towns~~ ~~on~~ commercial and industrial investment	~~39·1~~
DOE/HC1	Department of the Environment	Capital expenditure in England on housing financed by the Housing Corporation	~~491·0~~
HO/LA1	Home Office	Capital expenditure by local authorities on police, courts and probation	~~44·2~~
SO/LA1	Scottish Office	Capital expenditure in Scotland by local authorities on roads and transport, water and sewerage, general services, urban programme, police and social work, schools, further education and teacher training	~~416·3~~
SO/LA2	Scottish Office	Capital expenditure in Scotland on housing by local authorities, new towns, the Scottish Special Housing Association and on schemes financed by the Housing Corporation, and industrial and commercial investment by new towns	~~496·8~~
WO/LA1	Welsh Office	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal social services, and other environmental services, and by the Land Authority for Wales	~~260·6~~
Total			~~5,048·9~~

FUNCTIONAL ANALYSIS OF UNITED KINGDOM PUBLIC EXPENDITURE

TABLE 4.2

£ MILLION CASH

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
DEFENCE (as in table 2.1)	6,162.8	6,820.0	7,494.8	9,225.6	11,181.5	12,633.7	14,101.7	15,298.5	16,439.0
OVERSEAS AID AND OTHER OVERSEAS SERVICES (as in table 2.2)	1,038.4	1,582.2	1,835.6	2,105.6	1,716.8	1,663.4	2,140.1	2,328.5	2,441.0
AGRICULTURE, FISHERIES, FOOD AND FORESTRY ETC									
MARKET SUPPORT UNDER CAP	182.0	259.2	337.9	362.0	607.5	709.3	673.9	677.1	701.9
OTHER MARKET SUPPORT	52.8	58.3	49.8	45.7	100.6	98.6	87.3	113.3	140.3
OTHER ASSISTANCE TO AGRICULTURE	343.9	332.2	342.7	493.7	559.6	581.9	589.0	612.1	628.5
SUPPORT FOR THE FISHING INDUSTRY	13.5	11.8	12.7	23.4	50.2	73.6	74.5	68.4	70.9
LAND DRAINAGE AND URBAN AND RURAL FLOOD PROTECTION	100.9	119.4	151.4	238.5	237.1	261.5	269.9	192.1	158.4
FORESTRY	27.9	26.9	30.4	46.2	45.2	59.2	61.9	63.7	64.1
FOOD SUBSIDIES	398.6	187.8	9.0	-.2	.3				
NORTHERN IRELAND EXPENDITURE (1)	47.3	70.2	93.3	68.9	52.0	58.7	77.4	67.5	70.8
TOTAL	1,166.9	1,065.8	1,027.8	1,278.2	1,652.5	1,842.9	1,834.0	1,794.0	1,834.8
INDUSTRY, ENERGY, TRADE AND EMPLOYMENT									
REGIONAL AND GENERAL INDUSTRIAL SUPPORT									
REGIONAL DEVELOPMENT GRANTS	391.6	385.1	406.0	311.9	473.7	598.0	353.4	518.2	420.0
NATIONAL ENTERPRISE BOARD	22.7	33.3	45.1	69.8	49.3	41.2	24.6	9.6	8.8
OTHER	166.6	209.3	342.0	336.3	381.8	484.6	476.4	479.5	478.1
TOTAL	580.9	627.7	793.7	718.0	904.8	1,123.8	854.4	1,007.4	906.9
SCIENTIFIC AND TECHNOLOGICAL ASSISTANCE	245.5	227.6	249.7	315.6	561.7	500.8	514.0	558.4	583.3
SUPPORT FOR AEROSPACE, SHIPBUILDING, STEEL, COAL, AND OTHER NATIONALISED INDUSTRIES (OTHER THAN TRANSPORT INDUSTRIES)	496.3	462.3	525.9	652.5	879.4	1,441.1	1,389.6	266.1	231.4
TRADE	749.7	-92.1	420.9	15.6	-61.4	175.6	466.1	293.5	428.6
SHIPPING AND CIVIL AVIATION	84.8	74.3	57.1	72.8	84.9	88.4	97.1	76.1	85.1
EMPLOYMENT AND TRAINING	712.7	935.5	1,027.1	1,214.2	1,933.1	2,420.2	2,649.1	2,756.7	2,933.6
REP	215.6	2.9							
COMPENSATION FOR PRICE RESTRAINT TO NATIONALISED INDUSTRIES									
DEPARTMENTAL ADMINISTRATION AND OTHER SERVICES	90.9	118.7	122.1	85.1	138.6	162.7	167.0	176.4	182.7
NORTHERN IRELAND EXPENDITURE (1)	222.2	231.5	283.6	308.3	358.4	402.8	415.7	419.1	442.4

TOTAL	3,393.8	2,588.4	3,480.1	3,382.1	4,799.5	6,315.4	6,553.1	5,553.6	5,794.0
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES (as in table 3.1)	294.0	-218.0	693.0	1,857.0	2,276.0	1,816.0	1,114.0	1,256.0	1,135.0
TRANSPORT									
MOTORWAYS AND TRUNK ROADS	543.9	475.6	502.4	604.8	708.2	866.8	935.6	990.3	1,049.2
LOCAL TRANSPORT									
LOCAL CAPITAL	566.6	506.2	585.4	736.8	835.6	797.1	955.3	1,003.3	1,060.7
ROADS MAINTENANCE	469.5	532.0	630.4	714.4	838.8	888.8	999.4	1,053.9	1,098.8
REVENUE SUPPORT	220.8	205.4	227.8	270.0	394.1	583.4	374.8	381.0	383.4
OTHER CURRENT	248.4	267.1	297.0	347.5	424.9	438.3	383.8	401.6	416.1
TOTAL	2,054.2	1,986.3	2,243.0	2,673.5	3,201.6	3,574.4	3,648.9	3,830.2	4,008.2
CENTRAL GOVERNMENT SUBSIDIES	510.9	539.5	541.9	698.0	706.9	932.1	978.5	1,021.0	1,066.0
PORTS	62.6	66.9	60.3	60.7	-97.0	117.2	167.5	148.6	108.0
DRIVER AND VEHICLE LICENSING	53.3	49.0	48.5	50.3	65.0	72.8	82.2	91.9	91.0
OTHER TRANSPORT SERVICES	46.4	42.1	43.5	54.7	273.7	85.5	84.3	89.4	94.0
NORTHERN IRELAND EXPENDITURE (1)	73.0	87.0	101.2	116.3	122.2	128.6	105.5	121.0	127.0
TOTAL	2,800.4	2,770.8	3,038.4	3,653.5	4,272.4	4,910.6	5,066.9	5,302.0	5,494.2
HOUSING									
CENTRAL GOVERNMENT SUBSIDIES TO LOCAL AUTHORITY HOUSING	979.6	1,028.7	1,207.5	1,549.7	1,717.6	1,112.7	742.3	590.5	481.2
OTHER GENERAL SUBSIDIES	304.4	340.7	430.0	605.7	745.1	706.8	617.8	265.0	86.9
RENT REBATES	174.3	206.6	207.4	238.1	317.4	509.4			
RENT ALLOWANCES	26.8	39.0	38.4	41.6	47.8	65.4			
TOTAL INCOME RELATED SUBSIDIES	1,485.1	1,615.0	1,883.5	2,435.1	2,827.9	2,394.3	[illegible]	855.5	568.1
OPTION MORTGAGE SCHEME	140.0	151.5	147.0	189.6	228.3	250.4	310.4	254.0	260.0
ADMINISTRATION	123.4	72.1	94.9	97.6	100.2	136.9	129.3	134.3	133.7
LOCAL AUTHORITY GROSS CAPITAL EXPENDITURE	2,741.9	2,550.8	2,568.4	2,982.8	2,631.0	2,331.8	3,014.5	2,614.4	2,942.3
SALES AND REPAYMENTS	-291.8	-406.6	-542.4	-492.5	-639.5	-1,114.5	-1,245.7	-944.3	-994.1
OTHER CAPITAL	545.6	540.2	567.4	699.3	845.8	794.6	821.8	702.5	797.1
NORTHERN IRELAND EXPENDITURE (1)	177.1	170.8	187.4	215.1	244.0	244.5	304.6	335.1	351.3
TOTAL	4,921.3	4,693.8	4,906.0	6,127.0	6,237.7	5,037.8	4,695.1	3,951.4	4,058.3
OTHER ENVIRONMENTAL SERVICES									
WATER SERVICES	602.2	580.0	624.7	687.6	771.3	914.6	889.1	928.5	977.2
LOCAL ENVIRONMENTAL SERVICES	1,691.0	1,812.3	2,050.7	2,462.1	2,901.4	2,859.8	2,991.9	3,091.0	3,193.3
URBAN PROGRAMME	9.7	16.0	59.9	98.7	140.2	262.4	313.6	291.0	305.2
OTHER	210.9	222.6	272.2	304.4	346.2	396.8	406.6	437.2	459.2
NORTHERN IRELAND EXPENDITURE (1)	74.8	82.1	91.1	104.4	121.0	134.0	150.0	157.8	166.8
TOTAL	2,586.6	2,713.0	3,098.0	3,657.2	4,280.1	4,567.7	4,751.1	4,905.5	5,101.7

4.8 LAW, ORDER AND PROTECTIVE

SERVICES									
ADMINISTRATION OF JUSTICE	149.8	166.4	200.9	249.5	351.2	444.3	521.5	591.4	646.3
TREATMENT OF OFFENDERS	276.6	304.8	343.6	415.7	548.0	617.6	672.6	735.3	783.2
GENERAL PROTECTIVE SERVICES									
POLICE	1,067.4	1,144.2	1,271.2	1,637.2	1,964.6	2,343.6	2,562.5	2,758.8	2,899.4
FIRE AND OTHER	261.6	267.7	324.0	401.0	486.4	501.0	564.5	592.9	614.4
CIVIL DEFENCE	17.9	12.7	13.0	29.7	22.9	39.4	54.9	60.8	62.5
OTHER	66.0	72.7	79.3	95.1	126.1	146.5	144.7	150.7	157.3
NORTHERN IRELAND EXPENDITURE (1)	169.0	176.7	204.0	249.1	310.2	337.2	360.7	380.1	400.4
TOTAL	2,008.3	2,145.2	2,437.4	3,077.3	3,809.4	4,429.5	4,881.4	5,270.0	5,563.5
EDUCATION AND SCIENCE, ARTS AND LIBRARIES									
SCHOOLS	5,064.3	5,300.9	5,823.2	6,582.2	8,018.5	8,660.3	8,887.1	9,145.1	9,276.3
HIGHER AND FURTHER EDUCATION (INCLUDING TEACHER TRAINING)	2,111.9	2,232.2	2,480.1	2,940.3	3,641.1	3,963.2	4,183.1	4,260.2	4,409.8
OTHER	380.9	406.2	451.5	534.7	648.0	700.0	730.4	772.5	800.2
TOTAL EDUCATION	7,557.1	7,939.3	8,754.0	10,057.2	12,307.6	13,323.5	13,800.6	14,177.8	14,486.3
RESEARCH COUNCILS ETC	239.1	258.7	295.4	339.5	392.3	449.7	481.4	509.8	535.4
ARTS AND LIBRARIES									
CENTRAL GOVERNMENT	107.9	115.5	136.7	167.2	191.6	210.5	237.2	251.5	264.3
LOCAL AUTHORITIES	207.3	225.7	255.1	294.2	351.5	381.2	383.3	394.9	407.2
TOTAL ARTS AND LIBRARIES	315.2	341.2	391.8	461.4	543.1	591.7	620.4	646.4	671.5
NORTHERN IRELAND EXPENDITURE (1)	262.2	297.3	340.1	389.0	457.7	500.6	533.5	557.0	582.2
TOTAL	8,373.6	8,836.5	9,782.1	11,247.1	13,700.7	14,865.5	15,435.9	15,891.1	16,275.4
--									
HEALTH AND PERSONAL SOCIAL SERVICES									
HEALTH									
HOSPITAL & COMMUNITY HEALTH SERVICES	4,589.0	5,056.0	5,706.9	6,830.3	8,847.7	9,859.3	10,605.0	11,220.8	11,782.6
FAMILY PRACTITIONER SERVICES	1,180.0	1,333.3	1,576.7	1,835.3	2,279.5	2,654.2	2,850.4	3,071.4	3,278.6
TOTAL	5,769.0	6,389.3	7,283.0	8,665.6	11,127.2	12,513.5	13,455.4	14,292.2	15,061.2
PERSONAL SOCIAL SERVICES									
LOCAL AUTHORITY SERVICES	1,071.9	1,159.5	1,319.5	1,630.2	1,993.6	2,229.8	2,343.5	2,493.8	2,625.4
CENTRAL GOVERNMENT SERVICES	10.1	11.2	12.4	14.5	19.4	22.2	24.0	24.3	25.2
TOTAL	1,082.0	1,170.7	1,331.9	1,644.7	2,013.0	2,252.0	2,367.5	2,518.1	2,650.6
OTHER	236.2	265.1	295.0	364.7	458.1	551.2	598.3	620.5	646.4
NORTHERN IRELAND EXPENDITURE (1)	240.2	269.8	314.5	382.1	484.3	546.4	578.6	614.2	645.1
--									
TOTAL	7,329.4	8,094.9	9,224.8	11,057.1	14,082.6	15,863.1	16,999.8	18,045.0	19,003.2
SOCIAL SECURITY									

4.9

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RETIREMENT PENSIONS	5,662.1	6,612.6	7,551.8	8,814.0	10,541.2	12,048.0	13,496.0	14,709.0	15,625.0
CHILD BENEFIT	544.3	873.5	1,797.8	2,830.0	3,005.1	3,474.0	3,778.0	4,059.0	4,271.0
OTHER	5,182.7	6,160.4	6,815.4	7,462.4	9,510.7	12,433.0	14,744.9	14,683.4	15,519.5
NORTHERN IRELAND EXPENDITURE (1)	340.8	410.5	493.8	585.9	710.9	860.5	985.0	1,071.1	1,149.3
TOTAL	11,729.9	14,057.0	16,658.8	19,692.3	23,767.9	28,815.4	33,003.9	34,522.6	36,564.8
MISCELLANEOUS EXPENDITURE									
OTHER PUBLIC SERVICES	814.5	844.9	919.8	1,084.9	1,354.2	1,511.6	1,523.2	1,606.5	1,670.8
COMMON SERVICES	707.7	765.3	852.2	1,007.4	982.2	1,597.8	1,633.1	1,802.8	1,929.2
NORTHERN IRELAND EXPENDITURE (1)	20.1	18.7	25.7	32.7	43.6	53.9	55.4	58.2	60.8
TOTAL	1,542.3	1,628.9	1,797.7	2,125.0	2,380.0	3,163.4	3,211.7	3,467.5	3,660.8
GRAND TOTAL	53,357.7	56,778.5	65,475.5	78,485.0	94,157.1	105,924.3	113,788.7	117,585.4	123,365.6
ADJUSTMENT									
NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING	1,269.4	922.6	457.7	-321.0	-448.2	201.6	-181.6	41.3	-371.5
SPECIAL SALES OF ASSETS		-548.0		-998.0	-362.0	-50.0	-500.0	-600.0	-600.0
CONTINGENCY RESERVE						[400]	2,250.0	4,000.0	6,000.0
PLANNING TOTAL	54,627.1	57,153.1	65,933.2	77,166.0	93,346.9	[106,500]	115,357.1	121,026.7	128,394.1

4.10 1) Expenditure in Northern Ireland which falls within programme 17.

LOCAL AUTHORITY EXPENDITURE IN GREAT BRITAIN

Table 4.3 £million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Current expenditure in England (1)							
Agriculture, fisheries food and forestry	36	47	60	70	68	79	92
Industry, energy, trade and employment	55	58	66	81	96	115	122
Transport	792	825	944	1,087	1,342	1,603	1,423
Housing	351	322	405	539	676	576	419
Other environmental services	1,054	1,184	1,342	1,640	1,908	2,152	2,189
Law, order and protective services	1,166	1,256	1,427	1,824	2,210	2,543	2,781
Education and science arts and libraries	5,317	5,783	6,448	7,389	8,948	9,920	10,097
Health and personal social services	838	938	1,063	1,307	1,620	1,809	1,860
Social security							562
Total current expenditure in England	9,608	10,414	11,754	13,939	16,868	18,796	19,545
Total current expenditure in Scotland (from table 2.15.1)	1,174	1,284	1,498	1,773	2,191	2,302	2,582
Total current expenditure in Wales (from table 2.16.1)	594	653	736	860	1,025	1,142	1,212
Total current expenditure in Great Britain (2)	11,376	12,351	13,988	16,572	20,084	22,240	23,338
Capital expenditure in England (3)							
Agriculture, fisheries food and forestry	39	37	50	101	99	105	115
Industry, energy trade and employment	4	5	8	20	25	37	48
Transport	438	374	420	542	642	566	720
Housing	1,970	1,675	1,543	1,992	1,456	841	1,256
Other environmental services	375	353	424	490	661	433	575
Law order and protective services	59	53	44	51	49	94	106
Education and science arts and libraries	448	373	342	389	496	380	327
Health and personal social services	64	43	47	57	77	67	102
Total capital expenditure in England	3397	2,916	2,879	3,641	3,503	2,524	3,249
Total capital expenditure in Scotland (from table 2.15.1)	529	504	539	633	622	708	714
Total capital expenditure in Wales (4) (from table 2.16.1)	208	170	184	235	248	207	273
Total capital expenditure in Great Britain	4,134	3,590	3,602	4,509	4,373	3,439	4,236

Notes to table 4.3

1) Local authority current expenditure is not controlled directly by the central government. Local authorities are free to decide on its level and distribution; but there are cash limits on certain central government grants.

2) The relationship of local authority current expenditure to rate support grant in 1982-83 is given in table 1.19.

3) Local authority capital expenditure is controlled by cash limits, with some freedom for local authorities to determine its distribution among services.

4) This reflects a notional split of England & Wales capital expenditure on law, order & protective services.

LOCAL AUTHORITY EXPENDITURE IN GREAT BRITAIN

RELEVANT FOR RATE SUPPORT IN 1982-83

Table 4.4

	ENGLAND	SCOTLAND	WALES	GREAT BRITAIN
		£ million		
Current Expenditure of which	19,545 (1)	2,581 (2)	1,212 (3)	23,338
Relevant current expenditure 4)	18,000	2,429	1,126	21,555
Rate fund contributions to Housing Revenue Accounts	347	-	8	355
Revenue contributions to Capital Expenditure	565	20	55	641
Loan charges	1,965	450	132	2,546
Interest Receipts	-414	- 1	- 20	-435
Total relevant expenditure of which	20,463	2,898	1,301	24,662
Aggregate Exchequer Grant	11,459	1,845 5)	943	14,247
At a rate of of which	56%	64.2%	72.5%	-
Block Grant 6) (cash limited)	8,657	1,663	790	11,110
Other cash limited grants 7)	462	-	32	494
Domestic rate relief grant	678	14	25	717
Specific grants not cash limited 8)	1,662	168	96	1,926

1) From Table 4.3
2) From Table 2.15.x
3) From Table 2.16.x
4) Relevant current expenditure is that part of local authority current expenditure which is included in relevant expenditure for RSG purposes. The main differences are that relevant current expenditure excludes certain items met almost entirely from central government funds such as expenditure on mandatory student awards and expenditure met by central government grants for rent rebates and allowances.
5) This figure has been set £15m lower on account of Scottish local authorities' high level spending in 1980-81.
6) In Scotland, the cash limited part of Rate Support Grant.
7) In England and Wales, Transport Supplementary Grant and National Parks Supplementary Grant.
8) Law and Order services account for three-quarters of expenditure met by these grants.

Table 4.5 Debt interest.

£million

	1976-7	1977-8	1978-9	1979-80	1980-1	1981-2	1982-3	1983-4	1984-5
Debt interest - net (1)	1496	1909	2463	3750	4542	6800	6800	6900	7100
add back									
(a) Debt interest payments matched by: general government interest receipts	2295	2657	2825	3099	3811				
interest provision from trading activities of general government	1650	1815	2031	2504	2827				
(b) Interest support costs (included in programme 4) (2)	264	138	260	411	549	8400	9000	9300	9400
equals									
General government debt interest payments	5705	6519	7579	9764	11729				
add									
(c) Public corporations debt interest payments to the private sector & overseas	797	770	851	857	789				
equals									
Total public sector debt interest payments (National Accounts basis) (3)	6502	7289	8430	10621	12518	15200	15800	16200	16500

(1) Shown as 'debt interest net' in memorandum item A of Table 1.1.

(2) These costs arise from the support of export credit and home shipbuilding lending at fixed rates of interest. They are included (as a subsidy) in programme 4 in the White Paper but as debt interest in the national accounts.

(3) Shown as 'debt interest gross' in memorandum item A of Table 1.1.

Text to accompany table 4.5

The estimates of net debt interest in public expenditure are on the basis used in recent public expenditure White Papers. They exclude interest payments which are matched by interest receipts or by provision for interest in the accounts of public trading activities. They thus broadly correspond to those interest payments which are a charge against taxation and, if not met from taxation, necessitate further government borrowing. Table 4.5 shows, first, debt interest on the public expenditure basis (shown as "debt interest net" in memorandum item A of table 1.1), and then the interest payments excluded from that definition of debt interest, and finally the total of public sector payments of debt interest to the private sector and overseas (shown as "debt interest gross" in memorandum item A of table 1.1).

TABLE 4.6 PUBLIC EXPENDITURE BY MAIN PROGRAMME AND SPENDING AUTHORITY
DISTINGUISHING CURRENT AND CAPITAL EXPENDITURE IN 1982-83

£ million cash

	Central government					
	Voted expenditure Cash-limited	Voted expenditure Other	Other	Local authorities(1)	Certain public corporations(2)	Total
Defence						
Current	13295	655	-15	–	–	13935
Capital	153		15			168
Overseas aid and other overseas services						
Current	1059	-379	1098	–	–	1778
Capital	362	–	-46	–	42	358
of which, Overseas aid	904	–	27	–	43	974
EC contributions (excl. overseas aid)	-531	–	1031	–	–	500
Other	1048	-379	-6	–	-1	662
Agriculture, fisheries, food and forestry						
Current	270	636	–	95	–	1001
Capital	103	241	-4	115	74	529
of which, Market support under CAP	–	654	–	16	–	670
Other	373	223	-4	194	74	860
Industry						
Current	281	348 (3)	-6	-	–	623
Capital	53	812	-44	-	-	821
Energy						
Current	868	195 (3)	–	–	–	1058
Capital	45	–	-2	–	–	43
Trade						
Current	140	12	-1	54	–	205
Capital	17	–	5	43	-	65
Employment						
Current	1663	422	426	80	–	2591
Capital	58	23	-3	7	–	85
Other Programme 4						
Current	6	612	–	-	-	618
Capital	–	-245	-	-	-	-245
Transport						
Current	328	1025 (3)	–	1423 (3)	–	2776
Capital	576	–	-2	722	100	1396
of which, Roads	702	–	–	2126	51	2879
Subsidies	26	936	–	–	–	962
Other	176	89	-2	19	49	331
Housing						
Current	28	1049	–	419	–	1496
Capital	424	12	-4	1256	294	1982
of which, Subsidies	12	748	–	325	–	1085
Capital expenditure	424	12	-4	1256	294	1982
Other	16	301	–	94	–	411
Other environmental services						
Current	224 (3)	–	-	2189	–	2413
Capital	99	1	-	575	653	1328 +
of which, Water	44	–	–	–	636	680
Other	279	1	–	2764	17	3061
Law, order and protective services						
Current	715	340	-102	2929	–	3882
Capital	138	–	-7	112	–	243 -1
of which, Police	40	–	–	2218	-	2258
Fire services	1	–	–	494	–	495
Other	812	340	-109	329	–	1372
Education and science, arts and libraries						
Current	2005	48	–	10120	-	12173
Capital	214	46	-5	327	-	582 +1
of which, Schools	-	59	-4	7315	-	7370
Higher and further education etc	1467	28	–	2262	-	3757
Research councils etc	536	4	–	550		1090
Arts and libraries	216	3	-1	319	–	537

	Central government					
	Voted expenditure Cash-limited	Other	Other	Local authorities(1)	Certain public corporations(2)	Total
Health and personal social services						
Current	8532	2444	9	1860	–	12845
Capital	684	2	–	102	–	788
of which, Health	9002	2408	–	–	–	11510
Personal social services	12	—	–	1959	—	1871
Other	202	38	9	3	—	252
Social security						
Current	562	11166	19596	680	–	32004
Capital	15	–	–	–	–	15
of which benefits for the:						
Elderly						
Disabled and sick						
Unemployed						
Family (child benefit etc)						
Widows						
Administration						
Unified Housing Benefit						
Other public services						
Current	1208	91	18	–	–	1317
Capital	34	–	4	–	11	49
of which, Tax collection	895	–	–	–	–	895
Other	347	91	22	–	11	471
Common services						
Current	443	1309	-174	–	–	1578
Capital	68	–	-13	–	–	55
of which, Civil superannuation	–	1002	-139	–	–	863
Other	511	307	-48	–	–	770
Scotland						
Current	1573 (3)	727	-1	2491 (3)	–	4790
Capital	432	37	2	712	107	1290
Wales						
Current	605	248	–	984	–	1837
Capital	231	25	1	266	66	589
Northern Ireland (4)						
Current	1429	573	546	448	–	2996
Capital	147	117	89	55	163	571
Government lending to nationalised industries(5)						
Capital	–	571	543	–	–	1114
Total	39081	23163	21923	28064	1510	113741
Adjustments						
Nationalised industries' net overseas and market borrowing(5)						-182
Special sale of assets						-500
Contingency reserve						2250
General allowance for shortfall						–
Planning total						

(1) Capital expenditure by local authorities in GB is subject to cash limits. For local authority current expenditure, the supporting finance provided through the rate support grants and the supplementary grants for transport and national parks is subject to cash limits.

(2) The capital expenditure of most of these public corporations is subject to cash limits. In the case of Regional Water Authorities in England and Wales the limit applies to their external financing; their capital is included in programmes 3, 8 and 16.

(3) Includes certain grants to nationalised industries that are included in their external financing limits.

5) Included in the external financing limits of the nationalised industries.

4) Includes expenditure by the Northern Ireland Office and Northern Ireland Departments. There is a single non-voted cash limit on expenditure by Northern Ireland Departments on services analogous to those in Great Britain which are subject to cash limits.

4.17

TABLE 4.7

CMND 8175[1] CONVERSION TO CASH AND REVISED CLASSIFICATION BY MAIN PROGRAMME AND IN TOTAL: 1982–83

£ million cash

	Cmnd 8175 at 1980 Survey Prices	Changes due to conversion to cash (2)	Classification and PSBR neutral changes	Cmnd 8175 in cash
Defence	10,050	3573	-1	13622
Overseas aid and other overseas services.	1,530	616	10	2156
Agriculture, fisheries, food and forestry	980	433	17	1430
Industry, energy, trade and employment	3,080	1265	–	4345
Transport	2,670	1200	166	4036
Housing	2,720	1147	-648	3219
Other environmental services	2,880	1241	-491	3630
Law order and protective services	2,960	1058	7	4025
Education and science arts and libraries	8,360	3815	12	12187
Health and personal social services	9,400	4013	4	13417
Social security	21,600	8714	908	31222
Other public services	930	393	64	1387
Common services	1,180	461	-34	1607
Scotland	4,170	1817	-73	5914
Wales	1,630	742	-24	2348
Northern Ireland	2,410	1020	-4	3426
Government lending to nationalised industries	350	148	32[3]	530
Adjustments				
Nationalised industries net overseas and market borrowing	-400	-186	430[4]	-156
Special sales of assets	-125	-26	-	-151
Contingency reserve	2000	850	-	2850
General allowance for shortfall	-500	-213	-	-713
Planning Total	77,900	32081	375	110331
Debt Interest – gross	10,300	4800	–	15100
– net	4,600	2100	–	6700
Nationalised industries total net borrowing	-50	-38	462	374
Net borrowing of some other PC.	–		–	

(1) The Government's Expenditure Plans 1981–82 to 1983–84, March 1981.

(2) Conversion to cash based on revaluation factors set out in paragraph —.

3) The effect of the introduction of Supplementary Petroleum Duty on the external financing of BNOC and BGC, which was excluded from Cmnd 8175, is included here. See Part 3. The effect is to increase the Corporations' requirement for external finance by £156 million.

4) The effect of the gas levy on BGC's external financing, which was excluded from Cmnd 8175, is included here. See Part 3. The effect is to increase the Corporation's requirement for external finance by £430 million.

TABLE 4.8

SPECIAL SALES OF ASSETS 1979-80

Transaction	£ million
Net reductions in expenditure	
Sale of shares in the British Petroleum Co Ltd.	276
National Enterprise Board - sale of certain shares	37
Sale of shares in Drake & Scull Holdings Ltd.	1
New Town Development Corporations and the Commission for the New Towns - sale of land and buildings	26
Regional Water Authorities - sale of land	3
Sale of shares in Suez Finance Company	22
Property Services Agency - sale of land and buildings	5
TOTAL	370
Revenue offsets to planned expenditure	
British National Oil Corporation - receipts of advanced payments for oil	622
Stamp duty and VAT	7
GRAND TOTAL	999

SPECIAL SALES OF ASSETS 1980-81

Transaction	£ million
Net reductions in expenditure	
Receipt of premiums levied on the seventh round of North Sea oil licences (less £15 million of payments on licences granted to British National Oil Corporation)	195
Sale of leases of certain motorway service areas - sales of land and buildings	28
Property Services Agency - sale of land and buildings	4
Sale of shares in British Aerospace Ltd	43
New Town Development Corporations and the Commission for New Towns - sales of land and buildings	52
National Enterprise Board - sales of certain shares	83
TOTAL	405
Revenue offsets to planned expenditure	
Change in level of receipts of advance payments for oil	-49
GRAND TOTAL	356

TABLE 4.9

DIRECT TAX ALLOWANCES AND RELIEFS

The following list gives 1981-82 figures for those tax reliefs and allowances for which costs can be given. In interpreting the costings, the following considerations should be borne in mind:

a. No attempt is made to distinguish reliefs and allowances which can be regarded as part of the structure of the tax system.

b. Each relief is costed separately; the combined costs of more than one cannot therefore be calculated by summing the figures.

c. The costings assume that taxpayers' behaviour would be unaffected by withdrawal of the relief. Though this assumption is sometimes unrealistic (eg in relation to capital gains tax on owner-occupier houses, or transfers of gilt-edged securities) the size of the effects cannot be estimated.

d. The costs of personal income tax reliefs and allowances do not include tax which would become due if the allowances were withdrawn from persons who are not on Inland Revenue records because their incomes are below tax thresholds.

e. All figures are on the basis of accruals, not receipts, except where otherwise shown.

Tax Provision	Estimated cost for 1981-82 (£ million)
INCOME TAX	
Married man's allowance	8540
Single person's allowance	4640
Wife's earned income allowance	2390
Husband and wife: election for separate taxation of wife's earnings	160
Age allowance (1)	390
Exemption of first £5,500 of investment income from investment income surcharge	930
Additional personal allowance for one parent family	115
Blind person's allowance	3
Dependent relative allowance	20
Housekeeper allowance	1
Son's or daughter's services allowance	Under 1
Child allowance for certain students and non-resident children (2)	7
Widow's bereavement allowance	7
Relief for:-	
Pension schemes (3)	
Self-employed: retirement annuity payments (4)	310
Life assurance premiums	530
Qualifying interest on loans for purchase or improvement of owner-occupied etc property	2030
Profit Sharing Schemes	20*
Savings-linked share option schemes	under 1
Investment in new corporate trades (5)	50*
Losses on unquoted shares in trading companies	30*
Expenditure on property managed as one estate	2*
Foreign earnings of employees working abroad for less than 365 days: 25 per cent deduction	60*
Foreign emoluments (non-domiciled employee of foreign employer):	
- maximum charge of 50 per cent of emoluments (resident less than 9 years)	60*
- maximum charge of 75 per cent of emoluments (resident for 9 years or more)	5*
Exemption of:-	
First £70 of National Savings Bank ordinary account interest	30*
Interest on National Savings Certificates (including index-linked Certificates)	230*
Premium Bond prizes	25*
SAYE	40*
British Savings Bonds bonuses	under 1
Income of charities and scientific research associations (6)	200

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Tax Provision	Estimated cost for 1981-82 (£ million)
Exemption of:-	
British government securities where owner not ordinarily resident in United Kingdom	230*
Schedule E work expenses allowed as a deduction	225
Foreign service allowance paid to Crown servants abroad	55
Unemployment benefit	350
Sickness benefit (7)	200
Invalidity benefit and non-contributory invalidity pension	90*
Attendance allowance	25*
Maternity allowance	35*
Family income supplement	15*
Supplementary benefits	130*
Industrial injury benefits (7)	15*
Industrial disablement benefits	35*
£10 Christmas bonus for pensioners	13
War disablement benefits	35
Widows etc, dependency additions	15
War widow's pension	20
Children's allowance to Forces' widows	under 1
Compensation payments to victims of Nazi persecution	under 1
Annuities paid to holders of Victoria Cross etc	under 1
Pension and annuities from certain gallantry awards	under 1
Allowances to rehabilitees	under 1
Student maintenance awards	30*
Statutory redundancy payments	110*
Payments under job release scheme	15*
Payments under training opportunities scheme	10*
Allowances to young people under youth opportunities programmes	20*
Option to tax woodland under Sch B instead of Sch D	5*
Farming etc averaging of profits	10*
<u>INCOME AND CORPORATION TAX</u>	
Capital allowances: (8)	
Income tax relief	500*
Corporation tax relief (9)	7900*
(North Sea oil and gas production	2000*)
public corporations	1600*)
other	4300*)
Stock relief: (8)	
Income tax relief	115*
Corporation tax relief (9)(10)	1400*
Double taxation relief: (11)	
Income tax and corporation tax	2300*
Small companies reduced rate of corporation tax (12)	180*
Special rate of corporation tax for building societies (12)	40*
Relief to investment companies for losses on unquoted shares in trading companies	10*

Tax Provision	Estimated cost for 1981-82 (£ million)
PETROLEUM REVENUE TAX (13)	
Relief for certain expenditure qualifying for uplift and the uplift thereon	810
Oil allowance	130
Safeguard: restricting petroleum revenue tax to not more than 80 per cent of the excess over a 30 per cent return on historic capital cost	10*
Exemption for gas sold to British Gas pre-July 1975 contracts	50*
SUPPLEMENTARY PETROLEUM DUTY (14)	
Oil allowance	60
Exemption for gas sold to British Gas pre-July 1975 contracts	50*
CAPITAL GAINS TAX (15)	
Exemption of:-	
First £3,000 of gains of individuals and first £1,500 of gains of trustees	70
Gains accrued but unrealised at death	65*
Gains accruing to authorised unit and investment trusts	50*
Gains arising on disposal of:	
Life assurance policies (other than at death) (16)	110*
Life assurance policies (on death) (16)	20*
Only or main residence (or residence provided for a dependent relative) (17)	2800*
Traded options: wasting assets	5*
Relief for Loans to traders	5*
General Rollover relief for gifts	20*
Rollover relief for gifts of business assets	under 1
DEVELOPMENT LAND TAX (15)	
Exemption of development value realised on disposal of private residences	under 1
Advance assessment of tax on deemed disposals	1
Special addition to Base A	1
CAPITAL TRANSFER TAX (15)	
Exemption of:-	
Transfers on death to surviving spouses	260
Transfers to charities on death	55
Double taxation relief	2
Agricultural relief	35
Business relief	20
Transitional relief for distributions from discretionary trusts (18)	140

Tax Provision	Estimated cost for 1981-82 (£ million)
Relief for heritage property and maintenance funds	50*
Killed in war relief	under 1
Quick succession relief	8
Transfers to employee trusts	under 1
Settled property exemption: Newspaper trusts	under 1
Gifts in consideration of marriage	under 1
Annual £3000 exemption	2

STAMP DUTY

Exemption of transfers of government stocks and local authority loans	1500
Transfers of houses or other property (not stocks and shares):	
£20,000 exemption	145
Reduced rates - £35,000 and under	130
Reduced rate for transfers to charities	5
Reduced rate for transfers of stocks and securities to certain non-residents	18

4-2a

*This figure is particularly tentative and subject to a wide margin of error.

(1) This figure represents the cost of the amount of age allowance in excess of the ordinary personal allowance.

(2) With the exception of the provision for certain students and children living abroad, child tax allowances have been withdrawn with effect from 6 April 1979.

(3)

(4) This cost has been calculated on a basis similar to that for the estimate for employee's superannuation contributions - see note (3).

(5) The cost of this measure, introduced in the 1981 Finance Act, will not be reflected in tax receipts for 1981-82.

(6) This figure represents the sum repaid in respect of tax credits and income deducted at source (investment income and payments received under covenant). Information is not available about the income received gross. It contains an estimate of the higher rate relief on charitable covenants.

(7) About three-fifths of this figure relates to payments of benefit which would be replaced by Employers' Statutory Sick Pay.

(8) Effect on receipts in 1981-82 The figures for capital allowances are net of balancing charges and those on stock relief are net of recoveries of relief.

(9) The combined impact of capital allowances and stock relief on corporation tax is tentatively estimated at £9,800*m.

(10) Public corporations and North Sea oil and gas account for very little of this figure.

(11) Relates to accounting periods ending in 1976-77, the latest year for which fairly full information is available.

(12) Effect on receipts in 1981-82.

(13) The figures are net of any consequential effect on corporation tax.

(14) The figures are net of any consequential effect on petroleum revenue tax and corporation tax.

(15) For capital gains tax, capital transfer tax and development land tax most of the costs are on a receipt basis, that is, the revenue which would be lost assuming the exemptions and reliefs applied to the transactions on which the 1981-82 receipts were based. The exceptions are the capital gains tax exemption of life assurance policies and the exemption of the only or main residence, which are both on an accruals basis.

(16) In the absence of other information tax has been assumed to be charged at 30 per cent. The exempt slice of £3,000 would substantially reduce the cost of these exemptions. It should be noted that in the absence of a capital gains charge on most life assurance disposals, certain gains from surrenders and maturities of life assurance policies are treated as income to be assessed for higher rate income tax.

(17) On the assumption that there would be no relief for gains when disposal proceeds are applied to the purchase of another house and also that there would be no consequential effects on length of ownership and on the housing market.

(18) This figure is inflated by some unusually high distributions in 1981-82.

PUBLIC EXPENDITURE WHITE PAPER

PART 5: EXPLANATORY AND TECHNICAL NOTES

Introduction

1. This White Paper describes the Government's plans for expenditure during the financial years 1982-83 to 1984-85.(1) It complements the Financial Statement and Budget Report and the Supply Estimates (summarised in the Chief Secretary's Memorandum). The former sets out the Government's proposals for taxation and includes financial accounts for the public sector as a whole. The latter set out the monies which Parliament is asked to vote to finance parts of public expenditure.

2. This White Paper summarises the outcome of the 1981 public expenditure survey. The system of annual surveys for planning public expenditure over the medium term has been used for some 20 years. For most of that time, the survey was conducted in constant prices, frequently described as representing "volume". In his Budget statement on 10 March 1981, the Chancellor of the Exchequer announced that the Government had decided to make a major shift in the planning of public expenditure from volume to cash.(2) This White Paper is the first to reflect the examination and discussion of public expenditure plans in terms of the cash to be provided to finance them. Paragraphs 10-16 below describe the relationship between the previous plans in Cmnd 8175 - the last White Paper describing plans for the volume of public expenditure - and the initial stages of the 1981 Survey.

3. Public expenditure is planned in terms of specific functional programmes, such as defence, health or education, usually the responsibility of a single government Department. However, the plans cover all the public sector and thus most programmes include expenditure by more than one spending authority - central government, local authorities and the public corporations (which include the nationalised industries). For example: programme 6, Transport includes expenditure by central government on trunk roads and grants and subsidies to British Rail as well as expenditure by local authorities and the New Towns (public corporations) on roads and the provision of local transport.

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(1) It supersedes the public expenditure White Paper, The Government's Expenditure plans: 1981-82 to 1983-84 Cmnd 8175 March 1981.

(2) See "Public Expenditure Planning in Cash" Economic Progress Report 139, November 1981.

4. The cash figures in this White Paper are generally expressed to the nearest £ million. All totals have been derived from unrounded figures, but are expressed to the nearest £ million. Thus the components may not always add exactly to the total shown.

II The control of public expenditure

5. Public expenditure plans are closely related to the ways in which expenditure for carrying out government policy is controlled. The figures in the White Paper for the year ahead for expenditure by **central government** provide the basis for the annual Supply Estimates presented to Parliament. These Estimates show most of the expenditure to be financed by the Exchequer's Consolidated Fund. The planning figures also cover some central government spending outside the scope of Estimates and met from sources such as the National Insurance Fund (certain social security benefits) or the National Loans Fund (including most government lending to nationalised industries). Similarly, some Supply Estimates are not directly reflected in public expenditure because they finance the relevant spending authority's expenditure. The votes for rate support grants to local authorities are an example of such Estimates.

6. Public expenditure includes expenditure by the local **authorities** however financed. Hence, grants or loans to them from central government do not count as public expenditure in their own right. The amounts of these payments are based on the plans for local authority expenditure in this White Paper. Table 4.4 shows the relationship between the plans for local authority current expenditure in this white paper and the aggregate exchequer grant (AEG) which comprises rate support grants and specific and supplementary grants such as those for the police and transport. AEG is set at a specified percentage of a total of planned relevant expenditure by local authorities. This is not the same as local authority current expenditure because AEG is essentially a source of finance to the rate fund As such it is available to cover finance for capital expenditure ie revenue contributions to capital outlay, and debt charges (these are not included in the planning total). On the other hand, certain items of current expenditure by local authorities

included in the public expenditure figures in this white paper is excluded from relevant expenditure because they are almost wholly financed by grants from central government. For example mandatory student awards and rent rebates and allowances are not included in relevant current expenditure because local authorities receive Exchequer Grant covering 90 per cent of their expenditure on these payments. Rate support grant is distributed between authorities in a way designed to influence local authorities to spend in line with government plans. The capital expenditure of local authorities is controlled directly by cash limits based on the planned figures for the year ahead in this White Paper.

7. The plans of the **nationalised industries** described in this White Paper stem from an annual review of their investment programmes and financing. When this review has been completed the Government informs each industry of the approved level of its investment programmes for the coming year (they also approve proportions of the programmes planned for the two following years) and of its external financing limit for the year ahead. The industries' investment programmes are described in Part 3 of this White Paper, which also includes tables showing their financing in some detail for the years 1980-81 to 1982-83. The nationalised industries total external financing is part of the public expenditure planning total (see paragraphs 18 to 21 below).

8. For **other public corporations** the material in the White Paper similarly provides the framework for administering the relevant programmes. In some cases the planning total reflects all or parts of their external financing and in other cases their capital expenditure. (see paragraphs 18 to 21 below).

9. **Cash limits** as a means of control over cash spend were introduced generally in 1976 and thus foreshadowed the introduction of cash planning. Table 4.1 lists the cash limits in operation for 1982-83. They cover about 40 per cent of public expenditure directly. Another 20 per cent is local authority current expenditure and here the ~~rate~~ aggregate exchequer support grant (see

are subject to cash limits
paragraph 6) ~~is cash limited.~~ The majority of cash limits are based on the Supply Estimates and cover both direct public expenditure by central government and its voted grants and lending to other public sector bodies. Table 4.1 also shows how some expenditure outside the scope of the Supply Estimates is also subject to cash limit control, principally certain expenditure by Northern Ireland Departments and capital expenditure by local authorities. The nationalised industries' contribution to public expenditure is controlled by means of External Financing Limits, which are a form of cash limit for individual industries. These limits set a ceiling to the amount of external finance, in the form of grants and borrowing, that an industry can raise in a given year from external sources - which is equivalent to the difference between its capital requirements and its internally generated funds. The Chancellor of the Exchequer's statement of 4 August 1980 (Official Report, columns 41-42) set out the role and method of operation of these limits.

III The transition to cash planning

10. In accordance with the new basis of public expenditure planning, the figures in this White Paper are in cash; that is, they show the amounts of money actually spent in past years or now planned to be spent in the future.

11. The expenditure plans in previous White Papers were expressed at constant prices, called survey prices. Cmnd 8175 used 1980 survey prices (which meant broadly prices in autumn 1979). The use of constant prices allowed comparison from one year to another of the quantity of goods and services used either directly or indirectly in the programmes, leaving aside past and future price changes. The glossary (pX) gives a summary of the effect of revaluation from one set of survey prices to the next from 1975 onward. The switch to planning in cash moves the emphasis away from volume to the actual cash spend in each forward year.

12. The first stage of the 1981 public expenditure survey was to convert the volume plans given in Cmnd 8175 from 1980 survey prices into cash. This was done as follows for each of the years 1981-82 to 1983-84:

(i) revaluation from autumn 1979 prices (1980 survey prices) to autumn 1980 prices for each item of expenditure. This was equivalent to an average increase of 27 per cent. This step was equivalent to the annual revaluation of survey prices carried out at the start of previous surveys.

(ii) conversion from autumn 1980 prices to expected average 1981-82 prices, using the cash limit factors already decided for 1981-82: 6 per cent for pay (from due settlement dates) and 11 per cent for prices.

(iii) conversion of the figures for 1982-83 and 1983-84 to expected average 1982-83 prices, using 4 per cent for pay (from due settlement dates from October 1981 onwards) and 9 per cent for other prices.

(iv) conversion of the figures for 1983-84 to expected average 1983-84 prices, using an average factor of 6 per cent for all public expenditure costs.

An average increase of 5 per cent for all public expenditure costs between 1983-84 and 1984-85 was used for the creation of cash plans for 1984-85.

13. The resulting cash figures were used as the starting point for the survey discussion. Column 2 of Table 4.7 gives the amounts to be added to convert the plans for 1982-83 in Cmnd 8175 to cash.

14. The subsequent discussions in the 1981 survey of the cash plans resulted in various changes, summarised in table 1 - and announced (for 1982-83) on 2 December 1981 by the Chancellor of the Exchequer. These discussions took into account any information about actual or likely divergences between specific pay and price movements and the general cash factors (including the consequential effects in later years). For example in 1981-82, the pay award for the police amounted to a 13 per cent increase from 1 September 1981, but in converting Cmnd 8175 to cash (column of table 4.7) a 6 per

cent increase had been assumed. Subsequently, as a result of survey decisions, amounts were added to the figures for 1981-82 and later years to allow for the cost of the increase of 13 per cent in 1981.

15. Under the earlier volume planning system, many transfer payments such as current grants to persons or subsidies were projected in cash using assumptions about inflation which could change from one survey to the next. For example, social security payments were projected on the basis of assumptions about numbers of beneficiaries, future rates of benefit and the rate of change of the RPI; cash projections of subsidies took account of assumptions about movements in earnings, prices and interest rates as necessary. These cash projections were deflated to survey prices using appropriate deflators. For the 1981 Survey in some cases Cmnd 8175 figures for these items were revalued from 1980 Survey prices to cash in broadly the same way as other non pay expenditure, and any differences between the resulting figures and the cash underlying Cmnd 8175 were taken into account in reaching the cash plans set out in this White Paper. There were two main exceptions to this: social security benefits and debt interest were not revalued as described in paragraph 12 above; instead the cash figures underlying Cmnd 8175 were taken as the starting point for survey discussions.

IV The definition of public expenditure

16. Control over public expenditure depends inter alia upon having a clear set of definitions for both the identification of public sector bodies and the classification of their financial transactions. The precise definitions employed in this White Paper are complex but generally reflect the nature of control over the use of resources. In this respect the definitions are intended to reflect the role of public expenditure in the national economy. They are thus based on the concepts of the national income accounts which are used to describe the economy as a whole. However, such definitions do not always provide the most appropriate basis on which to control expenditure. Thus over time the definitions for the White Paper tend to be modified. Where this occurs, without any

substantive change in the effect on the economy, the new definitions are applied to the whole of the period covered by the public expenditure White Paper - past as well as future. Changes in definition and classification made since the last public expenditure White Paper are described in section V of these notes and the effect on the figures is shown in Table 4.7.

17. Within this general framework the expenditure of public sector bodies is classified according to the following concepts:-

(i) **spending authority** - who spends the money - see table 1.1

(ii) **functional programme** - why it is spent - see table 1.9

(iii) **economic category** - what is it spent on - see table 1.10

The nature of each of these classifications and their relationship to the general concepts are described in the following sections.

Spending Authority - what is the public sector?

18. Table 1.1 at the beginning of this White Paper identifies the main spending authorities included in the public sector. These are:-

(i) **Central government;** Parliament, government departments and the Northern Ireland departments, extra-departmental government funds (the largest of which is the National Insurance Fund) and a number of other organisations (excluding public corporations) financed from government funds, by far the largest of which is the National Health Service.

(ii) **Local authorities:** elected local councils (including education authorities), police authorities, passenger transport executives, the Land Authority for Wales and some other bodies controlled by councils jointly. (In the national income accounts passenger transport executives and the Land Authority for Wales are treated as public corporations.) They are directly responsible for the greater part of expenditure on education, housing and other environmental services, and account for about one quarter of total public expenditure.

(iii) **public corporations** are publicly owned trading bodies usually statutory corporations with a substantial degree of financial independence - including the powers to borrow and to maintain reserves. These include the nationalised industries.

19. The expenditure of a public corporation is financed by a combination of income from its trading activities, grants from government or from borrowing. The current expenditure of the public corporations is excluded from public expenditure because it is financed by the consumers of their services; to the extent that it is financed by subsidies these are included as government (central or local) expenditure (see paragraph 30). Similarly the capital expenditure of public corporations is financed in part by surpluses generated by trading activities, in part by grants from government, and in part by borrowing.

20. Table 5.1 lists the public corporations in three categories showing how they are controlled and included in the **public expenditure planning total.**

I Government grants and lending to the corporation are included in programmes, the market and overseas borrowing and the capital value assets acquired under finance leasing are included in a separate item - market and overseas borrowing of Nationalised Industries (see paragraph 21 below).

II Government grants and lending to the corporation are included in programmes. (Market and overseas borrowing and leasing one is minimal)

III Programmes include the capital expenditure of the corporation and any government subsidies to it.

For corporations in category I the finance provided directly by government is included in expenditure on programmes - as loans or grants from government(3). As table 1.1 shows, their

(3) See Thirteenth Report from the Expenditure Committee "Planning and Control of Public Expenditure "Memoranda submitted by the Treasury. Session 1975-76.

external finance obtained directly from the market, whether at home or overseas, and through leasing arrangements is included in the planning total for the public sector as a whole.

The planning total

21. Table 1.1 shows that in addition to public expenditure on programmes and the market and overseas borrowing of the nationalised industries the planning total also includes:-

(i) Special sales of assets

(ii) Contingency reserve

The table additionally shows two memorandum items:-

(iii) debt interest on two definitions

(iv) total net borrowing by nationalised industries plus that of the other public corporations in list I on table 5.1

The last is included to show the full extent of borrowing by the nationalised industries and those public corporations. The remaining items are described below.

22. The Chancellor of the Exchequer announced the Government's intention of making **special sales of assets** in his June 1979 Budget Statement. All these sales reduce the public expenditure planning total and the public sector borrowing requirement. Their classification in the national accounts varies: most of the sales are classed as negative expenditure by the public sector, but net receipts from advance payments for oil by the British National Oil Corporation are treated as trade credit on the revenue side of the account.

23. The **contingency reserve**: the White Paper contains a reserve for each forward year to provide for future decisions to add to programmes within the announced planning totals. The aim is to meet the cost of new items of expenditure wherever possible from within existing totals by finding appropriate offsetting savings in either the programme concerned or other programmes; if this cannot be done, the additional expenditure is considered as a bid for an allocation from the contingency reserve (see part 1 paragraphs 27 and 28).

24. **Debt interest:** the cost of debt interest is not attributed to any of the functional programmes because the government does not borrow for specific projects. Nor is it included in the planning total because it is not susceptible to the same controls as other expenditure. Two definitions are used in presenting the debt interest memoranda items in this White Paper. The larger total is debt interest payments of the public sector defined as in the National Income Accounts. The smaller represents broadly the part of those interest payments that has to be financed from taxation or further government borrowing[(4)]. Figures for the latter definition are derived as general government payments of interest (as in the national income accounts) less (i) all general government interest receipts, (ii) interest provision in trading surpluses of general government, and (iii) the costs of interest support for fixed rate export and shipbuilding credit (which are included as subsidies in the expenditure programme for industry, energy, trade and employment). The relationship between the two definitions of debt interest is shown in table 4.5 which also gives estimates of the various components for the period 1976-77 to 1981-82 and projections for the two definitions for 1982-83 to 1984-85.

Functional Classification - why is the money spent?

25. Public expenditure arises from the execution of public policy. It is thus appropriate to plan expenditure in terms of the functions of those policies - the defence of the nation, the provision of health, education, social security etc, Table 1.9 shows the programmes into which public expenditure is classified. The first twelve represent specific kind of public services but in some cases are largely restricted to expenditure in England. Since programmes 15, 16 and 17 bring together expenditure under the responsibility of the appropriate territorial Secretary of State. Programmes 13 and 14 cover the activities required for the general maintenance of government such as tax collection, registration of the population, and the management of the public authorities. Expenditure in the territorial areas which is administered on a

[(4)]For a fuller discussion, see the Treasury memoranda 'The Treatment of Debt Interest in the Public Expenditure White Papers' and 'Debt interest' included in the minute of evidence to the Thirteenth Report of the Expenditure Committee, Session 1975-76, HC 718.

wider basis (such as social security benefits for Great Britain as a whole) is included in the appropriate functional programmes for the appropriate service.

Economic Category - what is the money spent on?

26. Although public expenditure is planned in terms of departmental spending on specific functions an economic classification is needed in order to examine its effects on the economy as a whole. This classification provides the technical link between the economic forecasts used in drawing up the Financial Statement and Budget Report and the public expenditure White Paper. A major economic distinction is made between direct expenditure on goods and services and transfer payments to the private sector. Within each of these categories a formal distinction is made between current and capital expenditure. Table 1.10 in Part 1 of this White Paper gives the fine detail of the economic classification. Table 1.12 gives the summaries in general use. The following paragraphs define each of these economic categories.

27. **Current expenditure on goods and services** includes direct expenditure by central and local government on providing services eg health or education, but the operating costs of public trading bodies, eg local transport undertakings, are not included. Current expenditure on goods and services is measured net of charges made for certain goods and services. The reasons are set out in paragraph 32 below. By long standing convention, notional allowances for non-trading capital consumption (the 'using up' of schools, hospitals, roads etc) are omitted. Local authority expenditure is measured net of VAT which is refunded to them since this is how they present their own accounts. (In the national income accounts such VAT is estimated and attributed to expenditure by local authorities in order to price their expenditure on the same basis as that of other sectors.) Virtually all defence expenditure, on buildings as well as on equipment, is treated as current expenditure on goods and services in conformity with international conventions. Figures for wages and salaries include employers' contributions to national insurance and to occupational pension schemes, the national insurance surcharge and, in the case of pension arrangements like those for the armed forces and civil servants, actual pensions paid.

28. **Capital expenditure on goods and services** consists of fixed investment and stockbuilding. The wages and salaries of certain employees engaged in planning and supervising capital projects are included in capital expenditure. For local authorities it also includes the capital value of assets acquired under finance leases, property leased for more than 20 years, property sold or leased out and leased back, and all vehicles leased for more than 1 year. In this respect, the White Paper differs from the national income accounts where leased assets are assigned to sector according to ownership and not according to usage.

29. **Grants and subsidies** amount of 40 per cent of public expenditure. Grants by one body to another within general government (central government and local authorities together) or by government bodies to certain public corporations are excluded to avoid double counting of expenditure. Grants included in public expenditure are those made to the private sector and overseas, to nationalised industries and some other public corporations. Current grants include social security benefits, and recurrent grants to universities. Capital grants are intended to be used for capital expenditure by the recipient, and include, for example, regional development grants.

30. **Subsidies** are paid into the operating account of trading bodies. They are deemed to reduce the price charged (that is, to reduce the selling price below the cost of the resources used in producing the good or service) and thus to benefit the final consumer. Therefore subsidies paid in the first instance to trading accounts within government are counted as public expenditure. A major example is subsidies from both central government and local authorities to local authority housing accounts.

31. **Lending and similar transactions** covers lending to the private sector and overseas to nationalised industries and some other public corporations It excludes lending to local authorities and to those public corporations in category III of table 5.1 to avoid double counting their expenditure. The same

broad category includes issues of public dividend capital to public corporations, issues under section 18 of the Iron and Steel Act 1975 and cash expenditure on company securities (provided the company is in the private sector). All these transactions are measured net of repayment and of sales in the case of company securities for cash.

How is public expenditure measured?

32. Public expenditure is measured net of income received from certain charges.[5] Significant examples are charges for school meals and further education courses, prescription and dental charges etc. Essentially, current expenditure on goods and services is shown net of charges when:

(i) there is a clear and direct link between the payment of the charge and the acquisition of specific goods and services (including the testing of an ability of level of performance or the establishment of standards): and

(ii) the charge is related to the cost of providing the goods and services, and the Government is not using its power to make the charge an instrument for raising revenue.

33. Expenditure on fixed assets is measured net of the proceeds of sales of land and buildings, etc, reflecting the corresponding definition in the national income accounts. It represents the gross addition to the capital stock in the public sector less the transfer of fixed assets to the private sector. Lending is measured net of repayment. Public expenditure, unlike expenditure in the national income accounts, is measured net of fines and fees collected by Scottish and magistrates' courts, reflecting their nature as an integral part of the law and order programme. Trading surpluses are considered as revenue and not as negative public expenditure.

34. As a general rule public expenditure is measured on the basis of the accounts kept by the bodies concerned. In some

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[5] For a fuller discussion see the Treasury memorandum 'Public Expenditure - Gross or Net Presentation' published as minutes of evidence in Memoranda on the Control of Public Expenditure to the Expenditure Committee, session 1977-78, HC 196 (Memoranda).

cases, (for example the NHS, Local Authorities and the New Towns) income and expenditure accounting is used. This reflects when resources are actually consumed rather than when they are paid for. However, other public bodies (for example central government departments) maintain accounts on the basis of payments and receipts only, that is when cheques are written or received or when cash changes hands.

Differences from public expenditure in the national income accounts

35. As mentioned in paragraph 16 above the definitions used for public expenditure tend to be modified for practical reasons and thus to differ from those used for the national income and expenditure accounts. A number of points of difference from national income accounts practice have been mentioned in previous paragraphs. The relationship between **public expenditure on programmes** and **general government expenditure** in the national income accounts is illustrated (for past years at current prices) in Financial Statistics, table 2.4. Starting from general government expenditure(9) as in the national income accounts but excluding debt interest, the main stages in the adjustment are:

(i) to include the capital expenditure of the public corporations in list III (table 5.1) and to exclude government capital grants and loans to them;

(ii) to deduct VAT paid by local authorities but refunded to them;

(iii) to treat fines and fees imposed by magistrates' and Scottish courts (see paragraph 33) as an offset to expenditure;

(iv) to deduct the imputed value of non-trading capital consumption;

(v) to deduct stock appreciation;

(vi) to add back income from special sales of assets;

(vii) to add interest support costs for fixed rate export and shipbuilding credit (as subsidies in the industry, energy, trade and employment programme);

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(9) General government expenditure in the national income accounts includes debt interest non-trading capital consumption and stock appreciation.

(viii) to add the capital expenditure of passenger transport executives;

(ix) to add the capital value of assets acquired by local authorities under financial leases;

(x) to deduct rents on financial leases taken out by local authorities;

(xi) to add the cost of incurred in the administering of the National Savings Bank (ordinary account).

36. A further difference is that the national income accounts are not adjusted for changes in definition or classification for periods before the date the change came into effect. As noted in paragraph 17, figures in this White Paper are adjusted for all years to the definitions and classifications now current.

V Changes in definition and classification since Cmnd 8175

37. As mentioned in paragraph 16, classification changes may affect the figures in a number of ways. The attribution to spending authority may be altered, reflecting a transfer of responsibility. Expenditure on a service may be reallocated to another functional programme. The economic classification of a particular item of expenditure may be reassessed. Most of these changes do not affect the total of public expenditure.

38. The scope and definition of public expenditure may be altered from one White Paper to the next for various reasons: perhaps to reflect more closely the extent to which a service makes a call on taxation or government borrowing; perhaps because a recurrent item is taken into account for the first time, or because an activity previously undertaken by the government is taken over by the private sector (or vice versa).

New public expenditure

39. The following items quantified in column 3 of table 4.7 have been brought into public expenditure since Cmnd 8175:-

(a) In Cmnd 8175 the definition of local authority capital expenditure had in principle been revised to include

(i) the freehold value of property leased for a period of more than 20 years; and the freehold value of any lease over 1 year where a permanent building has been erected at the request of the authority (eg sale/leaseback, or lease/leaseback schemes);

(ii) the capital value of vehicles leased for more than one year; and

(iii) the capital value of plant and machinery acquired by finance leases ie for this purpose those where the lease term covers the major part of the anticipated useful life and where the lessee accepts responsibility for maintenance.

In consequence lease payments on such assets are no longer scored as current expenditure. However the figures required for this classification change were not available until the autumn of 1981. These have now been incorporated into both the historical and planned figures by an addition to capital expenditure and a deduction from current expenditure.

(b) Local authorities are refunded the VAT payments they have made in the course of providing non-trading services. Expenditure on such services is measured net of VAT payments. In previous White Papers an allowance for VAT had been added (most recently as a single sum in programmes).

(c) The figures for local authority capital expenditure now include provision for expenditure financed by such bodies as the Sports Council and the Welsh Development Agency.

(d) The expenditure incurred on the administration of the National Savings Bank Ordinary Account has been included in this White Paper as expenditure on goods and services. In previous White Papers this expenditure was treated as in the National Income accounts as a trading expense met by the income from investments held by the National Debt Commissioners.

(e) Local authority expenditure on school milk, financed by the European Communities has been included for the first time in this White Paper in programme 3.

(f) Net capital expenditure financed by the Commonwealth Development Corporation from its own resources (including commercial borrowing) is included and shown separately. Through an oversight, this information was not included in recent public expenditure White Papers: the public expenditure planning totals were not affected.

(g) Since the 1980 Housing Act local authorities may make a surplus on their Housing Revenue Account. The plans in Cmnd 8175 assumed that such surpluses would offset local authority rate fund contributions to the housing revenue account with programmes 7, 15, 16 and 17. This is inconsistent with the treatment of surpluses described in paragraph 33. In this White Paper, only the gross central government and local authority subsidies to the Housing Revenue Account are shown.

(h) The planning total now includes the market and overseas borrowing of the public corporations shown in category I of table 5.1.

(i) Capital expenditure on transport construction schemes now includes interest capitalised up to the date of opening of the asset concerned.

(j) Interest receipts on the balances of police authorities are no longer subtracted from current expenditure on law and order.

(k) The rents from certain property managed by the Property Services Agency have been deducted from current expenditure in programme 14.

Changes between Functional programmes

40. Column 3 of table 4.7 also records that as the result of a change in Departmental responsibility, on expenditure on the following activities has been reclassified between

programmes:-

(a) Under the new scheme for unifying housing benefits, responsibility for the payment of rent rebates and allowances has been transferred from the Department of the Environment the Scottish Office and the Welsh Office to the Department of Health and Social Security. As shown in table 2.12 and in column 3 of table 4.7, the expenditure on rent rebates and allowances is recorded in programme 12 - Social Security for the whole of the period covered by this White Paper.

(b) Expenditure on court building under the responsibility of the Secretary of State for Scotland has been transferred from programme 9 to programme 15.

Changes between spending authority

41. Column 3 of Table 4.7 also records the fact that expenditure by local authorities on the construction of roads due to become part of the trunk toad network has been reclassified as spending by central government rather than by local government.

Changes between economic category

42. As a result of the implementation of Part~~s III and~~ VIII of the Local Government Planning and Land Act 1980 certain administrative expenditure by local authorities ~~on roads~~ has been reclassified from current expenditure to capital expenditure on roads (see also paragraph 28).

PSBR neutral changes

43. Column 3 of table 4.7 also includes the effect on public expenditure of the levy on the trading profits of the British Gas Corporation (Nationalised Industries, not overseas and market borrowing), and of the special petroleum duty (Programme 5 - Government lending to nationalised industries).

VI Glossary of terms

Appropriation accounts are prepared for each vote (qv), covering supply expenditure (qv) which has come in course of payment in the financial year.

Borrowing requirement: the public sector borrowing requirement (PSBR) is the difference between public sector receipts from and payments to the private sector and overseas. Payments include net lending and similar transactions (such as the purchase of company securities) undertaken as a matter of policy. The borrowing requirements of the three sub-sectors of the public sector, central Government, local authorities and public corporations (CGBR, LABR and PCBR) are similarly defined, but include policy lending from one sub-sector to another. The PSBR is therefore equal to the sum of CGBR, LABR and PCBR, less all lending transactions between the sub-sectors. The general government borrowing requirement (GGBR) is equal to the central government borrowing requirement plus local authority borrowing from sources other than central government. Borrowing requirements are in practice measured by their financing (see general government and financial balance).

Cash limits set a limit on the amount of cash the Government proposes to spend or authorise on certain services or blocks of services during one financial year (see paragraph 9).

Capital consumption is a measure of the amount of fixed capital resources used up each year. It is allowed for in the prices charged by trading bodies. An imputed charge for the consumption of non-trading capital assets is included in general government expenditure and income in the national income accounts but not in public expenditure in this White Paper. However it is taken into account in estimating the ratio of public expenditure to GDP.

Central government public expenditure: see paragraph 19.

Classification changes: see paragraphs 16, 37-43.

Consolidated Fund is the Government's main account with the Bank of England. The largest part of central government expenditure is financed from this fund, and the Government's tax revenues and other current receipts are paid into it.

Contingency reserve: see paragraph 23.

Debt interest: see paragraph 24.

Estimates: see under **Supply expenditure.**

The **financial balance** (or deficit) is the balance on current and capital account, excluding lending and other financial transactions. The financial balance of general government is commonly used in international comparisons. (See also borrowing requirement, general government.)

General government is the central government and local authorities sectors consolidated (see paragraph 35). See also public sector.

Grants are payments to individuals or bodies in the private or public sector, for which no goods or services are received in return. Grants made to assist in financing capital expenditure are classified as capital grants. Unrequited payments of a current nature to trading concerns, whether in the public or private sector, are classified as subsidies (qv). (See paragraph 30.)

Gross domestic fixed capital formation (GDFCF) is purchases less sales of fixed assets (land buildings, vehicles, plant and machinery) for use in the United Kingdom, either for renewing or for adding to the stock of fixed assets. Expenditure on maintenance and repair is excluded.

Gross domestic product (GDP) (at market prices) is the value of the goods and services produced by United Kingdom residents including taxes on expenditure on both home produced and imported goods and services, and the effect of subsidies. No deduction is made for depreciation of existing assets. Gross national product includes the income of United Kingdom residents from economic activity abroad, the property held abroad, less the corresponding income in the United Kingdom of non-residents.

Local authority public expenditure: see paragraph 18.

Money GDP: GDP at market prices (qv).

Nationalised Industries are discussed in Part 3 of this White Paper. They consist of those public corporations in Table 3.2.

National Insurance Fund is the statutory fund into which all national insurance contributions payable by employers, employers' employees and the self employed are paid, and from which expenditure on most contributory social security benefits is met.

National Loans Fund is the government's account with the Bank of England set up under the National Loans Act 1968. All government borrowing transactions (including the payment of debt interest) and most lending transactions are handled through this fund.

Net lending etc in public expenditure comprises loans to the private sector (individuals, unincorporated bodies and companies), to overseas governments, to nationalised industries and some other public corporations (including issues of public dividend capital and issues under section 18 of the Iron and Steel Act 1975) and drawings on UK subscriptions to international lending bodies; all are measured net of repayments of principal. It also includes purchase of company securities, net of sales (see also paragraph 22).

Outturn, estimated outturn describes actual expenditure or estimates made on the basis of partial information.

Planning total: see paragraph 21.

£ billion is used to denote £ thousand million in this publication.

Public corporations are publicly owned trading bodies with a substantial degree of financial independence - including the powers to borrow and to maintain reserves - from central government and local authorities. They include nationalised industries (see paragraph 18) and other bodies listed in table [4.1].

Public dividend capital (PDC) is a form of long term Government finance for certain public corporations, on which the Government is paid dividends rather than interest. In the nationalised industries, it is the Government's policy only to make PDC available to those industries which are expected to be both fully viable and subject to cyclical fluctuations in their returns as a result of their trading conditions and the nature of their assets. PDC is not normally repayable. Issues of PDC are borne on votes.

Public expenditure: see paragraphs 16-36.

Public expenditure survey (PES, PESC) is the annual review of public expenditure plans undertaken by the government (see paragraph 2). The system is commonly referred to by the initials of the Public Expenditure Survey Committee, the co-ordinating committee of departmental officials, chaired by the Treasury.

Public sector comprises central government, local authorities (see paragraphs 18-24) and public corporations (qv) (see also **general government**).

Public sector borrowing requirement: see **borrowing requirement.**

Rate support grant (RSG) is the general grant from central government to local authorities to supplement income from rates. In addition, specific grants are made for certain services.

Relevant expenditure is the specific aggregate of local authority expenditure on which rate support grant and other current government grants to local authorities are based. It differs in certain respects from local authority current expenditure in this White Paper (see paragraph 6).

Spending authorities: the types of spending authority distinguished in this White Paper are central government and local authorities (see paragraphs 18) and public corporations (qv).

Stocks: public expenditure in this White Paper includes the value of the physical increase in stocks.

Subsidies are transfer payments made to a producer or trader usually with the object of reducing selling prices for the final buyers to below the factor costs of production. Subsidies in this White Paper include the financing of losses on certain public trading services, including the housing revenue accounts of local authorities (see also grants).

Supply Estimates: see **supply expenditure.**

Supply expenditure is expenditure by central government which is financed by monies voted by Parliament in the annual Supply Estimates (see also **Votes** and **Appropriation accounts**).

Survey: see **public expenditure survey.**

Survey prices: see paragraph 11. The change in survey prices in recent years is shown below:-

1975 to 1976 survey prices	18 per cent
1976 to 1977 survey prices	13 per cent
1977 to 1978 survey prices	9½ per cent
1978 to 1979 survey prices	12 per cent
1979 to 1980 survey prices	
transfer payments - close to zero)	
other expenditure - 18 per cent)	12 per cent
1980 Survey prices to cash for 1982-83	41 per cent

Transfer payments are payments for which no goods or services are received in return. They include social security payments and other grants, current and capital, to individuals or bodies in the private sector, subsidies, net lending, and cash expenditure on company securities.

Volume, in volume terms: see paragraph .

Votes are the headings into which Supply services are divided. Hence, voted expenditure.

Wages and salaries: see paragraph 27.

Table 5.1

Public Expenditure treatment of public corporations[6]

Title	Programme reference
List I: public expenditure includes government finance to the following public corporations(7), the planning total additionally includes their market and overseas borrowing and the capital value of leased assets	
National Enterprise Board National Research and Development Corporation National Film Finance Corporation Civil Aviation Authority	4. Industry, energy, trade and employment
All nationalised industries	5. Government lending to nationalised industries
Urban Development Corporations	8. Other environmental services
Scottish Development Agency Highlands and Islands Development Board	15. Scotland
Welsh Development Agency The Development Board for Rural Wales	16. Wales
Northern Ireland Development Agency	17. Northern Ireland
Government Trading Funds (8):	
Royal Ordnance Factories	1. Defence
Royal Mint	13. Other public services
Her Majesty's Stationery Office Property Services Agency Supplies	14. Common Services
List II: public expenditure includes government finance to following public corporations (7)	
The Crown Agents The Crown Agents Holding and Realisation Board	2. Overseas Aid and Other Overseas Services
Covent Garden Market Authority	3. Agriculture, fisheries, food and forestry
National Dock Labour Board	4. Industry, energy, trade and employment
British Broadcasting Corporation (Home) Independent Broadcasting Authority	13. Other public services
Northern Ireland Electricity Services Northern Ireland Transport Holding Company Belfast Harbour Authority	17. Northern Ireland

(6) For a fuller discussion, see the Treasury memorandum "Public Expenditure White Papers: Treatment of Public Corporations other than the Nationalised Industries" published as minutes of evidence in memoranda on the Control of Public Expenditure to the Expenditure Committee, Session 1977-78 HC 196 (Memoranda).
(7) Some have received no such finance in the past, some are not expected to receive any in the future.
(8) Classified as public corporations for statistical and planning purposes.

Table 5.1

Title	Programme reference
List III: public expenditure includes the <u>capital expenditure</u> (not government loans or capital grants to them) of the following corporations, and government subsidies to them	
Commonwealth Development Corporation	2. Overseas aid and other overseas services
Public Trusts Ports	6. Roads and transport 15. Scotland 16. Wales
Housing Corporation	7. Housing
New Town Development Corporations and the Commission for the New Towns The Development Board for Rural Wales (New Town activities)	6. Roads and transport 7. Housing 8. Other environmental services 15. Scotland 16. Wales
Water Authorities	8. Other environmental services 16. Wales
Bank of England	13. Other public services
Scottish Special Housing Association	15. Scotland
Northern Ireland Housing Executive	17. Northern Ireland

Econ Pol
Public

Prime Minister (2)

CS AW AD JV

2pps

2 MARSHAM STREET
LONDON SW1P 3EB

MLS 2/2

My ref:

Your ref:

2 February 1982

Dear Terry

PUBLIC EXPENDITURE WHITE PAPER: VOLUME I

In the Chief Secretary's minute of 26 January to the Prime Minister comments were invited on the above draft. My Secretary of State has a number of comments on the draft, which are set out in the enclosed note.

Most of his comments relate to what is said in the draft about programmes and policies for which he has responsibility. He is in particular concerned that we should not further damage our credibility with the construction industry by making demonstrably over-optimistic statements about the prospects for the forthcoming year. Equally, the Secretary of State believes the we must avoid causing further offence to local government by implying that central government exercises a greater degree of control over the activities of local government than in fact it does. Finally, we ought not to fetter unduly our freedom to adjust our policies in light of developing circumstances.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, other members of the Cabinet, and Sir Robert Armstrong.

Yours ever,

Dick

D A EDMONDS
Private Secretary

Terry Mathews Esq
PS/Chief Secretary

PUBLIC EXPENDITURE WHITE PAPER: VOLUME I

COMMENTS BY THE SECRETARY OF STATE FOR THE ENVIRONMENT

HOUSING

1. Paragraphs 3 and 36. We could face serious embarrassment if the reference to numbers of houses authorities will be able to build or improve remain. We do not know how many houses English local authorities will be able to build or improve in 1982-83 and the Department make no forecasts of housebuilding, whether of starts of completions, even in the very short term. (PQ answers refer to authorities' freedom to decide how to spend capital allocations.) The White Paper should not go beyond saying:

para 3: "The output from housing investment should be higher in 1982-83 than in 1981-82."

para 36: "Local authorities should be able to increase their housing investment output in 1982-83."

2. The phrase "But by maintaining the level of capital expenditure" in para 36 is also misleading and should be replaced by "However,".

CONSTRUCTION

3. Paragraph 22. The "But keener tender prices mean that these cuts should have no significant effect /on construction7" is bound to cause intense irritation to the construction industry, since the reduction in tender prices reflects the reduction in work overall. This sentence should be removed altogether.

4. In paragraph 35, words "an increase of over 10½%" should be deleted. This presentation will cause aggravation to the construction industry, who will be well aware that it represents little or no increase in real terms. It would be better to say:-

"Total construction expenditure, including .... industries, will amount to £10¼ billion."

LOCAL AUTHORITY EXPENDITURE

5. Paragraph 46. The presentation proposed of local authority overspending is misleading and will cause offence to local government. For 1980-81 in particular it is misleading to show a cash only figure, since in that year spending was planned in volume, has been recorded against plans in volume, and the decision not to release £200m grant was taken on the volume figures. Ministerial statements, eg to the Consultative Council on 2 December and the written answer on the same day were also made on a volume basis. It is important to retain a volume reference since this affects the percentage overspend, eg the 2.12.81 PQ referred to a 1980-81 overspend (for England) of 2½% on a volume basis as compared with 6% in cash. The cash only figure would cause trouble with local authorities who will not recognise figures prepared on that basis and could accuse us of rigging the figures to make their performance look worse in order to justify Government policies against overspenders. Paragraph 46 must therefore be amended:-

> "46. In 1980-81, local authorities in Great Britain spent some 2½% more than the Government's plans for current expenditure relevant for grant. For 1981-82, local authorities' budgets exceeded the Government's plans by £1,700 m (9%) in cash terms, or by £1095m (6%) on the price basis used for the rate support grant settlement.

6. By the time that the White Paper is published, local authorities will have decided on their budgets, and it is now clear that they will not deliver our expenditure plans in full. The second sentence of paragraph 48 is unnecessarily provocative and will not assist our campaign to restrain local government spending. We should reinstate the version previously agreed by officials:-

> "The rate support grant settlements for 1982-83 and this White Paper set out the Government's views on the appropriate levels of expenditure on local authority services."

7. Paragraph 50. The third sentence of this paragraph attributes LA capital underspend in 1981-82 partly to the new capital control system. We cannot at present sustain this generalisation and the sentence should be deleted.

8. The final sentence of paragraph 53 does not accurately present the present position as between central and local government. It is unacceptable because:-

(a) It rules out consideration of the adequacy of the plans by referring only to discussions on economies.

(b) We do not want to have to discuss the detail of economies with local government - that is the job of local government and we are scarcely competent to help them.

(c) It is not true to say that we discuss economies with them "in the normal way".

The final sentence of paragraph 53 should be amended to read:-

"These [later year] plans will require further economies. This will all be discussed with local government in the normal way."

CASH LIMITS

9. In paragraph 25, amend the second sentence and the beginning of the third to read:-

"They will not normally be revised during the year, unless a specific policy decision is taken to change the level of provision for the service concerned. Any overall increase ....."

This would restore the wording used in Cmnd 8175. We ought not to say or imply, that no such policy decision should ever be taken and I see no reason why we should regard ourselves as fettered in this way. If we are to make the most effective use of the limited resources available, we should retain the freedom to make transfers to programmes where priorities are highest, in light of circumstances as they develop.

CONFIDENTIAL

AW
AD
JV
Prime Minister ②

MLS 5/2

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522
From the Secretary of State for Social Services

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

February 2 1982.

Dear Leon.

PUBLIC EXPENDITURE WHITE PAPER

Thank you for agreeing at our meeting yesterday to a revised form of words in the Health chapter of the White Paper. Though we shall still have difficulties of presentation when it is published, the revised text will put us in a more defensible position. The relevant passage will read:-

> "For 1983/84 and 1984/85 the Government considers that Health Authorities should be able to increase efficiency enough to provide further growth in services of about 0.5 per cent a year. The Government will consider during the 1982 Survey whether the provision should be revised having regard to the availability of resources and the scope for improved efficiency."

I also have a point of detail on Part 1 of the White Paper. Paragraph 21, which refers to NHS efficiency savings, would more accurately read:-

> "As part of this cut, savings have been made on central Government staff and other administrative costs, including accommodation. The reduction in civil service staff numbers already planned (see paragraph X below) will contribute towards these savings. Savings are also to be made through increased NHS efficiency (see paragraph 15)."

I understand our officials are, as usual, discussing the detailed figures in the White Paper.

I am sending a copy of this letter to the Prime Minister, the other Secretaries of State responsible for Health and to Sir Robert Armstrong.

Yours ever
Norman.

NORMAN FOWLER

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JU998

Econ Pol
Pub Exp

(2)

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

1 February 1982

Prime Minister

The Treasury are going to resist this firmly. I have let them know your views on publishing volume figures.

MCS 2/2

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Whitehall SW

Dear Leon,

PUBLIC EXPENDITURE WHITE PAPER - VOLUME I

with MCS? or HAP?

I have seen your minute of 26 January to the Prime Minister attaching a draft Part I of the Public Expenditure White Paper.

2 I think the public will find the new presentation of cash figures quite extraordinarily confusing, including a great many of our colleagues in Parliament. They have become so used to the presentation of public expenditure figures at constant prices (which have purported to show the volume of public spending in real terms) that their first reaction on looking at the tables of figures, the charts and histograms presented in cash prices, is that here is a government which is totally failing to keep expenditure under control. Conversely, if one is addressing the many audiences interested in increasing public spending (e.g the Health Service, education interests, etc) their immediate reaction will be that the figures are meaningless because they do not take account of inflation. They will accuse us of publishing spending figures purporting to show substantial increases when, for instance, as in the case of education, the actual volume is reducing.

3 Thus it does seem to me that we risk getting the worst of both worlds in terms of presentation. I have always taken the view that constant price planning of public expenditure was an admirable tool for measuring but a poor tool for controlling. Cash planning is a very much better tool for controlling (as we discovered during this year's round of discussions); but it is a highly misleading method of measuring and presenting the totals if one wants to demonstrate what we are trying to do.

4 I realise that the references in the text to "cash planning", "cash equivalents" and so on, are aimed at explaining what the figures mean. But I feel that they do not succeed. For instance, I should have thought that in presentational terms it is essential that where we are actually increasing a programme

CONFIDENTIAL

in real terms, that should be abundantly clear on the face of the document right from the outset. An example would be the health service. It is very important for Ministers in that Department to be able to demonstrate this clearly to people who do not understand the intricacies of public expenditure accounting.

5 Conversely, where we have in fact made significant cuts in real terms thus enabling us to produce a total of public spending next year lower as a proportion of GDP than the current year, this too needs to be clearly demonstrable to the audiences who wish to see that outcome (for instance, representatives of industry, small businesses etc).

6 Two things, therefore, seem to me to be necessary:

a we must show how much we have cut off the programmes we inherited. Only if we do this will anyone begin to understand the magnitude of the task we faced and what we have already achieved.

b We must make it clear which programmes are actually increasing in real terms and which are being cut back.

7 I do not know whether time exists now to try to recast at least the first few paragraphs of the White Paper to make this whole position very much clearer. An alternative course would be for the press notice issued on public spending at the time of the Budget to make the points itself.

8 If we do not do one or both, then I am afraid that the public will be confused and we will end up giving a general impression that we have failed abysmally in the strategy of cutting public spending, while at the same time special interest groups will continue to cry havoc with the argument that figures which do not take account of inflation are not worth the paper they are written on.

9 In view of the nature of this critique, I am for the moment circulating copies of this letter only to the Prime Minister, Geoffrey Howe, Francis Pym and Michael Jopling.

Yours ever

Patrick

Foreign Pol Ext Pt

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PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

Hidden:
C A Whitmore Esq - No 10
(w/o attachments)

PUS/82/118
20/1

Sir Anthony Rawlinson KCB
HM Treasury
Parliament St
London SW1

29 January 1982

Dear Anthony.

I am worried that it has not yet proved possible, despite Ministerial correspondence, to draft the Public Expenditure White Paper in such a way as to be acceptable to both our Departments. As you know, my Secretary of State is personally involved in the matter and I believe that he will wish to raise it with the Prime Minister when he returns next Wednesday from his visit to Italy. I very much hope you will agree therefore that we should use the few days to seek to agree at official level upon a text which we can both recommend to our Ministers.

2. The essence of our position is that the figures contained in the draft White Paper show growth (on the basis of the cash planning factors of 6% and 5%) of about 2.3% only in 1983/84 and 1984/85; that any competent observer will be able to work out these figures; and that Defence Ministers could not possibly refuse to translate the cash figures into constant price terms for Parliament (eg in the Statement on Defence Estimates for which there is a standing request by the HCDC), let alone for NATO whose staff can readily work out the figures. Accordingly we could not support a text which stated that the cash figures are in line with the 3% commitment. This simply would not be true.

3. The Treasury position, as I understand it, is that in an era of cash planning it is neither appropriate nor possible (since there are no agreed forecast deflators) to translate the cash figures into constant price terms; that our line will have to be that the cash plans will enable 3% real growth to be achieved but that there are no planned constant price figures to substantiate this; and that Parliament and NATO will have to accept this.

4. I must say that I find the position puzzling. I do not see how it can be claimed that the cash figures cannot be translated into constant price terms when they were derived in the first place from plans expressed in constant prices by the application of cash planning factors put forward by the Treasury as the best available. If those factors were good enough for the construction of cash plans, they must be good enough for deflating those plans to constant prices. And, in any case the Treasury's own statement that the cash provision is in line with the commitment to 3% real growth (though incorrect) could only be made if deflators were available.

5. To refuse to give constant price equivalents of our cash plans would be interpreted as resiling and a cover-up. The credibility of the 3% commitment as reaffirmed in Command 8288 would be very quickly undermined if we claim that the published cash provision is in line with 3% real growth but refuse to reveal the underlying figures that support that claim. I know that my Secretary of State would not be prepared to adopt that position.

6. The problem seems to me to stem from an apparent conflict between the twin objectives of cash planning (which the Ministry of Defence accepts and supports) and of a planned 3% real growth commitment in defence. Both are important aspects of Government policy and we should seek not to allow them to work against each other but to reconcile them.

7. On a smaller point, I know that my Secretary of State will not find it possible to accept the wording of the second sentence of Paragraph 14 of Part I of the White Paper which on any account seems unnecessarily tendentious.

8. I shall myself be in Italy next Monday and Tuesday with Mr Nott but Desmond Bryars stands ready to try and find a sensible accommodation.

9. I have sent a copy to Robert Armstrong together with the relevant Ministerial correspondence.

Yours ever
Frank Cooper

FRANK COOPER

Prime Minister

Content, subject to the views of colleagues?

MCS 29/1

PRIME MINISTER

Yes MT

PUBLIC EXPENDITURE WHITE PAPER: VOLUME 1

We shall once again be publishing the Public Expenditure White Paper at Budget time.

2. I attach a draft of Part 1 of the White Paper. The timetable is tight and I would ask you and our Cabinet colleagues, to whom I am copying this minute and enclosure, for any comments by next Tuesday, 2 February, at the latest.

3. The draft, which reflects the decisions Cabinet have already taken, has been largely cleared with other Departments at official level as regards the references to particular programmes.

4. I am having the White Paper printed in two volumes this year, as it has been in some previous years, because I am introducing into Part 1 some improvements in lay-out, including some charts, and so it will take a little longer to prepare for printing.

5. I shall circulate a draft of Volume 2 shortly. That will include the usual chapters about individual programmes (Part 2) and about the nationalised industries (Part 3), further general tables (Part 4) and the technical addendum (Part 5).

6. The two volumes will of course be published simultaneously.

7. The contingency reserve for next year is lower, at £2¼ billion, than this year (1981-82, £2½ billion). That is tight, but I think we can and should manage within it. The reserve in the

later years is higher, to allow for the greater uncertainties (it is not an operational total for those years; we shall fix the operational total for 1983-84 in the next survey).

8. The resulting planning totals are a little over £115 bn in 1982-83 (broadly as announced in December) and £121 bn and £128 bn respectively in 1983-84 and 1984-85. The outturn for 1981-82 now looks like being under £106½ billion, rather than £107 billion as we thought in December. But this could change again; and there may be small changes to come on the figures for 1982-83 onwards.

9. Estimates of the ratio of public expenditure to GDP up to the current year are included as usual, together with an indication that the ratio is likely to fall next year. An estimate of the ratio next year may be included in the FSBR, which is printed later and can take account of the assumptions for the growth of GDP over the medium term when these are decided for the purpose of the Budget.

10. I am sending copies to members of Cabinet and Sir Robert Armstrong.

L.B.

LEON BRITTAN
26 January 1982

PART ONE

THE EXPENDITURE PLANS

Contents

List of tables/charts

DRAFT 26.1.82

MAIN POINTS FROM THE WHITE PAPER

1. The Government's revised expenditure plans for 1982-83 onwards are higher than the cash equivalent of those in the March 1981 White Paper. For 1982-83, as already announced, the planning total is £115 billion, some £5 billion more than the earlier plans. For 1983-84 and 1984-85 the provisional planning totals are £121 billion and £128 billion respectively. These plans are in cash, not in the constant prices used in previous White Papers.

2. The main increases for 1982-83 are for local authority current expenditure (£1.3 billion), nationalised industries' total net external finance (£1.3 billion), employment services (£0.8 billion) and defence (£0.5 billion).

3. Total public sector capital expenditure in 1982-83 is planned to be about the same (nearly £12 billion) as expected in 1981-82. Expenditure on construction is expected to rise by over 10½% to £10¼ billion. The number of houses started and improved in 1982-83 should be higher than in 1981-82. There should be a slight increase in the work done on water and sewerage projects in 1982-83 compared with 1981-82. Nationalised industries' investment is planned to be over £7½ billion in 1982-83, 23% higher than expected in 1981-82 and 40% higher than in 1980-81.

DRAFT 26.1.82

PART 1: THE EXPENDITURE PLANS

Introduction

1. The main features of the Government's plans for expenditure in 1982-83 were announced by the Chancellor of the Exchequer on 2 December 1981. This White Paper now gives a full account of the plans for the years 1982-83 to 1984-85. The plans are summarised in table 1.1. Chart 1.2 shows the planning total for each year.

2. The planning total for 1982-83 is £115 billion, some £5 billion higher than the cash equivalent of the programmes set out in the last White Paper (Cmnd 8175 of March 1981), and some £9 billion higher than the expected outturn for 1981-82. The planning totals for 1983-84 and 1984-85, £121 billion and £128 billion respectively, are provisional and will be reviewed in the 1982 survey.

3. In 1981-82 the total outturn is expected to exceed plan by some [£1 billion], chiefly because local authorities have overspent on current expenditure. This has been taken into account in deciding the appropriate figures in this White Paper for 1982-83 onwards. The plans have also been increased in other areas, notably nationalised industries' finance, employment services and defence. These increases have been partly offset by reductions elsewhere.

PLANNING TOTAL

TABLE 1.1 £ MILLION CASH

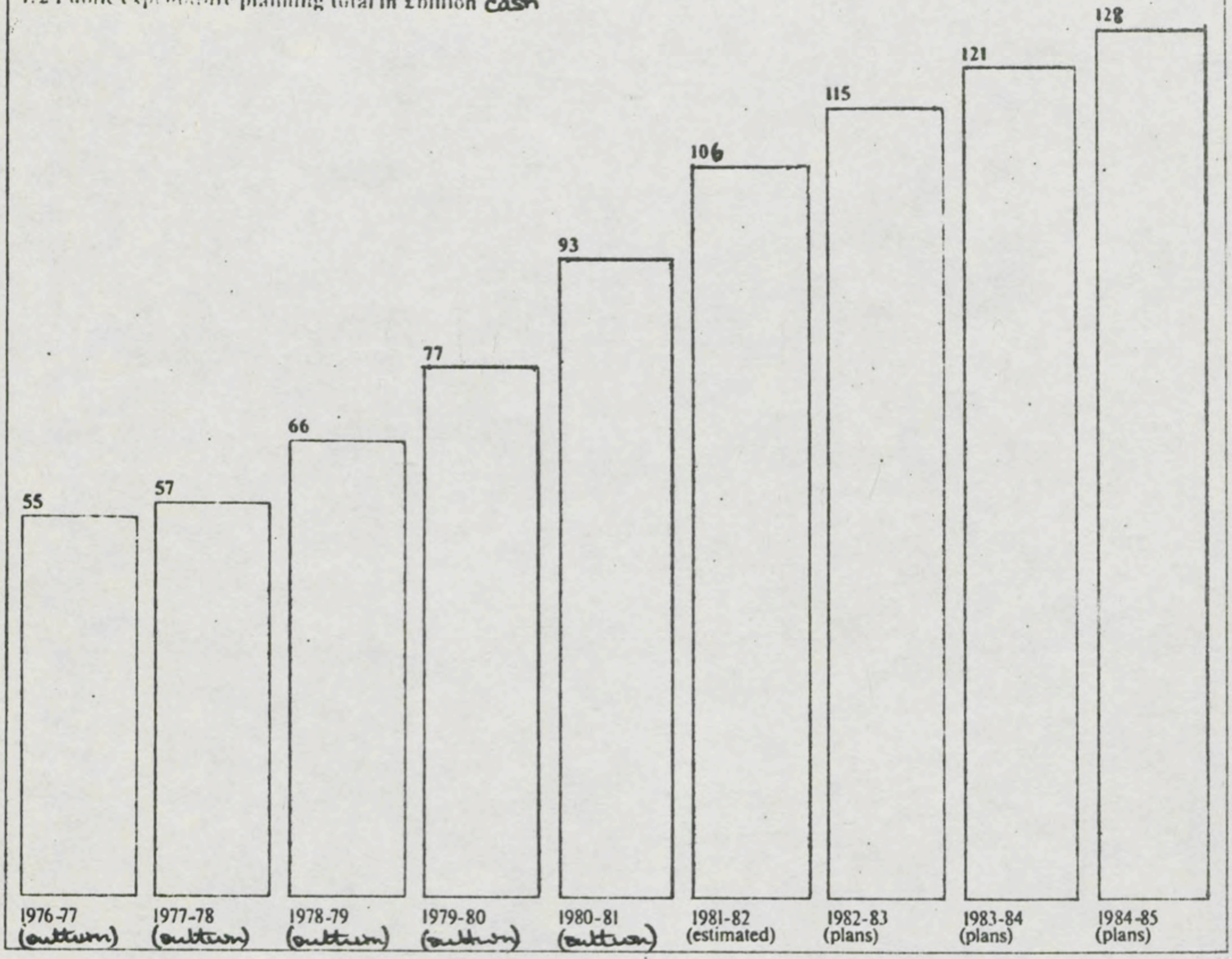
	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
			Outturns			Estimated outturn		Plans	
PUBLIC EXPENDITURE PROGRAMMES									
1. CENTRAL GOVERNMENT (INCLUDING GOVERNMENT FINANCE FOR NATIONALISED INDUSTRIES)	36,560	39,584	46,560	55,811	67,616	78,015	84,195	86,130	90,775
2. LOCAL AUTHORITIES	15,718	16,240	17,952	21,511	24,930	26,172	28,055	30,044	31,070
3. CERTAIN PUBLIC CORPORATIONS CAPITAL EXPENDITURE	1,069	985	1,018	1,226	1,474	1,485	1,511	1,435	1,473
ADJUSTMENTS									
4. NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING (1)	1,269	923	458	-321	-448	202	-181	41	-371
5. SPECIAL SALES OF ASSETS (NET)		-548		-998	-362	-50	-500	-600	-600
6. CONTINGENCY RESERVE						[400](2)	2,250	4,000	6,000
7. PLANNING TOTAL	54,616	57,185	65,988	77,229	93,209	[106,200]	115,328	121,049	128,347
8. PERCENTAGE CHANGE ON PREVIOUS YEAR		+4.7	+15.4	+17.0	+20.7	+13.9	+8.6	+5.0	+6.0
MEMORANDUM ITEMS									
A. DEBT INTEREST - NET (3)	1,496	1,909	2,463	3,750	4,542	6,800	6,800	6,900	7,100
- GROSS (3)	6,502	7,239	8,430	10,621	12,518	15,200	15,800	16,200	16,500
(NOT INCLUDED ABOVE)									
B. NATIONALISED INDUSTRIES' TOTAL NET BORROWING (INCLUDED IN LINES 1 AND 4)	1,553	705	1,151	1,536	1,828	2,018	932	1,297	764

1) Including other public corporations accorded similar treatment (see Part 5 & table 5.—).

2) Amount remaining is expected to be fully spent by the end of the year.

3) See paragraph —.

1.2 Public expenditure planning total in £billion cash



Cash Planning

4. As announced by the Chancellor of the Exchequer in his Budget Statement on 10 March 1981, public expenditure is now planned in cash, not in the constant prices used in previous White Papers. The cash plans embody the principle, already well established in the system of cash limits, that levels of service must be determined in the light of the finance available.

5. 1981 was a transitional year. The starting point for the 1981 public expenditure survey was the constant price ('volume') plans of the March 1981 White Paper, Cmnd 8175, converted into cash in the way explained in Part 5 of this White Paper. Part 4 shows the revaluation for 1982-83.

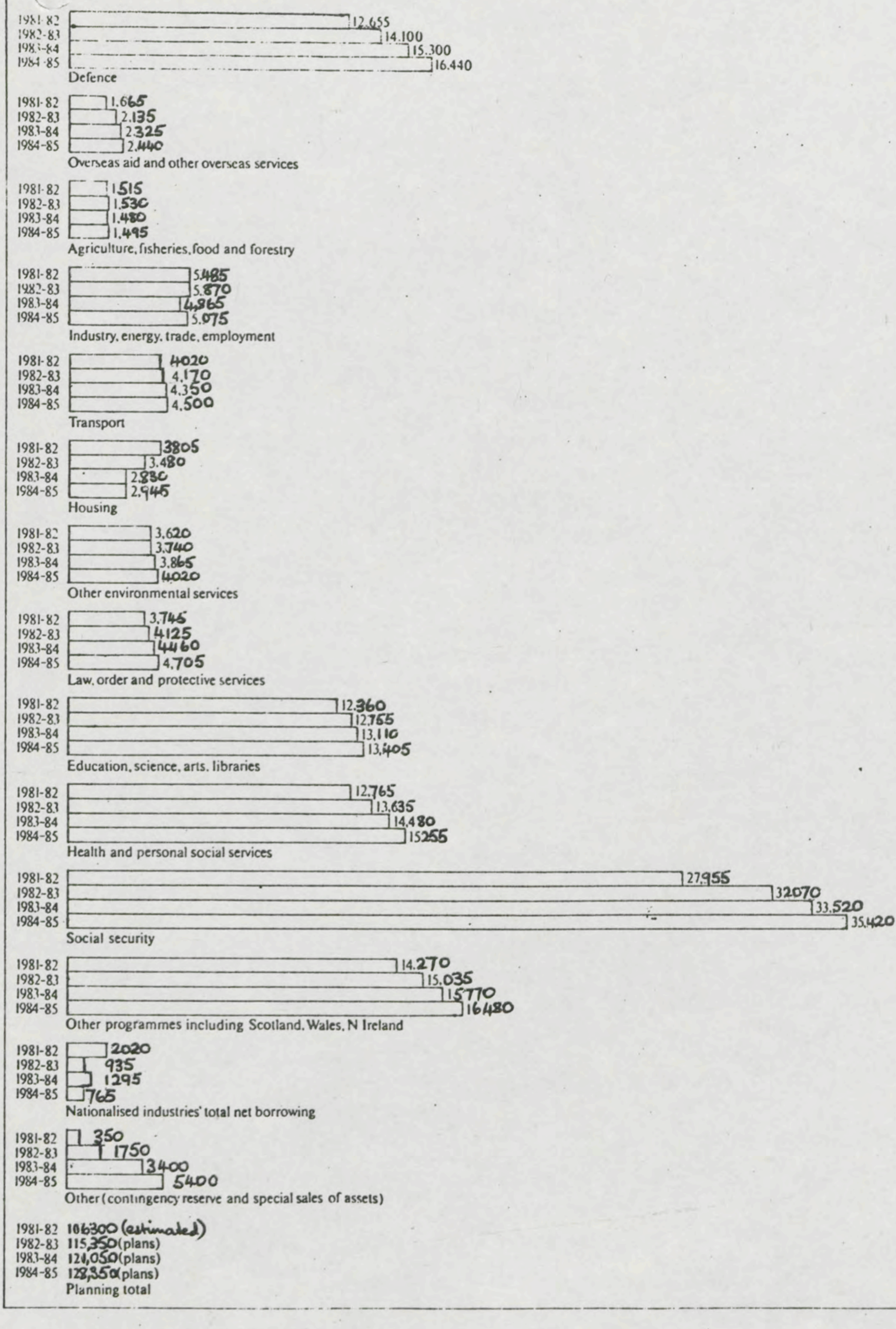
6. The Government then took the decisions resulting in the changes summarised in paragraphs [ ] below. Some of the changes included allowance for pay and price movements expected to differ from the general factors used to revalue the previous plans. Chart [1.3] and table [1.9] show the main programmes in cash as now planned. The services which can be provided within these cash totals will depend on the actual movements of pay and prices.

7. The starting point for the1982 public expenditure survey will be the cash plans contained in this White Paper.

CHANGES SINCE CMND 8175

8. Table [1.13] shows the changes since Cmnd 8175. Further detail is in Volume 2.

1.3 Public expenditure by programme in £ million cash, 1981-82 to 1984-85



9. Since the statement on 2 December 1981, the programme plans for 1982-83 have been adjusted where necessary for revised economic assumptions (chiefly affecting social security - see paragraph 12 below, housing and export credit subsidies) and for subsequent decisions. The planning total remains the same , at £115 billion .

Social Security

10. By far the largest single programme is social security, which accounts for over one-quarter of the total. Most of this expenditure is on benefits, and over half is state pensions for the elderly.

11. The plans include the decision announced on 2 December that, for those long-term benefits for which the Government have given a pledge of full price protection during thelife of the present Parliament, the shortfall of 2% in the 1981 uprating will be made good in the 1982 uprating. There is a switch of expenditure from housing to social security resulting from the Government's proposals to introduce a unified housing benefit.

12. For the social security projections, prices were assumed to rise by 10% between November 1981 and November 1982, and by 6% and 5% respectively in the next two years. It has also been assumed provisionally that unemployment (Great Britain, excluding school leavers etc) would average 2.6 million in 1981-82, and 2.9 million a year thereafter. This is not a forecast or a prediction. If developments on pay and the world economic recovery are favourable, there is a reasonable prospect that unemployment levels in the later years may turn out to be somewhat lower than has been assumed.

Employment

13. The Prime Minister announced on 27 July 1981 an increase

of some £650 million in 1982-83 on special employment and training measures, mainly for young people and the Job Release Scheme. Total spending on these measures will be some £1500 million in 1982-83. There is also increased provision for the Redundancy Fund in 1982-83, and in future years for the New Youth Training Scheme and other training reforms announced by the Secretary of State for Employment on 15 December 1981.

Defence

14. Provision for defence is in line with the Government's NATO undertaking to aim for real increases in the region of 3% a year. The additional provision in 1981-82 onwards is for the extra cost of armed forces' pay and the transitional costs of restructuring the defence programme as described in the Defence White Paper "The Way Forward", Cmnd 8288.

Health

15. Expenditure on health is being increased by some £80 million in 1982-83, after taking account of savings of £27 million through increased efficiency. This allows for demographic change and some improvement in standards, including advances in technology. The net increase is reduced by receipts from increased charges.

Law and Order

16. The increase of £110 million in 1982-83 reflects the Government's continuing commitment to the law and order services. The plans allow for an increase in police manpower from about 118,000 in March 1981 to virtually full establishment two years later. Extra spending on prison building is also planned.

Education

17. Provision for education is substantially affected by the increase in local authority current expenditure (see below). The programme takes account of the continuing decline in the school population up to age 16. Additional provision is being made for 16-19 year olds in schools and colleges, as announced by the Prime Minister on 27 July 1981, and for the restructuring of higher education.

Local authority current expenditure

18. The increased provision for local authority current expenditure (see paragraph [47] below) involves increases in those programmes which include both local authority and central government expenditure: in particular transport, other environmental services, law and order, education, personal social services, and Scotland and Wales. In some cases - notably transport and other environmental services - the increases have been largely or wholly offset by savings on other services in the programmes.

Nationalised industries

19. Total net external finance for the nationalised industries has been substantially increased, by £1.3 billion in 1982-83, about half the increase for which the industries bid. As a result of the increase, the industries' planned investment in 1982-83 is over £7½ billion, which is higher than the cash equivalent of the plans in Cmnd 8175, even though they expect substantially lower internal resources than then forecast. (Table 1.13 shows separately the increase in their total borrowing only; the increases in grant are included in the changes shown for the relevant programmes.)

Reductions

20. A general cut has been made in almost all expenditure subject to cash limits, mostly of at least 2% and in some cases substantially more. The main exception is defence.

21. As part of this cut, savings have been made on central Government staff and other administrative costs, including accommodation, and by increased efficiency in the NHS. The reductions in civil service staff numbers already planned (see paragraph - below) will contribute towards these savings.

22. The cut in cash-limited expenditure includes reductions on capital expenditure, mostly in transport and other environmental services. But keener tender prices mean that these cuts should have no significant effect on the construction of motorways and trunk roads, water and sewerage works, etc.

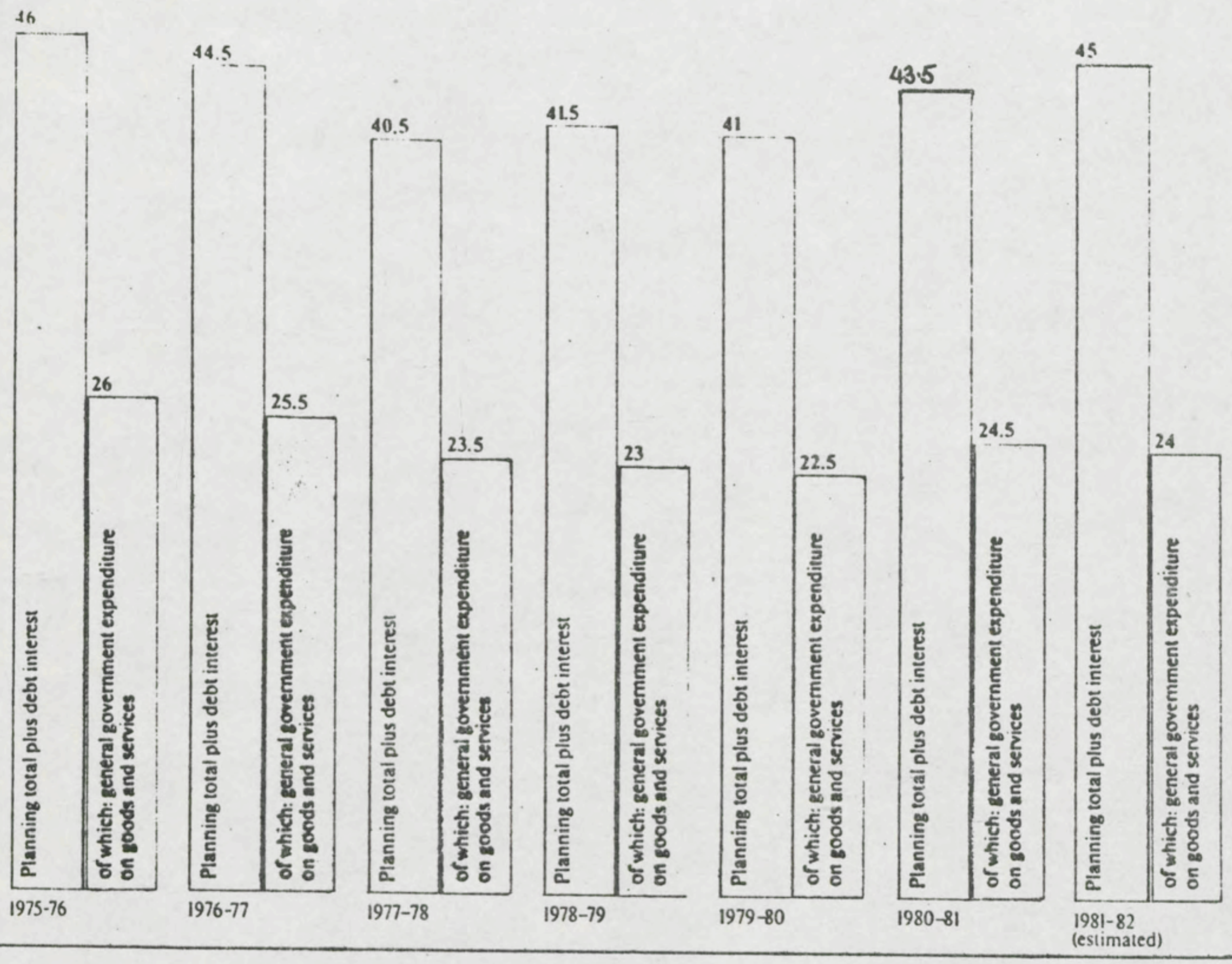
PUBLIC EXPENDITURE AND GDP

23. The ratio of total public expenditure (including debt interest) to GDP in 1980-81 was 43½ per cent. For 1981-82 the ratio is expected to be higher (see chart [1.4]), reflecting the further real fall in GDP and the increase in public expenditure (especially in social security). In 1982-83 the ratio is expected to fall because of the expected real rise in GDP and the curbing of public expenditure.

CASH LIMITS

24. For the first time, the White Paper plans for the year ahead (1982-83) can be translated directly into cash limits. Part 4

1.4 Percentage ratios of public expenditure to GDP at market prices



gives a full list of the limits. The vast majority are on voted expenditure and published in the Estimates.

25. Cash limits are the control figures for the coming year. They will not normally be revised during the year. Any increase in expenditure which is decided will be charged tothe contingency reserve.

26. 40% of public expenditure is directly cash-limited. Another 40% consists of "demand-determined" services where, once policy and rates of payments have been determined, expenditure in the short-term depends on the number of qualified applicants: eg social security benefits. The remaining 20% is local authority current expenditure: the rate support grant, the Government's main contribution to the financing of such expenditure, is subject to a cash limit, but not the expenditure itself.

CONTINGENCY RESERVE

27. The plans include a reserve for contingencies and other requirements which cannot be quantified at this stage. The reserve is a control figure for the year ahead: any fresh decisions to incur expenditure which cannot be accommodated within existing programmes will be contained within the reserve. For 1981-82 the reserve was £2,500 million, It is now expected to be underspent by some [£ million], a partial offset to the large overspend by local authorities.

28. For 1982-83 the reserve is set at £2250 million. For thelater years the greater uncertainty requires a bigger reserve to make the planning total realistic. Contingency reserves of £4 billion and £6 billion respectively have been provided in 1983-84 and 1984-85. These figures will be reviewed in the 1982 survey, before the control total is set for 1983-84.

STAFFING

29. The Government intend a continuing saving in public service manpower. The Civil Service has been reduced from 732,000 in April 1979 by 7% to [679,800 in October 1981], the smallest total for over 14 years. A further reduction is planned, to 630,000 by the end of 1983-84, a total reduction of 14%. The Civil Service will then be smaller than at any time since 1945. Manpower in the armed forces is to be reduced by up to 19,500 by 1986 (6% less than in 1982), as announced in Cmnd 8288.

30. An increase in services to patients in the NHS implies some increase in manpower. Between 1979 and 1981, total manpower in the NHS (full-time equivalents), is estimated to have increased by some 40,000, ie about 5%. A breakdown by manpower category is not yet available for 1981, but nearly 80% of the increase between 1979 and 1980 was for manpower directly involved in patient care.

31. Local authorities' manpower in Great Britain has been reduced by over 70,000 (full-time equivalents), or 3%, between March 1979 and September 1981. Further savings are envisaged in the expenditure plans. The largest reduction has been in the education service: manpower fell by nearly 60,000, or 5%, but this service continues to employ half of local government workers. The staff employed on law, order and protective services increased by 11,000 (4%) over this period, and further slight increases are planned. The net saving so far in local authorities' manpower is, proportionately, less than half the reduction in the Civil Service.

PAY

32. Pay accounts for some 30% of total public expenditure; in many programmes the proportion is much higher. Labour costs are also an important component in the cost structure of the nationalised industries. Within a framework of cash planning, excessive expenditure on pay reduces the money available to finance investment or services to the public.

CAPITAL AND CURRENT EXPENDITURE

33. Tables [1.10, 1.11 andl.12] provide an analysis of total public expenditure by spending authority and economic category. Table [1.15] shows the expected expenditure on construction. The Government have not taken decisions about the allocation of expenditure in the later years in sufficient detail for the analysis to be extended beyond 1982-83. The Government continue to give priority to worthwhile capital projects wherever this can be done within the overall public spending totals.

34. The main changes in current expenditure between 1981-82 and 1982-83 are a fall in housing subsidies, and the increase in social security benefits ("current grants to persons") chiefly as a result of increases in pension payments. Provision in 1982-83 for pay and related costs reflects the saving in public services manpower mentioned above, and the general allowance of 4% for pay increases.

35. Capital expenditure in 1982-83 (which is defined to include nationalised industries' borrowing for whatever purpose it is used) is planned to be nearly £12 billion, about the same as in 1981-82. Total construction expenditure, including investment on construction planned by the nationalised industries, is expected to rise from £9¼ billion to £10¼ billion, an increase of over 10½ %.

36. Because current expenditure, and hence the total, will increase, capital expenditure in 1982-83, as defined in table 1.10, is expected to account for [10¼%] of total spending, compared with [1 1%] in 1981-82. But by maintaining the level of capital expenditure,

- Local authorities should be able both to start more new houses and to improve more existing dwellings in 1982-83 than in 1981-82.

- There should be a slight increase in the work done on water and sewerage projects in 1982-83 compared with 1981-82.

- Nationalised industries' investment (including installation of System X equipment in telephone exchanges and completion of the Heysham II and Torness power stations) is planned at over £7½ billion in 1982-83, 23% higher than expected in 1981-82, and 40% higher than in 1980-81.

ANALYSIS BY SPENDING AUTHORITY

Central Government and nationalised industries

37. Central Government expenditure accounts for nearly three-quarters of total programmes. Of this:

a) rather less than half is on goods and services, mainly for defence and the national health service; this includes the pay and related costs of the civil service, which amount to just under one-tenth of central government expenditure;

b) slightly over a third is social security benefits;

c) the remainder is other transfer payments, such as housing subsidies, industrial support and lending to the nationalised industries.

The figures are summarised in table [1.5].

38. The nationalised industries' external finance is shown in Table 1.6. Part 3 of this White Paper shows the External Financing Limits for individual industries in 1982-83. As in previous White Papers, no comparable financing breakdown is shown for subsequent years. The finances of trading bodies such as nationalised industries are inevitably subject to uncertainty, and there may be

TABLE 1.5

CENTRAL GOVERNMENT EXPENDITURE

£million cash

	1981-82	1982-83
DEFENCE	12,654	14,103
OVERSEAS aid & other overseas SERVICES	1,608	2,093
AGRICULTURE FISHERIES FOOD AND FORESTRY	1,239	1,246
TRADE, INDUSTRY, ENERGY AND EMPLOYMENT	5,317	5,687
TRANSPORT	1,765	1,927
HOUSING	2,098	1,509
OTHER ENVIRONMENTAL SERVICES	324	323
LAW, ORDER AND PROTECTIVE SERVICES	969	1,084
EDUCATION AND SCIENCE ARTS AND LIBRARIES	2,015	2,308
HEALTH AND PERSONAL SOCIAL SERVICES	10,890	11,671
SOCIAL SECURITY	27,954	31,390
OTHER PUBLIC SERVICES	1,346	1,356
COMMON SERVICES	1,514	1,633
SCOTLAND	2,697	2,744
WALES	1,092	1,110
NORTHERN IRELAND	2,718	2,896
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES	1,816	1,114
TOTAL EXCLUDING ADJUSTMENTS	78,015	84,195

(see table 1.1)

NATIONALISED INDUSTRIES' EXTERNAL FINANCE

Table 1.6 £ million cash

	1981-82 estimated outturn	1982-83	1983-84 plans	1984-85
Borrowing from Government (net)	1820	1110	1250	1150
Market and overseas borrowing (net)	180	-200	-	-400
Grants	1390	1830	1300	1350
Total external finance	3390 (1)	2740	2550	2100

i) Including effect of gas levy (433)

large swings in either direction for individual industries.

39. These figures need to be seen in the context of the industries' aggregate capital requirements, shown in Part 3, which includes both the individual industries' investment plans and their other capital requirements. The industries' plans for fixed asset spending total over £7½ billion in 1982-83, nearly one-third by British Telecommunications.

40. The figures for all three future years exclude the external financing of the National Freight Company Limited, in which the Government hope to have sold all their shares by the end of 1981-82. The figures for 1983-84 and 1984-85 exclude the external financing of the British National Oil Corporation (BNOC) and the British Transport Docks Board (BTDB): this is on the assumption that shares in BTDB and in the upstream business of BNOC will be sold in 1982-83 and that control of these bodies will pass to the private sector.

41. Because of uncertainties about timing, no allowance has been made in the nationalised industry figures for the effects of other sales in the special disposals programme. Allowance for these is made in line 5 of table 1.1.

42. Almost all the industries expect to have substantially lower internal resources than forecast in Cmnd 8175, largely because demand and therefore revenue have been lower. The industries' aggregate external financing needs are still expected to decline over the survey period, but from a higher base and more gradually. Even so,

the industries will continue to finance two-thirds or more of their investment from internally-generated funds.

43. These plans depend on the industries making major efforts to bring current costs, above all wage costs, under control, in the way that private sector companies are having to do. Failure to do this is likely to mean either higher prices or less investment.

Local Authorities

44. Public expenditure by local authorities in Great Britain is shown in table [1.7]. The figures for 1980-81 are estimates of actual outturn while those for 1981-82 are local authorities' own budgets.

45. The Government pay grants including Rate Support Grant (RSG) and specific and supplementary grants, to subsidise relevant expenditure. This includes most current expenditure and finance for capital expenditure. The RSG settlements for 1982-83 were based on relevant expenditure figures consistent with table [1.7]: the details are in Part 4. Rate support grant and the supplementary grants are cash-limited.

46. In 1980-81 local authorities in Great Britain spent £1,050 million (6 per cent) more than the Government's plans for current expenditure relevant for grant. In 1981-82 local authorities' budgets totalled £1,700 million (9 per cent) above the Government's plans. As a result the Secretaries of State for the Environment and for Scotland have proposed to reduce RSG for 1981-82 by some £250 million; the precise amount will depend

Table 1.7

Public expenditure by local authorities in Great Britain

£ million cash.

	1980-81 (outturn)	1981-82 (estimated)	1982-83 (plans)
Current expenditure			
Education and science, arts and libraries ...	10568	11646	11931
Local environmental services(1)	2484	2631	2717
Law, order and protective services	2552	2926	3218
Personal social services	1900	2146	2223
Transport	1658	1910	1758
Housing	763	723	503
Other programmes	228	268	973
Total (current)	20153	22250	23323
Capital expenditure			
Education and science, arts and libraries ...	597	488	427
Local environmental services(1)	886	660	805
Law, order and protective services	64	113	127
Personal social services	93	88	127
Transport	798	763	921
Housing	1806	1211	1664
Other programmes	127	147	167
Total (capital)	4371	3470	4237
Total (capital and current)	24523	25720	27560

(1) Included in other environmental services programmes.

on the eventual overspend. In Wales spending is estimated to be close to plans, and the Secretary of State for Wales will consider whether RSG should be reduced there when actual expenditure by Welsh local authorities in 1981-82 is known.

47. Local authority current expenditure in 1982-83 in this White Paper is some £1.3 billion higher than the cash figures based on Cmnd 8175. Overspending by local authorities in 1981-82 meant that they would not be able to get down to the levels previously planned for 1982-83. The new higher plans for 1982-83 are 2 per cent more than local authorities' latest budgets for 1981-82. Allowing for pay and price increases, local authorities will have to make significant real economies to keep within the new plans.

48. The Government attach the utmost priority to achieving these targets for local government current expenditure. The rate support grant settlements for 1982-83 and this White Paper set out the Government's views on the levels of expenditure on local authority services which can and should be achieved. In taking the necessary steps to realise these plans it is for local authorities to make their own choices between services within the limits of their statutory obligations; and also choices between provision for higher pay and prices on the one hand and the level of services on the other.

49. Taking account of the £250 million grant reduction proposed in respect of 1981-82 (see paragraph 46), exchequer grants will be £850 million (6½ per cent) more for 1982-83 than for 1981-82. But this represents a lower proportion of relevant expenditure in each of the three countries. For example, in England it falls from 59.1 per cent in 1981-82 to 56 per cent in 1982-83. The block grant systems in England and in Wales ensure that if local authorities spend excessively they get proportionately less grant. Similarly, Scottish local authorities which spend too much may

have their RSG cut or they may be required to reduce their rates.

50. Local authority capital expenditure in 1981-82 is likely to turn out about £½ billion less than the cash limits. Some shortfall is common in capital expenditure, but this year it is unusually large. This may be partly because local authorities have reacted cautiously to the new capital control arrangements begun this year in England and Wales. Capital receipts also seem likely to be about 40 per cent higher than the £1 billion or so allowed for in the cash limits.

51. The 1982-83 plans for local authority capital expenditure are 1% more than the cash limits for 1981-82, or 16% more than expected outturn.

52. Table [1.9] shows how local authorities have paid for their expenditure and how they might do so in 1982-83 provided that they spend in line with the plans in table [1.8]. If local authorities were to overspend the excess spending would have to be met by the rates or by borrowing.

53. The plans imply that local authority relevant current expenditure rises in cash by 4 per cent in 1983-84 and 3 per cent in 1984-85, and capital expenditure, excluding housing, by 2 per cent in 1983-84 and 3 per cent in 1984-85. The further economies required will be discussed with local authorities in the normal way.

SPECIAL SALES OF ASSETS

54. Special asset sales in 1980-81 reduced the PSBR by £360 million, compared with the announced target of £500 million. Details

TABLE 1.8

Financing of Local Authority Rate Fund Expenditure in Great Britain

£ million cash

	1979-80	1980-81	1981-82 (latest budgets)	1982-83 (settlement)
Total net rate fund expenditure (1)	18070	21880	24610	24960
Financed by				
Government grants	10820	12760	13560	14240
Local rates and rate rebate grants	7060	9080	11160	10720
Other - including borrowing and additions to (-) and drawings from (-) local balances	+ 190	+ 40	- 110	

1) net of local income from fees and charges. It includes a small element of expenditure met from rates which is not relevant for grant purposes.

in Table [4.8]. Receipts from the sale of commercial and industrial property owned by New Towns were less than expected, and sales of motorway service area leases scheduled for 1980-81 were delayed. Sales in 1981-82 included Cable and Wireless shares, further motorway service area long leases and the Government's shareholding in the British Sugar Corporation. Total gross proceeds are estimated at £600m (including the sale of the NFC shares mentioned above) compared with a forecast in Cmnd 8175 of £500m.
Net proceeds, at about £50m, are lower principally because of a reduction in receipts from earlier advance payments for oil and because it was decided not to pursue a further programme of advance oil payments, while the oil market was depressed.

55. Sale proceeds in 1982-83 are expected to total some £500m. This assumes that proceeds from the disposal in 1982 of 51 per cent of BNOC's upstream business, provided for in the Oil and Gas (Enterprise) Bill, will be received in two instalments: the first in 1982-83 and the second in 1983-84. Further special asset sales are intended for later years.

56. The net benefit to the PSBR from the asset disposals programme is shown in line 5 of table 1.1. The figures for future years include, in addition to the proceeds of the sales themselves, the effect on the public sector borrowing requirement of reclassifying bodies sold from the public to the private sector, and any changes in the public sector's net cash flow, for example as a result of lower public sector receipts following the sale of a Government shareholding.

DEBT INTEREST

57. Table 1.1 shows two figures of debt interest. The net definition of debt interest represents broadly interest payments financed from taxation or further Government borrowing. Gross debt interest represents total payments of debt interest by the public sector, including

also interest payments matched by interest receipts or by provision for interest in the accounts of public trading activities.

PUBLIC EXPENDITURE IN 1980-81 AND 1981-82

58. Total public expenditure (planning total) in 1980-81 was about £93$\frac{1}{4}$ billion, just below the estimate in Cmnd 8175. This is about £2 billion above theplans (revalued to cash) in the preceding White Paper, Cmnd 7841 of March 1980, chiefly because of overspending by local authorities on current expenditure, and higher expenditure than expected on benefits for the unemployed; shortfall elsewhere was less than expected.

Expenditure in 1981-82

59. Total expenditure in 1981-82 is now estimated at £[106$\frac{1}{4}$] billion compared with £ 105 billion, the cash equivalent of the Cmnd 8175 plans (adjusted for classification changes etc), chiefly because of the large excess expected on local authorities' current expenditure (see above). The announced increases in the defence cash limit (see Part 2) and in the external financing limits of some nationalised industries (see Part 3) were met from the contingency reserve, and thus contained within the planning total. Local authorities spent less on capital account than had been provided for.

PUBLIC
TOTAL EXPENDITURE BY PROGRAMME

TABLE 1.9

£ MILLION CASH

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
			Outturns			Estimated outturn		Plans	
DEFENCE	6,183	6,820	7,495	9,226	11,182	12,654	14,103	15,298	16,439
OVERSEAS AID AND OTHER OVERSEAS SERVICES									
OVERSEAS AID	502	601	727	801	921	1,005	974	1,043	1,095
NET PAYMENTS TO EC INSTITUTIONS	220	555	731	851	288	45	500	580	600
OTHER OVERSEAS SERVICES	316	426	378	453	507	613	661	704	745
AGRICULTURE, FISHERIES, FOOD AND FORESTRY	995	884	830	1,038	1,384	1,514	1,530	1,478	1,497
INDUSTRY, ENERGY, TRADE AND EMPLOYMENT	3,073	2,248	3,048	2,887	4,217	5,483	5,872	4,863	5,077
TRANSPORT	2,349	2,273	2,452	2,972	3,490	4,018	4,172	4,351	4,498
HOUSING	3,935	3,758	3,924	4,906	4,937	3,805	3,478	2,832	2,944
OTHER ENVIRONMENTAL SERVICES	2,101	2,217	2,510	2,955	3,470	3,622	3,740	3,864	4,022
LAW ORDER AND PROTECTIVE SERVICES	1,678	1,798	2,041	2,586	3,197	3,747	4,126	4,461	4,707
EDUCATION AND SCIENCE ARTS AND LIBRARIES	6,982	7,338	8,094	9,350	11,364	12,361	12,754	13,108	13,406
HEALTH AND PERSONAL SOCIAL SERVICES	5,937	6,540	7,425	8,899	11,476	12,766	13,633	14,480	15,254
SOCIAL SECURITY	11,389	13,646	16,165	19,106	23,057	27,954	32,069	33,521	35,420
OTHER PUBLIC SERVICES	735	761	824	973	1,219	1,357	1,368	1,442	1,502
COMMON SERVICES	708	765	852	1,007	644	1,514	1,633	1,803	1,930
SCOTLAND	3,073	3,260	3,701	4,447	5,345	5,793	6,054	6,260	6,467
WALES	1,259	1,323	1,500	1,783	2,141	2,339	2,426	2,498	2,601
NORTHERN IRELAND	1,627	1,815	2,134	2,452	2,904	3,267	3,554	3,766	3,979
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES	284	-218	693	1,857	2,276	1,816	1,114	1,256	1,135
ADJUSTMENTS									
NATIONALISED INDUSTRIES' NET OVERSEAS AND MARKET BORROWING (1)	1,269	923	456	-321	-448	202	-181	41	-371
SPECIAL SALES OF ASSETS		-548		-998	-362	-50	-500	-600	-600
CONTINGENCY RESERVE						[400]	2,250	4,000	6,000
PLANNING TOTAL	54,616	57,185	65,988	77,229	93,209	[106,200]	115,328	121,049	128,347

1) Including other public corporations accorded similar treatment (see Part 5 and table 5.—).

TOTAL PUBLIC EXPENDITURE BY ECONOMIC CATEGORY

TABLE 1.10

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
			Outturns			Estimated outturn	Plans
CURRENT EXPENDITURE							
WAGES AND SALARIES	17,456	18,781	20,985	24,798	31,143	34,321	35,523
OTHER CURRENT EXPENDITURE ON GOODS AND SERVICES	8,978	10,156	11,624	14,169	16,708	19,593	22,020
SUBSIDIES	3,738	3,490	3,992	4,937	5,956	6,115	5,838
CURRENT GRANTS TO THE PRIVATE SECTOR	13,201	15,749	18,516	22,085	26,996	32,828	37,009
CURRENT GRANTS ABROAD	813	1,239	1,584	1,752	1,350	1,135	1,568
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	44,185	49,417	56,701	67,740	82,152	93,991	101,957
CAPITAL EXPENDITURE							
GROSS DOMESTIC FIXED CAPITAL FORMATION	6,363	5,748	5,725	6,556	6,732	5,974	6,308
INCREASE IN VALUE OF STOCKS	9	62	57	-13	84	68	114
CAPITAL GRANTS	1,383	1,596	1,703	1,794	2,126	2,107	2,198
NET LENDING TO PRIVATE SECTOR	335	201	-213	355	557	1,707	1,891
NET LENDING TO NATIONALISED INDUSTRIES AND SOME OTHER PUBLIC CORPORATIONS (1)	404	-133	1,247	2,316	2,779	1,958	1,209
NET LENDING AND INVESTMENT ABROAD	642	-95	307	-199	-410	-132	92
CASH EXPENDITURE ON COMPANY SECURITIES (NET) (2)	25	15	4				
TOTAL EXCLUDING ADJUSTMENTS	9,162	7,393	8,829	10,808	11,868	11,681	11,802
ADJUSTMENTS							
NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING	1,269	923	456	-321	-448	202	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50	-500
CONTINGENCY RESERVE						[400]	2,250
PLANNING TOTAL	54,616	57,185	65,986	77,229	93,209	[106,200]	115,328

1) The public corporations are those accorded similar treatment to nationalised industries (see Part 5 and table 5.—).

2) Excludes sales of British Petroleum shares in 1977-78 & 1979-80 which are included under 'special sales of assets'.

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY ANDPROGRAMME

TABLE 1.11

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82.	1982-83
CENTRAL GOVERNMENT			Outturns			Estimated outturn	Plans
DEFENCE	6,183	6,820	7,495	9,226	11,182	12,654.	14,103
OVERSEAS aid & other overseas SERVICES	1,023	1,571	1,817	2,068	1,677	1,608.	2,093
AGRICULTURE FISHERIES FOOD AND FORESTRY	890	760	867	785	1,135	1,239.	1,246
TRADE, INDUSTRY, ENERGY AND EMPLOYMENT	3,006	2,175	2,937	2,777	4,086	5,317.	5,697
TRANSPORT	1,037	981	1,001	1,246	1,406	1,765.	1,927
HOUSING	1,465	1,651	1,873	2,174	2,464	2,098.	1,508
OTHER ENVIRONMENTAL SERVICES	120	130	155	182	215	324.	323
LAW, ORDER AND PROTECTIVE SERVICES	388	420	492	610	817	969.	1,084
EDUCATION AND SCIENCE ARTS AND LIBRARIES	1,200	1,156	1,277	1,542	1,881	2,015.	2,308
HEALTH AND PERSONAL SOCIAL SERVICES	5,235	5,559	6,315	7,534	9,782	10,890.	11,671
SOCIAL SECURITY	11,389	13,646	16,165	19,106	23,057	27,954.	31,390
OTHER PUBLIC SERVICES	733	757	820	968	1,211	1,346.	1,356
COMMON SERVICES	708	765	852	1,007	644	1,514.	1,633
SCOTLAND	1,293	1,417	1,602	1,961	2,435	2,697.	2,744
WALES	500	552	641	780	976	1,092.	1,110
NORTHERN IRELAND	1,337	1,442	1,727	1,987	2,372	2,718.	2,896
GOVERNMENT LENDING TO NATIONALISED INDUSTRIES	284	-218	693	1,857	2,276	1,816.	1,114
TOTAL CENTRAL GOVERNMENT EXCLUDING ADJUSTMENTS	36,560	39,534	46,500	55,811	67,616	78,015.	84,195
LOCAL AUTHORITIES							
AGRICULTURE FISHERIES FOOD AND FORESTRY	77	86	114	175	169	186.	210
TRADE, INDUSTRY, ENERGY EMPLOYMENT	67	73	[illegible]	110	131	166.	185
TRANSPORT	1,241	1,215	1,370	1,641	1,990	2,171.	2,145
HOUSING	2,267	1,980	1,940	2,530	2,107	1,435.	1,676
OTHER ENVIRONMENTAL SERVICES	1,479	1,598	1,836	2,212	2,661	2,584.	2,764
LAW, ORDER AND PROTECTIVE SERVICES	1,290	1,378	1,549	1,975	2,380	2,778.	3,042
EDUCATION AND SCIENCE ARTS AND LIBRARIES	5,783	6,182	6,817	7,808	9,483	10,346.	10,446
HEALTH AND PERSONAL SOCIAL SERVICES	902	981	1,110	1,365	1,694	1,876.	1,962
SOCIAL SECURITY							680
SCOTLAND	1,683	1,765	2,015	2,386	2,799	2,999.	3,202
WALES	716	726	812	960	1,109	1,178.	1,249
NORTHERN IRELAND	212	256	294	349	407	452.	495
TOTAL LOCAL AUTHORITIES EXCLUDING ADJUSTMENTS	15,718	16,240	17,952	21,511	24,930	26,172.	28,055
CERTAIN PUBLIC CORPORATIONS CAPITAL EXPENDITURE (1) (EXCLUDING ADJUSTMENTS)	1,069	985	1,018	1,226	1,474	1,485.	1,511
ADJUSTMENTS							
NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING	1,269	923	458	-321	-448	202.	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50.	-500
CONTINGENCY RESERVE						[400].	2,250
PLANNING TOTAL	54,616	57,185	65,988	77,229	93,209	[106,200].	115,328

1) Corporations whose capital expenditure is included in public expenditure; mainly the water authorities & new town development and housing corporations. These corporations do not include the nationalised industries. A list is given in Part 5.

TOTAL PUBLIC EXPENDITURE BY SPENDING AUTHORITY AND ECONOMIC CATEGORY

TABLE 1.12

£million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
			Outturns			Estimated outturn	Plans
CENTRAL GOVERNMENT							
CURRENT:							
GOODS AND SERVICES	15,891	17,549	19,672	23,709	29,452	33,655	36,320
SUBSIDIES AND GRANTS	16,744	19,261	22,726	27,081	32,193	37,685	41,878
CAPITAL:							
GOODS AND SERVICES	1,362	1,285	1,357	1,511	1,780	2,297	2,509
GRANTS	1,287	1,493	1,546	1,596	1,907	1,858	1,791
NET LENDING TO NATIONALISED INDUSTRIES AND SOME OTHER PUBLIC CORPORATIONS(1)	404	-133	1,247	2,316	2,779	1,959	1,210
OTHER NET LENDING AND CAPITAL TRANSACTIONS	871	130	11	-402	-495	561	486
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	36,560	39,584	46,560	55,811	67,616	78,015	84,195
LOCAL AUTHORITIES							
CURRENT							
GOODS AND SERVICES	10,542	11,390	12,937	15,258	18,398	20,259	21,222
SUBSIDIES AND GRANTS	1,007	1,217	1,367	1,693	2,108	2,392	2,537
CAPITAL							
GOODS AND SERVICES	4,016	3,570	3,462	3,978	3,922	2,580	2,796
GRANTS	92	93	141	175	190	245	394
NET LENDING AND OTHER CAPITAL TRANSACTIONS	61	-29	47	408	311	696	1,106
TOTAL EXCLUDING DEBT INTEREST AND OTHER ADJUSTMENTS	15,718	16,240	17,952	21,511	24,930	26,172	28,055
CERTAIN PUBLIC CORPORATIONS(2)							
CAPITAL:							
GOODS AND SERVICES	994	955	963	1,054	1,114	1,164	1,117
GRANTS	4	10	15	23	29	4	12
NET LENDING AND OTHER CAPITAL TRANSACTIONS	71	20	39	149	331	317	381
TOTAL EXCLUDING ADJUSTMENTS	1,069	985	1,018	1,226	1,474	1,485	1,511
ADJUSTMENTS							
NATIONALISED INDUSTRIES NET OVERSEAS AND MARKET BORROWING	1,269	923	458	-321	-448	202	-181
SPECIAL SALES OF ASSETS		-548		-998	-362	-50	-500
CONTINGENCY RESERVE						[400]	2,250
PLANNING TOTAL	54,616	57,185	65,980	77,229	93,209	[106,200]	115,328

1) See note (1) to table 1. — . 2) See note (1) to table 1. — .

SUMMARY OF DIFFERENCES FROM CMND 8175 (1) BY PROGRAMME

Table 1.13 £ million cash

	1979-80	1980-81	1981-82	1982-83	1983-84
Defence	-	-154	+383	+479	+417
Overseas aid and other overseas services					
Overseas aid	-	+23	-	-9	-4
EEC contributions	-	-	-415	-1	+49
Other oversea services	-	-15	-11	-8	-
Agriculture,fisheries,food and forestry	+5	-9	+160	+100	+64
Industry,energy,trade and employment	-5	+192	+232	+1,527	+1,189
Transport	+17	+130	+239	+136	+57
Housing	+27	-15	-320	+259	+296
Other environmental services	+61	+38	+48	+20	-71
Law,order and protective services	-	-29	+58	+101	+127
Education and science,arts and libraries	-	+143	+583	+568	+450
Health and personal social services	+3	+52	+229	+224	+159
Social security	-	-49	+399	+847	+501
Other public services	+4	+10	+3	-19	-6
Common services	-5	-562	+31	+25	+26
Scotland	+21	+140	+41	+167	+130
Wales	-78	-87	+46	+78	+62
Northern Ireland	+3	-8	+44	+128	+141
Government lending to nationalised industries	-	+106	-92	+584	+1,631
Adjustments					
Nationalised industries net overseas and market borrowing	-	-81	+564	-26	+402
Special sales of assets	-	-	+144	-349	-440
Contingency reserve	-	-	[-1,600]	-600	+950
General allowance for shortfall	-	-	+700	+713	+764
Planning total	+53	-176	[+1,465]	+4,943	+6,897
Debt interest - gross	+182	-282	+1500	+700	+200
Debt interest - net	-34	-605	+700	+100	-400
Nationalised industries total net borrowing	-	+25	+472	+558	+2,034

1) The Government's Expenditure Plans 1981-82 to 1983-84, March 1981.

SUMMARY OF DIFFERENCES FROM CMND 8175 (1)
BY ECONOMIC CATEGORY

Table 1.14 £ million cash

	1979-80	1980-81	1981-82
Current:			
Goods and services	-93	-172	+1,474
Subsidies and grants	+21	-91	+1,154
Capital			
Goods and services	+117	+119	-550
Grants	+9	+16	-11
Government lending to nationalised industries	-	+106	-92
Net lending to some other public corporations	-	+9	+49
Other net lending and capital transactions	-1	-85	-367
Adjustments			
Nationalised industries net overseas and	-	-	-
market borrowing	-	-81	+564
Special sales of assets	-	-	+144
Contingency reserve	-	-	[-1,600]
General allowance for shortfall	-	-	+700
Planning total	+53	-176	[+1,465]

1) The Government's Expenditure Plans 1981-82 to 1983-84, March 1981.

Table 1.15

CAPITAL EXPENDITURE ON CONSTRUCTION WORK

£ million cash

	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	19[illegible]83
Housing: England							
New dwellings and improvements	1832	1782	1738	1995	1840	1473	2713
Grants and loans to housing associations and improvement grants	537	581	600	709	805	799	
Other environmental services	762	725	856	987	1195	1237	1173
Transport	714	588	598	727	860	853	1058
Education	351	305	273	319	405	327	280
Health and personal social services	344	278	303	369	501	601	646
Scotland(1)	649	628	662	821	876	1012	1081
Wales(1)	286	262	279	342	410	419	484
Northern Ireland	199	212	207	232	245	267	267
Other(2)	419	443	463	668	715	771	890
Total (excluding nationalised industries) ...	6093	5804	5979	7169	7852	7749	8592
Nationalised industries:							
Electricity	170	160	190	200	260	360	390
Gas	170	140	160	210	300	250	330
Railways	130	130	200	150	160	140	150
Coal	70	100	160	220	300	350	340
Other	240	220	230	220	300	410	440
Total nationalised industries(3)	780	750	940	1000	1320	1510	1650
Grand Total	6873	6554	6919	8169	9172	9259	10242

(1) Includes grants and loans to the housing associations and improvement grants.
(2) Includes defence new construction expenditure (which is classified as current expenditure on goods and services); industry, energy, trade and employment; law, order and protective services, and office and general accommodation.
(3) Certain capital expenditure by the British National Oil Corporation which is classified in the national accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry.

1. Table 1.15 gives information about capital expenditure by the public sector on construction work. As decisions have not yet been taken in all cases on allocations within the main programmes, it is not possible to extend this analysis into the later years.

2. With minor exceptions, the figures relate to the construction component of capital expenditure and do not include repair and maintenance work, which now accounts for about 40 per cent of public sector expenditure on construction. The figures consequently understate total public expenditure on construction, but they also include small amounts of expenditure which is not on work done by the construction industry.

3. No allowance is made for any construction component in the unallocated expenditure provided for in the contingency reserve for 1982-83.

4. The figures include the following elements:

(a) direct spending on new construction (including architects' and surveyors' fees);

(b) capital grants and loans to housing associations and improvement grants (line 2 of table 1.15): these go to finance construction work, except that the figures for housing associations also include finance for their expenditure on the acquisition of land and existing dwellings;

(c) the estimated construction component of nationalised industries' investment programmes.

CONFIDENTIAL

Prime Minister (2)

MVS 22/1

Econ Pol

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP
Secretary of State
Department of Health and
Social Security
Alexander Fleming House
Elephant & Castle
London SE1 8BY

22 January 1982

Dear Secretary of State

PUBLIC EXPENDITURE: PRESENTATION OF HEALTH FIGURES IN THE FORTHCOMING WHITE PAPER

Thank you for your letter of 18 January.

neither do I MVS | I am afraid I do not recall an agreement at the Prime Minister's meeting on 19 November such as you describe about the way in which we should present the hospital and community health service figures for the later years in the forthcoming White Paper.

In the 1980 Survey, we were unable to reach a decision about the provision for NHS growth after 1982-83. In last year's White Paper (Cmnd 8175, page 117), therefore, we said that spending in 1983-84 (and by implication in subsequent years) would be "decided in the light of the availability of resources and the scope for improved efficiency, taking into account demographic trends, the Department's priorities, health care needs, and an assessment of the effect of medical advances". In the 1981 Survey, we did just that. Our decision, taking account of all of these factors, was for ½ per cent a year growth in gross expenditure on the hospital and community health services after 1982-83. Our decision was taken after a good deal of discussion and in the full knowledge of its implications and effect on the NHS. It was no different from many other decisions taken in the course of the Survey, when our overall objective for expenditure had to take precedence over our aspiration on individual services.

In these circumstances I do not see that it would be right to single out this particular decision by a qualification in the White Paper of the kind you suggest.

I am sending a copy of this letter to recipients or yours.

Yours sincerely

T. Mattews

for LEON BRITTAN

Approved by the Chief Secretary and signed in his absence

CONFIDENTIAL

RC

CONFIDENTIAL

Prime Minister

MCS 19/1

(2)

Econ Pol

DEPARTMENT OF HEALTH AND SOCIAL SECURITY
ALEXANDER FLEMING HOUSE
ELEPHANT AND CASTLE LONDON SE1 6BY
TELEPHONE 01-407 5522 EXT

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Great George Street
LONDON SW1

January 18 1982

Dear Leon,

PUBLIC EXPENDITURE: PRESENTATION OF HEALTH FIGURES IN THE FORTHCOMING WHITE PAPER

at flag of Pt 17 file

On looking through the record of our meeting with the Prime Minister on 19 November to discuss public expenditure on health and social security, I noticed that no mention was made of the way in which we should present the hospital and community health service figures for 1983-84 and 1984-85 in the forthcoming White Paper.

We have decided to show current expenditure in 1983-84 and 1984-85 at the same level as in 1982-83. The implication is that the NHS may keep any savings which it can make by increased efficiency, which might perhaps amount to ½ per cent a year, but that there will be no further growth to provide the minimum 1 per cent a year needed to maintain standards, or to help continue the shift of resources to deprived services (such as those for the mentally handicapped) and to deprived parts of the country. This could be politically very damaging, and we agreed that the next White Paper should say that the figures will be subject to review in the light of the availability of resources, scope for improved efficiency, and demographic and other needs. The last White Paper contained a statement to this effect for 1983-84. I hope you will confirm our agreement that the next White Paper should reflect this presentation for the years beyond 1982-83.

I am sending a copy of this letter to the Prime Minister, the Chancellor, the Home Secretary and Sir Robert Armstrong.

Yours ever,
Norman

NORMAN FOWLER

CONFIDENTIAL

Action

RESTRICTED

14.1.82

- MAP

COPY NO 2

√ MAP

LEGISLATION COMMITTEE

The attached Bill should be linked to the relevant memorandum which will be circulated as soon as possible.

Cabinet Office

RESTRICTED

RESTRICTED

Regional Development Grants Bill

EXPLANATORY AND FINANCIAL MEMORANDUM

The Bill imposes a limit on the expenditure incurred in respect of any qualifying premises which may be admissible for Regional Development Grant under Part I of the Industry Act 1972. It sets the limit, initially, at £10 million expenditure over a period of 12 months, and permits the limit to be increased. It provides for the first period of 12 months to commence on 1st April 1982, and for subsequent periods to commence at quarterly intervals after that date. For the purposes of the limit, provision is made for differentiating items of expenditure and, in specified circumstances, for aggregation of qualifying premises: provision is also made for determining when expenditure is incurred.

Financial effects of the Bill

The effect of the Bill will be to restrict grant payments towards large projects. Expenditure on Regional Development Grants will be reduced. After allowing for any additional Selective Financial Assistance which might be made available under Part II of the 1972 Act for certain projects, it is estimated that the initial limit of £10 million admissible expenditure will result in a net saving of public expenditure of approximately £10 million in the financial year 1982–83 and approximately £50 million annually from the financial year 1983–84 onwards.

Effect on public service manpower

The Bill will have no significant effect on public service manpower.

DRAFT

OF A

BILL

TO

Impose limits on the approved capital expenditure towards which grants may be made under Part I of the Industry Act 1972.

A.D. 1980.

BE IT ENACTED by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

Limits on approved capital expenditure.

1.—(1) Where, as respects any qualifying premises in a development area, the aggregate amount of approved capital expenditure incurred during any relevant period—

(*a*) in providing a building as part of, or providing works on, those premises; or

(*b*) in providing new machinery or plant for use in those premises,

exceeds the limit mentioned in subsection (3) below, the Secretary of State shall not make a grant under Part I of the Industry Act 1972 ("the 1972 Act") towards so much of that expenditure as exceeds that limit.

1972 c. 63.

(2) Where any such aggregate amount which exceeds that limit comprises two or more different items of expenditure, the power to give directions under section 2(5) of the 1972 Act shall include power to give directions as respects the determination of any question as to the extent to which each of those items is to be regarded as exceeding that limit.

(3) The limit referred to in subsection (1) above is £10 million or such larger amount as the Secretary of State may by order made with the consent of the Treasury prescribe as respects the relevant period in question; and an order under this subsection shall be made by statutory instrument which shall be subject to annulment in pursuance of a resolution of either House of Parliament.

(4) If it appears to the Secretary of State that two or more qualifying premises—

(*a*) are near to each other; and

(*b*) are owned or occupied by the same person, or could be regarded as owned or occupied by the same person by treating (in one or more cases) any owner or occupier as replaced by a person of whom he is an associate,

the Secretary of State may direct that they shall be treated for the purposes of this section as forming part of one and the same qualifying premises.

(5) For the purposes of this section expenditure shall be regarded as incurred—

(*a*) at the time when, in the opinion of the Secretary of State, the asset to which it relates is provided; or

(*b*) if the time when, in the opinion of the Secretary of State, it is defrayed is an earlier time and the applicant for the grant so elects, at that earlier time.

(6) In this section—

" associate " shall be construed in accordance with section 184 of the Consumer Credit Act 1974;

1974 c. 39.

" relevant period " means a period of twelve months ending on 31st March, 30th June, 30th September or 31st December in the year 1983 or in any subsequent year;

and expressions used in this section and in Part I of the 1972 Act have the same meanings in this section as in that Act.

Short title and extent.

2.—(1) This Act may be cited as the Regional Development Grants Act 1982.

(2) This Act does not extend to Northern Ireland.

RESTRICTED

Regional Development Grants

DRAFT

OF A

BILL

To impose limits on the approved capital expenditure towards which grants may be made under Part I of the Industry Act 1972.

XXVIII—C (1)

14*th January*, 1982

From: THE PRIVATE SECRETARY

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

Prime Minister

A.J.C. 5/1.

Terry Matthews Esq
Private Secretary to the
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3HE

5 January 1982

Dear Terry

... The Chief Secretary may be interested to see the draft of a statement which my Secretary of State is intending to make at a Press Conference tomorrow morning. It naturally seeks to highlight the positive elements of his 1982-83 proposals. Mr Prior attaches great importance to this, since even with these positive elements he is likely to face criticism that he is not making an adequate response to the unique difficulties of Northern Ireland and the chronically high levels of unemployment in particular.

As you know, the precise figure for additional agricultural aid has been the subject of separate discussion between the Chief Secretary and my Secretary of State, and Mr Prior has reluctantly agreed that the figure to be announced tomorrow should be £16.3m. The Secretary of State will be responding separately to the Chief Secretary's letter.

I am sending a copy of this letter and enclosure to John Coles (No 10).

Yours sincerely
Julie Hopkins

M W HOPKINS

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CONFIDENTIAL

1982-83 PUBLIC EXPENDITURE ANNOUNCEMENT

1. On 2 December 1981 the Chancellor of the Exchequer announced in the House of Commons that public expenditure in Northern Ireland in 1982-83 would total £3,510m. This allocation takes account of the special needs of Northern Ireland and represents an increase of some £90m over the amount earmarked for 1982-83 in the last Public Expenditure White Paper (Cmnd 8175).

2. In considering how the total made available can be allocated within Northern Ireland to best advantage, I have been greatly assisted by the knowledge which I had already gleaned in my meetings with Political parties, the Northern Ireland Economic Council, the NI Committee of the Irish Congress of Trade Unions, and the CBI, and which has been supplemented by the most useful discussion with a number of local MPs and MEPs on 21 December.

Industrial Support and Development

3. I am quite satisfied that the priority accorded to Trade, Industry, Energy and Employment programmes over the past two years should be maintained. It is essential that we continue the drive for new industries and at the same time provide support, when appropriate, to existing firms with prospects for viability which have run into difficulty. I am determined to do everything possible to ensure that shortage of resources will not be a restraining factor in the job creation effort and I have allocated some £200m for industrial support and development in 1982-83.

Housing

4. Within the Social and Environmental programmes I attach first priority to Housing. I have decided therefore to provide a very substantial increase in resources to finance a major drive to improve housing conditions. The allocation to the Housing Executive will fund the continuing expenditure needs generated by the increased new starts in the current year and enable 4,500 new dwellings to be started in 1982-83. This is a major step towards a larger and more stable housing programme

and will enable the Executive to operate at about the limit of its capacity in 1982-83. The proposed support from the EC forms part of the planned resources, as do increased receipts from house sales generated by the very successful efforts of the Housing Executive to stimulate sales of dwellings and income from rents.

5. Other aspects of the housing programme are also important in the overall attack on housing need. Rehabilitation work on 700-800 units will be started, mainly in Belfast. Modernisation should cover some 2000 existing Housing Executive dwellings and some £30m will be devoted to improvements and repairs in the private sector. In total, on the assumption that the EC assistance will be forthcoming, the resources available for the housing programme will be some £46m higher in 1982-83 than the figure for that year which underlay the Housing programme in last year's White Paper.

Youth Training

6. A factor which is of great concern to all of us is the present high level of unemployment, particularly among young people. I am convinced that we need a fresh approach to preparing young people for working life and I am therefore making provision for a comprehensive Youth Training Programme for young people. The new Programme will be adaptable to the individual aptitudes and needs of the young people participating in it. All 16 year old school leavers who wish to participate will be offered a guarantee of a year of full time training and there will be a range of opportunities for other young people in the 16 to 17 age group. There will continue to be parity of allowances with those available to young people in Great Britain.

7. We aim to introduce the scheme in the Autumn of 1982, a year ahead of the new scheme being developed in GB. The total cost to public funds in 1982-83 of arrangements for training of young people, including the new scheme, will be some £42m. I very much hope that the advantage of administrative scale enjoyed here in NI will be used to maximum advantage to bring our scheme into effect on target.

Agriculture

8. We have just completed a major review of the Agriculture industry in Northern Ireland. As a result, an additional £16·3 m is being made available over and above the planned total underlying Cmnd 8175. The details of how these resources can best be used will be resolved quickly after consultation with the farming community and cleared with the EC Authorities.

Electricity

9. A further objective of this Public Expenditure Survey has been to provide the resources to enable me to maintain the policy on electricity tariffs announced by my predecessor on 8 May. Support for the NIES has been set at a level which will enable electricity tariffs in NI to be kept at the level of the highest Area Boards in England and Wales despite the much higher generating costs here in NI. In all, some £70m has been earmarked for this purpose in 1982-83. This represents considerable help for both the industrial and domestic consumer and the policy now adopted provides much greater stability for the future than has existed hitherto.

Social programmes

10. Despite the emphasis on economic, industrial and agricultural programmes and the special effort on Housing, considerable programmes will continue to be mounted on the social front. Spending on Health and Personal Social Services will be increased by £12m over the provision made in last year's White Paper, which will permit an increase of 1.5% in the current expenditure of Health and Social Services Boards and a capital programme which will enable starts to be made on some new hospital and community schemes. There will be an increase of £18m in the Education provision, which will allow for continued priority to be given to the teaching force and provide for the Department of Education's input to the Youth Training Programme. However, in both the Health and the Education sectors, as, indeed, in all parts of the public domain, prudent and economic management of resources will continue to be vitally necessary.

Belfast and Londonderry

11. I have also paid particular attention to the Cities of Belfast and Londonderry. For Belfast, £5m has been earmarked for social and environmental programmes to aid particularly the very young and the very old. This will be in addition to the priority accorded to Belfast in other programmes, particularly housing. For Londonderry, I have decided that the Richmond project should proceed and expenditure of some £3m is expected in 1982-83. This represents a further significant commitment by Government to the development of the City.

Law, Order and Protective Services

12. In addition to the plans outlined above for the social, economic and environmental sectors, I am also allocating increased resources of some £12m to the Law, Order and Protective Services programme to meet, among other things, additional police costs and the maintenance of the Security Staff Grants Scheme.

Conclusion

13. In summary, the allocations to particular programmes have been based on our assessment of the most up to date needs and circumstances of NI and our conclusions about priorities. Of course we could think of more and valuable things to do if we had the strength in the national economy to be able to afford them but no Government will ever be able to say 'yes' to every proposal put to it. What I have announced today does, I believe, represent a major response by Government to the particular problems of Northern Ireland. In terms of effects on employment alone, it is estimated that these increases in planned expenditure will provide more than 9000 additional jobs, as compared with the expenditure plans for 1982-83 announced in last year's White Paper.

Econ Pol

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be Duguid

PERSONAL AND CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 21 December 1981

Regional Development Grants

The Prime Minister was grateful for your Secretary of State's minute of 14 December about savings on the RDG scheme.

The Prime Minister has commented that it may be that we cannot save £50 million by the method agreed in the discussions leading up to the Chancellor's measures of 2 December. The Prime Minister has expressed the hope that your Secretary of State would discuss this with the Chief Secretary Treasury; and she has recorded her agreement ~~to~~ with your Secretary of State's preference to announce that grants over the £10 million ceiling would be discretionary (so as to avoid having to pay grants on future projects such as Sullom Voe and Flotta and a few other very capital-intensive projects which would have taken place anyway).

M. C. SCHOLAR

Ian Ellison, Esq.,
Department of Industry.

PERSONAL AND CONFIDENTIAL

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CONFIDENTIAL

cc AD
AW
JV

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Secretary of State for Industry

(2)

18 December 1981

The Rt Hon Nigel Lawson MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
London SW1

Prime Minister

You will recall that this arose in the public expenditure discussions at the end of November.

MCS 22/12

Dear Nigel,

ASSISTANCE TO INDUSTRIAL ELECTRICITY USERS

I have seen a copy of the progress report on the discount scheme circulated by your Private Secretary on 30 November.

2 I hope you will be considering how, in the light of the Law Officers opinion, you can respond positively to the findings of the NEDC Task Force report which demonstrated once again that heavy users of electricity operate at a significant and persisting disadvantage vis-a-vis their major Continental competitors. When these findings were discussed at last month's NEDC meeting you left behind the impression that something might be done soon about electricity prices. Now that we have decided not to provide early relief to industry on the National Insurance Surcharge, I think that it will be particularly important that you provide something substantial in this area in which industry's sense of grievance is justifiably strong. Moreover, timing is important. If after all the consideration which has been given action is not forthcoming soon, companies will base their investment decisions on the assumption that nothing is going to be done at all.

3 I note that the Prime Minister's immediate inclination is not to go ahead with the scheme, on financial grounds. I would venture the observation here that the measure would be a visible and relatively inexpensive way of helping industry; the exchequer costs of the scheme would be partially offset by redundancy costs which would be averted by the scheme, as the discussion in MISC 56 observed. The principle that there should be such a scheme has, I think, been accepted by MISC 56.

CONFIDENTIAL

4 If we cannot surmount the legal difficulties of a discount scheme or countenance its cost, it will be all the more important that the long-promised review of the Bulk Supply Tariff yields something substantial for the high load factor users. I am concerned that the electricity supply industry should adopt a more flexible and commercial approach to pricing, which recognises the need to sustain the industry's major customers. The most frequent complaint that I receive is that, whereas private sector industries have held prices down in an effort to retain business in the recession, nationalised industries have raised their prices in real terms. It was to compensate for this lack of commercial flexibility that the discount scheme was originally proposed. I therefore hope that you will try again to persuade the electricity industry to adopt a more sympathetic pricing policy towards its major customers, both in searching for flexibility within their statutory duties and in action on the Bulk Supply Tariff.

5 I am copying this to the Prime Minister, to members of MISC 56 and to Sir Robert Armstrong.

Yours ever

Patrick

21 DEC 1981

Econ Pol
Public Exp Pt 18

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THE INSTITUTE FOR
FISCAL STUDIES

THE TAXATION OF NORTH SEA OIL

REPORT OF A COMMITTEE
OF THE INSTITUTE

December 1981

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Chairman, The Orion Insurance Company
and former Permanent Secretary, Departments of Trade & Industry

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CONTENTS

INSTITUTE FOR FISCAL STUDIES

COMMITTEE ON THE TAXATION OF NORTH SEA OIL

REPORT

INTRODUCTION

The 1981 Finance Act made major changes in the Petroleum Revenue Tax provisions and introduced a new tax, Supplementary Petroleum Duty, made temporary until 30 June 1982. The Chancellor invited proposals for the long-term structure of the fiscal regime for North Sea oil with a view to permanent legislation in the 1982 Finance Bill.

2. In response to the Chancellor's invitation the Institute for Fiscal Studies set up this Committee in October 1981 with the following terms of reference: "To consider the pattern of UKCS oil taxation, with a view to recommending a structure which (a) achieves an appropriate balance between the collection of revenue for the State and the requirements of exploration, development and extraction and (b) reconciles this objective with the need for simplicity and stability".

3. The severe time-constraint imposed on the Committee precluded the taking of formal evidence, but the members have considerable relevant experience and many informal contacts in Government and industry. The Committee is strictly independent of any sectional interest.

4. The structure of licence fees, royalties, PRT, SPD, corporation tax and a gamut of allowances and provisions, is complicated. The combined impact on individual fields or companies differs widely and is not systematic. The problem has been made worse by too many changes (for example, seven in the last eighteen months). Moreover, the preoccupation of both the Exchequer and the oil companies with front-end loading - of tax revenues on the one hand and reliefs on the other - has not been conducive to the optimal exploitation of UKCS resources.

5. We have studied the representations already submitted to the Government by the associations of large and small oil operating companies (UKOOA and BRINDE They agree on one fundamental change - the abolition of SPD; but otherwise they limit their suggestions to marginal improvements to the existing regime: for example, the removal of tax disincentives to further exploration, to the

.. Continued on Page 2 ..

5. Continued .....

development of marginal fields and to action to prolong the life of fields in their later stages of production.

6. We have tried to stand back, to view the situation objectively and to see if we could propose a new tax structure that could, if desired, produce about the same amount of tax as the present regime, but would be much simpler and more stable, would better serve both public and private interests, would be cheaper to administer and could be introduced without involving elaborate new legislation and complex transitional arrangements.

7. In arriving at our recommendations we have been helped greatly by preliminary work done by one of our members, Mr Christopher Rowland, a Research Fellow in the Department of Economics at the University of Surrey. As ideas have developed, use has been made of the computer resources of that University, which were already suitably programmed, and we confidently believe that their model has provided tax estimates that are reliable and give a reasonable indication of the effects of the proposed changes.

8. In this report the expression "North Sea Oil" is used as a convenient piece of shorthand. Our recommendations are designed to cover the exploitation of all oil and gas from the whole of the UK Continental Shelf (offshore and onsho

NORTH SEA OIL - A UNIQUE NATIONAL RESOURCE

9. In 1980 North Sea Oil production accounted for nearly 3 per cent of UK Gross National Product. Sales of oil are estimated to have been £8.9 billion. Table 1 gives an estimate, as at 31 December 1980, of total recoverable reserves originally in place on the UKCS.

Table 1

		(million tonnes)
1	Cumulative production to the end of 1980	263
2	Remaining reserves in present discoveries	1125-2300
3	Reserves in future discoveries	775-1775
4	Total reserves originally in place on the UKCS (rounded)	2175-4350

Source: Dept of Energy - Devebpment of the oil and gas resources of the United Kingdom 1981.

.. Continued on Page 3 ..

10. The divergent total figures reflect uncertainty over both the technical and the economic feasibility of production. The optimum exploitation of the UKCS resources depends very much on the incentives and disincentives created by the tax system. The treatment of future exploration, development of marginal and satellite fields and the exploitation of existing fields in their later stages of production are therefore of crucial importance. Depletion policy has always been a political issue and is, therefore, in principle beyond the scope of this report.

11. The extraction of oil from the North Sea involves risks imposed by both the hostile physical environment and the difficulty of the production process itself. These are greater than those that are characteristic in other industries There should accordingly be a possibility of higher post-tax rates of return than are usual elsewhere.

12. Moreover, the economic conditions are subject to violent change. So, if windfall profits (arising for example from a rise in the oil price) are to be taxed, the marginal rate should be significantly less than 100% both to offset the risk of windfall losses and to allow production to respond to changing price conditions.

13. Leaving aside licence fees and auction payments, which are not significant in the context of taxation, the current fiscal regime comprises the following main features:-

(a) Royalty: 12½ per cent of production.

(b) Supplementary Petroleum Duty (SPD) charged at 20% on the value of oil produced, less an allowance equal to the value of the first 500,000 tonnes of production per field per 6-month period.

(c) Petroleum Revenue Tax (PRT): 70 per cent of the profit remaining after deducting (a) and (b) above, and all other relevant costs. In addition to normal expenditure relief, there are three main further PRT reliefs:

 (i) Uplift: Items of a broadly capital nature attract 35 per cent "uplift" in lieu of interest relief, but only if the expenditure is incurred before the participator breaks even in the field concerned.

.. Continued on Page 4 ..

(ii) Oil allowance: The effect of this is to exempt the first 250,000 tonnes of production per 6-month period per field (but with a cumulative limit of 5 million tonnes).

(iii) Safeguard: This exempts a field from PRT in any period where the return on capital (measured by reference to upliftable expenditure) is less than 30 per cent per annum. Above this level PRT tapers, so that it cannot exceed 80 per cent of excess of profits over the 30 per cent return on capital. However safeguard is now available only for a period which is half as long again as it takes a participator to break even in the field.

(e) 52 per cent corporation tax. Normal CT deductions (including deductions for (a), (b) and (c) above) but the "ring-fence" rules prevent North Sea profits being eroded by losses elsewhere.

14. Table 2 shows the revenue from the various taxes attributable to UKCS oil and gas. (The revenues from gas are a small percentage of the total).

Table 2

Financial Year	Royalties	SPD	PRT	Corporation Tax [1]	£m Total
1976/77	71	-	-	10	81
77/78	228	-	-	10	238
78/79	289	-	183	90	562
79/80	628	-	1435	266	2329
(80/81)	940	-	2420	480	3840
(81/82)	1200	1850	2210	620	5880

1 The Corporation Tax shown is the estimated proportion of the tax payable in the year attributed to UKCS oil and gas but before setting off any Advance Corporation Tax (ACT). It is estimated that in 1978/79 £40 m. of Corporation Tax was satisfied by setting off ACT; the corresponding amounts in 1979/80 and 1980/81 were £100 m. and £240 m. respectively.

Source: Dept of Energy - Development of oil and gas resources of the UK 1981 (1981/82 estimate - Table 2, Treasury Budget Press Release, 10 March 1981).

.. Continued on Page 5 ..

PRIMARY CHARACTERISTICS OF A NEW TAX SYSTEM

15. In our view any new tax system for the UKCS should have the following primary characteristics:-

(a) Profit-based

The new regime should be progressively related to profits. SPD in particular clearly violates this. Opinion throughout the oil industry is virtually unanimous in favour of its abolition, and the Chancellor's decision to make it temporary in the first place suggests that he is not necessarily wedded to it as a permanent feature.

(b) Simplicity

The structure should be simple - the present structure consists of too many taxes and is much too complicated. Though the introduction of Uplift, Oil Allowance and Safeguard was understandable given the inflexibility of the existing regime, the impact of these fixed allowances is, not surprisingly, arbitrary between different fields. They should all be abolished.

(c) Flexibility

A new system should be flexible automatically in response to unforeseen changes. Any adjustments that have to be made should be through modest changes in tax rates, not through the nature or level of allowances, nor through fundamental changes in the tax structure.

(d) Stability

The inadequacy of the present regime has necessitated sudden recourse to ad hoc changes and has therefore impaired investment planning decisions. The new system should constitute a permanent stable tax structure.

(e) Cash-flow

The system should facilitate revenue collection without delays or loopholes, at the rates which are apparently in force,

.. Continued on Page 6 ..

(f) Fairness

Tax rates should be subject only to the principle of progressivity with rising rates of return. So far as is practicable the system should be neutral as between multi-field companies, single field companies, and new entrants. Fields with different characteristics yet similar rates of return should attract the same effective tax rate.

(g) Incentives

No detailed incentives should be required. The tax structure should not however be a disincentive: for example it should not discourage exploration or cause premature abandonment of fields in later life. Some of the incentives in the present system may result in wasteful capital expenditure. These should be eliminated.

16. A new system meeting these criteria should improve both prospective company profits and tax revenues by removing the artificial restraints of the present fiscal regime and encouraging the most efficient and economical exploitation of North Sea Oil.

A PETROLEUM PROFITS TAX

17. We propose a single Petroleum Profits Tax (PPT), which would replace Royalties, Supplementary Petroleum Duty, Petroleum Revenue Tax and Corporation Tax.

18. The new tax would be levied on a field-by-field basis, and there would be a "ring-fence" around each field. Because of this and because no payment of Corporation Tax is envisaged, the system is to an important degree neutral as between companies operating only in the North Sea and those with wider interests and between companies with only one field and those with several fields.

19. PPT would be levied in three tiers, each related to successively higher rates of return on investment. A simple calculation for each tier would establish the point at which the cumulative net investment in the field, compounded by the designated rate of return, was reduced to zero. Beyond that point tax would be due at the applicable rate for the tier. The taxes payable under each tier would then be added together.

.. Continued on Page 7 ..

20. The tax would thus be progressive. Low profitability fields would attract a low rate of tax because they would not pass the higher tier trigger points, while those which had a high rate of return would bear a higher average tax rate. The maximum tax charge as a percentage of income would equal the sum of the rates applicable to the three tiers.

21. This tax structure would also satisfy oil company requests for front end loading of allowances and encourage development of marginal fields (no levy of any kind being due until the minimum rate of return has been passed).

22. Under this approach, net investment would not be reduced if capital expenditure was funded by borrowings, and no deduction would be allowed for interest payable on such borrowings. The system would therefore be neutral as regards the financing methodsemployed by different companies.

23. A quantified illustration of the way in which PPT would be applied to a hypothetical field we have called "Bagpipe" is given in Appendix A, which also includes more detailed notes explaining the successive steps in the tax computation.

24. The three rates of return to be used should be determined by Government. We suggest that the basic (first tier) rate for this purpose should be related to the opportunity cost to the oil companies of investing in the North Sea and should be derived from a rolling five-year average of short-term interest rates: at present this would be an annual rate of 12% (rounded up from 11.82%). To this would be added 3%, representing the recent real rate of return of UK non-oil industry, making a total of 15%.

Trigger points and tax rates

25. Our suggestions about trigger points (rates of return) and tax rates have been based on a study of the impact of the existing system and on computer runs to test our own proposed approach under various hypotheses.

.. Continued on Page 8 ..

26. We suggest that there should be three Bands, each with a trigger point related to a particular minimum real rate of return:-

Band A:	trigger point	-	15%	rate of return
Band B:	" "	-	25%	" " "
Band C:	" "	-	35%	" " "

27. As for the choice of tax rates, the balance in Band A should probably be held between a wish to encourage companies to develop marginally profitable fields and to prolong the life of fields in their later, less profitable stages and the desirability of ensuring that such moderately profitable operations in the North Sea are not given an excessive advantage over more normal industrial operations.

28. Secondly, an important proportion of the tax revenue is now coming from the most profitable fields. So the top tax rate accumulated over all three bands should continue to be set high. Subject to what is said in para. 32 we have put it at 85%.

29. Appendix B shows the total estimated tax revenue from two different combinations of rates compared with the estimated take under the existing system with and without Corporation Tax. For the reasons explained below the figures for PPT are based on chargeable periods of six months rather than one year. They also relate to calendar years (for which the University of Surrey computers are programmed) rather than financial years.

30. The Chancellor has said that the revenue from any new system should be broadly similar to the prospective revenue under the existing system. Our computer studies suggest that if this is to be achieved:-

(a) the tax rates for Bands A and B combined should total 75%

and (b) the top tax rate (ie, Bands A + B + C) should total 85%.

31. Within these parameters, there are two main alternative patterns of tax rate:-

Band A (trigger point 15% rate of return): tax rate 50%
Band B (trigger point 25% rate of return): tax rate 25%
Band C (trigger point 35% rate of return): tax rate 10%
and
Band A (trigger point 15% rate of return): tax rate 30%
Band B (trigger point 25% rate of return): tax rate 45%
Band C (trigger point 35% rate of return): tax rate 10%

.. Continued on Page 9 ..

31. Continued .....

Both alternatives are estimated to produce almost exactly the same aggregate tax revenue, year by year. The advantage of the former is that the initial rate of tax - 50% approximates to the nominal rate of Corporation Tax for non-oil operations. The advantage of the second is that it may be the more useful of the two in encouraging exploration and the prolongation of the life of existing fields.

32. The oil companies have suggested in their representations to the Government that if the Inland Revenue take as much tax as they will do under the present system, the companies will not be able to retain nearly enough profits to enable them to continue to exploit North Sea Oil for as long as is desirable. The extent to which the companies should expect to rely solely on retained profits for this purpose is debatable. But should the Government wish to take some account of these representations, our proposals can readily be adapted to the extent required by changing the pattern of tax rates.

33. It will be seen that our structure can remain stable while absorbing any unexpected changes in circumstances such as a big increase (or decrease) in the price of oil. We suggest that the bands should be regarded as fixed and that if changes in revenue are thought to be needed any alterations should be made in the tax rates. So far as we can foresee, any such alterations should turn out to be much less dramatic than some of those that have occurred under the existing regime.

Abortive exploration expenditure

34. Under the present system abortive exploration expenditure is allowable against tax. Although our proposed tax threshold has been set at a level that ought to encourage exploration, we think that it would be unduly harsh to deprive companies of this specific incentive altogether.

35. A company should be allowed to allocate abortive exploration expenditure to any field of its choice. This should however be done in the chargeable period in which the expenditure is declared abortive (at the company's option). This arrangement is necessary because under our proposals

.. Continued on Page 10 ..

35. Continued .....

all taxation of North Sea Oil will be on a field-by-field basis, and there will be no "ring-fence" related to the North Sea as a whole.

The timing of tax payments

36. Because the sums of money involved are so big and because a single payment in each financial year would be inconvenient both for the Government and for the companies, the present system includes some payment of tax in each quarter. This should continue. As mentioned in para. 29 we recommend that the chargeable period for PPT should be six months and that in each such period there should be an advance payment. The present rules for advance payment of PRT can be applied to PPT.

Application to existing fields

37. Our recommendations apply to existing as well as to new fields. In order to establish the PPT tax base for an existing field it will be necessary to go back to the beginning of that field's history and to extract the information needed to apply our recommended technique (including the compounding forward of losses) year by year until the tax base for the first year of the new system is established.* This may lead to pleasure in some Boardrooms and to disappointment in others. But we do not think that the technical problems in establishing the tax base for the first year of the new system should be significant or that there should be room for much disagreement between the Inland Revenue and the companies over the matter.

Dispensing with existing taxes

38. If, as we hope, our recommendations are found acceptable, little difficulty will probably be felt about the abolition of SPD and PRT.

39. Royalties may be seen by some as a contractual commitment arising from a licence rather than as a tax. But they are an impost all the same and so far as companies are concerned have the same impact as a tax paid early in the life of a field. As will be seen from the figures in table 3 this element of front-end loading in favour of the Government is not necessary in order to produce the same tax take from PPT as from the present conglomerate structure. There is a further

*Royalties and SPD, not being related to profits, will need to be treated for the purposes of the computation as though they had been tax payments.

.. Continued on Page 11 ..

39. Continued .....

point. Since royalties are not related to profit the Government have said that they will waive them on marginal fields. We would prefer to encourage the development of marginal fields by abolishing royalties rather than by allowing an administrative discretion as to what fields should or should not pay them. Finally, the Government's right to take royalties in kind is no longer necessary now that they have access to North Sea oil through participation arrangements.

40. Corporation tax is a different matter. We have discussed it at length, and not only to solve the problems posed by the existence of ACT. On the one hand Corporation tax is a tax of relatively long standing that applies to companies generally, and it may be argued that not to continue to apply it to North Sea oil operations makes them more of a special case than is necessary. Moreover some companies find it convenient to be able to charge losses on North Sea oil operations against the profits from operations elsewhere. This, however, gives companies with wider interests an advantage over those whose business is limited to the North Sea. On the other hand, we note the Department of Energy's estimate that out of a tax take of some £3840 m. in 1980/81 Corporation Tax will account for only £480 m. and that half of this will be attributable to ACT, which we propose in para. 43 below to cover by another means.

41. Finally, the field-by-field and Corporation Tax ring-fence basis already established for North Sea Oil taxation in any case makes it unique from a UK tax point of view, and we are also attracted by the contribution that the non-application of mainstream Corporation Tax makes to the simplicity of our proposals

42. We have therefore concluded that Corporation Tax should not apply to trading profits from North Sea oil operations. Taxation on capital gains from the disposal of assets in the North Sea should however be retained.

43. As regards ACT, our detailed reasoning is set out in Appendix C. We recommend the introduction of Advance PPT on the basis there described, which amounts in effect to giving it the same status as ACT. This is of course quite separate from the advance payments of PPT referred to in para. 36.

Application to North Sea Gas

44. PPT should apply to gas as to oil. It may be argued that Southern Basin gas sold under pre-June 1975 contracts should be exempt from PPT, as it is from PRT. But this gas is now subject to royalties and Corporation Tax. If the low price in the pre-1975 contracts has depressed the rate of return, this will be reflected in a low or nil rate of PPT.

Total revenue from PPT

45. Appendix B shows the total revenue that we estimate would accrue from PPT (under varying hypotheses relating to tax bands and tax rates) compared with the expected take under the existing system. The parameters of the

.. Continued on Page 12 ..

45. Continued .....

existing system that are programmed into Surrey University computers are not precisely the same as those that underlie estimates from other sources and the figures relate to calendar rather than financial years. But the difference is relatively small. Under any appraisal of the existing system it is of course hard to tell how much Corporation Tax will be paid and when. The figures of total revenue shown in brackets in the third column are artificially high, if only because they do not allow for capital expenditure on fields yet to be developed.

46. It will be seen that by adopting our recommended approach and testing a number of hypotheses on computers a regime can be constructed that fulfils the Chancellor's requirement that any new structure should produce an amount of revenue broadly similar to that under the existing system. As we have said in para. 32, a lower tax take to conform to the wishes of the oil companies could also be constructed by adjusting the tax rates appropriately.

TRANSITIONAL ARRANGEMENTS AND LEGISLATION

47. We appreciate that whatever the attractions of our proposals, particularly in terms of simplicity and potential stability, so radical a change may seem at first sight a tall order. But we think that this reaction would be mistaken. Indeed, in view of the complexity and inadequacy of the present system, we believe that the onus of proof lies on those who wish to maintain it.

48. We have explained why we think that, so far as the financial and taxation arrangements of the Government and the companies are concerned, the changes should, in fact, be reasonably straightforward. We believe that by putting the tax structure on to a more predictable basis more closely related to commercial realities, the income of both parties would increase more than it would otherwise have done.

49. As regards legislation, there are two considerations. The first is that any legislative provision should be so framed as to emphasise that the tax is profit-based and has a great deal in common with another tax that is already accepted (or likely to be accepted) abroad - and particularly in the US - as creditable against the taxes levied in the country concerned. The second is that no elaborate new legislation should be required in order to introduce PPT.

50. With this in mind we suggest that the legal provision for PPT should be related to the existing law governing PRT. The analysis at Appendix D suggests that the legislation concerned could be adapted without any great difficulty.

.. Continued on Page 13 ..

TIMING

51. We appreciate that time is short. But if our proposals prove acceptable, their simplicity should make it practicable for the Chancellor to announce them in his Budget in the spring of 1982 and for the new system of taxation to take effect as from 1 January 1983.

SUMMARY OF RECOMMENDATIONS

52. In his 1982 Budget the Chancellor of the Exchequer should announce his intention to introduce legislation to replace the existing tax regime for North Sea Oil operations by a system designed to introduce much greater simplicity and stability.

53. This new system should become operative on 1 January 1983 and should apply to tax payable from that year onwards.

54. The existing regime of Royalties, Supplementary Petroleum Duty and Petroleum Revenue Tax would be abolished and Corporation Tax would no longer apply to North Sea Oil operations. Oil allowances, Uplift of capital expenditure and Safeguards should also be dispensed with.

55. The new tax structure should be related to profits and should have as its centre-piece a Petroleum Profits Tax (PPT). This should be levied on a field-by-field basis. It should apply to all fields, present and future.

56. The tax threshold for PPT should be related to rates of return on investment. It should be established on the basis described in para. 24.

57. When tax becomes payable, it should be progressive as the rate of return rises. Three tax bands should be established: one for a rate of return of 15% or over, one for a rate of return of 25% or over and one for a rate of return of 35% and above. The taxes based on these three bands should be cumulative.

58. For each band we have suggested in para. 31 alternative tax rates designed to illustrate the way in which our proposed system can be adapted to the particular objective desired. The lowest tax rate should be designed, among other things, to encourage companies to exploit marginal fields and to prolong the life of fields in the later years of their life.

.. Continued on Page 14 ..

59. The tax rates have been set to produce an aggregate tax take broadly similar to that under the present system. Should the Chancellor wish to respond to the pressure from the operators for higher retained profits in the interest of continuing investment in the North Sea the suggested tax rates can readily be modified.

60. If, as time goes on, any variation in the tax take seems appropriate, for example in a macro-economic interest, the adjustment should be made to the tax rates rather than to the tax bands.

61. In relation to North Sea Oil operations a new Advance Petroleum Profits Tax should be substituted for Advance Corporation Tax and should perform much the same function, as described in para. 43 and Appendix C.

62. The chargeable tax period for PPT should be six months, and provision should be made for advance payment, so that, as at present, some tax becomes payable once a quarter.

63. The legislation providing for PPT should be based substantially on the existing provision for PRT. See paras. 49-50 and Appendix D.

Signed ....

(for the Committee) Antony Part

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....

....

London

15 December 1981

APPENDIX A (1)
BAGPIPE FIELD

Basic Assumptions:

Reserves: Original Estimate - 210 mmb recoverable. With enhanced recovery/extensions - 250 mmb.

Capital Costs: Initial Development - £1,275 mm (about £6 barrel or £11,500 per peak daily barrel).
Enhanced Recovery - £900 mm (to recover additional 40 mmb) - £22.5/barrel.

Operating Costs: Approx. £1.50/barrel partially volume variable, escalating at around 10% pa: higher with enhanced recovery scheme.

Oil Prices: £20/barrel escalating at £1/barrel per half year (about 10% pa initially, declining).

Field Life Calculations

Semi Annual Period	Production mmb	Oil Price £/b	Proceeds £mm	Capex £mm	Op. Costs £mm	Gross Cash Flow £mm	Tax (From Summary) - £mm	Net Cash Flow £mm
1	-	-	-	75	-	(75)	-	(75)
2	-	-	-	75	-	(75)	-	(75)
3	-	-	-	150	-	(150)	-	(150)
4	-	-	-	150	-	(150)	-	(150)
5	-	-	-	375	-	(375)	-	(375)
6	5	20	100	225	8	(133)	-	(133)
7	10	21	210	150	14	46	-	46
8	15	22	330	75	22	233	-	233
9	20	23	460	-	28	432	-	432
10	20	24	480	-	29	451	-	451
11	20	25	500	-	30	470	109	361
12	19	26	494	-	31	463	276	187
13	17	27	459	-	31	428	321	107
14	16	28	448	-	32	416	317	99
15	14	29	406	-	32	374	318	56
16	13	30	390	-	33	357	304	53
17	12	31	372	-	34	338	288	50
18	10	32	320	600	34	(314)	-	(314)
19	13	33	429	225	39	165	-	165
20	12	34	408	75	40	293	79	214
21	10	35	350	-	40	310	264	46
22	9	36	324	-	40	284	241	43
23	7	37	259	-	39	220	187	33
24	5	38	190	-	38	152	129	23
25	3	39	117	-	37	80	68	12
	250		7046	2175	631	4240	2401	1339

Pre-tax Internal Rate of Return: 41%. Post Tax I.R.R. 26%. N.P.V. @ 15% p.a. discount rate £316 mm (£1¼ per barrel). Maximum net investment £958m at end period 6. Payback during period 10.

Enhanced recovery project post tax IRR - 23%.

APPENDIX A (ii)

BAGPIPE FIELD - PETROLEUM PROFITS TAX COMPUTATIONS

Tier 1: Minimum rate of return before tax is levied - 15% pa (7½% per semi annual-period). Tax rate 50%.
Tier 2: Minimum rate of return before tier 2 tax is levied - 25% pa (12½% per semi-annual period).
Tax rate 25%.

		Tier 1 Computation				Tier 2 Computation			
Semi Annual Period	Gross Cash Flow £mm	Deficit b/f + 7½%	Deficit c/f	Taxable Profit	P.P.T. @ 50%	Deficit b/f + 12½%	Deficit c/f	Taxable Profit	P.P.T. @ 25%
1	(75)	-	(75)	-	-	-	(75)	-	-
2	(75)	(81)	(156)	-	-	(84)	(159)	-	-
3	(150)	(168)	(318)	-	-	(179)	(329)	-	-
4	(150)	(342)	(492)	-	-	(370)	(520)	-	-
5	(375)	(529)	(904)	-	-	(585)	(960)	-	-
6	(133)	(972)	(1105)	-	-	(1080)	(1213)	-	-
7	46	(1188)	(1142)	-	-	(1365)	(1319)	-	-
8	233	(1228)	(995)	-	-	(1484)	(1251)	-	-
9	432	(1070)	(638)	-	-	(1407)	(975)	-	-
10	451	(686)	(235)	-	-	(1097)	(646)	-	-
11	470	(253)	-	217	109	(727)	(257)	-	-
12	463	-	-	463	232	(289)	-	174	44
13	428	-	-	428	214	-	-	428	107
14	416	-	-	416	208	-	-	416	104
15	374	-	-	374	187	-	-	374	94
16	357	-	-	357	179	-	-	357	89
17	338	-	-	338	169	-	-	338	85
18	(314)	-	(314)	-	-	-	(314)	-	-
19	165	(338)	(173)	-	-	(353)	(188)	-	-
20	293	(186)	-	107	54	(212)	-	81	20
21	310	-	-	310	155	-	-	310	78
22	284	-	-	284	142	-	-	284	71
23	220	-	-	220	110	-	-	220	55
24	152	-	-	152	76	-	-	152	38
25	80	-	-	80	40	-	-	80	20

APPENDIX A (iii)

BAGPIPE FIELD - PETROLEUM PROFITS TAX COMPUTATIONS (cont)

Tier 3: Minimum rate of return before tax is levied - 35% (17½% per semi annual period). Tax rate - 10%.

		Tier 3 Computation				P.P.T. Summary				
Semi Annual Period	Gross Cash Flow £mm	Deficit b/f + 17½%	Deficit c/f	Taxable Profit	P.P.T. @ 10%	Tier 1	Tier 2	Tier 3	Total £mm	P.P.T. % of GCF
1	(75)	-	(75)	-	-	-	-	-	-	n.a.
2	(75)	(88)	(163)	-	-	-	-	-	-	n.a.
3	(150)	(192)	(342)	-	-	-	-	-	-	n.a.
4	(150)	(402)	(552)	-	-	-	-	-	-	n.a.
5	(375)	(649)	(1024)	-	-	-	-	-	-	n.a.
6	(133)	(1203)	(1336)	-	-	-	-	-	-	n.a.
7	46	(1570)	(1524)	-	-	-	-	-	-	0
8	233	(1791)	(1558)	-	-	-	-	-	-	0
9	432	(1831)	(1399)	-	-	-	-	-	-	0
10	451	(1644)	(1193)	-	-	-	-	-	-	0
11	470	(1402)	(932)	-	-	109	-	-	109	23
12	463	(1095)	(632)	-	-	232	44	-	276	60
13	428	(743)	(315)	-	-	214	107	-	321	75
14	416	(370)	-	46	5	208	104	5	317	76
15	374	-	-	374	37	187	94	37	318	85
16	357	-	-	357	36	179	89	36	304	85
17	338	-	-	338	34	169	85	34	288	85
18	(314)	-	(314)	-	-	-	-	-	-	n.a.
19	165	(369)	(204)	-	-	-	-	-	-	0
20	293	(240)	-	53	5	54	20	5	79	27
21	310	-	-	310	31	155	78	31	264	85
22	284	-	-	284	28	142	71	28	241	85
23	220	-	-	220	22	110	55	22	187	85
24	152	-	-	152	15	76	38	15	129	85
25	80	-	-	80	8	40	20	8	68	85

APPENDIX A (iv)

Method for computation of Petroleum Profits Tax

1. Establish the gross cash flow or deficit for the semi-annual period - proceeds from sale of oil less allowable capital and operating expenditures. This will be the same for each tier.

2. For each of the three rate-of-return tiers -

   (a) Where there is a deficit to bring forward from the previous period, this is escalated by the rate applicable to the tier and added to the deficit or deducted from the gross cash flow for the current period.

   (b) Where the result of (a) remains a deficit, this will be carried forward (escalated) to the subsequent period.

   (c) Where the result of (a) is positive, this becomes the taxable profit for the tier.

3. Abortive exploration (not shown in the "Bagpipe" field illustration) is deducted from the taxable profits of all three tiers (if applicable) in the period during which it is recognised. In periods 15-17 and 21-25, therefore, it could be relieved to the extent of 85%.

4. Taxable profit, after deducting any abortive exploration, is subject to tax at the rate applicable to the tier.

5. The taxes due under each tier are summed to arrive at the full tax charge for the period.

6. APPT (advanced petroleum profits tax), if available, could be used to offset the total PPT charge only to the extent of 30% of the tier 1 taxable profit (after deducting abortive exploration if any). For this purpose, two semi-annual periods are aggregated (see Appendix C).

7. For the sake of simplicity we have in the illustration equated 15%, 25% and 35% per annum with 7½%, 12½% and 17½% per half year respectively. This is obviously not exact.

APPENDIX C

Advance PPT

(a) It is a fundamental feature of the Corporation Tax system that when a company pays a dividend or makes any other qualifying distribution it must pay Advance Corporation Tax. This feature must clearly be retained, and a way has therefore to be found of reconciling this with our recommendation that profits from North Sea operations should no longer be liable to Corporation Tax.

(b) There are basically two types of situation:

(i) A North Sea company which pays a dividend to a UK resident parent; and

(ii) A company which has no parent or which has an overseas parent.

In the case of (i) the dividend can be paid without ACT, and there is no problem at that stage.

In the case of (ii) there will have to be machinery for the payment of Advance Tax. If in the second case the company has no income or profits other than North Sea oil trading income, logic suggests that the tax payment should be Advance PPT (APPT). There would then be a right of set-off of APPT against PPT. If in the second case the company pays the dividend partly out of North Sea profits and partly out of profits chargeable to Corporation Tax, there would have to be a pro rating for the purpose of set-off against PPT and Corporation Tax respectively. The Advance Tax could either be similarly pro rated between APPT and ACT or could be wholly designated as ACT. In the latter event an appropriate part of the ACT would be deemed to be APPT for the purposes of set off. The latter course might minimise any possible problems in applying the relevant provisions in the Tax Treaties.

(c) The Corporation Tax rules which enable surplus ACT to be carried forward indefinitely or to be carried back for two years, could be made applicable to APPT; and APPT paid in the first two years of the new regime could be made available for set-off against Corporation Tax attributable to the preceding periods.

(d) It should be possible to adapt the Corporation Tax rule which limits the amount of set-off to the amount of ACT which would have been payable if the company had paid a dividend of such amount as, when added to the ACT payable in respect thereof, would equal the company's taxable income for the period. For the purpose of this comparison we think it would be unduly restrictive to take the period as the PPT chargeable period; we suggest that the limitation should be based on the combined profits of the two half-yearly chargeable periods which most closely coincide with the company's accounting period.

(e) We recognise that the required limitation of the APPT set-off to a figure calculated by reference to the PPT taxable profit does create something of a problem. This stems from the unusual structure of the proposed tax, which necessitates three separate computations of taxable profits for each chargeable period.
For limitation purposes we propose that the taxable profit should be taken to be the figure produced by the Tier 1 computation (see Appendix A(ii)); this will always be the basis most favourable to the company.
If a company is involved in more than one field, the profits or losses shown by the Tier 1 computation for its interest in each field would be aggregated.

(f) The ACT legislation assumes that the rate of ACT will not exceed the rate of Corporation Tax. The lowest rate of PPT which we have assumed is 30 per cent(paragraph 31). If, however, the lowest rate was fixed below this, it would be necessary to introduce a provision which further limited the APPT set-off to the actual PPT payable for the period.
The ring fence Corporation Tax legislation includes a rule that ACT paid in respect of any distribution made to an associated UK resident company cannot be set off against Corporation Tax payable on North Sea profits. We propose that there should be a similar prohibition against a set-off of such ACT or APPT against PPT.
Subject to this prohibition, we propose that the rule which permits a company to surrender ACT to a subsidiary should be extended so as to enable such ACT to be set off against the PPT liability of the subsidiary.

APPENDIX B

ESTIMATED AGGREGATE TAX REVENUE FROM PPT COMPARED WITH THE EXISTING SYSTEM (IN RESPECT OF 26 EXISTING FIELDS)

AGGREGATE TAX REVENUE (£'000 million deflated to 1980 values)

	Production (million tonnes)	The existing tax system (excl. CT)	The existing tax system (incl. CT)	PPT Band A: tax rate 50% Band B: tax rate 25% Band C: tax rate 10%	PPT Band A: tax rate 30% Band B: tax rate 45% Band C: tax rate 10%
1982	99	6.1	(6.7)	6.5	6.5
1983	103	6.2	(7.4)	6.6	6.6
1984	109	6.0	(7.0)	6.2	6.2
1985	107	5.8	(7.2)	6.1	6.1
1986	97	5.4	(6.9)	5.7	5.6
1987	87	4.8	(6.1)	5.4	5.3
1988	74	4.2	(5.4)	4.9	4.8
1989	63	3.4	(4.3)	4.1	4.1
1990	53	2.8	(3.6)	3.5	3.5
TOTAL	792	44.7	54.6	49.0	48.7

NOTES AND ASSUMPTIONS

(1) Nominal oil prices increase at 7% per annum until 1985 and thereafter at 8% per annum.

(2) The aggregate recoverable reserves amount to 1,364 million tonnes over the lives of the 26 fields.

(3) A constant exchange rate of $1.90.

(4) Capital cost inflation falling to 9% per annum by 1984 and then constant thereafter.

(5) Operating cost inflation falling to 7% per annum by 1985 and then constant thereafter.

(6) For illustrative purposes only, PPT has been assumed in this Appendix to start on 1.1.82.

APPENDIX D

Possible adaptation of existing PRT legislation

1. OIL TAXATION ACT 1975

Section 1(1) - A special tax on profits from oil (including gas) produced under UK production licenses.	Keep
Section 1(2) - Tax charged on a field by field basis on each licensee separately. A single rate of tax.	Keep - Substitute multiple rates
Section 1(3) and (4) - Half yearly chargeable periods.	Keep
Section 1(5) and Schedule 1 - Procedure for determining fields.	Keep
Section 2(1) - Each company's assessable profit or allowable loss from a field is to be computed in accordance with this section.	Keep
Section 2(2) - The profit or loss is the difference between the positive amounts and the sum of the negative amounts for the period.	Keep
Section 2(3)(a),(4) and (5) - The positive amounts for a period comprise broadly (1) the proceeds of oil delivered by a company to third parties during a chargeable period, plus (2) the market value of oil delivered by the company in non-arm's length deals during a period plus or minus (3) the difference between the adjustment of opening and closing stocks.	Keep
Section 2(3)(b), (6) and (7) - A deduction is given for royalties.	Drop

Section 2(3)(b), (8) and (9)(a) and (b)(i) - A deduction is given in the period for allowable expenditure insofar as it has already been agreed to be allowable by the Oil Taxation Office (OTO) and has not been deducted in an earlier period.	Keep
Section 2(9)(b)(ii) - A deduction is also given for uplift on expenditure which has been agreed by the OTO to qualify for uplift.	Substitute 3-tier threshold formula
Section 2(9)(c) - A detailed special situation.	Keep
Section 2(9)(d) - A deduction for abortive exploration expenditure which has been recognised as such by the OTO.	Retain, as amended
Section 2(9)(e) - A deduction for any unrelievable field losses (see Section 6 below).	For consideration
Section 2(10) and (11) - Special cases.	Keep
Section 3(1) - Categories of allowable expenditure: Broadly expenditure incurred by the licensee on searching for oil in the area covered by the field, in producing the oil, transporting it to the UK and treating and storing it initially; also certain limited closing down expenses.	Keep
Section 3(2) - Deduction for redundancy payments.	Keep
Section 3(3) - Prohibition on double allowance.	Keep
Section 3(4) - Categories of non-allowable expenditure: Interest, cost of acquiring land and structures (other than treatment plant and storage tanks); profit sharing or royalty type payments (other than Government royalties); payments to acquire oil rights other than payments to the Government.	Keep. Payments of royalties and SPD to be non-allowable

<u>Section 3(5)</u> - Definition of expenditure qualifying for uplift.	Drop
<u>Section 3(6)</u> - Dual purpose expenditure to be apportioned on a reasonable basis.	Keep
<u>Section 4</u> - Rules governing the timing of the relief for expenditure on long term assets. Broadly, if at the outset it is reasonably clear that the asset will throughout its useful life be used exclusively for the field, the whole cost may be deducted up front. If this cannot be demonstrated, and in any event if it is a mobile asset (e.g. a supply boat), then the expenditure is spread by reference to a formula which reflects the degree of actual use for the field during each period. If the deduction proves to be excessive because of faulty assumptions, the excess is clawed back. If there is simultaneous use of an asset for two fields, (e.g. shared pipeline), the asset is deemed to be used proportionately for each field during the period. Expenditure on acquiring an interest in an asset is treated as direct expenditure on the asset.	Keep
<u>Section 5</u> - Abortive exploration expenditure. Defined as expenditure incurred by a UK licensee or connected person in searching for oil on shore in the UK or on the UKCS, being expenditure which is not (and is unlikely to become) allowable in its own right against a producing field. The cost of a long term asset (e.g. a drilling rig) used in connection with abortive expenditure is spread on a per diem basis to reflect use for a particular purpose. The allowance is reduced by any disposal proceeds. There are provisions to prevent a company from exploiting this relief by acquiring someone else's abortive expenditure.	Keep

Paragraph 2 - Rules for arriving at market value of oil delivered from a particular field at a particular point in time.	Keep
Paragraph 3 - Rules for arriving at total taxable receipts.	Keep
Paragraph 4 - Treatment of royalties in kind.	Drop
Paragraph 5 - Special rules to meet the case where for US tax reasons one company stands in the shoes of another.	Keep
Paragraph 6 - Rules to cover the case where, for example, a bank (not being a licensee) is entitled to a proportion of the oil as part of the financing terms.	Keep
Paragraphs 7 and 8 - Detailed provisions.	Keep
Paragraph 9 - Option to spread expenditure so as to advance the payment of PRT and thus minimise US tax credit relief anomalies.	Keep
Paragraph 10 - Interaction of oil allowance and expenditure claims.	Drop
<u>Schedule 4</u> - Detailed rules for dealing with expenditure on long term assets and for eliminating the writing up of the cost of an asset within one corporate group; similarly service costs are restricted to actual group costs. Rules covering the case where long term assets are used in connection with more than one field. Rules imposing a claw-back of relief in certain circumstances.	Keep
<u>Schedules 5 and 6</u> - Detailed rules for claiming expenditure and for dealing with appeals against the refusal of the OTO to allow expenditure.	Keep
<u>Schedules 7 and 8</u> - Other detailed rules.	Keep

Section 6 - Relief for losses from an abandoned field. In the event of a field being abandoned at a net loss, a participator in that field can set his share of the loss against his taxable profit from another field.	For consideration
Section 7 - Losses can be carried backwards or forwards indefinitely at the company's option.	Given the impact of differing thresholds and tax rates, this would require detailed consideration.
Section 8 - The oil allowance.	Not required
Section 9 - Safeguard	Not required
Section 10 - Exemption for gas sold in pre 1975 contracts.	Drop
Section 11 - Application of Provisional Collection Tax Act.	Keep
Section 12 - Definitions. The important items are "licensee", "participator" (i.e. the taxable person), "initial storage" (limited volumes of storage tanks on shore) and "initial treatment" (certain forms of onshore processing is treated as within the PRT ring fence, but to the exclusion of the cost of refineries, etc.).	Keep
Schedule 1 - Procedure for determination of fields.	Keep
Schedule 2 - Administration procedures.	Keep
Schedule 3	
Paragraph 1 - Definition of sale of oil at arm's length.	Keep

2. FINANCE ACT (NO.2) 1979

Section 18 - Rate of tax increased from 45% to 60%.	Not applicable
Section 19 - Reduction in rate of uplift.	Drop
Section 20 - Additional definition of allowable cost of transporting oil to places in the UK.	Keep
Section 21 - Reduction of oil allowances.	Drop
Section 22 - BNOC made liable to PRT.	Keep

3. FINANCE ACT 1980

Section 104 - Increase in rate of PRT.	Not applicable
Section 105 - Advance payment of PRT.	Keep
Section 106 and Schedule 17 - Transfer of interests from one person to another.	Keep
Section 107 - Rules for a field which is partly in UK waters and partly in, for example, Norwegian waters.	Keep
Section 108 - Special rules to cover gas banking schemes.	Keep
Section 109 - Detailed definition of allowable expenditure on on-shore installations for fractionating gas.	Keep

4. FINANCE ACT 1981

Sections 111, 112 and 113 - Restriction of uplift.	Not required
Section 114 - Limitation of uplift.	Not required

Section 115 - Legislation to stop companies getting an effective deduction for interest by ordering an asset on deferred payment terms for a higher purchase price.	Keep
Section 116 - Amendment to paragraph 9 - Schedule 3 above.	Keep
Section 117 - Detailed transitional provisions.	Not applicable.
Section 118 - Technical amendment relating to license payments.	Keep
Section 119 - Further definition of allowable on-shore expenditure.	Keep

PERSONAL AND CONFIDENTIAL

JU859

SECRETARY OF STATE FOR INDUSTRY

MS

PRIME MINISTER

REGIONAL DEVELOPMENT GRANTS (RDGs)

Your Private Secretary has told mine that you do not think we should go ahead this week with an oral statement about the question of savings on the RDG scheme. I wonder if I might take your mind as a matter of urgency on the wider issue, which is causing me increasing unease, of whether we should go ahead with any proposal to alter the RDG scheme other than to disqualify the Sullom Voe type of project.

2 You will remember that, when Cabinet considered public spending, a group of Ministers was asked to work out proposals to go as far as possible to meet the Chief Secretary's objective of a saving of up to £50 million a year on RDGs, net of any extra discretionary payments needed to fulfil undertakings etc which had been, or might have to be, given to secure major projects.

3 It was clear that my original suggestion of 2 percentage points off the higher and the lower rates of grant was quite unacceptable to George Younger and Nick Edwards and has been dropped. We have therefore been studying proposals which would put a ceiling on the amount of grant payable on individual investments. The RDG scheme is not project-related (payments are made in respect of qualifying expenditures at qualifying premises) so we cannot sensibly impose a cost per job limit. At the moment (our proposals have not yet been fully worked out) it looks as if we shall propose that investments at any given premises up to a ceiling of around £10 million in any year would continue to qualify for RDG, but RDG would not be paid on investments in any year above that figure. This would leave unaffected the vast number of investments qualifying for the full grant but would disqualify perhaps around 50 major projects a year (apart of course from the grant on the first £10 million in

any year). Above this level, discretionary grants under Section 7 of the Industry Act would have to be payable to cover those cases which would otherwise be at risk of not taking place at all or of going, say, overseas. I fear, however, that the expectation of saving £50 million in a year in this way is based on the false presumption that there are and will continue to be a relatively large number of capital intensive projects around which will not be put at risk by loss of RDG.

4 The problem I face is that if George Younger, Nick Edwards and I are to secure the fair number of labour-intensive projects which might be attracted from overseas or from elsewhere in the country, and if we are to honour assurances which have already been given about the availability of Government assistance, the amount of discretionary grant that would have to be given could well swallow up the greater part of the savings on RDGs achieved by introducing the ceiling. It simply does not seem possible on this basis to achieve the level of savings sought by the Chief Secretary. If, however, we are bound to secure savings of around £50 million a year by 1983/84, it is inevitable that quite a number of projects (including labour-intensive projects) which would have qualified for full RDGs under the present system cannot be offered special financial assistance instead. In other words, there is no way that we can achieve the Chief Secretary's savings without demonstrably depriving manufacturing industry of up to £50 million a year support which they are at present getting.

5 I sense a change of atmosphere since the Chancellor's recent statement and the Debate in the House on 8 December. This may lie behind your own suggestion that we should avoid an oral statement. I believe there is much anxiety among our supporters that there was nothing in the package for industry; indeed, the

increase in NIC and consequent increase in NIS imposed additional burdens on industry. I am also aware of your recent discussion with John Wakeham about looking for ways of helping industry. I am genuinely apprehensive that if, in this new climate, the Government proposes what will be seen as a further significant cut in the help given to industry, it will be received very badly indeed. When I originally put a cut in RDGs forward, I made it clear that to be acceptable this cut would need to be accompanied by a package to help industry (including a cut in NIS). In the event, no such package has materialised and we are left with the cut.

6 Before I tackle the Chancellor of the Exchequer on this subject, I would be most grateful to know if you share my unease. There is, I am afraid, no alternative to a public announcement if we make any changes in the RDG scheme. My preferred course would be to announce that grants over the £10 million ceiling would be discretionary (so as to avoid having to pay grants on future projects such as Sullom Voe and Flotta and a few other very capital-intensive projects which would have taken place anyway). If we adhere to present proposals, and announce that the change was intended to secure savings of up to £50 million a year, I would have to admit under questioning that I could not identify any capital-intensive projects currently in view which have not already been given assurances (e.g Mossmorran and the potential Nissan project). Accordingly, it would be immediately evident that a substantial number of major industrial projects, many of them labour-intensive, would in future be denied most of the support to which they are currently entitled. I am far from clear that, in the present mood, the Party would support this.

SECRETARY OF STATE FOR INDUSTRY

7 I would be most grateful if you could let me have your reaction. For the present I am not copying this minute to anyone else.

PJ

P J

14 December 1981

Department of Industry
Ashdown House
123 Victoria Street

(1)

JU859

SECRETARY OF STATE FOR INDUSTRY

Prime Minister

You have, I believe, the top copy of this minute. Mr Jenkin's office ask whether you have [illegible] Mr Jenkin be asked to discuss with Leon Brittan how to ensure that this part of the Dec 2 package does not fall apart?*

MCS 18/12

*particularly in the light of Leon Brittan's minute of 18/12, attached.

It looks to me as if we cannot save £50m by the method agreed. I should be content [illegible] with P.S.'s preferred course set out in para 6. Please [illegible] to Leon Brittan [illegible].

PRIME MINISTER

REGIONAL DEVELOPMENT GRANTS (RDGs)

Your Private Secretary has told mine that you do not think we should go ahead this week with an oral statement about the question of savings on the RDG scheme. I wonder if I might take your mind as a matter of urgency on the wider issue, which is causing me increasing unease, of whether we should go ahead with any proposal to alter the RDG scheme other than to disqualify the Sullom Voe type of project.

2 You will remember that, when Cabinet considered public spending, a group of Ministers was asked to work out proposals to go as far as possible to meet the Chief Secretary's objective of a saving of up to £50 million a year on RDGs, net of any extra discretionary payments needed to fulfil undertakings etc which had been, or might have to be, given to secure major projects.

3 It was clear that my original suggestion of 2 percentage points off the higher and the lower rates of grant was quite unacceptable to George Younger and Nick Edwards and has been dropped. We have therefore been studying proposals which would put a ceiling on the amount of grant payable on individual investments. The RDG scheme is not project-related (payments are made in respect of qualifying expenditures at qualifying premises) so we cannot sensibly impose a cost per job limit. At the moment (our proposals have not yet been fully worked out) it looks as if we shall propose that investments at any given premises up to a ceiling of around £10 million in any year would continue to qualify for RDG, but RDG would not be paid on investments in any year above that figure. This would leave unaffected the vast number of investments qualifying for the full grant but would disqualify perhaps around 50 major projects a year (apart of course from the grant on the first £10 million in

SECRETARY OF STATE FOR INDUSTRY

any year). Above this level, discretionary grants under Section 7 of the Industry Act would have to be payable to cover those cases which would otherwise be at risk of not taking place at all or of going, say, overseas. I fear, however, that the expectation of saving £50 million in a year in this way is based on the false presumption that there are and will continue to be a relatively large number of capital intensive projects around which will not be put at risk by loss of RDG.

4 The problem I face is that if George Younger, Nick Edwards and I are to secure the fair number of labour-intensive projects which might be attracted from overseas or from elsewhere in the country, and if we are to honour assurances which have already been given about the availability of Government assistance, the amount of discretionary grant that would have to be given could well swallow up the greater part of the savings on RDGs achieved by introducing the ceiling. It simply does not seem possible on this basis to achieve the level of savings sought by the Chief Secretary. If, however, we are bound to secure savings of around £50 million a year by 1983/84, it is inevitable that quite a number of projects (including labour-intensive projects) which would have qualified for full RDGs under the present system cannot be offered special financial assistance instead. In other words, there is no way that we can achieve the Chief Secretary's savings without demonstrably depriving manufacturing industry of up to £50 million a year support which they are at present getting.

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6 Before I tackle the Chancellor of the Exchequer on this subject, I would be most grateful to know if you share my unease. There is, I am afraid, no alternative to a public announcement if we make any changes in the RDG scheme. My preferred course would be to announce that grants over the £10 million ceiling would be discretionary (so as to avoid having to pay grants on future projects such as Sullom Voe and Flotta and a few other very capital-intensive projects which would have taken place anyway). If we adhere to present proposals, and announce that the change was intended to secure savings of up to £50 million a year, I would have to admit under questioning that I could not identify any capital-intensive projects currently in view which have not already been given assurances (e.g Mossmorran and the potential Nissan project). Accordingly, it would be immediately evident that a substantial number of major industrial projects, many of them labour-intensive, would in future be denied most of the support to which they are currently entitled. I am far from clear that, in the present mood, the Party would support this.

SECRETARY OF STATE FOR INDUSTRY

7 I would be most grateful if you could let me have your reaction. For the present I am not copying this minute to anyone else.

PJ

P J

14 December 1981

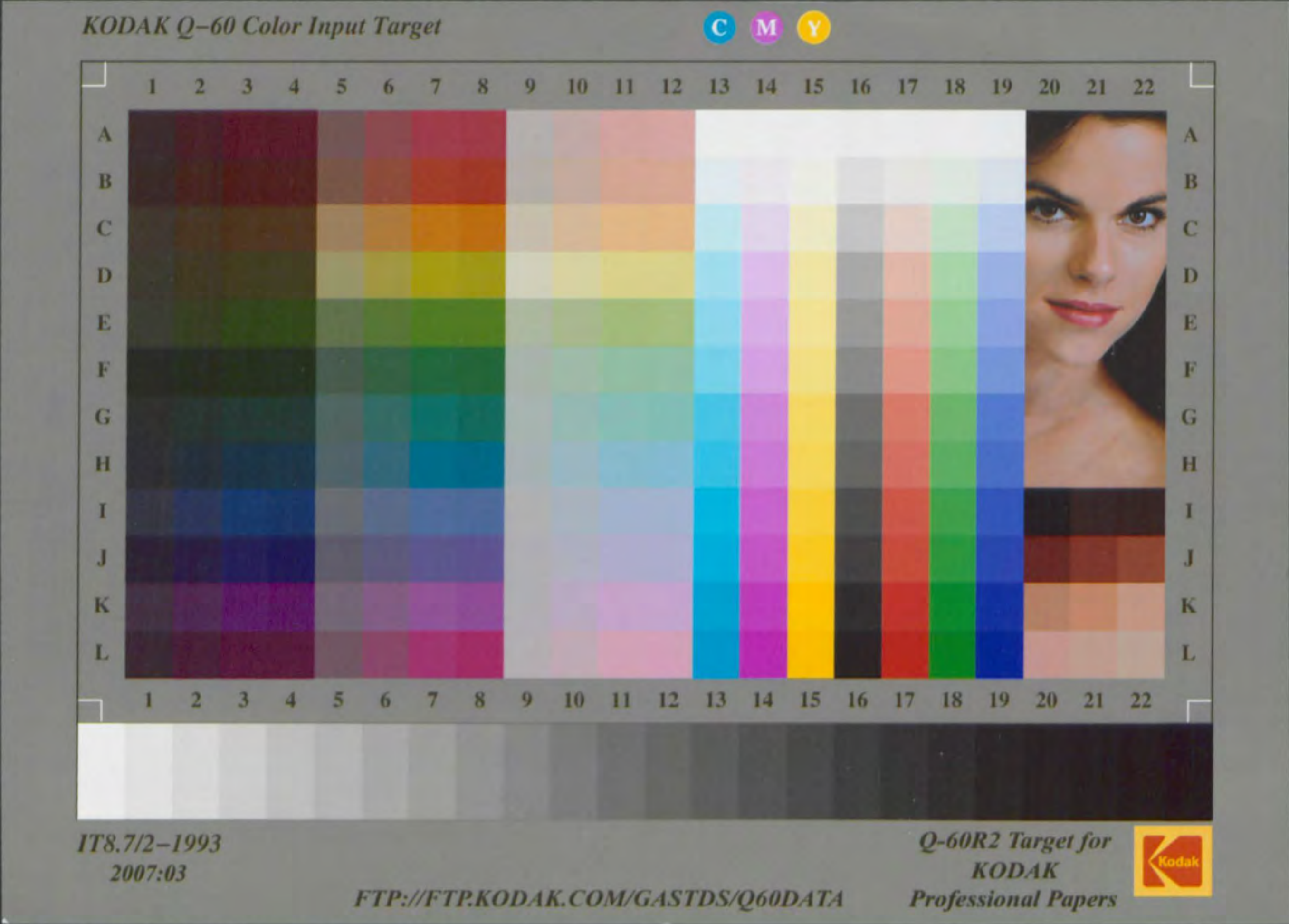
Department of Industry
Ashdown House
123 Victoria Street

PART 17 ends:-

Hansard Extract of 8/12/81

PART 18 begins:-

S/S Ind to PM 14/12/81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