

Public Expenditure and
Cash Limits

ECONOMIC
POLICY

PART 23

PE 1: MAY 1979

PE 23: JULY 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
4.7.83							
8.7.83							
11.7.83							
13.7.83							
19.7.83							
20.7.83							
22.7.83							
24.7.83							
- PE Ends -							
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PREM 19/1985

PART 23 ends:-

S/S N10 to S/S DH55 29/7/83

PART 24 begins:-

CBT to S/S DH55 1/8/83

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(83)21	5.7.83
CC(83)22nd Meeting, Minute 5	7.7.83
C(83)23	18.7.83
CC(83)24th Meeting, Minute 5	21.7.83

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed M Wayland

Date 13 March 2013

PREM Records Team

S E C R E T

FROM: CHIEF SECRETARY *At*

DATE: 29 JULY 1983



Prime Minister

MCS 24/1

20

PRIME MINISTER

PUBLIC EXPENDITURE: THE LONGER TERM

At Cabinet on 21 July, it was agreed that you would consider how discussion of longer-term public expenditure prospects could best be arranged.

2. The Chancellor and I see this problem as falling into two parts. The more immediate is the Public Expenditure Survey period (up to 1986-87) and the remaining years of this Parliament up to 1988-89. This minute only deals with that aspect. But as you have pointed out there are also longer-term questions which carry over into the next Parliament. We want to stimulate public debate on these questions as you have indicated and the Chancellor will be sending you a further minute with some suggestions on that.

3. My immediate concern is the handling of the bilaterals with spending colleagues. I shall need to start these early in September, and before each I must send a letter to the spending Minister setting out the scale of savings I have to ask him to find in his programme.

4. In these discussions, my first priority of course, must be to get back to the White Paper total for the coming year 1984-85. But I also need to agree figures consistent with our objectives for the two following years, (1985-86 and 1986-87), to be published in the next White Paper. It is important that the study of the longer term problems, up to and beyond the life of this Parliament, is not used as an excuse for avoiding hard decisions about the Survey period.

1.

S E C R E T

5. But if we are to change the trend of public expenditure and make progress towards our medium-term tax objective, it is vitally important that Ministers and their departments should look at radical options. Some of these will need legislation, and most of the bigger changes will take time to take effect.

6. Too often, in previous Surveys, totals for the coming years have been kept down by short-term expedients. Departments have accepted low figures for later years, in the knowledge that these are "provisional" so that they can hope to argue for increases in the next Survey. Departments then continue to plan internally for a higher path of spending, and never face up to the difficult medium-term choices, even if they are subjected to a cash squeeze.

7. Hence I am very concerned that this time, at the start of a new Parliament, Ministers and their departments should be required to look further ahead, and should plan their programmes on the basis that expenditure constraint is not a temporary interruption in an upward trend, but will continue throughout this Parliament and beyond.

8. You have already asked Cabinet colleagues to review the scope for fundamental policy changes in their programmes. In line with this, I suggest that in my preliminary letter to each spending Minister before the bilaterals, I should set out the proposals which are intended to hold his programme to the required levels in the Survey years, and that I should go on to say that I also want to consider with him the broad implications of such proposals for the later years 1987-88 and 1988-89. For example, in relation to defence, I would argue not only that the NATO 3% growth commitment should be suspended for the single year 1986-87; I would also seek agreement that the resultant lower path for defence spending should continue over the two following years.

9. This approach would be greatly reinforced if you would be willing to send a minute to colleagues, on the lines of the

S E C R E T

... attached draft, making clear to them that the bilaterals should cover the medium-term prospects for their programmes, and that you are expecting me to look ahead to 1988-89 when I report back to Cabinet in late October.



PETER REES
29 JULY 1983

S E C R E T

CONFIDENTIAL



SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

NBPM

MMS 29/7

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Alexander Fleming House
Elephant & Castle
LONDON
SE1 6BY

29 July 1983

Norman Fowler

You copied to me your letter of 21 July to Peter Rees about your proposals for savings in the NHS drugs bill.

I am content that you should open discussion with the pharmaceutical industry on the basis of these proposals. Any savings which can be achieved in this area would be reflected pro-rata in Northern Ireland and would be a useful contribution to our joint objective of reducing the health services' expenditure on drugs.

At the same time I recognise the importance of maintaining the commercial viability of the pharmaceutical industry as a major exporter and provider of jobs. Your approach takes account of these considerations. There are, as it happens, few drug manufacturers in Northern Ireland. While they would feel the effect of the proposed cut in profit margins, I am advised that the repercussions would not be of major significance for them. But I agree that it would be prudent to test the industry's reaction before you finalise your proposals.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry, Scotland and Wales and the Chief Secretary.

[Signature]

SA

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29 JUL 1985

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MANAGEMENT AND PERSONNEL OFFICE

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P Le Cheminant CB

Second Permanent Secretary

29 July 1983

Robin Butler, Esq
10 Downing Street
SW1

PUBLIC EXPENDITURE

We have had a very interesting discussion with Robin Catford about the likely course of No 10's expenditures over the remainder of this financial year.

Robin may have told you separately of what transpired. But could I just make the following points for the record:-

(a) at this stage of the year the balance of probability appears to be that we can still look forward to some net underspend on the items listed in the table attached to my letter to you of 15 July. I am assuming £50,000 for planning purposes and will review the situation in the Autumn.

(b) we spent some time on the potential additional No 10 items not provided for in our Vote, ie improved physical security for No 10 and its neighbours; the protected car; and the R & D work to improve secure communications with the Prime Minister's aircraft when in distant parts. My present inclination is to live with (ie absorb) the cost of the first - £75,000; to query whether the cost of the car (£60,000) should be borne on the MPO Vote given that it is not intended for the Prime Minister's sole use; and similarly to query whether the R & D work (another £75,000) should be borne by us or by others who have a direct interest in communications research. These are matters for us to take up and I will not trouble you further with them.

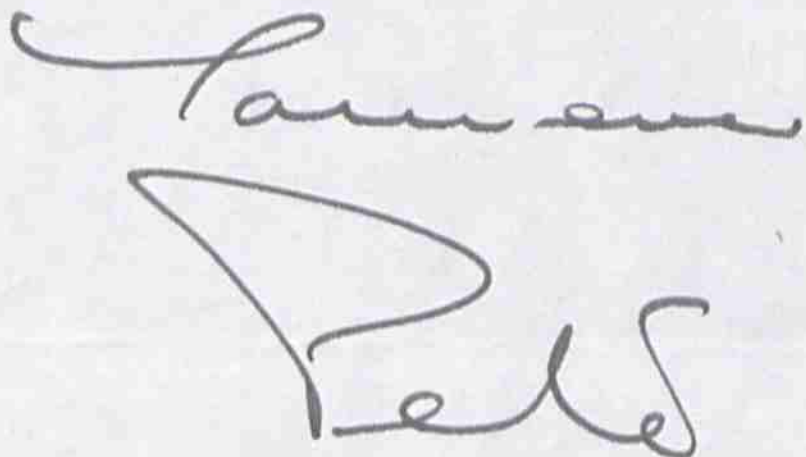
Robin Butler, Esq

29 July 1983

(c) we also noted that the charges made by the MOD for domestic staff at Chequers, while no doubt reflecting realistically the cost of service manpower, are way above market rates for civilians (about double the price to us of comparable staff at the civil service college). I accept at once that special factors apply to Chequers and I do not question the use of service personnel. On the other hand, provided you see no objection, we will raise the issue of the scale of charges with the MOD to see whether we can beat them down.

Once again my thanks for your ready co-operation.

A copy to Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'P Le Cheminant', written in dark ink.

P Le Cheminant

CONFIDENTIAL



g/r/c

ZPPS

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

(2)

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

Prime Minister

MO 8

28th July 1983

Peace has

broken out?

Not peace but

A truce!

mt,

MUS 29/7

Dear Peter

PUBLIC EXPENDITURE SURVEY 1983

Thank you for your further letter of 20th July.

For the reasons set out in my letter of 15th July, I remain in no doubt that in this year's survey Falklands costs in 1986/87 should be included in the baseline. To treat Falklands provision in that year as an "additional bid" would not be consistent with the agreement reached last year.

Within this general approach I agree, however, that we need to be sure that the provision within the baseline for Falklands costs is appropriate. I therefore propose that our officials should establish what costs are attributable to the Falklands in 1986/87 in preparation for our bilateral meeting in the autumn. I also agree that the MOD bid for 3% real growth in 1986/87 should be re-calculated on a Falklands exclusive basis. I hope you will recognise that this approach meets your essential concerns while being consistent with the agreement on the handling of Falklands costs reached last year.

Rt Hon Peter Rees Esq QC MP

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As you copied your letter of 20th July more widely, I am also copying this letter to the Prime Minister, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

yes low
A handwritten signature in cursive script, appearing to read "Michael Heseltine".

Michael Heseltine

Exec Pol,
Public Exp
#23

29 JUL 1983

12 1 2 3 4
5 6 7 8 9

Public Expenditure

4.48 pm

The Chief Secretary to the Treasury (Mr. Peter Rees): With permission, Mr. Speaker, I would like to make a statement on the measures to be taken to implement the decisions announced by my right hon. Friend the Chancellor of the Exchequer on 7 July to restrain public expenditure in the current year.

The gross reduction will be about £670 million. The net total will be somewhat less than this because the lower cash limits will lead to less underspending. But, as my right hon. Friend the Chancellor said on 7 July, it will be at least £500 million net. The detailed changes in cash limits and the external financing limits of the nationalised industries are being published in the *Official Report*.

Mr. Peter Shore (Bethnal Green and Stepney): The House has listened to the Chief Secretary's belated, reluctant and dismal statement. Is he aware that a statement of such brevity on a subject of such importance, accompanied as it is by seven pages of tables and with no chance of a full debate, is an insult to the House? Has he not the capacity or the courage even to summarise the effects of the cuts on major Government Departments' expenditure? Will he say what will be the effect on employment of these measures which the seven pages of tables omit to tell us?

This is a catalogue of mindless cuts. It turns out that the cuts will amount to £670 million against the forecast £500 million. They are to be inflicted on community services and nationalised industries. Is this not just one more exercise in inept and brutal surgery of the sort that we have had all too much of in the past four years? Is the right hon. and learned Gentleman not aware of the disruption and dismay that will follow this decision, three months into the current financial year? Does he realise what it will cause to all those in health, education and other public services who have to plan their expenditure programmes?

Does the right hon. and learned Gentleman accept that the decision is bound to lead to further hasty cuts in public investment programmes, including programmes involving building and construction, as well as in the levels of current public services?

Does not the exercise give the lie to what the Government said, both before and during the election campaign, about planned public expenditure? Does it not add up to a gross deception of the electorate? Can he recall one occasion during the election campaign when the Prime Minister, with her repeated claim that the National Health Service was safe in her hands, mentioned the now announced forced reduction of 8,000 health service employees?

Does the right hon. and learned Gentleman recall his own words on 6 July, when he told us that panic measures would not characterise this Administration? Is it not plain that these are panic measures which are being railroaded through Cabinet by our inexperienced and doctrinaire Chancellor of the Exchequer, frightened by the money supply figures for June and the Government borrowing requirement figures for the second quarter? What does he say now that the second quarter's PSBR figures, published six days ago, show that the borrowing is within the Chancellor's target range? Has not the Chancellor, during the past seven weeks, established a record for

incompetence and deception that makes the previous Chancellor appear to be an exemplar of clarity and foresightedness?

These cuts will harm the sick, the elderly, schoolchildren and those in need and will further damage and weaken public and private industry. The Government have no mandate for them.

Mr. Rees: Even allowing for the rather feverish point that we have reached in this Session, I am bound to say that the right hon. Gentleman's intervention was characterised by extraordinary hyperbole, but we recognise the pressures on him. I should have thought that the House would welcome the fact that the third statement this afternoon was brief. I hoped to be given some credit for that.

It is impossible for me to calculate the unemployment consequences, as the right hon. Gentleman knows.

Mr. Shore: Why?

Mr. Rees: The right hon. Gentleman said that these were inept and brutal cuts. I shall put the figures in perspective. We are talking about £500 million when overall public expenditure is about £120 billion. The right hon. Gentleman's criticisms cannot be justified against that background. He appears to be riding two horses. He said that there was gross deception during the general election but that the Chancellor's announcement on 7 July was panicky and unjustified. I am prepared to debate both points, but not at the same time. A modest readjustment was called for as a result of the information that became available to us in the days before 7 July. The right hon. Gentleman also prayed in aid of the PSBR figures. They have turned out to be near the figures that we anticipated.

Mr. Richard Wainwright (Colne Valley): Is the Chief Secretary aware of the deep disappointment felt because he has not announced the abandonment of such unnecessary and disruptive action now that it is clear that his right hon. Friend the Chancellor was wildly inaccurate in anticipating the PSBR figures? Will he tell the House the Government's assumptions on prices and costs and how heavily these cuts fall on capital expenditure so that we may assess the effects of the cuts?

Mr. Rees: The hon. Gentleman knows the assumptions that were made at the time of the Budget by my right hon. and learned Friend the then Chancellor of the Exchequer, and I see no reason to vary them. On 7 July my right hon. Friend announced cuts of 1 per cent. on pay and general administrative expenses and 2 per cent. on other items of Government expenditure.

Sir Kenneth Lewis (Stamford and Spalding): We appreciate the shortness of my right hon. and learned Friend's statement as we are about to go on our long holiday and hope that other Ministers will follow his example when we return from the recess.

How much of this expenditure has not yet been undertaken but is proposed in Ministries' budgets? If it has not yet begun, the figure is probably a good deal lower than the one he gave.

Mr. Rees: I am grateful for what my hon. Friend said about my statement's brevity. I shall endeavour to live up to that standard even at the risk of cheating the Opposition of a full statement into which they can sink their teeth.

My hon. Friend is correct in saying that the earlier adjustments are made during the fiscal year, the easier they

to achieve and the less painful they are for the Departments involved. For those reasons, we thought it right to make the adjustments early in the financial year when it became clear that departmental budgets were likely to be underspent in certain areas.

Mr. J. Enoch Powell (Down, South): When the tables are published, will the Chief Secretary ensure that the misprint is not included in class XVII, Northern Ireland Office? Can he say when the Secretaries of State for Northern Ireland, for Wales and for Scotland will be making corresponding statements on non-voted cash limits so that we can see what will be the impact of these alterations upon those parts of the country? In particular, what is the justification for £5 million out of £12 million of the adjustment in Northern Ireland falling upon law and order and protective services?

Mr. Rees: I am sure that my right hon. Friend's responsible for Scotland, Wales and Northern Ireland will take careful note of what the right hon. Gentleman has said. The detailed allocation of the spending is a matter for them and not for the Treasury. We shall endeavour to correct any misprints in the tables.

Mr. Nigel Forman (Carshalton and Wallington): What steps is my right hon. and learned Friend taking to ensure that the 2 per cent. cuts in the nationalised industries' cash limits are not passed on in increased prices beyond what would otherwise be commercially defensible?

Mr. Rees: We are aware of the impact of such price increases on the RPI and consumers generally. However, that is not to say that it is not right to look from time to time at the realities of nationalised industries' prices.

Mr. John Evans (St. Helens, North): Will the Minister acknowledge that this is part of the manifesto that the Tory party would not allow to be discussed during the recent general election? Will he confirm that as a result of these disgraceful cuts regional and district health authorities throughout Great Britain are discussing the closure of hospital units and wards and, in some cases, entire cottage hospitals?

Mr. Rees: There was no secret manifesto. These cuts are no part of any alternative manifesto. I can reassure the House that expenditure on the National Health Service as a whole in England will remain at planned levels.

Mr. Anthony Beaumont-Dark (Birmingham, Selly Oak): I wish to ask the Minister about EFLs for nationalised industries. He must have seen today that the British Gas Corporation made a profit of £630 million in spite of £600 million being taken back by the Government. With the EFLs announced today, one has a horrid feeling that we shall transfer part of Government expenditure—not calling it taxation,—by way of further increased nationalised industry charges. From a quick look at the figures, it appears that electricity prices are due for a big rise because the EFL has been reduced by £418 million, for the British Gas Corporation by £43 million, for British Telecom by £117 million and for the Post Office by £51 million.

I hope that we are not going to introduce subtle taxation by way of an increase in nationalised industry charges which affect industry and people more grievously than direct taxes. If these figures mean that nationalised

industries will increase their charges because of what we are doing, the House must know now so that it can decide whether it is a sound policy.

Mr. Rees: I see no reason why the measures announced by my right hon. Friend on 7 July should result in any increased nationalised industry charges.

Mr. Andrew F. Bennett (Denton and Reddish): Why cannot the Minister tell the House the employment implications of the statement? Does he agree that it will have further implications for public expenditure? Surely he must know how many people will be put out of work because he should know how much more unemployment benefit will have to be paid and how much the Government will have to forgo in the tax which they would have received had these people remained in jobs.

Mr. Rees: There is no precise causal link between the adjustments that we propose and the unemployment figures, as the hon. Gentleman will realise if he reflects upon the matter.

Mr. Nicholas Winterton (Macclesfield): Will my right hon. and learned Friend assure the House that his announcement today and that made by the Chancellor of the Exchequer earlier this month will not result in discrimination against the more provident local authority which over a number of years has heeded Government warnings on expenditure? Will he also confirm that the cash limits for nationalised industries to which my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) referred will not lead to price rises in monopolies which will then be passed on as additional costs to British industry, which is just beginning to get off the ground and which will make it less competitive?

Mr. Rees: The proposed adjustments do not affect the local authorities. As I said to my hon. Friend the Member for Birmingham, Selly Oak (Mr. Beaumont-Dark), there would be no justification for any price increases in the nationalised industries as a result of our proposals.

Dr. Jeremy Bray (Motherwell, South): Does the Chief Secretary agree that the real shape of the hidden manifesto will emerge when we see the planning total rolled on for the financial year 1986-87 when next year's Government expenditure plans are published? Does he acknowledge that the distribution of the cuts this year will be taken as a sign of what he will try to achieve in his discussions with Cabinet colleagues on the next round of public expenditure cuts?

Mr. Rees: The House should not infer anything from the adjustments that my right hon. Friend and I have announced. It will have an ample opportunity to consider our policies when the public expenditure White Paper is published. No doubt there will be ample opportunity to debate it, its implications and history.

Mr. Richard Needham (Wiltshire, North): Further to the point raised by my hon. Friend for Birmingham, Selly Oak (Mr. Beaumont-Dark), can my right hon. and learned Friend tell the House whether the figures published in the document show that the cash limits for the electricity industry have been reduced by £418 million? If that is so, can my right hon. and learned Friend explain how it will not be necessary to increase prices to offset such reductions?

Mr. Rees: My hon. Friend will not have had time to immerse himself in the tables. The tables of EFLs for nationalised industries show the absolute levels and not the changes. The total overall reductions for the nationalised industries referred to in the table amount to £58 million.

Mr. Ian Wrigglesworth (Stockton, South): Is the Chief Secretary aware that his statement is a mark of the failure of the Government's economic policy and that many people regard as another failure the Government's policy of—as *The Times* described it—

“selling off the family heirlooms to pay the grocery bill”?

Why does not the statement show that some of the proceeds of the capital sales on which the Government are embarking will be reinvested in further capital assets for the country rather than spent on current expenditure?

Mr. Rees: The modest readjustment measures that have been presented to the House today show nothing of the kind. They do not signify a failure of the Government's economic policy or of their control of public expenditure. They show modest readjustments at the end of the first quarter of the fiscal year. We thought that it was much better to take those modest measures now than risk a greater overspend later in the year. I am sure that, if the House thinks dispassionately about it, it will applaud our prudence and caution.

Mr. Max Madden (Bradford, West): How does the Chief Secretary reconcile the Chancellor's statement on 7 July with previous considerable underspending on cash limits? Is it not a fact that on 7 July the Chancellor jumped the gun and that as a result of his measures, hospitals will be closed and thousands of doctors, nurses and ancillary staff in the National Health Service will be sacked unnecessarily?

Mr. Rees: There is no ground for what the hon. Gentleman has suggested. I have already said what the impact on the NHS in England is likely to be. He can draw his own conclusions, so can the rest of the House. These are modest measures which do not justify the absurd and extravagant forecasts made by the hon. Gentleman.

Mr. Roland Boyes (Houghton and Washington): Is the Chief Secretary aware that the figures will lead to greater unemployment and continue the upward trend of unemployment, probably beyond the present job gap of 5 million? Is he aware that there is a relationship between unemployment and poverty and that the cuts on personal social services, which are criminally irresponsible, are a direct attack on the poorest people?

Mr. Rees: If the hon. Gentleman studied the measures he would see that the cuts applied to every Department. They are not concentrated on any one area or on any one section of our society. The hon. Gentleman might reflect on the fact that it is much more likely that unemployment will be generated if public expenditure is not kept firmly under control, as it has been by the Government, and if the PSBR is not kept to the modest level that we propose, which will allow plenty of scope for the private sector to increase and generate lasting sustainable jobs now.

Mr. Laurie Pavitt (Brent, South): Is the right hon. and learned Gentleman aware that for the Treasury to make separate compartments for social services and community services on the one hand and health services on the other is to make complete nonsense of the Government's policy on the mentally handicapped and the mentally ill? Is he

aware that in my area, where we have a hospital of 1,400 beds at Shenley for the mentally handicapped, last week my local authority suffered a cut of £500,000 and that the week before there was a cut of £7 million on the Brent borough council, which means that the idea of taking people from institutions into the community is sheer nonsense? If the Government impose cuts on both sides in their policy, we cannot do anything.

Mr. Rees: I am not informed in detail about the precise cuts to which the hon. Gentleman referred. I very much doubt that they could result from the measures that my right hon. Friend announced on 7 July. However, I have no doubt that my right hon. Friend the Secretary of State for Social Services will take careful note of the hon. Gentleman's detailed points.

Mr. Mark Fisher (Stoke-on-Trent, Central): Will the right hon. and learned Gentleman explain his remark that it is “impossible for me to calculate the unemployment consequences”? Does that mean that he has not considered the implications for unemployment? With £110 million from the Department of Health and Social Security, and the Department of Education and Science providing £28 million and the Ministry of Defence providing £220 million, mainly from procurement, surely he can understand that it is impossible to make cuts without there being a dramatic effect on unemployment.

Mr. Rees: If the hon. Gentleman feels that adjustments of slightly over £500 million will have a dramatic effect, he is living in a feverish world. I have said clearly that it is impossible to make a precise calculation, and it is much better that I should say so than guess at the figures, which the hon. Gentleman seems disposed to do.

Mr. Tam Dalyell (Linlithgow): Under class II, votes 3 and 4, do the British Broadcasting Corporation external services and the British Council agree that the £500,000 cut from each of them is simply a modest readjustment? Does the Secretary of State for Defence—the somnambulant Secretary of State—who has distanced himself somewhat from Treasury Ministers, agree that the cuts in class I, votes 1 and 2—the right hon. Gentleman has a great smirk on his face, so I suspect that he does not, because we all know that he was not consulted—were so modest that he need not be consulted? Was he agreeable to all that? He is smiling broadly, so let us hear the truth.

Mr. Rees: I am happy to say that the decisions that were announced by my right hon. Friend on 7 July were collective decisions by the Cabinet. I refer the hon. Gentleman to the votes to which he referred. The cash limits of 7 July for the Foreign and Commonwealth Office were about £77 million and for the British Council about £40 million.

Mr. Stuart Bell (Middlesbrough): Will the Chief Secretary look at class IX on the reductions in cash limits for the Home Office? Will he give an assurance that the cut of about £7 million in the prison service will not add to the tension in our prison service and its difficulties in accommodating too many prisoners in our gaols? Will he also give an assurance that the cuts affecting the treatment of offenders will not affect young offenders, who require the greatest attention?

Gibraltar

Mr. Rees: I am sure that my right hon. and learned Friend the Home Secretary has taken full account of those factors in arranging the allocation of the adjustments. It is a matter for the Department concerned and not for me.

Mr. Shore: I assure the Chief Secretary that brevity is one thing, but suppression of information is another. I should like to ask him two simple questions. As the DHSS announced only yesterday that 8,000 jobs will be lost as a result of the measures, why cannot the right hon. and learned Gentleman, in his capacity as Chief Secretary, supply information centrally rather than allow it to be dribbled out by Ministers over the next few weeks and months? Secondly, the cuts are supposed to be due to alleged overspending. How much of the alleged overspending is due to the revised EC budget contribution made by the United Kingdom as a result of the Prime Minister's failure at the Stuttgart summit?

Mr. Peter Rees: The detailed allocation of cuts within the cash limited programme is a matter for the respective departmental Ministers, and it is for them to answer questions on that.

The diminished refund from the EC is certainly an element in the overspend, but I cannot say exactly what proportion it represents as we are dealing with possible overspend for the entire year. We must consider how matters are likely to develop at the end of the year. On the best information available to the Government at and just before 7 July, it seemed advisable to make the modest readjustments which I am commending to the House.

5 pm

The Under-Secretary for Procurement (Mr. Ian Steiner), I should like to make a statement on the dockyard in Gibraltar.

Following close consultation between Her Majesty's Government of Gibraltar on the arrangements for the Royal Naval dockyard at Gibraltar and a commercial ship repair yard, related matters, the Government intend to recommend to the Gibraltar Government fully to support the terms which we have agreed with the United Kingdom. The Chief Minister of Gibraltar has already announced to this effect in the House of Commons.

The Royal Naval dockyard was closed in December 1984, a year later than planned. At this end, a state of redundancy was reached in September 1983 in respect of the Royal Naval dockyard. Individual employees issued thereafter as appropriate payments will be made. The Gibraltar Government that, in addition to the Naval dockyard, the yard will be converted to a Gibraltar Ship Repair Company, a commercially managed company, Appledore International Ltd, a subsidiary of the Gibraltar Government.

Associated with the conversion of the dockyard and the establishment of the Gibraltar Ship Repair Company, Her Majesty's Government has agreed measures of support for the conversion and assets for the commercial yard, handed over free of charge. A total of up to £28 million is available for the initial cost of conversion, including losses, if any, in the first year of operation of the new yard. This support is only after satisfactory assurance has been given by the commercial operator of the yard of working practices. Subject to the above, the funds could be disbursed before the end of the year. The flow of funds for the maintenance of those works is also being considered.

During the first three years of operation of the commercial yard, work will be done for the Ministry of Defence on Royal Fleet Auxiliary vessels of £14 million at current prices. This is available on other Ministry of Defence projects of approximate value of £500 million. In addition, the Ministry of Defence will provide management staff so as not to place a burden on Gibraltar's scarce staff resources.

An Agreement has been reached between the Government of Gibraltar and the Government of the United Kingdom for the transfer of surplus land to the Gibraltar Government. The Ministry of Defence will release to the Gibraltar Government land which will facilitate the development of commercial facilities on the land when present facilities on the land are exhausted elsewhere and when the Government of Gibraltar is to proceed with development.

CONFIDENTIAL



2

Prime Minister

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

ms 29/7

mt

FOREIGN SECRETARY

PUBLIC EXPENDITURE 1983-84

Thank you for your minutes of 22 and 25 July about the BBC External Services and the British Council. *with ms?*

Following the discussions between us about savings on these and other spending programmes, I am content to accept the proposals you have made.

I am sending a copy of this minute to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'N.L.'.

N.L.

27 July 1983

CONFIDENTIAL

Exampol,
Public Exp,
14 23

58.111

RESTRICTED



10 DOWNING STREET

From the Private Secretary

27 July 1983

CASH LIMIT REDUCTIONS

Thank you for your letter of 26 July.

The Prime Minister agreed to the Chief Secretary announcing today the revised cash limits, with a footnote in the printed text from which it would be clear that the Prime Minister's pledge on National Health Service expenditure was being honoured.

As you know, later this morning the Prime Minister agreed, in a short discussion with the Lord President and the Chief Whip, that the statement could be made orally.

I am sending a copy of this letter to David Heyhoe (Lord Privy Seal's Office) and Murdo Maclean (Chief Whip's Office).

M. C. SCHOLAR

John Kerr, Esq.,
HM Treasury.

Top Copy filed on Local Govt Retainers
cc Public Exp file
mt

There were four statements today.

1. The Scottish Rates Support Grant

This was a fairly routine occasion giving Opposition members a chance to complain generally about interference with local government. There was comparatively little support from Government benches but Mr. Younger had no difficulty.

2. Stock Exchange

Mr. Parkinson's statement predictably aroused the wrath of the Opposition who accused the Government of exempting their friends in the City from the requirements of the law. There was, however, a general welcome from the Government side for the statement and considerably detailed questioning about the agreement reached with the Stock Exchange. Opposition members were not interested at all in the contents of Mr. Parkinson's statement and he was able to make effective use of the point that the Opposition had given the trade unions very considerable immunities while requiring nothing from them in exchange. He also stressed the desirability of settling matters out of court at a great saving to the taxpayer. Generally speaking the Opposition were not able to make their charges stick.

3. Public Expenditure

Mr. Rees had a considerable success with his statement both in its content and style. The approach of the Opposition clearly demonstrated there would have been disproportionate trouble had the statement not been oral. But Mr. Rees' low-key approach was, I suspect, far more successful in diffusing the situation than would have been the Chancellor. The Opposition questioning concentrated on job losses, in particular in the National Health Service which suggests that you may have the figure of 8,000 job cuts quoted to you tomorrow.

4. Gibraltar

Mr. Stewart's statement received a low-key response as befitted the fourth statement on a hot afternoon. The settlement was generally welcomed even amongst some Opposition members, who could not make up their minds whether the amount of work which had been guaranteed to the commercial dockyard was too great or too little. I think it unlikely that the subject will come up at Questions tomorrow.

5. White Paper on the Rates

Mr. Kaufman sought to cause a row about the delayed publication of the Rates White Paper calling on two occasions for a statement. It was clear that the Speaker was not going to be very helpful on this and in the end Mr. Jenkin had to come to the House to explain why the White Paper was not being published until next week. The Speaker allowed Mr. Kaufman to question Mr. Jenkin but he was able successfully to damp down the little excitement which was still left.

27 July, 1983

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SUBJECT

file



cc: Chanc/Ex.
Chief Sec, HMT.

cc master

10 DOWNING STREET

From the Principal Private Secretary

26 July 1983

cc NATIONAL HEALTH: Seminar on
Health and Social Security
expenditure; 16 Sept 83: August 83

Your Secretary of State came to see the Prime Minister yesterday evening about the Government's approach to the public expenditure programme of the DHSS.

Your Secretary of State suggested, and the Prime Minister welcomed the suggestion, that the Government should devise its approach to the short-term public expenditure problems on the basis of a carefully-considered medium term strategy. Through the firmness of its approach in the last Parliament, the Government had achieved valuable long-term reforms which, despite initial opposition, were now generally accepted as important improvements, for example on earnings-related unemployment benefit, sickness benefit and the historic method of uprating. The Government needed to identify the further reforms it intended to undertake during this Parliament, recognising that legislation would be required for some of them, and decide its short-term strategy in the light of its medium-term objectives.

The Prime Minister and the Secretary of State agreed on the importance of supporting further reforms by informed public discussion, which should not be dominated by the lobbyists in the social security field who simply argued for ever-expanding benefits. There was a need to identify, either through the Social Science Research Council or directly, policy study groups or individual academics who could contribute to such public discussion of specific parts of the field. The Prime Minister suggested that your Secretary of State should ask Sir Keith Joseph and Lord Harris of High Cross if they could suggest some names: she would also make enquiries.

A similar approach was needed in the National Health Service. The major thrust here was likely to come through cutting down the waste and inefficiency which resulted from excessive administration or restrictive practices, and thus using the extra resources, which the Government were already planning to allocate to the NHS, more effectively for patient care. In this respect, it would be helpful if Mr. Roy Griffiths were to write the report of his management inquiry in a form in which it could be published: your Secretary of State agreed to put this point to Mr. Griffiths.

Summing up the discussion, the Prime Minister suggested the following next steps. It would be helpful to her thinking about the social security system if she could be given an oral briefing,

/ before

before she goes away on her holiday, on how the current structure of contributory and non-contributory benefits fits together. I am in touch with Sir Kenneth Stowe about the arrangements for this. Then the Prime Minister suggested that she should hold a small meeting in September, involving Ministers from your Department and from the Treasury, at which a strategy for social security benefits and expenditure on the health service could be discussed: some outside experts might be invited to some part of that meeting, both in order to contribute their ideas and to identify areas to which they should be encouraged to direct further studies.

B/P
If your Secretary of State agrees, perhaps Sir Kenneth Stowe would consult the Treasury about a possible format for the September meeting and about the papers which might be prepared. I hope that we could make suggestions to the Prime Minister in a week's time about how we might set up the September meeting.

I am copying this letter to John Kerr (Chancellor of the Exchequer's Office) and John Gieve (Chief Secretary's Office). I should be grateful if no copies could be made of this letter and if knowledge of the arrangements proposed in it could be confined to the minimum number of senior officials who need to be involved.

E. E. R. BUTLER

Steve Godber, Esq.,
Department of Health and Social Security.

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RESTRICTED ✓B1



Prime Minister -
Are you content?

Yes

Duty Clerk

pp. MCS

26.7.83.

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

with footnote
mb

Michael Scholar Esq.
No. 10 Downing Street

26 July 1983

Dear Michael,

CASH LIMIT REDUCTIONS

We spoke this morning about the timing of the Chief Secretary's announcement, by written PQ, of the revised cash limits figures. In his statement on 7 July the Chancellor promised that the new figures would be announced before the Recess, and I explained that we were hoping to agree the last of the figures with Departments today, in order to have the option of announcing them tomorrow. I asked you to let me know whether the Prime Minister would prefer us to go ahead tomorrow, or to wait until Thursday.

You told me tonight that the Prime Minister thought it best that we go ahead tomorrow. We have managed to agree the last of the figures, and the Question is accordingly being put down tonight. I attach the text of the Answer which officials have submitted to the Chief Secretary.

The answer is along standard lines. But, following our conversation tonight, we are considering whether the main table should carry three additional footnotes. The first would relate to the DHSS's Vote XII, and would state that:-

"This reduction offsets an increase in the non-cash-limited Vote XI2 (health and personal social services (other), England)."

The other two footnotes would make the same point in respect of Scotland and Wales. (It will of course be made anyway in briefing: the question is whether it should appear in the printed text.)

Some Departments have chosen, with Treasury agreement, to reallocate the reductions between their cash limits so that some take more than their share, and some less. This explains why a few cash limits (eg. those covering the Research Councils) are un-amended.

RESTRICTED



A similar announcement of the reductions in nationalised industry EFLs will be made separately, and probably on Thursday.

I should be most grateful if you could confirm in the morning that the Prime Minister is content for us to proceed as proposed.

I am sending a copy of this letter to John Gieve in the Chief Secretary's Office.

Yours ever
J O Kerr

J O KERR

To ask the Chancellor of the Exchequer if he will give the revised cash limits for 1983-84 following his public expenditure statement of 7 July.

A. A list of revised cash limits is shown in the following table.

The total reduction in cash limits following the Chancellor's 7 July statement is some £589 million. In addition, there is a saving of £25 million in health expenditure not subject to cash limits, resulting from savings in the NBS drugs bill agreed to by the pharmaceutical industry in the current year. Together with reductions in external financing limits totalling some £58 million, being announced separately, there is a total reduction of about £670 million as a result of the measures announced on 7 July. Allowing for the effect of cash limit reductions on underspending this is consistent with the reduction in the 1983-84 public expenditure outturn of some £500 million, the figure given by the Chancellor on 7 July.

All cash limited programmes have been reduced. But the distribution between individual cash limits may vary according to circumstances.

Five other cash limit changes are included in the table, as follows:

(i) £1,500,000 has been added to the cash limit for class X vote 3, Universities etc (Department of Education and Science), to allow for the costs of pay awards to clinical academics following the recommendations of the Doctors and Dentists Pay Review Body.

(ii) £4,219,000 has been added to the cash limit for class XII vote 5, administration and miscellaneous services (Department of Health and Social Security), to allow for the additional administrative costs arising from changes in social security benefits announced in the Budget.

These two increases will be charged to the Contingency Reserve, and will therefore not add to the planning total of public expenditure.

(iii) £250,000 has been added to the cash limit for class XI vote 1, health and personal social services England. There is a corresponding reduction in the cash limit on new towns' expenditure DOE/NT1. This is to allow a transfer of resources from Peterborough new town to the district health authority. There is no net increase in public expenditure.

(iv) the cash limit for class I vote 1, Defence - pay etc of the armed forces and civilians, stores, supplies and miscellaneous services, has been reduced by £370,000 to allow for a transfer to class II vote 2, international subscriptions (Foreign and Commonwealth Office), which is not subject to a cash limit.

(v) £15,000,000 has been added to the cash limit for class VIII vote 7, Urban Development Corporations, England, to allow for a transfer of urban programme resources originally earmarked for urban development grant within the non voted cash block DOE/LA1. DOE/LA1 has been reduced by the same amount, so there is no net increase in public expenditure. The effect on the cash limit for class VIII vote 7 of this change and the 7 July reduction is a net increase; all the other changes shown in the table are reductions.

CENTRAL GOVERNMENT EXPENDITURE 1963-64, FOLLOWING THE REDUCTIONS ANNOUNCED

BY THE CHANCELLOR ON JULY 7

Table 1: Voted cash limits

Class	Vote	Accounting department	Description of expenditure	Cash limit as at 7 July £ thousand	Reduction £ thousand	Revised cash limit £ thousand	
I	1	Ministry of Defence	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	6,123,554	60,370	6,063,184	
	2	Ministry of Defence	Defence procurement	7,556,780	160,000	7,396,780	
	4	Property Services Agency	Defence accommodation services etc	915,815	15,000	900,815	
	5	Ministry of Defence	Dockyard services	426,825	5,000	421,825	
						(a)	
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic, consular and other foreign and commonwealth services	333,509	4,000	329,509	
	3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	77,082	500	76,582	
	4	Foreign and Commonwealth Office	British Council	40,383	500	39,883	
	6	Cabinet Office	Other external relations: secret service	71,500	715	70,785	
	8	FCO: Overseas Development Administration	Overseas aid	1,027,363	19,691	1,007,672	
	9	FCO: Overseas Development Administration	Overseas aid administration	25,444	210	25,234	
	III	3	Ministry of Agriculture Fisheries and Food	Other agricultural and food services	97,824	2,932	94,892
		5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	26,703	500	26,203
		6	Forestry Commission	Forestry	59,361	879	58,482
7		Ministry of Agriculture, Fisheries and Food	Departmental administration	193,198	350	192,848	
IV		2	Department of Trade and Industry	Miscellaneous support services	32,492	650	31,842
	4	Department of Trade and Industry	Export promotion, trade co-operation, corporate and consumer affairs	196,377	200	196,177	
	5	Department of Energy	Industrial support	85,283	1,680	83,603	
	6	Department of Trade and Industry	Scientific and technological assistance	330,252	7,933	322,319	
	7	Department of Energy	Scientific and technical assistance: nuclear energy	210,291	2,850	207,441	
	9	Export Credits Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	25,855	223	25,632	
	11	Registry of Friendly Societies	Registry of Friendly Societies	1,695	18	1,677	
	12	Office of Fair Trading	Office of Fair Trading	6,609	53	6,556	
	13	Department of Employment	Labour market services	498,072	3,791	494,281	
	16	Department of Employment	Manpower Services Commission	1,230,791	22,036	1,208,755	
	17	Department of Employment	Administration	186,722	2,472	184,250	

			as at 7 July		cash limit	
			£ thousand	£ thousand	£ thousand	
	18	Department of Industry	Central and miscellaneous services	75,653	150	75,503
	19	Department of Energy	Administrative and miscellaneous services	24,046	206	23,840
	22	Department of Energy	Sale of British Gas Corp oil interests	4,000	80	3,920
	23	Department of Employment	Health and Safety Commission	87,873	100	87,773
VI	1	Department of Transport	Roads, etc, England	732,308	14,869	717,439
	2	Department of Transport	Transport services and central administration	114,660	1,578	113,082
	4	Department of Transport	Driver and vehicle licensing	99,896	1,086	98,810
VIII	2	Department of the Environment	Central environmental services, etc	118,202	1,500	116,702
	4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments and the national heritage	72,423	340	72,083
	5	Department of the Environment	Central administration and environmental research	170,313	1,508	168,805
	7	Department of the Environment	Urban Development Corporations, England	66,645	14,004 (b)	80,649
IX	1	Lord Chancellor's Department	Administration of justice: England and Wales	86,155	468	85,687
	2	Northern Ireland Court Service	Administration of justice: Northern Ireland	7,942	121	7,821
	7	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	39,850	651	39,199
	8	Home Office	Prisons: England and Wales	537,245	6,912	530,333
	9	Home Office	General protective services and civil defence: England and Wales	79,550	1,013	78,537
	11	Home Office	Central and administrative services	164,698	1,468	163,230
	12	Treasury Solicitor's Department	Law charges, England and Wales	10,817	94	10,723
	13	The Crown Agent	Law charges, Scotland	12,013	110	11,903
X	1	Department of Education and Science	Schools	180,089	5,786	174,303
	3	Department of Education and Science	Universities, etc	1,441,559	23,100	1,418,459
	4	Department of Education and Science	Central administration	47,318	856	46,462
	12	Trustees of British Museum	British Museum	12,536	125	12,411
	13	Office of Arts and Libraries	Science Museum	7,728	77	7,651
	14	Office of Arts and Libraries	Victoria and Albert Museum	10,456	104	10,352
	15	Trustees of Imperial War Museum	Imperial War Museum	4,140	41	4,099
	16	Trustees of National Gallery	National Gallery	6,797	68	6,729

Cash vote	Accounting department	Description of expenditure	Cash limit as at 7 July £ thousand	Reduction £ thousand	Revised cash limit £ thousand
17	Trustees of National Maritime Museum	National Maritime Museum	4,080	41	4,039
18	Trustees of National Portrait Gallery	National Portrait Gallery	1,789	18	1,771
19	Trustees of Tate Gallery	Tate Gallery	5,375	54	5,321
20	Trustees of Wallace Collection	Wallace Collection	791	8	783
21	Office of Arts and Libraries	Art, Arts Council, etc	109,359	1,059	108,300
22	Office of Arts and Libraries	Libraries: England	46,299	1,022	45,277
XI 1	Department of Health and Social Security	Health and personal social services: England	8,539,250	108,108	8,431,142
XII 5	Department of Health and Social Security	Administration and miscellaneous services	713,022	2,000	711,022
XIII 3	Privy Council Office	Parliament and Privy Council: Privy Council Office	917	8	909
4	HM Treasury	Economic and financial administration	42,876	386	42,490
5	Customs and Excise	Economic and financial administration	321,011	2,964	318,047
6	Inland Revenue	Economic and financial administration	751,919	3,904	748,015
10	Department for National Savings	Economic and financial administration	143,347	1,413	141,934
12	Management and Personnel Office	Central management of the Civil Service, etc	30,885	261	30,624
13	H M Treasury	Central management of the civil service: computers and telecommunications	11,380	107	11,273
14	H M Treasury	Civil service catering services	301	6	295
15	Public Record Office	Records, registrations and surveys	8,496	38	8,458
16	Office of Population Censuses and Surveys	Records, registrations and surveys	23,889	194	23,695
17	Land Registry	Records, registrations and surveys	65,140	663	64,477
18	Charity Commission	Records, registrations and surveys	4,865	46	4,819
19	Cabinet Office	Other services	13,996	106	13,890
20	The Office of the Parliamentary Commissioner and Health Service Commissioners	Other services	1,696	12	1,684
21	Her Majesty's Stationery Office	Stationery and printing: Payments to the trading fund	7,386	148	7,238
23	Ordnance Survey	Records, registrations and surveys	17,275	381	16,894
XIV 1	Property Services Agency	Civil accommodation repayment	278,168	4,677	273,491
3	Property Services Agency	Other civil accommodation services	165,207	6,611	158,596
4	Central Office of Information	Publicity	49,081	780	48,301
7	Government Actuary's Department	Other common services	1,030	6	1,024
8	Paymaster General's Office	Other common services	10,360	109	10,251

Class	Vote	Accounting department	Description of expenditure	Cash limit as at 7 July £ thousand	Reduction £ thousand	Revised cash limit £ thousand
XV	2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries: Scotland	58,889	946	57,943
	3	Scottish Economic Planning Department	Regional and general industrial support: Scotland	132,276	2,476	129,800
	4	Scottish Economic Planning Department	Manpower Services Commission, Scotland	140,077	2,308	137,769
	6	Scottish Development Department	Roads, transport and environmental services, etc	148,003	4,852	143,151
	14	Scottish Home and Health Department	Prisons, hospitals and community health services, etc, Scotland	1,360,496	16,382	1,344,114
	15	Scottish Education Department	Education, libraries, arts and social work: Scotland	112,744	921	111,823
	17	Trustees of National Library of Scotland	National Library of Scotland	2,782	38	2,744
	18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	2,709	42	2,667
	19	Board of Trustees National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	799	11	788
	21	Scottish Record Office	Scottish Record Office	1,445	12	1,433
	22	Registrar General's Office: Scotland	General Register Office for Scotland	3,895	43	3,852
	24	Scottish Office	Scottish Office administration	94,225	510	93,715
XVI	1	Welsh Office	Tourism, roads and transport, housing, other environmental services, education, libraries, arts, health and personal social services, Wales	717,123	7,039	710,084
	4	Welsh Office	Manpower Services Commission	72,335	1,193	71,142
	5	Welsh Office	Agricultural services, support for the fishing industry, regional and industrial development, Wales	56,215	3,737	52,478
	7	Welsh Office	Other services	31,189	283	30,906
XVII	1	Northern Ireland Office	Law, order, protective and miscellaneous services	386,715		
XVIII	15	Crown Estate Office	Crown Estate Office	1,681	14	1,667

Notes

- (a) The four cash-limited defence votes are each separate cash limits, but by agreement with the Treasury they are managed as a global cash limit.
- (b) In the case of this vote the £14,004 thousand is an increase rather than a decrease to the cash limit. The increase of £15,000 thousand, a transfer from DOE/LA1 is partly offset by the reduction following the July 7 announcement.

Table 2: Non-voted cash limits

Department	Cash block	Description of expenditure	Cash limit as at 7 July £ million	Reduction £ million	Revised cash limit £ million
Bank of England	BoE 1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	77.9	3.1	76.8
Department of the Environment	DoE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	630.0	9.6	620.4
Department of the Environment	DoE/LA1	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 service.	2964.7	15.0	2949.7
Department of the Environment	DoE/NT1	Capital expenditure in England by new towns on housing, roads and commercial and industrial investment	67.3	5.3	62.0
Scottish Office	SO/LA2	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.	447.1	2.7	444.3
Welsh Office	WO/LA1	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.	299.5	0.9	298.6
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	1,975.4		

Note

Figures may not add due to rounding.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

26 July 1983

Dear Michael

HEALTH SERVICE EXPENDITURE

You asked for advice on what the Prime Minister might say if challenged to repeat the pledge on health spending that she gave in Edinburgh on May 31.

We suggest the following:-

"I have no intention whatsoever of dismantling the health service.

Last year's public expenditure White Paper showed the total resources for the health service for the next three years. Within the aggregate figures there will no doubt be some changes; for example the pressure on services resulting from the increasing number of elderly will continue to increase, but against this I would expect to see greater savings from improved efficiency. [I do not expect the current expenditure review to lead to any significant change in the planned total of resources for the health service.]"

The final sentence is optional.

You will see that this reply falls short of repeating the statement she made on May 31. The figures for increases in planned expenditure that she quoted were based on the public expenditure provision for the health and personal social services in England net of charges. [The equivalent figures for gross expenditure in England on health and personal social services are £800 million, £800 million and £700 million and for health service (alone) in Great Britain £900 million, £800 million and £700 million, though the latter are not published in the White Paper.]

A firm commitment to the net figures for the NHS would make impossible any public expenditure savings. In particular it would rule out not only reductions in the level of service but also, for example, increased charges whose effect would be to reduce the net cost to the Exchequer without reducing the total resources going to the NHS. It is for that reason, that we would prefer to speak of total (ie. gross) resources for the NHS rather than the net public expenditure element of them.

Yours sincerely
J. Gieve

JOHN GIEVE

PRIME MINISTER

Top copy on
Security on July 1983
Disclosures to the
Guardian on DHSS opposition
to public exp. cuts.

I spoke to Sir Ken Stowe about the report in the Guardian on the public expenditure Cabinet yesterday (copy attached).

He told me that when the Secretary of State returned from Cabinet, he called in his two Ministers of State, the Parliamentary Secretary (Mr. Tony Newton), Sir K. Stowe, Sir Geoffrey Otton, and the Secretary of State's Private Secretary. He gave them an account of the Cabinet discussion and then talked about the difficulties involved for the DHSS in making the cuts likely to be required. But this account was given in a constructive way and there was no indication that Mr. Fowler had fought a lone battle, and no sign of disaffection on his part.

Sir K. Stowe and Sir Geoffrey Otton then withdrew, leaving the Ministers to have a political discussion; and the Secretary of State subsequently had a separate meeting with Sir K. Stowe and Sir Geoffrey Otton at which he commissioned a paper about the options for the DHSS in making the cuts which may be necessary. (That paper is being delivered this evening.) Sir K. Stowe said that there was no talk of possible resignation by Junior Ministers in his presence, and the attitude of DHSS Ministers generally was constructive, although they recognised the difficulties.

Sir K. Stowe thought it likely that the Guardian story came from gossip at Westminster, but doubted very much whether it came from a DHSS Minister.

This does not carry us much further forward, but our conversation will have served to get the message to the DHSS that you did not like seeing these reports in the Guardian. (Incidentally, Sir K. Stowe told me that he was applying the most rigorous controls to the paper being prepared on DHSS options, but even so he was very fearful that there would be leaks from his Department.)

F.F.B.

22 July 1983

Chancellor wins Cabinet backing for £5 bn cuts despite protests

By Ian Aitken,
Political Editor

The Chancellor, armed with the unqualified support of the Prime Minister, yesterday secured the reluctant support of the Cabinet for a huge programme of cuts in public spending.

And he did it without promising early cuts in taxation. The official version of yesterday's crucial Cabinet meeting is that ministers un-animously endorsed Mr Nigel Lawson's demand that their departmental estimates should be cut by £5,000 million to get public expenditure back to the figure set at the time of the last Budget.

On these accounts the Chancellor obtained the unanimous

Parliament, page 19; Financial Notebook, page 16

agreement of his colleagues, but it is not quite like that.

The under-the-counter version makes it clear that there was vigorous protest about the scale of the cuts proposed by Mr Lawson, and that they came most vigorously from Mr Norman Fowler, the otherwise wholly loyal Social Services Secretary.

It became apparent last night that it is his department which will carry the main burden of the cuts.

Whitehall sources continued to emphasise yesterday that the Prime Minister does not endorse the idea that any actual cuts are involved in the present Treasury operation. They insist that it is simply a matter of sticking to existing spending targets which were put to the country during the general election campaign.

But this version of events, though strictly accurate in a

pedantic sense of the word, conceals a much more bruising reality. This is that there will have to be major cuts in some existing programmes to absorb uncontrollable increase in other programmes, such as unemployment benefit and related social security payments like supplementary benefit.

But Mr Fowler's department now seems certain to face an attack from the Treasury on both social security benefits and the National Health Service. There are increasingly obvious signs that Mr Fowler and some of his departmental colleagues may be unwilling to put up with further attacks of this kind, and that some of them may even be prepared to consider resigning.

Their argument is that a substantial feature of the Conservative election campaign was founded on the proposition that the health service was safe in the hands of a Conservative Government, and that benefits would not be seriously eroded.

If those pledges are not honoured, then DHSS ministers will clearly be in difficulty. Spending cuts which go beyond the fatty tissue and slice into real muscle could prove too much for them.

Yesterday's Cabinet however did not get down to this kind of detail. All that was agreed was an overall total for the cuts in departmental estimates, and the question of where the Treasury hatchet will be applied is now left to the chief secretary, Mr Peter Rees, in negotiations with individual departments.

But Mrs Thatcher left no doubt in the Commons yesterday about where her sympathies lay. She told MPs a question time that she was in

Turn to back page, col.

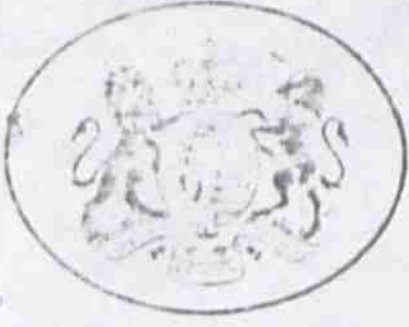
Prime Minister

A & C. 2/7

FCS/83/141CHANCELLOR OF THE EXCHEQUERPublic Expenditure 1983/4BBC External Services

1. We discussed yesterday my concern at the likely effects of imposing this year's cash limit reduction on the BBC External Services.
2. My original view had been that we should take a firm line with the External Services and require them to bear their share of the cuts (£1.2m) like everyone else. But, as agreed, the External Services (and the British Council, which we also discussed) are adept at mobilising Parliamentary, media and public support. They have already fired some opening salvos. If we were to notify the BBC that their cash limit must be reduced they would certainly counter by proposing ways of doing this through selective cuts in services designed to provoke the largest possible outcry. If it came to a Parliamentary debate the Government on past experience could not be confident of winning. It would be very damaging to our general principles to be voted down on a published cash limit reduction, when the amount involved was no more than £1.2m. That is not to say that the BBC should continue to operate outside the disciplines inherent in Government expenditure policies. As Chancellor I was not happy about their administrative and financial efficiency and I have had a preliminary talk with Leon Brittan about what might be done to improve this in the longer term. It is a difficult issue but one Ministers must consider.

/3.



3. When we spoke, you acknowledged the risks involved in doing battle over the External Services and were sympathetic to my search for a different approach. We should not want them to escape scot free and as I said, I propose we tell the BBC that they must make a contribution amounting to £0.5m to the exercise. This sum can be found from the estimated slippage that will arise this year on the capital programme to modernise Bush House. The BBC had fixed their eyes on this for another purpose and had already approached our officials. But I am sure the need to demonstrate the Government's intention to contain public expenditure has a greater claim to the money involved.

4. The approach which I suggest is, of course, designed to spare the Government as a whole the trouble of a public and Parliamentary row with the BBC. It is not solely a problem for the FCO, and it was for that reason that I put it to you that the balance of £0.7m should not be found from the other Votes under my control. At the same time however I told you of the Prime Minister's agreement that we should this year look for savings in the other spending programmes that I mentioned (and which have so far been protected) and am grateful to you for agreeing that it would be sensible to handle these related matters in that way.

5. I shall be minuting to you again about the British Council as soon as I have spoken to Dick Troughton along the lines that we discussed.

CONFIDENTIAL



6. I am sending a copy of this minute to the Prime Minister.

A handwritten signature in dark ink, appearing to be 'Lyn', is written in a cursive style.

Foreign and Commonwealth Office.

22 July, 1983

CONFIDENTIAL

Prime Minister ~~Pl. file~~
Provisional on X. Shall
I pursue Y?

MR. SCHOLAR

PUBLIC EXPENDITURE - CHANGING THE CLIMATE OF OPINION

MCS 21/7

x | We discussed who would be the best academics to pursue studies of public expenditure and to expose the vast increases, particularly in benefits and health service disbursements, that are already entrenched in present commitments. I think the best man to do it, if we can get him, is Alan Peacock. He has done a lot of sound scholarly work on public expenditure, and he has also worked as economic adviser in the Department of Industry. Another very good scholar in his field is Alan Prest. However, I am more doubtful about him; he is rather a soured personality and may well be tempted to pursue some of his own little vendettas.

If, however, Peacock cannot do it, I would prefer to put my faith in Maurice Perlman at the London School of Economics. He does not have the detailed experience of Peacock, but he is an imaginative economist and has done some considerable work on expenditure and taxation. (He has done one or two things for the IEA.)

| It would be also a very good idea to get Arthur Seldon and perhaps also John Wood. Similarly, it may be a good idea to get Jack Wiseman of the University of York involved; again he is a good scholar in the field of public economics.

I have
asked Sir
Joseph to
let you have
a view
on this

Although the Prime Minister mentioned the SSRC as a possible sponsor for the study. But in spite of the fact that Sir Douglas Hague is the new Chairman, I do not think it is possible for them to sponsor it. They have their procedures to which they quite properly adhere. If it were to be sponsored by the SSRC then it would take a very long while for it to be refereed, reviewed, and finally decided. And there is no guarantee that the various boards would approve it.

MCS

y

By far the best agency to sponsor it would be the IEA. They would probably want a special grant for carrying out this work, but I suspect that if it were known that the Prime Minister strongly wanted this work to be done, a grant would not be all that difficult to raise. (But I speak from an abysmal lack of ^{of knowledge} the possibilities of such funding!)

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- 2 -

In order to get the issue in the forefront of people's minds, there must be a determined attack in the media. The Economist Newspaper has been very helpful, but we need a much wider range of awareness. There are many media men who would be only too pleased to take this up. I can think of Andrew Alexander in the Mail, Larry Lamb in the Express and of course our friends on the Times and at the Telegraph. Somehow they must point out that this public expenditure issue is the dominant problem of all the Western world. And if in Britain we can give a lead, as we have done in conquering inflation, then this is a major contribution to the defence of the West and the promotion of material prosperity.

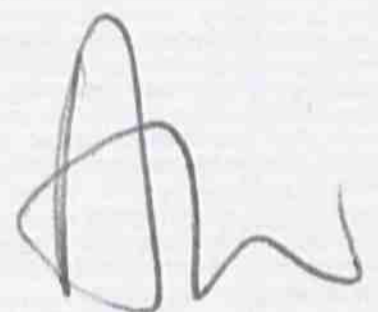
If you wish to pursue this, should I would suggest that the Prime Minister herself appoint some Minister, perhaps Lord Cockfield, to take on this job of organising and promoting the awareness in the media and in academe.

we arrange a meeting

Lord Cockfield, Alan Walters, + Bernard Ingham

Sir K Joseph?

M/S 21/7



ALAN WALTERS
21 July 1983

*not Lord Cockfield
yes involve B Ingham*

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SECRET

cc Econ Policy
SP Policy Pt 24 18
Civil Service: long term
Policy Pt

Ref. A083/2146

PRIME MINISTER

Economic Outlook and Public Expenditure

(C(83) 23-26)

BACKGROUND

On 21 July the Cabinet will, as is customary at this time of year, have its first collective discussion of the current Public Expenditure Survey against the background of an assessment by the Chancellor of the Exchequer of the prospects for the economy.

There are four papers on the agenda:

- (i) C(83) 26: the Chancellor of the Exchequer's memorandum on economic prospects.
- (ii) C(83) 23: the Chief Secretary's main memorandum on public expenditure, both in 1984-85 and the two succeeding years, and in the longer term.
- (iii) C(83) 24: a memorandum by the Chief Secretary on Civil Service numbers.
- (iv) C(83) 25: a memorandum by the Chief Secretary on contracting out and privatisation.

2. Because of the gap imposed by the General Election the usual detailed PESC Report is not yet available. But that should not hamper the Cabinet's discussion: the aim at this stage is to lay down broad guidelines and not to discuss individual programmes in detail.

Economic Prospects

3. C(83) 26 surveys the economic scene in broad terms. It sees some encouraging developments on prices and on unemployment, but draws attention to the risks, particularly on the overseas front because of the high budget deficit in the United States. On the domestic side, it recalls the recent disturbing trends in the money supply, public expenditure and borrowing which lay behind the measures announced on 7 July. It implies that the modest fiscal adjustment of £½ billion in 1984-85 foreshadowed in this year's

SECRET

Financial Statement and Budget Report is at risk. The highest level of public expenditure that can be afforded is that published in this year's Public Expenditure White Paper (Cmnd 8789). Even then there will be a risk that taxes may still have to be put up next year.

Public Expenditure: Current Survey

4. C(83) 23 has two main sets of proposals: one set for the current survey period and one for the longer term. The main figures relevant to the survey period are as follows.

	<u>£ billion</u>		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
<u>Cmnd 8789</u>			
Programmes	125.3	130.4	
Planning reserve	3.0	3.0	
Net sales of assets	-1.5	-0.5	
<u>Other adjustments</u>	<u>-0.4</u>	<u>-0.7</u>	
Planning total	<u>126.4</u>	<u>132.3</u>	<u>140.3</u>
Survey baseline for 1986-87			137.5
Change on previous year	5.8%	4.7%	4.0%
<u>1983 Survey</u>			
Agreed changes*	0.7	1.1	
Departmental bids	= 5.4	= 5.8	= 7.0
Prospective addition to planning total/baseline	6.1	6.9	7.0

*Mainly due to changed economic assumptions.

Observe

5. The Chief Secretary proposes that his objective in the bilateral discussions with spending Ministers which customarily lead up to final decisions by the Cabinet in the autumn should be to hold to the published planning totals for 1984-85 and 1985-86 and to keep the total at approximately the same real level in 1986-87: I understand that this implies a planning total in 1986-87 of £140.3 billion.

6. The Chief Secretary proposes to maintain the planning reserve (also ~~referred to as the~~ referred to as the "contingency reserve" -

see paragraph 11 below) at £3 billion rather than, as in recent surveys, to draw it down in order to meet agreed additional bids. He also indicates that unavoidable bids in 1984-85 are likely to total £2½ billion. I understand that this is made up as follows.

	<u>£ billion</u>
Agreed changes	0.7
Local authority current expenditure	0.5
Social security	0.2 =
Defence	
Price increases	0.1 -
1983 AFPRB award	0.1 -
NHS: 1983 DDRB award and family practitioner service	0.2 -
Agricultural price support	0.4 //
Other	<u>0.3 //</u>
	<u>2.5</u>

It follows that to get back to the planning figure for 1984-85, not only must the whole of the remaining bids be rejected, but also a net £2½ billion of savings must be found. At its meeting on 14 July the Ministerial Sub-Committee on Economic Affairs (E(A)) agreed to aim for savings of about £1 billion on the external financing requirements of the nationalised industries (ie that the industries' bids for an additional £½ billion of external finance should be rejected and that, in addition, reductions below the baseline of £½ billion should be secured). But even if that should prove realistically attainable, it will leave £1½ billion to come from Departmental programmes. The Chief Secretary considers that similar reductions are required in the remaining years of the survey.

Public Expenditure: Longer Term

7. The Chief Secretary also draws attention to the threat to the Government's tax objectives in the longer term presented by high levels of public expenditure. A combination of 2½ per cent a year economic growth and holding public expenditure constant in real terms to 1988-89 - ie extending the Chief Secretary's proposals for the survey period to the end of the maximum life of the present Parliament - would still leave the ratio of taxation to gross

domestic product above the level of 1978-79. The Chief Secretary proposes that the Cabinet should endorse a target of holding total public expenditure constant in real terms up to 1988-89. He would then circulate in September a set of programme figures constructed on the basis of this target for discussion by the Cabinet. The programme figures, as amended in the light of that discussion, would then inform the remaining stages of the survey. The beginning of a new Parliament is clearly a good time for establishing a trend for public expenditure beyond the short term.

Civil Service Numbers

8. C(83) 24 refers back to the Cabinet discussion of last December (CC(82) 53rd Conclusions, Minute 8), when it was agreed to identify and quantify the scope for reducing Civil Service manpower between 1984 and 1988. It reports that there is already a fair prospect of reducing the size of the Civil Service to 605,000 by 1 April 1988 (although this depends critically on the hiving-off of the Royal Ordnance Factories), and proposes that one of the aims in the bilateral discussions of public expenditure between now and the autumn should be to identify further savings, with the aim of at least getting below 600,000.

Contracting Out and Privatisation

9. C(83) 25 is essentially a progress report coupled with a general request to members of the Cabinet to keep up the pressure to reduce the size of the public sector. It proposes a further report in a year's time.

MAIN ISSUES

10. The main issues before the Cabinet arise on C(83) 23. They are:

- (i) Does the Cabinet endorse the Chief Secretary's proposed aims for the current Public Expenditure Survey?
- (ii) Does the Cabinet agree with the Chief Secretary's proposals for handling longer-term prospects?

Although they should require less extensive discussion, you will also wish the Cabinet to consider:

- (iii) Are the Chief Secretary's proposals on Civil Service numbers, and contracting out and privatisation, acceptable?

The Public Expenditure Survey

11. It seems unlikely that many members of the Cabinet will argue that the Government should now abandon the aim of holding to the published planning figures for 1984-85 and 1985-86, or should plan for large real increases in expenditure in 1986-87. The main points likely to be raised in discussion are probably the following:

Economic Prospects. Some members of the Cabinet may express surprise that the improved prospects for output and inflation should not have more favourable effects on the prospects for public expenditure. In isolation, they are obviously beneficial. But they need to be weighed against other, less favourable factors such as less buoyant revenue, to which the Chancellor draws attention in C(83) 26. And experience this year shows the vulnerability of economic forecasts and the importance of caution in managing public expenditure.

→ Pay. It may be argued that if the Government sets, and can adhere to, a low public service pay factor for 1984-85, the prospects for public expenditure will be easier. That will be a matter for discussion and decision in September. But although the pay factor may influence the level of public service settlements, it does not determine them. In any case this should not be allowed to distract discussions from the immediate question before the Cabinet, which is the overall objective of the survey.

Contingency Reserve. It is likely to be argued that a contingency reserve of £3 billion is excessive. Cmd 8789 said that the reserve of £2.5 billion in 1981-82 and £2.4 billion in 1982-83 were "unnecessarily large"; and although this year's reserve of £1.5 billion is tight, there are no signs yet that it is likely to be overspent. The argument is partly a matter of terminology. Strictly speaking, the contingency reserve for a financial year current or immediately in prospect is a control device. Only increases

SECRET

in expenditure which are within the control of Ministers are charged against it: overruns on demand-determined programmes or overspending by local authorities, for example, are not so charged. The Chief Secretary is effectively arguing for a £3 billion reserve in a broader sense: a safety margin against all forms of excess expenditure. Not only are there the inevitable uncertainties about demand-determined expenditure. There are also items - such as our contribution to the

- ① European Community and local authority current expenditure -
- ② for which the figures eventually published are likely to represent what the Government wants to happen rather than a central estimate of what will happen. Again, the scheme of
- ③ end-year flexibility which the Cabinet approved on 7 July will tend to increase expenditure in 1984-85 and later years. All these are arguments for a substantial "contingency reserve" in the broader sense mentioned above.

Sales of Assets. It may be suggested that sales of assets should be increased. But the published plans already take credit for significant sales. More sales, even if they could be achieved, would not affect the long-term balance between expenditure, revenue and borrowing. Even the Chancellor's announcement on 7 July that the Government was planning an extra £500 million of disposals in the current financial year attracted unfavourable comment in the media.

→ Years after 1984-85. The Chief Secretary says that reductions of "at least the same order" will be required in 1985-86 and 1986-87 as in 1984-85. But that is not immediately apparent from the figures. Agreed changes in 1985-86 total only £1.1 billion; and the Treasury have not indicated at official level that they regard any significant part of the Departmental bids of £5.8 billion in 1985-86 and £7.0 billion in 1986-87 as unavoidable. Moreover, E(A) agreed to seek about £1 billion savings from the nationalised industries in each year. It may therefore be argued that it is unnecessary to do more in respect of Departmental programmes than to require the withdrawal of additional bids. It will be for the Chief Secretary to defend his proposals in detail. But if there is dispute it

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will probably be best to concentrate on the need to agree on measures which give reasonable assurance that the overall totals approved by the Cabinet can be delivered.

Public Expenditure in the Longer Term

12. In discussion of the longer term you will wish to avoid at this stage any major dispute on specific issues of substance (for example, over the scope for real growth in defence expenditure or the future of the Health Service). At this stage the Cabinet are being asked merely to agree in principle to work towards an overall expenditure target for 1988-89. There will be opportunities in the autumn to discuss the Chief Secretary's projections and to confront the difficult issues about priorities which may arise.

13. There may be pressure for "alternative assumptions" to be used. Some Ministers may argue that the assumptions suggested by the Chief Secretary are pessimistic and that more optimistic assumptions should be taken. The Chief Secretary is likely to point out that, judging by the experience of recent years, economic growth of 2½ per cent a year would be an above-average performance; and that, even on that basis, he does not envisage getting the relevant tax burden down to the level of 1978-79. There might indeed be a case for inviting the Chief Secretary to explore alternative scenarios (though the number of them would obviously need to be strictly limited) biased towards less favourable economic assumptions, and with more ambitious targets for reducing taxation.

Civil Service Numbers

14. It is unlikely that there will be any substantial disagreement with the proposals in C(83) 24. The Chief Secretary is merely asking for "rather larger reductions than those so far on offer" with the aim of bringing the total some way below 600,000. He will be pursuing these matters in his bilaterals.

15. Pressure on numbers focuses Departments on improving management (and the scrutinies show there is still scope for reduction). A figure of around 600,000 comes out of the survey of Departments. Over four years that would be an average of 1.2 per cent per annum. That is perhaps a realistic figure, given the reductions that will already have been achieved. But it is

SECRET

relatively modest - particularly given that it includes the hiving-off of the Royal Ordnance Factories, which accounts for part of the reduced numbers. If we are not going to set a lower target, we shall need to keep up and even step up the other pressures for improving efficiency and productivity in the Civil Service.

Contracting Out and Privatisation

16. Again, there is unlikely to be much disagreement with the proposals in C(83) 25. The Chief Secretary is seeking only the Cabinet's endorsement for maintaining the effort. You will probably wish to underline the political importance of continuing to make progress.

17. Reductions in Civil Service numbers are likely to require some measures of "hiving-off". A Community Directive (on "Acquired Rights") appears to impose constraints on staff savings during certain types of "hiving-off". It may be suggested that these constraints may be a serious obstacle to reducing staff numbers at an acceptable cost. You will not wish to pursue this point in detail: the Chief Secretary is already considering the scope and effect of the Directive.

HANDLING

18. You will wish to invite the Chancellor of the Exchequer to open the discussion by describing the economic background and prospects and the Chief Secretary, Treasury, to follow this up with a more detailed account of his proposals on public expenditure. All members of the Cabinet will wish to contribute to the subsequent discussion.

CONCLUSIONS

19. You will wish the Cabinet to reach conclusions on the following.

- (i) Does the Cabinet endorse the Chief Secretary's proposals for the current Public Expenditure Survey on:
 - (a) the public expenditure totals and therefore the savings to be found;
 - (b) taking the survey forward by the customary process of bilateral meetings and a report to the Cabinet in the autumn?

SECRET



- (ii) Does the Cabinet endorse the Chief Secretary's proposals:
 - (a) on the longer-term aims for public expenditure;
 - (b) for a discussion of this in September which would, among other things, set a framework for the proposed bilaterals?
- (iii) Does the Cabinet endorse the proposals in paragraph 9 of C(83) 24 on Civil Service numbers?
- (iv) Does the Cabinet endorse the proposals in paragraph 10 of C(83) 25 on contracting out and privatisation?

20. If so, the Cabinet will need to authorise the Chief Secretary to proceed with his discussions of public expenditure and manpower accordingly.

RA

ROBERT ARMSTRONG

20 July 1983

SECRET

Personal.



ms

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

July 20 1983.

Dear Prime Minister.

I am enclosing for you
a copy of a letter I have
just sent to the Chief Secretary.
I do not intend to raise
these kind of points in tomorrow's
discussion but I thought you
would like to see a copy.

Yours ever

D. Howe



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 Peter Rees QC MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
 LONDON
 SW1P 3AG

20 July 1983

Dear Peter

Thank you for your letter of July 4 about the Government's attitude to child benefit and expenditure on the National Health Service.

As far as child benefit is concerned you will know that the Prime Minister in her letter of May 20 to Brynmor John said "there are no plans to make any changes to the basis on which the benefit is paid or calculated". I made similar statements to that during the election campaign and the position has been repeated by other Ministers.

What, however, we have not done is to repeat the commitment made by Patrick Jenkin on July 28 1980 when he said "we are committed to the child benefit system and it is our intention, subject to economic and other circumstances, to uprate child benefit each year to maintain its value". Ministers here have been instructed not to repeat that pledge and I am sure you will agree with that.

As far as health service spending is concerned the Government's attitude was again set out during the election campaign. In her speech in Edinburgh on May 31 the Prime Minister said:

"The health service is safe with us. I have no more intention of dismantling the National Health Service than I have of dismantling Britain's defences.

"And if you look at our public expenditure plans for the next three years, there it is in black and white. These are the figures: £700 million more for the NHS this year - another £800 million more for the NHS next year, and another £700 million the year after that.

"Labour knows these facts. They are there in the book. All budgeted for within a sound financial policy. Not a promise but a firm commitment."

E. R.

I have as you mentioned also made the same kind of point. Clearly the words included in the latest Public Expenditure White Paper to the effect that published plans for the health service were subject to review were intended to cover the possibility of upward rather than downward review. All public expenditure programmes are subject to review in the normal way and during discussions with your predecessor I insisted on the additional wording in the White Paper precisely because we needed to signal the possibility of some upward demand in later years. However, clearly I accept that we are not committed to going beyond the provision in the Public Expenditure White Paper - although I will want to say something on the implications of such a policy tomorrow.

NORMAN FOWLER



Prime Minister

Trouble: please see X

Treasury Chambers, Parliament Street, SW1P 3AG

MUS 20/7

Rt Hon Michael Heseltine MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

20 July 1983

Dear Secretary of State

PUBLIC EXPENDITURE SURVEY 1983

Thank you for your letter of 15 July. I am sorry that you feel unable to agree with me on the question of the Survey baseline for 1986-87, and must ask you to reconsider your position.

Because this issue rested with your letter when my Cabinet paper C(83)23 had to be finalised, it specifies for the defence bid for 1986-87 your figure of £1239 million. But this should certainly not be interpreted as agreement that the defence baseline for that year should simply be increased by £569 million. My position firmly remains that the 1986-87 baseline for defence should be £18291 million, not the £18859 million you assume.

The agreement last year was that extra defence Falklands costs would be met out of monies in addition to the 3% annual rate of real growth. There was no agreement that your extra £552 million Falklands provision for 1985-86 should be incorporated in the defence baseline and rolled over in perpetuity; that would involve an increasing annual gain for the defence budget as the level of military expenditure on the Islands declined. I also note that your 1986-87 bid for 3% real growth in defence spending is based on a calculation that includes the Falklands addition; it is surely illogical to be asked on the one hand to fund Falklands costs on top of 3% annual real growth, and on the other to calculate that real growth on a Falklands-inclusive base. The result would simply be further profit out of the Falklands for the defence budget.

I am not seeking to prejudge the question whether there should be any additions to the 1986-87 defence baseline. But the purpose of the baseline is to facilitate decisions, not to anticipate them. How much provision is made for defence and other programmes in the final year should be a matter for collective consideration. This is the essence of the Public Expenditure Survey. To this

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end there must be as wide a choice of options as possible. You have already declined to identify any possible programme reductions for 1986-87. It would be unfair to colleagues further to preempt collective decisions simply by increasing the defence baseline by an arbitrary and artificial £569 million.

In the light of the importance of the Survey to our public expenditure and economic strategy, I must therefore ask you again to accept that the 1986-87 baseline be £18291 million, and to frame your bids accordingly. Like other programme bids, they can then be considered on their merits in the light of all the relevant circumstances.

X | If however you still feel unable to accept this way forward, you may wish the issue to be given collective consideration as soon as possible. While I should naturally prefer not to trouble colleagues tomorrow with an extra PES difficulty, there seems little alternative; the amount at issue here is large, and special treatment for defence would inevitably repercuss on the remainder of the Public Expenditure Survey.

I am copying this letter, together with our previous exchange, to the Prime Minister, to other Cabinet colleagues and to Sir Robert Armstrong.

Yours sincerely

J. Gieve

J.R. PETER REES

[Approved by the Chief Secretary]

CONFIDENTIAL

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01 218 9000

DIRECT DIALING 01 218 2111/3

MO 8

15th July 1983

John

Thank you for your letter of 12th July. I am afraid that I find some difficulty with what you propose.

As I understand it the purpose of the baseline provision is essentially to reflect existing policy. It is unquestionably our policy to fund Falklands costs in addition to the NATO 3% commitment. It was a specific element in last year's PES settlement that after 1985/86 the defence budget should be set at a sufficient level to make full allowance for continuing Falklands costs (see the last sentence of paragraph 13 of the annotated agenda circulated by your Private Secretary on 14th October 1982). Provision for the Falklands should therefore be included in the baseline and not treated as a bid, which carries the implication that it represents a departure from existing policy. When this year's guidelines were circulated for consideration I assumed that this was the reason why separate mention was not made of the Falklands.

This was the basis on which (with reservations on other points) I accepted the guidelines and I do not think it right that you should ask me to accept a change at this late stage.

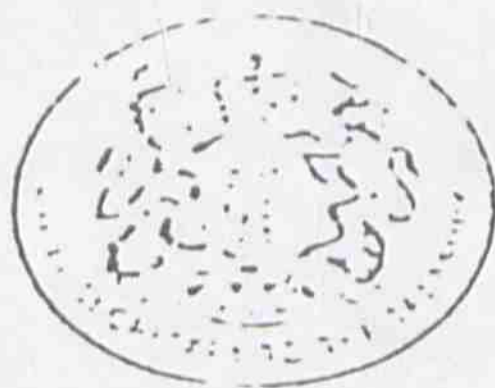
*Yours
Michael Heseltine*

Michael Heseltine

The Rt Hon Peter Rees QC MP

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Main Building
Whitehall
LONDON
SW1A 2HB

12 July 1983

Dear Secretary of State

PUBLIC EXPENDITURE SURVEY 1983

Officials have drawn to my attention a problem that has arisen over the presentation of your PES contribution. I hope you can agree to its prompt resolution.

The difficulty concerns the baseline for 1986-87. It seems to have been caused by some inexactness in the wording of the Survey guidelines, and I must apologise if Treasury drafting did not make the position entirely clear.

For the most part, the 1986-87 baseline is calculated simply by adding 3% to 1985-86 provision. But there are exceptions where circumstances are significantly different in the two years. In the case of your own programme, the 1985-86 provision comprises two parts - the "normal" defence budget plus the £552m special addition in respect of the Falklands. The intention was that only the "normal" defence provision should be rolled over to produce the 1986-87 baseline; perhaps, with hindsight, this should have been made explicit in the guidelines. What provision should be made in respect of the Falklands cannot be the result simply of a roll-over of the previous year's figure; but must form part of the normal process of the Survey.

On the basis of the above, the make up of the defence figures would look slightly different from those you approved last week. The 1986-87 baseline would be depressed by some £569m, and the bids total would be increased commensurately. I attach a table showing what the overall picture for the final year would be.

Our officials will no doubt wish to discuss and refine these figures before our bilateral; you may wish, for example, to adjust the amount now shown in respect of the Falklands. Meanwhile there is an urgent need to draw up all the 1983 PES figures for presentation to Cabinet on the same basis. I should therefore be grateful for your agreement that the defence figures be presented on the lines

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attached - that is, in a manner that reflects the intention,
if not the precise letter, of the Survey guidelines.

Yours sincerely

J. A. Greig

for PETER REES

[Approved by the Chief Secretary

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	<u>£m</u>	<u>1986-87</u>
Defence Budget		18,290.6
ROFs		-
		<hr/>
Total Baseline		18,290.6
		<hr/>
Additional bids:		
(1) Extra cost of 1983 AFPRB award		99.9
(2) Adjustment of baseline to provide 3% real growth a year until 1985-86 and to carry forward the 1985-86 level to 1986-87 in real terms		553.5
(3) Maintenance of 3% commitment in 1986-87		585.4
(4) Falklands costs		568.6
		<hr/>
Total additional bids		1,807.4
		<hr/>

PERSONAL AND CONFIDENTIAL



10 DOWNING STREET

From the Principal Private Secretary

File Surf
cc Mr. Catford
Mr. Flesher
(no second carbon)

19 July 1983

PUBLIC EXPENDITURE CUTS

Thank you for your letter of 15 July.

I can well understand why you should be raising the questions in your letter. This is a good time of year to review the likely outturn of No. 10's expenditure. There is bound to be an element of guess work at the beginning of the year principally because of the Prime Minister's overseas travel. Her plans for the travel season have just become clear and, by putting these alongside expenditure so far incurred, it should be possible to reach a better judgment about the outturn. I do not see much flexibility in other expenditure, although there are some changes in both directions in staff numbers since the estimates were framed.

The best person to run over the figures with yourself and Laurie Attfield would be Robin Catford, who may want to bring along Tim Flesher and/or Joan Porter. I have alerted him to expect a call from your office.

I am copying this letter to the recipients of yours.

F. E. R. BUTLER

P. Le Cheminant, Esq., C.B.,
Management and Personnel Office.

PERSONAL AND CONFIDENTIAL



✓ 16A

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

19 July 1983

Richard Hatfield Esq
Private Secretary to
Sir Robert Armstrong
Cabinet Office

New Richard,

The Prime Minister last week discussed with the Chancellor Bernard Ingham's suggestion that the Treasury might prepare a short text on public expenditure for use by the No.10 Press Office after Thursday's Cabinet. I enclose a copy of a text which has been cleared by the Chancellor and is being submitted to Bernard Ingham.

Copies of this letter and the text go to Michael Scholar at No.10.

Yours ever,

J O Kerr

J O KERR
Principal Private Secretary

*Secret***PUBLIC EXPENDITURE**

The Cabinet this morning discussed public expenditure for 1984-85 and later years, and agreed to adhere to the totals already published in the February White Paper (Cmnd 7879) for 1984-85 and 1985-86. They also decided to keep total expenditure at the same level in real terms for 1986-87. The detailed figures for each programme, including the necessary manpower provision, will now be discussed between Treasury and departmental Ministers in the usual way, ~~leading to final decisions in Cabinet during the autumn.~~

about

Secret.

Econ Pol.
Public Exp.



Prime Minister ⁽²⁾

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

Mus 19/7

18 July 1983

Jean Peter.

Public Expenditure 1983-84: Universities, science and student grants

Thank you for your letter of 15 July. - attached.

As you say, I have with great difficulty identified the whole of the required savings in my cash-limited programmes in such a way as to leave the science budget unaffected. But I shall have to find well over £20m from the universities, which account for most of the rest of my cash limits. This will sharply reduce the scope for rationalisation and new developments, as is bound to become apparent when you announce the reduced cash limits next week. At least part of the reduction will of course have to be restored later in the year when we know the cost to the universities of the unavoidable loss in fee income resulting from the House of Lords' judgment by Lord Scarman on the residential qualifications of overseas students. We have undertaken to make good this loss.

I am grateful to you for deciding not to pursue your earlier proposal that, to offset the effects of Scarman on the bill for student support, I should make further savings, beyond the cash limits, by reducing the level of grants to home students for the coming academic year which we have already announced. I shall make the new regulations very shortly in the form in which they have been agreed with the Treasury.

The costs of Scarman in later years are very uncertain; but, as I said in my letter of 8 May to Leon Brittan, I hope to meet them from my existing budget for student support provided that the transfers to my programme which he endorsed in his letter of 10 December are made in the 1983 Survey. I emphasised this proviso in my letter of 6 July, which you have acknowledged separately.

/There were

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
London SW1P 3AG

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There were misleading press and radio reports last week of the Prime Minister's letter about the universities to the Association of University Teachers during the election; and I am sending her a copy of this letter so that she will know how matters stand. A copy also goes to George Younger.

Enclosure,

Kevin -

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SECRET



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

cc No 16

(2)

Prime Minister

MUS 18/7

The Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

18 July 1983

Dear Nigel.

mf

Many thanks for your letter of 14 July.

As you say we must now settle this matter, and I am therefore prepared to agree that we should review the position in October. We shall then need to see whether any action is called for, and if so identify the possibilities open to us, on which we might well need to consult colleagues collectively.

I must also make it clear that this agreement in no way prejudices the decision on establishing joint cash limits between the HCHS and FPS, on which Binder Hamlyn are about to report.

I would confirm that the £25 million savings in drugs does indeed represent savings for this year. We intend that the full year value of the reduction in profit levels that we hope to achieve in later years through the review of the PPRS and other steps will in no way be affected.

I am now proceeding to issue the revised cash limits to health authorities.

I am copying this letter to the Prime Minister and Peter Rees.

Norman Fowler
NORMAN FOWLER

SECRET

SECRET

Prime Minister (2)

MS 15/7

15 July 1983
POLICY UNIT

14A

ms

PRIME MINISTER

PUBLIC EXPENDITURE - HITTING THE TARGETS

You are well aware of the anxiety and determination we all share at the outset of this Parliament that the government should:

- a. set targets for public expenditure which enable us to fulfil our aspirations to reduce government borrowing, interest rates and inflation and to promote economic growth;
- b. hit those targets.

Even if the Chief Secretary's targets are the best we can agree on, the danger remains that even those can be achieved only by a series of hasty cuts exercises each year. These "July measures" always diminish the government's authority and cumulatively build up the impression that we are not in control of events.

There are two ways of ensuring that we hit the bullseye steadily each year:

- i. keeping a higher contingency margin. You have already discussed this with Nigel;
- ii. asking each department to work up a reservoir of standby savings.

In addition to the £2 billion of target savings, departments would be asked to suggest how they might save, say, the same amount again, in case the targets are not met because of lower-than-expected growth or overruns on demand-led programmes or nationalised industries' EFLs.

These standby savings could be discussed rationally and in good time - though without firm commitment - between colleagues, instead of having to be squeezed out of departments by the Chief Secretary at the last minute in the autumn bilaterals - often with disastrous consequences to the affected service and its customers.

"Ah, but Whitehall doesn't work like that", would be the answer. No, but every sensible business or family has to think ahead and make provision for the rainy day.

/We suggest that

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- 2 -

We suggest that you invite colleagues on Thursday:

- i. to endorse the Chief Secretary's targets;
- ii. to work up a reservoir of standby savings for 1985/86-1988/89 to be discussed in outline, along with the target savings already asked for by the Chief Secretary.

FERDINAND MOUNT

fm

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Confidential cc

Principal Private Secretary
Mr Bailey
Mr Watson
Mr Wilding
Mr Ridley
Miss Kelley
Mr Mountfield
Mrs Thoms
Mr Faulkner



Treasury Chambers, Parliament Street, SW1P 3AG

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

M
15 July 1983

Re: Secretary of State
PUBLIC EXPENDITURE 1983-84

I understand that, since our meeting yesterday, you have found it possible to secure from your cash-limited programmes the entirety of the savings of £31.3 million required as a result of last week's decisions, while preserving, as you wished to do, the science budget at its existing level. I know that this has required painful decisions, and I am all the more grateful for your co-operation.

Meanwhile, I have been considering whether I can help you on the other matter we discussed. I stressed the importance of identifying further reductions in demand-determined services, and we agreed I ~~think~~ that it would be technically no less feasible to secure the potential savings you had identified on your student awards vote in addition to, rather than (as you had proposed) in partial substitution for, the adjustments sought in cash limited programmes.

You left me in no doubt however as to your personal reservations and your assessment of how such a proposal would be received by others. I appreciate, too, that the timetable for making the necessary regulations is now extremely tight. I have therefore decided not to pursue further any proposal to alter the rates and conditions of student awards already announced for the 1983-84 academic year. That is without prejudice, of course, to the discussions we may have in the context of this year's Public Expenditure Survey of ways of offsetting the cost of the Scarman awards in 1984-85 and later years.

I am sending a copy of this letter to George Younger.

yours sincerely

Confidential



Prime Minister

① 14

There is a new annex, with some very doubtful bids described.

Treasury Chambers, Parliament Street, SW1P 3AG

You have Alan's

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

note.

Agree circulation

15 July 1983

Yes - much better

of this revised

draft?

MUS 1577

Dear Michael

PUBLIC EXPENDITURE - THE 1983 SURVEY AND THE LONGER TERM

Following their discussion with the Prime Minister yesterday, the Chief Secretary and the Chancellor have considered again the Cabinet Paper on Public Expenditure. They have decided that it would be right, as she suggested, to propose a reserve for 1984-85 of £3 billion rather than £2½ billion. The attached revised draft reflects that change and some other drafting amendments suggested at the meeting yesterday. It takes account also of an updated list of expenditure bids (annex A). While this shows an increased total of bids in each year it does not imply any change in the total of "most pressing demands". The annex has been expanded to include brief descriptions on the bids.

I am sending copies of this to John Kerr and Sir Robert Armstrong.

Yours sincerely

John Gieve

JOHN GIEVE
Private Secretary

SECRET

DRAFT: Cabinet paper by the Chief Secretary

OBJECTIVES FOR PUBLIC EXPENDITURE - THE LONGER TERM AND THE 1983 SURVEY

Introduction

In our Manifesto for the General Election we promised firm control over public spending and borrowing, because "less spending by Government leaves more room to reduce taxes on families and businesses." On taxation we said that "further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps".

2. This continues the economic strategy on which we embarked in 1979, aimed to promote sound growth in the private sector. We have achieved a major and sustainable reduction in inflation. Reductions in the Public Sector Borrowing Requirement (PSBR) have played a major part in this. But we have not been successful in achieving our taxation objectives. Rather than falling, tax as a percentage of Gross Domestic Product (GDP) has risen from some 34 per cent in 1978-79 to 40 per cent in 1983-84. If we are to achieve more growth and a sustained reduction in unemployment, we must reduce this burden.

3. The main obstacle to the achievement of our tax objectives is the continuing high level of public expenditure, which - contrary to popular mythology - actually rose as a proportion of GDP during the last Parliament. If we wish to reduce taxes, we must first reduce the programmes of expenditure which taxation will otherwise have to finance. Increased borrowing is not the answer: it will simply push up interest rates and revive the inflationary pressure which we have fought so hard to get down. Lower interest rates and lower taxation are essential for the soundly based and sustained growth which the country will now expect to see.

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Longer-term objectives

4. Hence we must relate our public expenditure planning to our tax objectives. In particular we need to consider now what level of taxation we should aim to achieve by 1988/89 - the last possible Budget of this Parliament.

5. In the long term it would be a reasonable objective to bring the proportion of tax to GDP back at least to the level we intended in 1978-79 - that is, back from around 40 per cent now to some 34 per cent. This should broadly enable us to reduce the basic rate of income tax to 25 per cent, and to bring personal allowances up to the levels of the 1960s in relation to earnings. Because indirect taxes and national insurance contributions would still be larger than in the 1960s the ratio of tax to GDP would still be high by historic standards.

6. How far we can go towards that objective by 1988/89 depends essentially on two things: the rate of growth of GDP and the path of public expenditure. If the PSBR continues at its planned 1985-86 level (2 per cent of GDP) and we achieve annual growth averaging 2½% - which would be a good performance in current world conditions - we could hope to reduce the tax:GDP ratio to about 36½% by 1988/89. But even that would be possible only if we continue to hold public expenditure to its present level in real terms throughout the period. If economic growth falls short of 2½% on average then public expenditure would have to be contained at an even lower level or taxes would have to be higher.

7. I do not think we can reasonably aim for less than that on the tax front. I propose therefore as a longer-term expenditure target up to 1988-89, to hold the total of public expenditure, in cost terms, at the level of about £103 billion (1980-81 prices) which it reached in 1982-83, and which the present White Paper projects for 1985-86. I have to say that this target will require determination. The projections of existing plans to the end of the decade which were carried out by officials last summer implied figures substantially higher than this, because they allowed for substantial continuing real growth in several programmes. Such growth does not show up in the aggregate White Paper figures for 1984-85 and 1985-86, because we are still feeling the benefits of the hard decisions taken in 1979 and 1980. But it could begin to appear in 1986-87 - the final year of the new Survey, for which there are already substantial additional bids. If we are to achieve the progress towards our tax objective proposed above for the end of this Parliament, we need to get on the right path by taking now the necessary decisions relating to 1986-87. This is why consideration of the Survey, covering the medium term, cannot be separated from these longer-term considerations.

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8. If my colleagues are willing in principle to work towards this expenditure target, I will aim to circulate projections in September, setting out a possible path up to 1988-89 both for the total of expenditure and in broad terms for the main programmes. Since this will involve difficult decisions about priorities it will require considerable discussion. Cabinet may want to allocate more resources to one programme by reducing others. Once agreed in broad terms, these projections would provide a starting point for discussion with colleagues in the bilaterals. I would hope final agreement could be reached in Cabinet in the late autumn. It will be for consideration whether they should be published; but they would set broad policy guidelines within which longer-term departmental planning could proceed and would also provide a framework for future Public Expenditure Surveys.

The Survey period

9. In the meantime, we need to set more specific objectives for this year's expenditure Survey. It is clear from the Chancellor's paper (C(83)), which sets the background, that the prospect for next year is much tighter than we thought at Budget time. It is therefore essential at the very least to hold to the expenditure totals published in the last White Paper.

10. Given the uncertainties this is a modest, perhaps too modest, target. Even so it will require restraint by spending departments. The figures in Annex A show that for 1984-85 departments have proposed increases in programmes totalling some £6.1 billion over the existing plans. For 1985-86 they total £6.8 billion; and for 1986-87 £7.0 billion. Some of these, based on statutory entitlements and firm commitments, will have to be accommodated. For 1984-85, approved levels of social security benefits will require an extra £0.25 billion. Agricultural price support needs £0.35 billion more. I estimate that at least £0.5 billion extra will be needed for local authority current expenditure.

11. Moreover I believe it is crucial that we should keep in tact for 1984-85 the £3 billion reserve which appeared in the last White Paper. This would be larger than we had for 1983-84, but is roughly the same size, as a proportion of public expenditure, as the reserves for 1981-82 and 1982-83. Although a smaller figure might be sufficient to accommodate the costs of policy changes, we have learnt to our cost this year that it is necessary also to allow a wider margin for changes in programmes like social security and agricultural intervention which are demand

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determined. In addition we need to allow next year for the effects of introducing end-year flexibility, and the uncertainty over European Budget refunds and the cost of the Common Agricultural Policy.

12. It will be impossible to accept the full £6.1 billion of bids. But within that, the most pressing demands total some £2½ billion. We therefore need to find savings elsewhere of that order (including the savings we hope to secure on the nationalised industries) simply to stay within the published total for 1984-85. Reductions of at least the same order will be needed in order to stay within the published total for 1985-86, and to keep the total at approximately the same real level in 1986-87, including adequate planning reserves for these years.

13. The existing baseline figures make no explicit assumption about pay increases next year. I shall be making proposals to deal with this in September.

Conclusion

14. I invite my colleagues to agree, therefore, that:

- a. we should work towards the longer-term objectives for taxation and expenditure described in paragraphs 5 and 6 above;
- b. I should in September bring forward projections for the total and for programmes up to 1988-89, which would be consistent with achieving these objectives;
- c. we should aim in the 1983 Survey to hold to the published totals for 1984-85 and 1985-86, including adequate reserves, which means finding savings of some £2½ billion in 1984-85 and of at least the same order in 1985-86 to offset unavoidable increases;
- d. we should similarly seek savings of at least the same size in 1986-87 in order to hold total spending constant in real terms;
- e. I should discuss bilaterally with colleagues after the Recess how these savings might best be achieved. I would report back to Cabinet towards the end of October.

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SUMMARY OF PES RETURNS

ANNEX A

	1984-85	1985-86	1986-87
1. Planning Total (cmdnd 8789)	126,370.0	132,260.0	
2. Agreed additions (1)	721.0	1,097.0	
3. Baseline	127,091.0	133,357.0	
Baseline 1986-87			137,500.0
4. Proposed adjustments to programmes			
Ministry of Defence	176.0	362.5	1,238.8
FCO - Overseas Development Administration	59.8	73.9	128.4
FCO - Other	40.5	57.0	67.0
European Community			
Intervention Board for Agricultural Produce	420.0	150.0	210.0
MAFF	30.2	13.1	9.4
Forestry Commission	-0.9	-2.4	-2.5
Department of Trade and Industry	69.8	74.3	15.6
ECGD	4.4	39.6	-133.1
Department of Energy	-1.1	-2.7	-10.8
Department of Employment	99.6	81.3	31.5
Department of Transport	58.0	58.0	62.0
DOE - Housing	540.0	540.0	540.0
DOE - PSA	83.5	98.0	65.5
DOE - OTHER	130.8	151.7	154.7
Home Office	49.5	70.9	98.3
Lord Chancellors Department	-1.6	-0.3	25.0
Department of Education and Science	320.0	390.0	410.0
Office of Arts and Libraries	12.4	19.8	25.1
DHSS - Health and Personal Social Services	570.1	874.5	1,374.7
DHSS - Social Security	514.2	648.9	1,067.0
HM Treasury - Civil Superannuation	27.0		50.4
Scotland	9.9	8.1	8.5
Wales	0.8	1.2	1.7
Northern Ireland			
Territorial departments: formula consequential	368.8	459.6	585.8
Local Authority current expenditure	1,138.8	1,355.6	1,928.3
Nationalised Industries external finance	569.0	165.0	-970.0
Chancellors' Departments	51.4	61.2	59.7
Other Departments	19.4	11.8	12.3
5. Total adjustments to programmes (net)	5,360.3	5,760.6	7,053.3
6. Net changes in Special Sales of Assets	0	0	0
TOTAL NET ADDITIONS TO CMND 8789 AGREED, OR PROPOSED BY DEPARTMENTS. (2)	6,081.3	6,857.6	7,053.3

Footnotes

1. Budget changes and revised economic assumptions
2. Shortfalls: none now forecast

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1. Defence

The most important policy question is whether the UK should continue to plan to increase defence spending by 3 per cent per annum in real terms after 1985-86. To do so would be to comply with the NATO real growth target that was recently extended to 1990; but would be costly (some £600 million in 1986-87).

The other MOD bids (some £1,200 million) are intended to maintain the "volume" of the defence programme by compensating for the effects of 1983 Armed Forces pay awards and of forecast inflation up to 1986-87. The MOD figures also include some £575m to cover 1986-87 Falklands costs.

2. Overseas Aid

The growing volume of aid stemming from past commitments to multilateral agencies (especially to the EC institutions and the World Bank Group) means that, on present plans, aid given directly to developing countries would decline in cost terms over the survey period, having already fallen by at least a third since 1979-80. The Government attaches importance to maintaining substantial bilateral country programmes. Existing commitments can be accommodated within present plans. The additions proposed would:-

- i. maintain aid direct to countries at its 1982-83 level in cost terms (including an increase in the Aid Trade Provision from £66m. at present to £80m in 1986-87);
- ii. maintain the aid programme at about 0.38 per cent of GNP.
- iii. allow a larger UK contribution to the of seventh IDA replenishment than currently provided for.

3. Foreign and Commonwealth Office

The main proposals for adjustment to the programme are:-

- i. provision to maintain or increase the level of activity of the British Council;
- ii. additional provision for the BBC External Services to cover inter alia the effects of this year's BBC pay increase, the modernisation of the monitoring service and the purchase of Bush House;
- iii. certain increases in FCO administrative expenditure including an allowance for predicted increases in overseas inflation in excess of PES factors and certain capital improvements (including the purchase of Hanslope Park);
- iv. an allowance for predicted increases in the sterling costs of international subscriptions in excess of PES factors.

4. Net payments to European Community Institutions

Projections of UK net payments to the Community Budget are subject to a wide margin of forecasting error since the Government has only an indirect influence on the size of the Budget. The major factor affecting payments during the survey period will be the decisions taken following the major review agreed by the European Council in Stuttgart. The European Council will meet in Athens on 6 December to consider the outcome of that review.

5. IBAP

The Department's programme covers market regulation under the Common Agricultural Policy, almost all mandatory under EC Regulations. A large part is 100% funded from the EC Budget, with receipts credited to the EC programme.

Programme expenditure is unpredictable, and dependent on agricultural market conditions. Following recent large increases in production, particularly for milk products, support expenditure is now expected to be substantially higher than the baseline. For 1984-85 current estimates point to expenditure of some £1230m compared to baseline provision of some £800m. About two thirds of the increase represents extra intervention purchases, financed initially by the Exchequer. EC receipts in respect of financing and other incidental costs are received while the goods are in store and reimbursement for losses is made when stocks are sold. The remainder of the increase is in respect of expenditure pre-funded by the EC. Smaller additional bids are also likely for the later years.

The revised forecasts are prepared in conjunction with estimates of total expenditure under the EC budget, and the UK net contribution towards it. The estimates are subject to substantial variation as that broader exercise proceeds.

6. MAFF/DAFS/WOAD

This combined programme covers expenditure by the Agriculture and Fisheries Departments in England, Wales and Scotland (including expenditure in Northern Ireland resting on MAFF votes). The total baseline, including some expenditure prefunded from the EC budget, is £1030m in 1984-85 rising to £1088m in 1986-87.

Following a procedure agreed in the 1982 survey, adjustments to the baseline are made in respect of prefunded EC expenditure and estimated changes in take up under demand determined agricultural support schemes. Latest estimates, subject to review in September point to net additions of £40m in 1984-85, £29m in 1985-86 and £29m in 1986-87.

Departments propose a number of self balancing changes within the adjusted baseline, involving reduced requirements, estimating increases and policy changes. The Treasury has reserved its position on these various adjustments.

In addition, Departments have proposed further additional bids totalling £24m in 1984-85 rising to £29m in 1986-87. Some £22m per annum relates to assistance to farmers in marginal areas, £1m per annum for increased superannuation charges for commissioned research and £1m rising to £4.2m for the effects of the cash squeeze on volume provision. Additional manpower provision of 45-55 for MAFF is sought after taking account of efficiency savings. The Treasury has reserved its position on the policy changes concerned and does not accept the case for additions to total provision in respect of any of them; and considers that net manpower savings could be achieved through increased efficiency.

7. Department of Energy

Excluding support for the nationalised industries no major new items of expenditure are proposed. A reassessment of requirements under existing energy conservation programmes and the Offshore Supplies Interest Relief grants Scheme, and Ministers' decision to reduce Voted expenditure on the fast reactor results in reduced requirements compared to the baseline.

8. Department of Trade and Industry

The largest items in the total proposals for adjustment are an additional bid for Launch Aid (+£70m, +£75m, +£80m), increases in R and D and additional administrative expenditure. The increases proposed are partly offset by a reduction on Regional Development Grants (-£61 million, -£69 million, -£83 million)

9. Export Credits Guarantee Department

Net receipts of refinance are expected to cease during 1983-84 until after the end of the survey period. This is mainly because transfers of outstanding refinance to the private sector have been completed while ECGD are still making advances on existing commitments. Forecasts for the interest support and cost escalation programmes are tentative since they are demand responsive and highly sensitive to changes in assumptions about market interest rates and cost increases. On current assumptions, interest support costs are expected to fall significantly during the survey period and by 1986-87, for the first time, net receipts of interest equalisation from the banks are expected, even allowing for possible reduction in Consensus interest rates. The forecast for cost escalation guarantees shows a sharp fall in 1985-86 and 1986-87 due to lower inflation assumptions and a reduced number of agreements. The mixed credit matching facility has yet to be utilised.

10. Department of Employment

The principal increases proposed are for an extension to the Enterprise Allowance, to maintain levels of service in the general careers service and to meet the expected higher costs of providing sheltered employment. The increases are partly offset by estimating reductions in expenditure on demand led measures and redundancy payments.

11. Department of Transport

Three quarters of the increase proposed are for the motorway and trunk roads programme, to maintain recent levels of new construction and structural maintenance. There are also major additional bids for administration, and for re-equipping the DVLC; and minor bids for shipping and civil aviation. There are additional bids for 98 staff in 1984; 441 in 1985; 556 in 1986.

12. Department of the Environment - Housing

The Department has made additional bids for 1984-85 totalling £540 million and for similar sums for the later years of the survey, primarily to maintain the current increased level of expenditure on home improvement grants and to meet the additional costs of dealing with defective public sector housing.

13. Department of the Environment - Property Services Agency

The main increases proposed are: purchase of accommodation in the Millbank area to enable savings in the rental bill in later years (£25m in 1984-85, £40 million in 1985-86 and £7 million in 1986-87); expenditure on cost saving measures such as energy conservation and estate rationalisation (£10m in each year); and additional expenditure on maintenance of the civil estate (£35 million in each year).

14. Department of the Environment - Other

The major increase proposed is £63 million for the urban Programme and UDCs. The other relatively small individual bids relate to refuse disposal investment, control of hazardous developments, derelict land grant, historic buildings, and additional grant in aid for the Sports Council and other environmental bodies.

15. Home Office

Proposals for increased provision for police and prisons account for more than 70 per cent of the bids in 1984-85. Of the police bid, some £30m a year is required for the additional cost of the 1983 pay award, expected to be 8 per cent. There is no bid for additional police manpower but some provision (£4.4m) is sought in the final year of the survey to maintain

strength at the level assumed in Cmnd 8789 (122,500). For prisons, additional expenditure of £31.8m rising to £82.9m is sought. This is to enable strength to rise by 5,171 to 32,109 by April 1987, to meet new commitments arising mainly from the opening of new prisons, to enable the introduction of the common working agreement, and to allow some reduction in levels of overtime. provision is also sought for an increase, mainly in 1986-87 to allow some acceleration of the building programme.

The balance of the proposals amounts to £24m in 1984-85. This includes some small additional provision for magistrates' courts and the probation service to meet increased workloads. Criminal Injuries Compensation expenditure is also expected to increase.

16. Lord Chancellors Department

The additional bid in 1986-87 reflects the continuing growth in Legal Aid expenditure for which the baseline in 1986-87 makes no provision. The reduced requirements are mainly results of slippage in the Court Building Programme. Manpower is expected to rise in 1984-85 to cope with the continuing increase in workload and start to fall in 1986-87 as a result of various changes (eg. efficiency, computerisation, contracting out etc).

17. Department of Education and Science

The bids are designed in general to offset the effect of actual cost increases, and assumed increases for the future, greater than those assumed in Cmnd 8789; and to make more realistic provision for current expenditure, particularly spending by local authorities in relation to numbers of teachers and lecturers and taking account of the growing numbers of those over 16 within further education.

Improvements are also sought in the level of certain services, including capital investment on rationalisation and improvements of school, college and university premises; the level of educational support staff in relation to pupil numbers; and support for scientific research.

18. Office of Arts and Libraries

The adjustments proposed are designed to minimise serious damage to the present level of activities by restoring in later years the cuts unavoidably imposed in 1983-84 in provision for museums and galleries building and maintenance, and for heritage acquisitions; by accommodating the increasing level of expenditure envisaged on the new British Library building; and by allowing local authorities to satisfy a broadly constant demand for their museums and libraries services.

19. Health and Personal Social Services

The proposed increases are due to:-

1. "realism" on pay and prices,
the Department considers that the Cmnd 8789 provision implies a cut in real resources in the light of Government assumptions on inflation;
2. demographic change,
the rising numbers of old and very old people which are expected to occur over the period places increasing demands on the health and social services;
3. Government commitments on services for old, mentally ill, and mentally handicapped people; and on the continuing geographical re-distribution of NHS resources;
4. revised forecast of expenditure on the family practitioner services in the light of the out-turn in 1982-83.

In addition there are bids for a number of specific service improvements relating in particular to the voluntary sector and community care, acute treatment shortages, and capital investment.

The major issue of policy is how far the Government is committed to provide real growth in the resources for health in the face of increasing demand.

20. Social Security

Two thirds of the increases proposed are for demand determined services primarily on retirement pensions - the result of a changed view of life expectancy following the 1981 census, and on housing benefit, the result of an earlier underestimate of the number of beneficiaries and of average payments of this new benefit.

The most significant bids for benefit improvements are:

i. New benefits to replace HNCIP and the "household duties test"	4	17	26
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Following the equal treatment directive a change will be needed during 1984 to Housewives non-contributory invalidity person to remove the discriminatory 'household duties test'. H Committee are to discuss shortly a paper by the Secretary of State for Social Services outlining a number of options. That preferred by the Secretary of State would require additional expenditure as shown and cost 50 staff.

ii. Invalid Care allowance for married women caring for elderly relatives.	4	12	13
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A similar, unsuccessful, bid in last year's Survey proposing a wider extension of ICA to married women would have cost around £60 million in a full year and 250 staff. Restricting the proposal to those married women caring for elderly relative reduces the cost total shown. But would mean married women caring for others - invalid children for instance would not benefit. The proposal costs 50 staff.

iii. Restore 5% abatement of Invalidity benefit	20	61	64
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The uprating of Invalidity benefit, like unemployment benefit, was reduced by 5% in November 1980, partly as a proxy for tax and partly as a straightforward public expenditure reduction. There is a commitment to the abatement once the benefit is brought into tax which has been postponed indefinitely. No similar commitment was given for unemployment benefit but that is to be restored from November, following taxation from July 1982. Save 16 posts.

iv. Increase income disregards for Supplementary benefit and Housing benefit	10	26	26.5
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The proposal is to increase income disregarded when calculating entitlement Supplementary benefit and housing benefit from £4 a week to £6 a week. A separate disregard of half earnings between £4 and £20 for one parent families would be increased £6 and £30. Costs 62 staff.

21. Scotland

The bulk of the expenditure is, as in recent surveys, treated as a block. Aggregate provision is adjusted proportionately by reference to changes agreed for comparable English and Welsh programmes. Normally, additional bids on block expenditure are not submitted. But this year, increases are proposed to meet the "knock-on" effects in civil service pay, and for a shortfall following the introduction of Property Repayment Services. On non-block expenditure, there is an additional bid for assistance to industry.

22. H M Treasury - Civil Superannuation

The additional bid for 1984-85 relates to transfer payments to other pension schemes in respect of staff who are being transferred out of the Civil Service with their work as part of the hiving-off and privatisation programme. The additional requirement for 1986-87 derives from the expected rise in the number of pensioners, a factor not allowed for in the straightforward percentage increase method used to construct the baseline for that year.

23. Wales

As in previous surveys, most of the Welsh Office programmes are treated as a block. Aggregate provision is adjusted proportionately by reference to the changes agreed for comparable English programmes.

Additional bids are not generally made for the block because of the formula approach described in paragraph 1. The only exception consists of the Other Public Services programme, where central initiatives apply to pay and general administrative expenditure. On account of the inadequate provision made for the "knock-on" effects of earlier pay awards, an additional bid is necessary to maintain agreed staffing levels. The amounts involved are £0.8 million, £1.2 million and £1.7 million for the years 1984-85 through to 1986-87.

24. Northern Ireland

As in recent Surveys, the block arrangements will apply whereby total provision will be adjusted by reference to changes on comparable programmes in Great Britain by the application of the comparability formula. Allocations within the block will continue to be at the Secretary of State's discretion according to local priorities. There are no additional bids this year.

25. Local Authority Current Expenditure

Local authorities account for over a fifth of total public expenditure but Central Government has no direct control.

Provision for local authority relevant current expenditure in 1983-84 in Great Britain is £23,557 million. Local authority budgets suggest that this provision may be overspent by up to £1 billion. Local authority overspending against their "target" (framed in terms of total expenditure) will be penalised by loss of grant.

The White Paper contains provision for relevant current expenditure in 1984-85 of £23,780 million. That figure did not take account of the Budget decision to reduce the national insurance surcharge from 1½ to 1 per cent. Adjusted for that change, the White Paper provision is £23,698 million, 0.6 per cent growth over 1983-84 provision.

The Secretary of State for the Environment put proposals for the appropriate provision for relevant current expenditure in England in 1984-85 in his letter of 15 July to the Lord President for discussion in E(LA) on 19 July.

26. Nationalised Industries External Finance

As usual, the nationalised industries are discussed in detail in the annual Investment and Financing Review (IFR), which has been submitted to Ministers separately. This covers the industries' investment programmes and all components of nationalised industry external finance included in Departmental programmes. The coverage of this year's IFR is unchanged from last year except that Department of Energy expenditure on the Redundant Mineworkers Payment Scheme (RMPS) is brought within the scope of the IFR for the first time, and the Welsh Water Authority is included in the section on the Water Industry. The Water Industry is now treated as a nationalised industry for all practical purposes.

Total proposed changes to nationalised industries' EFLs are as shown in the table. Details are given in this year's IFR.

27. Chancellor of the Exchequer's Departments

The main increase proposed is for Inland Revenue - £47 million in 1984-85, £57 million in 1985-86 and £54 million in 1986-87 to cover the cost of pay awards, additions to staff to deal with increases in the number of taxpayers and slippage in achievement of savings from computerisation.

For Customs and Excise additional bids of £3.7 million in 1984-85, £3.5 million in 1985-86, and £4.5 million in 1986-87 arise mainly as a result of proposed additional manpower. Other contributory items are the continuing cost of absorbing the 1983 pay settlement, additional computer requirements, and a more cautious view the department has taken of future receipts from merchants' charges. -

PERSONAL AND CONFIDENTIAL



MANAGEMENT AND PERSONNEL OFFICE

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01-273 5400

GTN 273 Switchboard 01-273 3000

P Le Cheminant CB

Second Permanent Secretary

15 July 1983

Robin Butler, Esq
No 10 Downing Street
SW1

Dear Robin

PUBLIC EXPENDITURE CUTS

As you know a large part of the costs of running No 10 are provided through the MPO Vote and form part of the base line to which the present cuts exercise applies. I attach a table showing the make-up of this expenditure. As you will see it amounts to about £2.7 m. or 9% of the total MPO Vote for the current year. In addition there are, so I understand, three potential extra requirements - mainly concerned with security and communications at No 10 - which might add about £¼ m to our expenditure in the current year. The items concerned are improvements to the physical security of the Downing Street complex, a protected car for the Prime Minister and a research study into secure communications with the Prime Minister's aircraft when overseas.

My purpose to writing to you now is not to engage you in a cuts exercise. We can I am sure, cope with the July 7 cuts and the absorption of the extra cost, above Vote provision, for pay this year without troubling you. I might add in passing that this is probably the last year in which such an outcome will be possible but that is another story.

My real problem is to know what scope I have to finance your additional expenditures should these materialise. For this purpose it would be very useful indeed to have your view on whether the existing Vote provision for No 10 is a realistic one or contains an element of over provision. For clarity I am not suggesting that the problems of financing extra expenditure has any bearing on decisions affecting security at or in connection with No 10. But I am anxious to avoid making unnecessarily savage and damaging cuts in the rest of the MPO's expenditure in order to provide room for No 10 expenditures which do not materialise.

PERSONAL AND CONFIDENTIAL

PERSONAL AND CONFIDENTIAL

Robin Butler, Esq

15 July 1983

The simplest way of gauging the real size of the problem we face might be for one of your colleagues, who is reasonably knowledgeable about No 10's affairs, to spend half an hour running over the figures with myself and Laurie Attfield (deputising for John Stevens who is on holiday) so that we may get as clear an idea as is practicable at this stage of the likely No 10 spend in 1983/84. I would then be in a good position to take matters further.

Copies to Robert Armstrong and Laurie Attfield.

Tanner
P Le

P Le Cheminant

PERSONAL AND CONFIDENTIAL

PUBLIC EXPENDITURE 1983 - 84

PM's OFFICE : ITEMS ON MPO'S VOTE

	1983-84 PROVISION (£)
Accommodation	646,000
Salaries etc.	712,000
Newspapers & periodicals	12,700
Payment to MOD for service staff @ cleaners	205,250
PM's missions abroad	455,000
Travel & subsistence	50,000
- UK	2,000
- Overseas	5,000
Working Lunches	12,000
Entertainment	12,000
Gifts	6,000
Computer services (maintenance)	332,850
PM's Special Communications	140,000
Telephonists (P.O. Agency costs)	71,000
Fees (advisers)	
TOTAL	<u>2,661,400</u>



PM/83/49

PRIME MINISTER

Prime Minister

Do you want to make an exception

for :-

(a) the intelligence services :

(b) the BBC External Services :

(c) the British Council :

} May we have a word with them

Yes

A.F.C. 15/7

Public Expenditure

1. When we talked on Tuesday about the succession to Dick Troughton, we touched briefly on the position of the British Council in the light of the expenditure cuts which we agreed upon in Cabinet last week. It may be helpful if I set out in a little more detail the problems which I see here, and in relation to the intelligence agencies and the BBC External Services which also have certain special features.

2. To take the agencies first, it can be argued that they should take their share of what was deliberately conceived as an across the board cut. But the fact that total expenditure on the agencies is concealed means that we could decide to make an exception without any significant risk to the expenditure exercise as a whole. If you thought such an exception justified on its merits, I would be content.

3. In the case of the British Council and the BBC, we are dealing with organisations whom we know from experience to be adept at mobilising public and Parliamentary support. I would expect both to argue strongly against the cuts. But if exceptions are made, they will become public and this may serve to encourage other special pleaders.

4. In my view, we should take a firm line with the external services - not least because there are general grounds for anxiety about lax control of costs in the BBC. The External Services should be required to make cuts on the same basis as others affected, and we should see to it that these cuts are made in such a way as to do the minimum of damage in the national interest. The BBC, if past form is any guide, will

/propose



propose those cuts likely to provoke the largest possible outcry and will suggest that the Foreign Office are insisting on them in order to preserve their own patch. This is a nettle which must be grasped some time, and my own instinct would be to grasp it now. But I shall need the support of my colleagues and I hope that this will clearly be presented as a decision of the Government as a whole.

5. My inclination would be to recommend that we take the same line on the British Council. But we both recognise that this is an area where we would come under even stronger pressure than in the case of the BBC: there is here the special difficulty of the commitment which we made to Dick Troughton to maintain his programme in real terms until the end of 1984. No explicit reference was made to the possibility of having to reduce this in exceptional circumstances. Normally I would regard it as axiomatic that all Government spending commitments should be so understood. But we need to think carefully about whether we would be able to maintain that position in this case. If we felt obliged to exempt the British Council, I fear that it would not be possible for me to make up the short-fall from other votes for which I am responsible. This would follow the pattern originally set when the commitment was made.

6. I should be grateful for an indication of your views before I take this up more formally with Nigel Lawson.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

14 July, 1983

PRIME MINISTER

PUBLIC EXPENDITURE - PRESENTATION

This minute looks forward to next week's Cabinet and how we might handle the presentation of the public expenditure discussion.

This exercise has however to be seen against the background of where the Government stands now presentationally and in what condition it hopes to go into the Recess.

I mentioned some of the thoughts set out below in the car yesterday and I will rehearse them briefly:

- we have not demonstrated a sureness of presentational touch since the election; I have found it difficult to get a real "feel" for the Government;
- this may be because the Government needs a break after 4 years and the election, and because it has all been a bit of an effort to crank it up for the 6-7 weeks' essential work to the Recess; but
- after a very brisk, businesslike and impressive start (reshuffle, Speaker, Stuttgart, Queen's Speech and essential Bills re-introduced) two issues have been rather damaging:
 - hanging;
 - short-term public expenditure;
- so far as hanging is concerned, the Lobby feel that this distraction has shown you in a less resolute light. Their argument is that if you had really wanted hanging restored you would have campaigned for it; you didn't and therefore you were part of the conspiracy to kill the issue for this Parliament;
- hanging has also left the impression that the Government went into a vote on capital punishment without having thought it through - which some see as irresponsible and others as clear evidence that the Government's heart was not in it:

- but short-term public expenditure control has been more damaging. This is because the Chancellor is widely felt by the media to have been less than frank and to have bounced his colleagues into submission. They see him paying a longer-term price for a short-term gain. A senior Lobby correspondent has told me bluntly that Geoffrey Howe would never have presented such a package as Mr Lawson did - having bounced his colleagues, partly by leaking, it is said, he then brazened it out without conviction in the House;
- all this means that potentially at least your priceless assets with the electorate - integrity and resolution - may have been compromised, especially as you are and will be seen to be endorsing the Chancellor at every stage. I do not think any serious or lasting damage has been done but it would be as well to avoid any repeat before the Recess.

It is against this background that we need to consider the presentation of the public expenditure Cabinet on Thursday, assuming there are no leaks before then.

The media will be watching this exercise very closely for evidence:

- of your continuing determination at least to hold to the public expenditure targets in the years ahead;
- of a drive for cuts in those totals - ie. of the hidden manifesto, especially in relation to the NHS;
- that rising damp in the Cabinet has become a surge or that the Wets are fighting back and intend to be very awkward in the autumn;
- of Mr Lawson being made to pay for his short-term success last week.

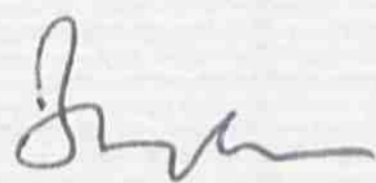
The markets will be looking for reassurance that the Government really is determined to keep on top of spending and exercise restraint as a way of life.

It will be important to put out ideally in a statement or at least guidance which takes account of these objectives immediately after Cabinet. We must not allow others to get their oar in first. The Treasury is recommending this course to the Chancellor and a draft is being prepared. Any such statement will be conditioned by any lack of success over MPs' pay. But I am sure that we need a display of resolution on Thursday; anything less will not serve.

It is crucial to your aim of going into the Recess with the public impressed that your Government:

- is on top of things;
- is determined to stick to its public expenditure targets and MTFs;
- is more rather than less united (or that the dissenters are few in number and isolated);
- is braced for a tough public expenditure round in the autumn, but will approach it in a constructive frame of mind.

I do not think it sensible to contemplate broadcasts by the Chancellor that day. A statement after Cabinet and you at Question Time should set the tone, and the Chancellor should not expose himself to Questions or give others an excuse for going on radio or tv.



B. INGHAM

14 July 1983

14 July 1983
Policy Unit

PA

PRIME MINISTER

PUBLIC EXPENDITURE: THE CHIEF SECRETARY'S DRAFT

Alan agrees that the Chief Secretary's draft is not ambitious enough. Although its objective is, we believe, right (Taxes/GDP back down from 40% to the inherited level of 34% by 1988-89; income tax 25%), the level of savings proposed leaves insufficient margin to achieve it (or something better) in view of the possibility that:

1. GDP might grow at 2% a year (or worse) to 1988-89, rather than the 2½% which is assumed.
2. Departments will fail to deliver their commitments eg to tackle problem nationalised industries. Can we really rely on the expected turn-round in nationalised industry finances? Look what happened in the last Parliament.
3. Demand-determined expenditures will escape control.

The paper ought therefore to aim at least for double the proposed programme savings in 1986-87, ie £4 billion rather than £2 billion. We believe these to be both achievable and politically feasible: to illustrate, in just three areas (defence procurement, capital grants to industry and agriculture, education) we have identified ways of saving £2½ billion at acceptable political cost.

We must write in a higher contingency margin for 1986-87. We ought also to stress, for tactical reasons, that all Departments will need to find savings but some more than others (the draft refers in paragraph 5 to allocating more to some programmes, less to others). Spending Ministers will not willingly accept the role of victim if others are permitted to expand their total expenditure.

THE CHANCELLOR'S MEMO: Surely pay in the public sector needs a more substantial reference than the afterthought tacked on to paragraph 10.

FERDINAND MOUNT

FM



NO

(2)

Prime Minister

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

The Treasury

gives way on NHS.

SECRET

MUS 15/7

13 14 July 1983

The Rt Hon Norman Fowler MP
Secretary of State for Social
Services
Alexander Fleming House
Elephant and Castle
London SE1 6BY

Norman

TPM with MCS?

Thank you for your letter of 13 July.

You won't be surprised that I find your arguments no more convincing than you found mine. But we must settle this matter, and I think an arrangement acceptable to both of us is possible.

On the £25m saving (£20m for England) on the drugs bill, we clearly disagree about what could have been achieved by tough negotiation even without the present public expenditure exercise. But we need not pursue that. What is however clear is that if this money is to be counted towards your share of the present cuts, the £25m must represent savings in the drugs bill for this year, and not a payment on account against savings in future years.

I remain committed, as I said in my earlier letter, to maintaining planned levels of total NHS expenditure. But I cannot accept that these levels should be exceeded if there were in the event to be a larger overspend on the Family Practitioner Service vote than you now foresee.

I accept that £112m is your current forecast of the overspend at this stage, and indeed that you think it perhaps a little too high. But the fact is that every year for at least the last five the final outturn has been higher (by between 2% and 9%) than the original estimate - and summer and autumn forecasts too have unfailingly underestimated the overspend - and a 1% error is £25m.

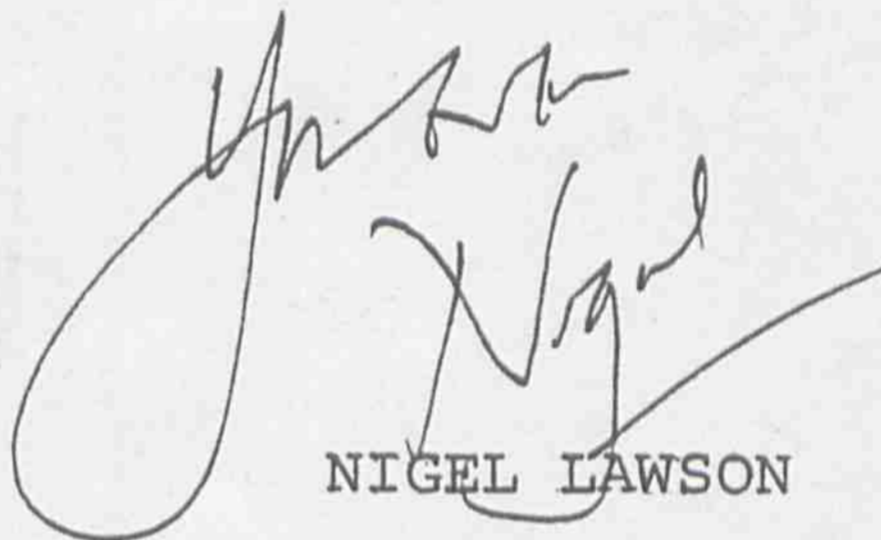


SECRET

However, since you are convinced that this year will be the exception, I am prepared to accept that, at least for the present, and to agree that you should go ahead with announcements of reductions on the lines of the figures you have already mentioned in public. But this must be on the understanding that, if the overspend on the FPS vote appears likely later in the year to exceed your estimate, you will be prepared to take appropriate action to eliminate the additional overspend or make equivalent reductions on the cash-limited vote. I agree with you about the undesirability of frequent changes in cash limits; but uncontrolled overspends are even more damaging.

I still think that it would be right to plan to review matters in late October, but there would be no need to delay until then initiating corrective action if the figures started to edge up closer to my £140 million than your £112 million.

I am copying this letter to the Prime Minister and Peter Rees.



NIGEL LAWSON

ECON POL : Pub Exp Pt 23

11 12 1
2 3 4

15 JUL 1963

Secret & Personal

PA

July 14

7.00 pm.

Prime Minister

Public Expenditure

I did not see the Chancellor's paper until 4.45 pm today and so I could not respond adequately before your meeting with him. But, having looked through his paper and reflected on his recommendations, I must advise you to ~~avoid~~ grasp a painful nettle.

This is the one non-repeatable opportunity to roll back public spending. If a Tory majority of 144 cannot do it, then there is little hope for Britain.

The context of the whole discussion is "what-we-have-we-hold-onto-we-want-more". Everything is essential. There is no real attempt to identify functions or programmes which can be eliminated so the public sector rolls on.

I believe that it is possible to galvanise colleagues to pursue a real and substantial reduction in public spending. They need a strong lead and only you can give it. They will then follow - with many a grumble but also with admiration.

Sheila



10 DOWNING STREET

Prime Minister

Meeting with the Chancellor 0930

1. Content with the Chancellor's

Wordy
but
safe

— Cabinet paper? flag C

Less safe — with the Chief Secretary's? flag D

2. Content for these to be circulated

before the weekend, as per the

rules, or after the weekend?

3. May Geoffrey Howe be a member

of E(S)? (flag A)

4. Is the Treasury taking too tough a

line on NHS cuts — see letters at flag B

5. Brazil — flag E

MLC 13/7

ECONOMIC PROSPECTS:

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

In the past four years we have secured substantial progress on inflation and productivity. The foundations have been laid for sustainable growth and employment, without a resurgence of inflation. Our decisions now and in the coming months will determine the outcome this Parliament.

2. The broad outlook for activity and inflation over the next two years is little changed from the Budget forecast, though financial developments this year carry a clear warning, as I indicated in our discussion of public expenditure on 7 July.

Prospects

3. World Economy. Since the Budget the prospects for the rest of the world economy have in some respects deteriorated. Although output is growing strongly in the United States the fiscal and monetary position there looks anything but healthy. The very high budget deficit is a cause for particular concern. It would be unwise to count on the US deficit being reduced much below \$200 billion in the next year or two, even assuming some trimming of tax and expenditure plans. Recovery in Europe and Japan is relatively slow. The overall rate of growth in the major industrial countries, perhaps some 3 per cent next year, seems likely to be weak compared to past cycles. The geographically narrow base of the recovery implies that the upturn in world trade will be relatively modest by past standards, particularly because of the depressed state of markets both in the non-oil developing countries and in OPEC. Manufacturing trade, which fell 3 per cent last year, should rise 4 per cent next year. So far recovery is under way without much upward pressure on inflation (inflation in the major seven countries averages below 5 per cent), though some continuing rise in non-oil

commodity prices, from generally very low levels, is to be expected. Recovery is being assisted by the general consensus in favour of responsible monetary and fiscal policies. The French demonstration of the perils of trying to spend and borrow one's way out of recession has proved an eloquent warning.

4. Output. Despite the slower growth in world trade our own growth now looks a little higher than the Budget forecast - perhaps $2\frac{1}{2}$ per cent this year, mainly led by buoyant consumer spending and some welcome increased spending by companies on stocks and fixed investment. The rise in consumer spending reflects a significant reduction in the savings ratio, helped by falling inflation, lower interest rates and a rapid growth in credit. At the same time company profits have been recovering and are expected to continue to benefit from lower increases in labour costs, with smaller earnings increases and continued rapid productivity growth in manufacturing, as well as the reduction in the NIS. The balance of payments current account is moving this year from substantial surplus into rough balance (though the figures are, as always, subject to wide margins of error). The change since the Budget reflects firmer non-oil commodity prices this year and a faster growth of demand in the UK, relative to the rest of the world.

5. In 1984, slower growth of domestic demand may be broadly offset by a faster rise in world demand, producing another year of steady $2-2\frac{1}{2}$ per cent growth. This will be helpful to the prospect for unemployment. I do not expect any major change from current levels for the rest of this year, and the prospects thereafter continue to depend on containing labour costs, improving competitiveness and seeing recovery in the rest of the world.

6. Prices. These are now rising more slowly than at any time since the 1960s; and the prospects for inflation have actually improved a little since March. At the end of 1983, despite the rise in the mortgage rate, the RPI should still be only some $5\frac{1}{2}$ per

cent higher than a year earlier as against 6 per cent forecast at the time of the Budget. This, along with the gradual realisation that there are good prospects for low inflation in 1984, will help the recovery.

7. The figures in the most recent Treasury forecast are shown in the attached table.

Risks and Uncertainties

8. There are, however, still some significant risks and uncertainties.

9. The major overseas uncertainty is US interest rates and the problem of the enormous US budget deficit. Continuing high real US interest rates would be very worrying, and the pressure is undoubtedly for them to rise still further. It is, therefore, all the more important that our policies should aim to establish conditions in which we can distance ourselves somewhat from what happens in the US. Oil prices, on the other hand, seem to have stabilised and there is a good prospect of a steady reduction in the real oil price in the next 2 years, the more so if the \$ were to fall. Political disturbances amongst the oil producing countries could always push up oil prices in the short term; but, that apart, there does not at present look to be much risk of a major oil price increase.

10. At home recent financial developments have exhibited worrying features. Money supply in the first four months of the target period has been increasing at an annual rate of around 17 per cent, some way above the 7-11 per cent target. Public expenditure and borrowing have also been well above the levels envisaged at the time of the Budget and threaten our hopes of lower interest rates. With our decisions on 7 July we set about correcting this, but continued vigilance will be needed if we are to keep on track. And, of course, pay in the public sector will require our continuing attention.

Implications for Policy

11. Over the past four years we have followed a responsible and consistent monetary and fiscal policy within the framework set by the Medium Term Financial Strategy. The results can be seen in low inflation - the lowest for fifteen years - and welcome signs of recovery, ahead of most other countries. The task now is to consolidate and improve on these gains.

12. We will continue to operate economic policy flexibly, as in the past four years. But there remains a firm, overriding requirement to maintain the monetary conditions needed to keep downward pressure on inflation, and to support this by firm control over public spending and borrowing. That is the only way in which we can keep the confidence of financial markets, secure the conditions for better output and jobs, and look forward to reversing the trend in unemployment. We are determined to bring about a smaller public sector. And it is particularly important now the recovery is under way that we do not let the public sector crowd out investment in the private sector.

13. But that will imply some difficult decisions. The steps we have just taken on public expenditure this year have helped with the immediate problem, but the markets are understandably suspending judgement until they see how we tackle the present round of public expenditure decisions, the first of this Parliament.

14. The budgetary prospect for next year is not an easy one. At the time of the Budget we were anticipating a small positive fiscal adjustment of around £½ billion in 1984-85. But since then the scope for tax cuts next year has receded. The hoped for room for manoeuvre is being squeezed between lower revenue projections (partly because inflation is turning out a little lower than we had expected) and continuing upward pressure on public expenditure. Of course, at this stage, the figures are

subject to a wide margin of error. But the immediate tax prospect looks distinctly uncomfortable. The conclusion is clear: the most we can afford is to keep to the expenditure plans in the last White Paper for 1984-85 onwards. Even then there will be a risk that taxes may still have to be put up next year if we are to keep to the Medium Term Financial Strategy.

15. As the Chief Secretary's paper illustrates we had no alternative but to allow taxes to rise during the early years of the last Parliament. In this Parliament we must continue the trend towards lower taxation started in the last two Budgets. This is not just a matter of meeting our commitments. We also want a better-structured tax system. Taxation is the key to individual incentive, to risk taking and to securing the kind of change in attitudes needed to bring about a more dynamic, competitive and enterprising economy. Tax reform must have a high priority. And we are agreed that without lower taxes we shall not get higher growth.

16. Securing conditions for lasting growth is also the key to more jobs. It is now generally recognised that there is no quick or easy solution to unemployment and no simple trade-off between inflation and unemployment. The only route to higher employment, on a lasting basis, is through lower inflation, lower costs and higher productivity. Lower taxation is a necessary and vital part of this.

17. This, in turn, will require firm resolution in keeping public expenditure in check. The Chief Secretary has set the prospective growth of public spending in its longer term context. The decisions that will be needed are individually difficult. But the past four years have shown the wisdom of our policies and the electorate's understanding that they work.

18. I urge my colleagues to agree to the Chief Secretary's proposals.

MAJOR ECONOMIC INDICATORS

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> ⁽¹⁾	OECD ⁽²⁾ (major 6 excluding UK) <u>1983</u>
(% change on previous year)					
A. <u>Demand and activity</u>					
Domestic demand	-3	-1½	3	4	2
including consumer spending	0	½	1	3	2½
Exports of goods and services	½	-2½	½	½	-1
Imports of goods and services	-3½	-½	5	5½	3
GDP	-2½	-2½	1	2½	2
B. <u>Inflation</u>					
Retail prices, Q4	15½	12	6	5½	4½
Average earnings, Q4	18½	10½	8	7	8
(Levels)	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>OECD 1983</u> (major 6)
C. <u>Other indicators</u>					
Current Balance, £ billion	3	6	4	-1	-12
Unemployment (UK, %, excluding school leavers)	6½	10	11½	12½	8½
Interest rates (3 months), %	16½	14	12	10 ⁽³⁾	9½ ⁽⁴⁾

Do we want to
put this in a Cabinet
paper?

(1) Figures consistent with Treasury summer forecast (CONFIDENTIAL)

(2) US, Japan, Germany, France, Italy, Canada (weighted averages); Treasury forecast.

(3) Current level of 3-month inter-bank rates.

(4) Average of current 3 month rates (of which US rate is for 3 month CDs)



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

Prime Minister

MUS 13/7

13 July 1983

Jan Peck

In my letters of 20 June to Patrick Jenkin and 6 July to you I emphasised the importance of education within our plans for local authority expenditure next year and asked for early discussions with colleagues. Education, as you know, accounts for half the total - nearly two thirds in the shire counties; and within my programme local authority expenditure accounts for three quarters. In my letter of 6 July I explained why substantial additions to our present plans for local authority expenditure on education next year were necessary to sustain the policies in our Manifesto. There are also important issues, to which I referred in my letter of 20 June, about grant distribution, involving RSG mechanisms, targets and holdback, which we need to consider very carefully. Indeed, the timetable for the 1983 Survey which the Treasury circulated after the Election envisaged Ministerial discussion of these matters by mid-July.

I understand that you expect to circulate to Cabinet for discussion next week a paper on public expenditure next year including local authority expenditure. The original intention was that this would enable Patrick Jenkin to make a preliminary announcement by the end of July. But so far there has been no consultation at all with me and other colleagues concerned with local government services.

I am sure that it is essential for those of us immediately concerned to consider these issues carefully and then discuss them amongst ourselves before they go to Cabinet. For this reason I doubt if it will now be possible for Patrick to make a properly considered statement before the summer holidays. It

/does not

The Rt Hon Peter Rees QC MP
 Chief Secretary
 Treasury, Parliament Street
 LONDON SW1P 3AG

does not seem that a delay until September would seriously affect the budget-making processes of local authorities.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Leon Brittan, George Younger, Nicholas Edwards, Norman Fowler, Norman Tebbit and Grey Gowrie and to Sir Robert Armstrong.

Evans.
Kearns

C O N F I D E N T I A L

SECRET



B

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

11A

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

13 July 1983

Prime Minister

A very acrimonious
Correspondence.

Dear Chancellor

MUS 13/7

PUBLIC EXPENDITURE 1983/84: HPSS

Thank you for your letter of 12 July. I have to say, however, that the arguments you deployed in it are unfounded and that your conclusions are unacceptable. My approach to the exercise you mounted last week was, from the start, to find a way of meeting your objective while leaving the Government in a position which was tenable politically. I succeeded in doing that and I am extremely disappointed to find that you now seek to undermine it and show no apparent willingness to cooperate in my efforts.

Turning to the points made in your letter, it is simply untrue to say that the savings of £25 million I am in the process of securing from the drugs industry would or could have been achieved independently of the current public expenditure exercise. A review of the Pharmaceutical Price Regulation Scheme was under way but there was no prospect whatever of securing substantial savings from it in 1983/84. I brought the leaders of the industry in on Friday to demand that they should bear a share of the cuts outside the PPRS review and outside its current rules. They would not have had any reason to accept this - as they now seem certain to do - without the pressure I could bring to bear in these new circumstances. I shall still be looking for further savings from the review itself.

I find your introduction of a new figure of £140 million for the likely overspend on the Family Practitioner Service inexplicable. Before Cabinet last week our officials had discussed the forecast of overspend and the only question at issue was whether the figure should be £105 million or £112 million. - These figures were not disputed by your officials and I therefore said in a press statement

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on Thursday that the overspend on the FPS was "about £100 million". After detailed consideration your officials agreed a best estimate of £112 million with mine on Friday. That remains the best estimate on current evidence. It reflects experience gained from the past on changes in drug costs, prescription costs, and income from charges and our knowledge of developments in the current year. It is indefensible simply to apply crude averages from past years without reference to changes in forecasting methods, to the move from volume to cash planning or to the position we are in fact in this year. If anything the fact of the matter is the estimate of £112 million is on the high side.

Finally, your suggestion that we should cut health service allocations now by more than is necessary and make increases later seems to me to make a mockery of the cash limit system. It is ridiculous to suggest that cash limits should be changed three times in one year. Such uncertainty would further undermine my efforts to improve management standards within the NHS. So far, the health service has an extremely good record in keeping within cash limits and in avoiding serious underspend and end year surges. We must not put that at risk.

As soon as I saw your Cabinet paper last week I set about evolving a proposal which would achieve the specific savings of £128.4 million required of me. To establish the position on which you, the Prime Minister and I subsequently rested, it was necessary to keep the cash limit cut below the £112 million of overspending on the FPS. It was therefore essential for the drug savings to be allowed as part of the total saving on the NHS. Our position on this was explained when your office sought our agreement to the line which you suggested should be used on Thursday. I adopted the same line and since none of the figures were in dispute used the changes set out in my letter of 11 July in dealing with the barrage of press enquiries following your statement and in TV and radio interviews since - including Kenneth Clarke's appearance on Newsnight on Monday. We shall have to continue to use those figures. Your suggestion that the FPS overspend will be £140 million is unsustainable and comes close to an attempt to manipulate the figures. It also makes the Government's position impossible. I must therefore ask you to agree that we should now formally announce the figures before the absence of such guidance leads to speculation and undermines our unity of purpose in following last week's exercise through.

I am copying this letter to the Prime Minister and Peter Rees.

Yours sincerely

N. Fowler

NORMAN FOWLER
(Approved by the Secretary of State for
Social Services and signed in his absence)

ELON POL
Public Expenditure
Pt 23

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No. 11121
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[Faint, mostly illegible text from a document, possibly a letter or report, covering the majority of the page.]

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After a special conference of
branch officials in Edinburgh

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plus £5,775 for
dundancy.

University teachers recall PM's pledge

By John Fairhall,
Education Editor

A letter written to the Association of University Teachers by the Prime Minister during the general election campaign was released yesterday, in the wake of Chancellor of the Exchequer's £500 million expenditure cut-backs.

The AUT said it regarded Mrs Thatcher's letter as a pledge of no more cuts and it was immediately drawing the attention of the Department of Education and of the Chancellor to what she said.

The DES's share of Lawson's cuts is about £30 million and it is generally assumed that the universities will have to take the brunt of much of it. Only areas of education directly

funded by central government are affected, which leaves schools out but brings universities to the fore.

In her letter Mrs Thatcher answered a series of questions from an AUT official about the future of the universities. She wrote: "...the period of contraction is now nearing the end. In 1983/84 we are spending £2.7 billion on higher education; and the intention is to hold the level steady in real terms after 1984/85."

The AUT deputy general secretary, Mr John Akker, said last night: "There is every indication that because of the recent statement by the Chancellor of the Exchequer about public expenditure, universities are again to be cut.

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"We must make it
that the church stands
justice," he went on. "If
justice is not done and seen to
be done people will start
taking the law into their own
hands."

Brother Michael, opening
the debate, said the reintroduction of capital punishment would restrict the chances of reforming murderers and offering them an opportunity to make reparation for their crime.

It would degrade every member of society, especially those who would become involved in carrying out sentences.

There was a moral imperative which sprang from their understanding as Christians of the priority of God. The theological issue rested on their acceptance of the deliberate execution of a man who was subsequently known to be innocent.

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A further
returned to

Government to improve allowances of MPs

By Julia Langdon,
Political Correspondent

The Government has agreed to accept in principle recommendations about allowances for MPs made by the Top Salaries Review Committee despite the Cabinet's intention to restrict the increase to 5 per cent.



Association of
University Teachers

7 June 1983

Thank you for your letter of the 27 May. I am happy to state my opinion on the four matters you raise.

1. Funding for the university sector in general and those institutions in the London area

After decades of expansion, there has been scope for the elimination of waste and the more effective use of resources both in universities and in polytechnics and colleges. Given this fact, and the general need to contain public spending, the Government decided in 1981 that, (in addition to removing indiscriminate subsidies for overseas students), spending on higher education over both sectors should be reduced by about 8½% in real terms over three years. The University Grants Committee - a body composed largely of independent academics - has made use of this contraction to increase the proportion of science and engineering and encourage the pruning of overlapping courses.

But the period of contraction is now nearing the end. In 1983/84, we are spending £2.75 billion on higher education; and the intention is to hold the level steady in real terms after 1984/85. The Government is also making £100 million available over three years to create 700 new posts for outstanding young academics, as well as 130 new jobs in information technology; this will serve to protect the standards of our universities in years to come.

These general observations apply as much to London as to other areas. The reorganisation of the University of London has provided a remarkable example of the way in which the Government's policies are bringing about a more effective use of resources. The University has also received a considerable share of the newly created academic posts. The Colleges of the University, in their new form, can look forward to a thoroughly healthy future.

.....

2. Increasing access to university courses for those living in the London area and, in particular, those groups traditionally under-represented in the student body

One of the main tasks of the universities in London, as elsewhere, is to carry out research: it is therefore important to ensure that university staff do not bear too great a load of teaching. Recognizing this, the Government has taken action to ensure that the contraction in the numbers of academics has been matched by a comparable contraction in student numbers. It has not been necessary to do the same in the public sector, because public sector institutions, including polytechnics are primarily devoted to teaching rather than to research. Indeed, there has been scope for slightly increasing the teaching load of polytechnic and other public sector lecturers, thereby ensuring an increase in the total numbers of students gaining access to higher education. This increase has given opportunities to many young people who are members of groups that have not in the past been well represented in institutions of higher education.

3. The provision of places for all those qualified and desiring a place in higher education

We do not believe that the Universities or public sector institutions should be compelled to accept students who have the minimum qualification of 2 'A' levels; and without such compulsion, it cannot be guaranteed that every student possessing these qualifications will find a place in higher education. But 81 per cent of those qualified now find places; and there are over 550,000 students in higher education, as compared with 510,000 in 1979.

4. What is your policy on the provision of student loans?

The Conservative Party has at present no plans to replace any

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part of the student grant for first degree course by a loan.

I hope that these answers will be of interest to your members.

W F Hennessy Esq
Regional Official
Association of University Teachers

Draft letter from the Rt. Hon. Mrs. Margaret Thatcher

Thank you for your letter of 27th May. I am happy to state my opinion on the four matters you raise.

(1) Funding for the university sector in general and those institutions in the London area

After decades of expansion, there has been scope for the elimination of waste and the more effective use of resources both in universities and in polytechnics and colleges. Given this fact, and the general need to contain public spending, the Government decided in 1981 that, (in addition to removing indiscriminate subsidies for overseas students), spending on higher education over both sectors should be reduced by about $8\frac{1}{2}$ per cent in real terms over three years. The University Grants Committee - a body composed ^{largely} of independent academics - has made use of this contraction to increase the proportion of science and engineering and encourage the pruning of overlapping courses.

But the period of contraction is now nearing the end. In 1983/4, we ^{are spending} ~~will have spent~~ £2.75 billion on higher education; and the intention is to hold the level steady in real terms after 1984/5. The Government is also making £100 million available over three years to create 700 new posts for outstanding young academics, as well as 130 new jobs in information technology; this will serve to protect the standards of our universities in years to come.

These general observations apply as much to London as to

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other areas. The reorganisation of the University of London has provided a remarkable example of the way in which the Government's policies are bringing about a more effective use of resources. The University has also received a considerable share of the newly created academic posts. The Colleges of the University, in their new form, can look forward to a thoroughly healthy future.

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(4) What is your policy on the provision of student loans?

The Conservative Party has at present no plans to replace any part of the student grant for first degree courses by a loan.

I hope that these answers will be of interest to your members.

OL: FROM THE PM. Pl. return to MB

United House, 1 Pembridge Road, London W11 3HJ. Telephone 01-221 4370

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AUT

Association of University Teachers

27 May, 1983

Dear Candidate,

I write to you on behalf of the 6,000 members of the Association of University Teachers living and working in the London area. The AUT is the trade union and professional association representing 34,000 university academics, administrators, librarians and researchers.

I am sure you will appreciate the importance of the University of London to the life of our capital. The university is a federation of colleges, schools and institutes, between them employing 17,000 people. There are over 40,000 full-time students; 60,000 students involved in continuing education and part-time courses, and 20,000 students on external degrees.

The importance of the University is evident on many different levels:

- as a major employer, and
- an important purchaser of materials and services.

In educational terms, the University, coupled with City University, Brunel University and the Royal College of Art, represents about 1/5th of the university provision in Great Britain. It is of vital importance to the educational, technological and cultural life of our city, and our country. Needless to say, it has within it many international centres of excellence in Medicine, Science, Technology, the Arts and Social Sciences. Because of recent Government reductions in public expenditure, these institutions have suffered a considerable fall in their grant. This has put at risk work which must be regarded as essential to the future of this country. Research and the provision of trained manpower in Science and Mathematics are of particular importance.

Our members, naturally, care a great deal about higher education, its funding and accessibility, and I would wish to inform them of the views of all candidates in this region, in relation to the university sector. In particular, I would welcome your views on: -

- (1) Funding for the university sector in general and those institutions in the London area. ~~157-1~~ extra paragraph attached
- (2) Increasing access to university courses for those living in the London area and, in particular, those groups traditionally under-represented on the student body. ~~157-2~~ see attached
- (3) The provision of places for all those qualified and desiring a place in higher education. ~~157-3~~
- (4) What is your policy on the provision of student loans. ~~157-4~~

I await your views with interest and assure you I will convey them to AUT members in the area.

Yours sincerely,

W. P. Hennessy
W. P. Hennessy
Regional Official



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

13 July 1983

Dear Michael

PUBLIC EXPENDITURE - THE 1983 SURVEY AND THE LONGER TERM

... The Prime Minister asked for an early sight of the draft of the Chief Secretary's paper on public expenditure for the 21 July Cabinet. I attach a draft which has been approved by the Chief Secretary after consulting the Chancellor. It is intended to complement the Chancellor's paper on economic prospects of which John Kerr will be sending you a draft this afternoon.

The draft paper broadly follows the approach indicated in the Chief Secretary's minute of 27 June to the Prime Minister. Perhaps the most important shifts of emphasis and presentation are the following:-

- a. The longer term target for spending is related to 1988-89, the last possible Budget of this Parliament, rather than 1990-91 and is compared primarily to the current real level of spending rather than to the projections of existing plans to the end of the decade which were carried out by officials last summer.
- b. After further reflection, the Chief Secretary and the Chancellor have decided that rather than aim for a net reduction on the published expenditure total for 1984-85 they should recommend holding to the published total but providing within it for a larger Contingency Reserve at the start of the year than we had this year. A similar aim would be set for 1985-86. As you will see they judge that to achieve these goals, savings of some £2 billion will be needed in both years to offset unavoidable increases.

The Chief Secretary would be grateful for any comments the Prime

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Minister may have on the draft. Subject to those and to further amendments of detail, he would aim to circulate the paper by the end of this week. This would allow Treasury officials to discuss it with Principal Finance Officers early next week with a view to sorting out any misunderstandings or disagreements over facts before Cabinet on 21 July.

I am sending copies of this letter to Richard Hatfield and John Kerr here.

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary

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CMO

DRAFT: Cabinet paper by the Chief Secretary

C(83)23

OBJECTIVES FOR PUBLIC EXPENDITURE - THE LONGER TERM AND THE 1983 SURVEY

Introduction

In our Manifesto for the General Election we promised firm control over public spending and borrowing, because "less spending by Government leaves more room to reduce taxes on families and businesses." On taxation we said that "further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps".

2. This continues the economic strategy on which we embarked in 1979, aimed to promote sound growth in the private sector. We have achieved a major and sustainable reduction in inflation. Reductions in the Public Sector Borrowing Requirement (PSBR) have played a major part in this. But we have [not been successful] in achieving our taxation objectives. Rather than falling, tax as a percentage of Gross Domestic Product (GDP) has risen from some 34 per cent in 1978-79 to 40 per cent in 1983-84. If we are to achieve more growth and a sustained reduction in unemployment, we must reduce this burden.

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3. The main obstacle to the achievement of our tax objectives is the continuing high level of public expenditure, which - contrary to popular mythology - actually rose as a proportion of GDP during the last Parliament. If we wish to reduce taxes, we must first reduce the programmes of expenditure which taxation will otherwise have to finance. Increased borrowing is not the answer: it will simply push up interest rates and revive the inflationary pressure which we have fought so hard to get down. Lower interest rates and lower taxation are essential for the soundly based and sustained growth which the country will now expect to see.

Longer-term objectives

4. Hence we must relate our public expenditure planning to our tax objectives. In particular we need to consider now what level of taxation we should aim to achieve by 1988/89 - the last possible Budget of this Parliament.

5. In the long term it would be a reasonable objective to bring the proportion of tax to GDP back at least to the level we inherited in 1978-79 - that is, back from around 40 per cent now to some 34 per cent. This would broadly enable us to reduce the basic rate of income tax to 25 per cent, and to bring personal allowances up to the levels of the 1960s in relation to earnings. Because indirect taxes and national insurance contributions would still be larger than in the 1960s the ratio of tax to GDP would still be high by historic standards.

6. How far we can go towards that objective by 1988/89 depends essentially on two things: the rate of growth of GDP and the path of public expenditure. If the PSBR continues at its planned 1985-86 level (2 per cent of GDP) and we achieve annual growth averaging 2½% - which would be a good performance in current world conditions - we could hope to get more than halfway there and to reduce the tax:GDP ratio to about 36½% by 1988/89. But even that would be possible only if we continued to hold public expenditure to its present level in real terms throughout the period.

7. I do not think we can reasonably aim for less than that on the tax front. I propose therefore as a longer-term expenditure target up to 1988-89, to hold the total of public expenditure, in cost terms, at the level of about £103 billion (1980-81 prices) which it reached in 1982-83, and which the present White Paper projects for 1985-86. I have to say that this target will be anything but easy to achieve. The projections of existing plans to the end of the decade which were carried out by officials last summer implied figures substantially higher than this, because they allowed for substantial continuing real growth in several programmes. Such growth does not show up in the aggregate White Paper figures for 1984-85 and 1985-86, because we are still feeling the benefits of the hard decisions taken in 1979 and 1980. But it could begin to appear in 1986-87 - the final year of the new Survey, for which there are already substantial additional bids. If we are to achieve the progress towards our tax objective proposed above for the end of this Parliament, we need to get on the right path by taking now the necessary decisions relating to 1986-87. This is why consideration of the Survey, covering the medium term, cannot be separated from these longer-term considerations.

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8. If my colleagues are willing in principle to work towards this expenditure target, I will aim to circulate projections in September, setting out a possible path up to 1988-89 both for the total of expenditure and in broad terms for the main programmes. Since this will involve difficult decisions about priorities it will require considerable discussion. Cabinet may want to allocate more resources to one programme by reducing others. Once agreed in broad terms, these projections would provide a starting point for discussion with colleagues in the bilaterals. I would hope final agreement could be reached in Cabinet in the late autumn. It will be for consideration whether they should be published; but they would set broad policy guidelines within which longer-term departmental planning could proceed and would also provide a framework for future Public Expenditure Surveys.

The Survey period

9. In the meantime, we need to set more specific objectives for this year's expenditure Survey. It is clear from the Chancellor's paper (C(83)26), which sets the background, that the prospect for next year is much tighter than we thought at Budget time. It is therefore essential at the very least to hold to the expenditure plans published in the last White Paper.

total

10. To achieve this will not be easy. The figures in Annex A show that for 1984-85 departments have proposed increases in programmes totalling some £5.6 billion over the existing plans. For 1985-86 they total £6.5 billion; and for 1986-87 £6.4 billion. *Some of these, based on statutory entitlements and firm commitments, will have to be accommodated. For 1984-85, approved levels of social security benefits will require an extra £0.25 billion. Agricultural price support needs £0.35 billion more. I estimate that at least £0.5 billion extra will be needed for local authority current expenditure. In addition, the level of net underspending seems likely to be much lower in future than it was up to 1982.

11. Moreover I believe we need a larger operational contingency reserve (of some £2.5 billion) at the start of the year than we had in 1983-84, in particular in the light of our experience this year, the effects of introducing end-year flexibility, and the uncertainty over European Budget refunds and the cost of the Common Agricultural Policy. We do not wish to repeat the exercise announced on 7th July.

12. It will be impossible to accept the full £5.6 billion of bids. But within that, the most pressing demands total some £2 1/2 billion. To meet them the White Paper shows a provisional reserve of £3 billion. We therefore need to find savings

elsewhere of the order of £2 billion (including the savings we hope to secure on the nationalised industries) simply to stay within the published total for 1984-85. Similarly, to stay within the published total for 1985-86, and to keep the total at approximately the same real level in 1986-87, will require reductions of at least the same order.

13. The existing baseline figures make no explicit assumption about pay increases next year. I shall be making proposals to deal with this in September.

Conclusion

14. I invite my colleagues to agree, therefore, that:

- a. we should work towards the longer-term objectives for taxation and expenditure described in paragraphs 5 and 6 above;
- b. I should in September bring forward projections for the total and for programmes up to 1988-89, which would be consistent with achieving these objectives;
- c. we should aim in the 1983 Survey to hold to the published totals for 1984-85 and 1985-86 which means finding savings of some £2 billion in both years to offset unavoidable increases;
- d. we should similarly seek savings of at least the same size in 1986-87 in order to hold total spending constant in real terms;
- e. I should discuss bilaterally with colleagues after the Recess how these savings might best be achieved. I would report back to Cabinet towards the end of October.

SUMMARY OF PES RETURNS

ANNEX A

	1984-85	1985-86	1986-87
1. Planning Total (cmd 8789)	126,370.0	132,260.0	
2. Agreed additions (1)	744.0	1,127.0	
3. Baseline	127,114.0	133,387.0	
4. Proposed adjustments to programmes			
Ministry of Defence	176.0	362.5	1,238.8
FCO - Overseas Development Administration	59.8	73.9	128.4
FCO - Other	40.5	57.0	67.0
European Community			
Intervention Board for Agriculture Produce	500.0	500.0	500.0
MAFF	30.2	13.1	9.4
Forestry Commission	-0.9	-2.4	-2.5
Department of Trade and Industry	69.8	74.3	15.6
ECGD	4.4	39.6	-133.1
Department of Energy	-1.1	-2.7	-10.8
Department of Employment	99.6	81.3	31.5
Department of Transport	60.0	60.0	68.0
DOE - Housing	540.0	540.0	540.0
DOE - PSA	83.5	98.0	65.5
DOE - OTHER	130.8	151.7	154.7
Home Office	49.5	70.9	98.3
Lord Chancellors Department	-1.6	-0.3	25.0
Department of Education and Science	905.0	1,110.0	1,420.0
Office of Arts and Libraries	12.4	19.8	25.1
DHSS - Health and Personal Social Services	750.0	1,115.0	1,775.0
DHSS - Social Security	514.2	648.9	1,067.0
HM Treasury - Civil Superannuation	27.0		50.4
Scotland	9.9	8.1	8.5
Wales	0.1		
Northern Ireland			
Territorial departments: formula consequential	174.0	204.6	200.0
Nationalised Industries external finance	569.0	165.0	-970.0
Chancellors' Departments	4.0	4.0	5.7
Other Departments	19.4	11.8	12.3
5. Total adjustments to programmes (net)	4,825.5	5,404.1	6,389.8
6. Net changes in Special Sales of Assets	0	0	0
TOTAL NET ADDITIONS TO CMD 8789 AGREED, OR PROPOSED BY DEPARTMENTS. (2)	5,569.5	6,531.1	6,389.8

Footnotes

1. Budget changes and revised economic assumptions
2. Shortfall: none now forecast

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Prime Minister

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X is news.

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

12 July 1983

MU 12/7

The Rt Hon Norman Fowler MP
Secretary of State for Social Services
Alexander Fleming House
Elephant and Castle
LONDON SE1 6BY

Norman

Thank you for your letter of 11 July.

When I gave my commitment that NHS expenditure would be maintained at planned levels in 1983/84, I was not aware that you envisaged that a consequence might be to reduce the savings from cash-limited votes below the levels we agreed for all departments at Cabinet. You will recall that I was particularly opposed to proposals to use non-cash-limited savings to reduce the reductions on cash-limited votes.

Since then it has become clear that the drugs package which you are negotiating with the Association of the British Pharmaceutical Industry is one which our officials have been discussing for some months. My officials have for some weeks been pressing yours to achieve the savings with effect from 1 July this year, and I do not accept that you could not have negotiated these savings but for the present expenditure reductions. So I do not consider the saving can legitimately count against your target for savings on cash limits.

Furthermore, while I note your suggestion that increased expenditure on the Family Practitioner Service will amount to only £112m, £16 million short of the required saving on NHS cash limits, I am advised that there is a strong chance that expenditure will increase further in the course of the year. Forecasting of FPS expenditure has, for understandable reasons, been very unreliable in the past, and the average percentage overspends of recent years point to a figure this year nearer to £140m. In present circumstances I do not consider it justifiable to risk understating this possible overspend on the FPS vote in calculating the reductions possible within our commitment to keep NHS expenditure at planned levels.

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I recognise that adjusting the figures which you have already publicly mentioned will be embarrassing, but it need not weaken our commitment to maintain planned levels of total NHS expenditure. I confirm that I fully maintain that commitment, and I suggest that we aim to review the matter in the autumn, and to establish then whether FPS overspend is in fact likely to fall short of £128 million. If this does then seem likely, I would - despite paras 2 and 3 above - be prepared to allow a compensating further change to the NHS cash limits. But I must ask that you delay an answer to Mrs Dunwoody's question until you have agreed revised reductions which fully meet your commitment to make now the reductions agreed at Cabinet to cash-limited votes.

I am copying this letter to the Prime Minister and to Peter Rees.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON

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10 DOWNING STREET

From the Private Secretary

12 July 1983

CASH LIMITS FOR 1982-83

Thank you for your letter of 11 July to which you attached adraft White Paper on the provisional outturn of expenditure against cash limits for 1982-83. I have shown this to the Prime Minister and she is content that you publish it as you propose.

MS

John Gieve, Esq.,
HM Treasury.

JK

JK



Prime Minister (1)

Agree?

MCS 11/7

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
Whitehall
London SW1

Yes not

11 July 1983

Dear Michael

CASH LIMITS FOR 1982-83

We are now ready to publish the annual White Paper showing provisional outturn of expenditure against cash limits for 1982-83. The Chief Secretary proposes to publish it on Monday, 18 July immediately after Question Time.

...

I attach a copy of the proof. It follows the strictly low-key format of previous White Papers, and has been agreed in draft with departments. The text is deliberately kept to a bare minimum, in accordance with the usual practice. The White Paper is published primarily as a matter of record.

I am sending copies of this letter to the Private Secretaries of other members of the Cabinet.

Yours sincerely

J. Gieve

JOHN GIEVE
Private Secretary



CASH LIMITS 1982-83 PROVISIONAL OUTTURN

(AND 1981-82 OUTTURN)

*Presented to Parliament by the Chief Secretary to the Treasury
by Command of Her Majesty
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**CASH LIMITS
1982-83 PROVISIONAL OUTTURN
(AND 1981-82 OUTTURN)**

1. This White Paper gives provisional outturn figures for cash limited public expenditure in 1982-83 and revised figures for 1981-82.
2. The cash limits for 1982-83 on expenditure by central government departments were published in the Supply Estimates on 9 March 1982. The remaining cash limits, on local authority capital expenditure and for certain other bodies, were published in March 1982 in the white paper "The Government's Expenditure Plans 1982-83 to 1984-85" (Cmnd 8494).
3. Table 1 shows changes to the original limits announced subsequently, excluding token increases.
4. Tables 2 and 3 give provisional outturn figures for 1982-83 compared with the cash limits. These figures may be subject to some adjustment when the final accounts are available.
5. On the current figures there were two breaches of cash limits. The Victoria and Albert Museum (Class X, Vote 15) overspent their £9.3 million cash limit by £0.04 million and the Department of the Environment (Class VIII, Vote 4 - Royal palaces, parks, historic buildings etc) breached their £51.3 million cash limit by £0.¹⁹~~18~~ million. The usual procedures in the case of cash limit breaches are being implemented including corresponding reductions in this year's cash limits.
6. Table 4 gives final outturn figures for central government cash blocks in 1981-82. Table 5 shows revised figures for the same year for the capital blocks for local authorities and certain other bodies. These may still be subject to some subsequent revision. Provisional outturn figures for 1981-82 were published in July 1982 in the white paper "Cash limits 1981-82 Provisional Outturn" (Cmnd 8615).
7. Table 6 gives original External Financing Limits (EFLs) for nationalised industries for 1982-83, revised EFLs and provisional outturn for each industry.

CHANGES TO 1982-83 CASH LIMITS, EXCLUDING TOKEN INCREASES

Table 1

Class and vote	Department	Size of change (£ thousand)		Total	Purpose of change
		NIS reduction	Other		
CENTRAL GOVERNMENT VOTES					
I	1, 2, 4, 5 Ministry of Defence	-53,250	+371,257	+318,007	Additional provision to cover the cost of South Atlantic operations. Announced on 9 November 1982.
II	1 Foreign & Commonwealth Office	-876	-9,986	-10,862	Transfers to Class II, votes 3, 4, 6. Announced on 28 October 1982 and 9 February 1983.
3	Foreign & Commonwealth Office	-381	+2,086	+1,705	Additional provision for BBC External Service pay awards. Announced on 26 October 1982.
4	Foreign & Commonwealth Office	—	+3,190	+3,190	Additional provision to cover British Council Services. Announced on 28 October 1982 and 9 February 1983
5	Foreign & Commonwealth Office	—	-1,000	-1,000	Reduction to allow for rephrasing of expenditure on the Belize defence force. Announced on 22 March 1983.
10	Overseas Development Administration	-64	+9,600	+8,536	Additional provision to cover increased aid to the Falklands (£5.6m) announced on 28 October 1982 and Jamaica (£3m) announced on 9 February 1983.
11	Overseas Development Administration	-193	—	-193	
III	3 Ministry of Agriculture, Fisheries and Food	—	-400	-400	Transfer to Class III, vote 2. Announced on 9 February 1983.
4	Intervention Board for Agricultural Produce	-139	—	-139	
5	Ministry of Agriculture Fisheries and Food	—	+2,740	+2,740	Additional provision to cover short term aid to the fishing industry. Announced on 28 October 1982.
6	Forestry Commission	-693	—	-693	
7	Ministry of Agriculture Fisheries and Food	-1,588	—	-1,588	

Class and vote	Department	Size of change (£ thousand)		Purpose of change
		NIS reduction	Other	
			Total	
IV 4	Department of Trade	-1,014	+2,800	+1,786 Additional provision to meet claims for loss of merchant ships on duty in South Atlantic. Announced on 23 June 1982.
5	Department of Energy	—	+15,500	+15,500 Additional provision to cover cost of oil consumed by CEGB as a result of effects on coal deliveries of rail stoppages. Announced on 1 July 1982.
6	Department of Industry	-313	+8,300	+7,987 Additional provision of £13.3m to help British Industry improve design and production techniques. Announced on 25 June 1982. Transfer of £5m to Class IV, vote 18. Announced on 3 February 1983.
7	Department of Energy	-1,252	—	-1,252
9	Export Credits Guarantee Department	-199	—	-199
11	Registry of Friendly Societies	-12	+39	+27 Additional provision to cover increase in manpower ceilings. Announced on 14 February 1983.
12	Office of Fair Trading	-42	—	-42
13	Department of Employment	-1,075	+18,170	+17,095 Increased provision of £12.17m for community work programme, announced in 1982 Budget, and of £6m for Community Enterprise Programme. Announced on 7 February 1983.
15	Advisory Conciliation and Arbitration Services	-88	—	-88
16	Manpower Services Commission	-2,140	-2,808	-4,948 Increased provision for the Voluntary Projects Programme (£3.27m) offset by saving of £0.078m in respect of the 1980-81 final claim on the National Insurance Fund. Announced on 23 June 1982. Transfer of £6m to Class IV, vote 13. Announced on 7 February 1983.
17	Department of Employment	-1,345	—	-1,345
18	Department of Industry	-689	+5,000	+4,311 Additional provision for capital expenditure on computers for purchase of consultancy services and to cover increased pay costs. Offset by reduction on Class IV, vote 6. Announced on 3 February 1983.

Class and vote	Department	Size of change (£ thousand)		Total	Purpose of change
		NIS reduction	Other		
19	Department of Energy	-139	—	-139	
20	Health and Safety Commission	-478	—	-478	
21	Department of Energy	—	+1,500	+1,500	New vote. Provision to cover expenses of sale of shares in Britoil. Announced on 22 November 1982.
VI 1	Department of Transport	—	+45,000	+45,000	Additional provision to cover increased construction work resulting from good weather. Announced on 27 January 1983.
4	Department of Transport	-1,020	+2,000	+980	Additional provision of £2m to cover anticipated shortfall of receipts. Offset by reduction in Class VI, vote 5. Announced on 1 February 1983.
5	Department of Transport	-433	-2,000	-2,433	Transfer to Class VI, vote 4. Announced on 1 February 1983.
6	Department of Transport	—	+600	+600	New Vote. Provision to meet preliminary expenses incurred in sale of shares in Associated British Ports. Announced on 22 November 1982.
VIII 2	Department of the Environment	-451	+2,957	+2,506	Additional provision for Sports Council, Nature Conservancy Council and Countryside Commission capital projects. Announced on 9 February 1983.
4	Department of the Environment	-94	+4,000	+3,906	Provision to cover additional contributions to National Heritage Memorial Fund. Announced on 9 February 1983.
5	Department of the Environment	-743	—	-743	
7	Department of the Environment	-22	—	-22	
IX 1	Lord Chancellor's Department	-1,183	-25	-1,208	Reduction reflecting increased receipts from hiring of Law Society Computer. Announced on 28 June 1982.

Class and vote	Department	Size of change (£ thousand) NIS reduction	Other	Total	Purpose of change
2	Northern Ireland Court Service	-67	—	-67	
7	Home Office	-57	—	-57	
8	Home Office	-3,282	—	-3,282	
9	Home Office	-78	-2,800	-2,878	Reduction in provision for compensation under Criminal Injuries Compensation Scheme. Announced on 29 March 1983.
11	Home Office	-1,083	—	-1,083	
12	Treasury Solicitors Department	-81	—	-81	
13	Crown Agent	-111	—	-111	
X 2	Department of Education and Science	—	+700	+700	Additional provision to cover pay awards to University clinical academic staff. Announced on 1 July 1982.
4	Department of Education and Science	—	-500	-500	Transfer to Class X, vote 8. Announced on 18 January 1983.
5	Department of Education and Science	-270	—	-270	
7	Medical Research Council	—	+70	+70	Additional provision to cover pay awards to medical research workers. Announced on 1 July 1982.
8	Natural Environment Research	—	+500	+500	Additional provision to allow for expansion of British Antarctic Survey programme. Offset by reduction in Class X, vote 4. Announced on 18 January 1983.
14	Science Museum	-48	—	-48	
15	Victoria & Albert Museum	-78	—	-78	
19	National Portrait Gallery	-12	—	-12	
22	Department of Education and Science	—	+10,500	+10,500	Additional provision for the Arts, Arts Council etc. Announced on 15 February 1982.

<i>Class and vote</i>	<i>Department</i>	<i>Size of change (£ thousand) NIS reduction</i>	<i>Other</i>	<i>Total</i>	<i>Purpose of change</i>
XI 1	Department of Health and Social Security	-64,335	+96,018	+31,683	Additional provision to cover pay awards to Health Service workers. Announced on 1 July 1982 and 16 November 1982.
XII 4	Department of Health and Social Security	-4,884	+11,063	+6,179	Additional provision to cover increases in costs of Post Office Agency Services. Announced on 9 February 1983.
XIII 3	Privy Council Office	-4	-	-4	
4	HM Treasury	-313	-	-313	
5	Customs and Excise	-3,000	-	-3,000	
6	Inland Revenue	-6,712	-	-6,712	
8	Exchequer and Audit Department	-124	-	-124	
9	National Investment and Loans Office	-7	-	-7	
10	Department for National Savings	-687	-	-687	
12	Management and Personnel Office	-147	-	-147	
13	HM Treasury	-84	-	-84	
15	Public Record Office	-40	-	-40	
16	Office of Population, Censuses and Surveys	-181	-	-181	
17	Land Registry	-556	-	-556	
18	Charity Commission	-34	+298	+264	Additional provision to cover costs associated with computerisation. Announced on 16 November 1982.

Class and vote	Department	Size of change (NIS reduction)	Other	Total	Purpose of change
19	Cabinet Office	-64	—	-64	
20	Office of Parliamentary Commissioner and Health Service Commissioners	-12	—	-12	
22	Her Majesty's Stationery Office	—	+393	+393	Additional provision for sale of HMSO publications to public libraries. Announced on 8 February 1983.
24	Ordnance Survey	-325	—	-325	
XIV 1	PSA of the Department of the Environment	-381	+12,926	+12,545	Additional provision of £5,926m to finance construction of an international conference centre. Announced on 18 June 1982. Additional provision of £7m to allow for improvements in Government accommodation. Offset by reduction in Class XIV, vote 2. Announced on 16 November 1982.
2	PSA of the Department of the Environment	-1,908	-7,000	-8,908	Transfer to Class XIV, vote 1. Announced on 16 November 1982.
3	Central Office of Information	-123	-1,000	-1,123	Reduction due to savings in recruitment publicity for the Armed Forces. Announced on 1 July 1982.
6	Government Actuary	-6	—	-6	
7	Paymaster General's Office	-79	—	-79	
XV 2	Department of Agriculture and Fisheries for Scotland	—	+7,485	+7,485	Additional provision to cover short term aid to the fishing industry. Announced on 28 October 1982.
3	Scottish Economic Planning Department	-138	—	-138	
4	Scottish Economic Planning Department	-425	+370	-55	Additional provision for Voluntary Service Scheme. Announced on 23 June 1982.
6	Scottish Development Department	-18	—	-18	
11	Scottish Courts Administration	-90	—	-90	
14	Scottish Home and Health Department	-10,261	+14,047	+3,786	Additional provision to cover pay awards to Health Service workers. Announced on 1 July 1982 16 November 1982.

Class and vote	Department	Size of change (£ thousand)		Total	Purpose of change
		NIS reduction	Other		
XV contd. 15	Scottish Education Department	-48	-100	-148	Transfer to Class XV, vote 17. Announced on 15 February 1983.
17	National Library of Scotland	-19	+100	+81	Additional provision for Scottish Libraries Automation project. Offset by saving on Class XV, vote 15. Announced on 15 February 1983.
18	National Galleries of Scotland	-15	—	-15	
19	National Museum of Antiquities of Scotland	-6	—	-6	
21	Scottish Record Office	-15	—	-15	
22	Registrar General's Office: Scotland	-31	—	-31	
24	Scottish Office	-889	—	-889	
XVI 1	Welsh Office	-3,949	+5,990	+2,041	Additional provision to cover Health Service workers pay awards as announced on 1 July 1982 and 16 November 1982. Transfer of £0.18m to Class XVI, vote 7.
4	Welsh Office	-228	+190	-38	Additional provision for Voluntary Service Scheme as announced on 23 June 1982.
5	Welsh Office	-70	+275	+205	Additional provision to cover short term aid to the fishing industry. Announced on 28 October 1982.
7	Welsh Office	-238	+180	-58	Additional provision to meet the cost of Civil Service pay award. Offset by reduction in Class XVI, vote 1. Announced on 21 January 1983.
XVII 1	Northern Ireland Office	-2,638	+14,000	+11,362	Additional provision to cover cost of higher levels of police activity. Offset by reduction in Northern Ireland Departments cash block. Announced on 16 November 1982.
XVIII 15	Crown Estate Office	-13	+25	+12	Additional provision for salary increases of Crown Estate Commissioners. Announced on 3 February 1983.
TOTAL		-178,180	+641,250	+463,070	

Cash block

Class and Vote	Department	Size of change (£ thousand) NIS reduction	Other	Total	Purpose of change
NON-VOTED CASH LIMITS					
BOE 1	Bank of England	-400	-4,497	-4,897	Adjustment in respect of VAT no longer charged on EEA and Debt Management.
NID 1	Northern Ireland Departments	-10,000	-6,000	-16,000	Increased provision of £3.0m to cover construction measures announced in 1982 Budget and of £5.0m to cover pay awards to Health Service workers, announced on 1 July 1982 and 16 November 1982. Transfer of £14.0m to Class XVII, vote 1. Announced on 16 November 1982.
DOE/LA1	Department of the Environment	—	+82,445	+82,445	Additional provision to cover construction measures announced in 1982 Budget.
SO/LA2	Scottish Office	—	-41,922	-41,922	Additional provision of £9.7m to cover construction measures announced in 1982 Budget. Reduction of £51.622m announced on 15 February 1983 to offset authorities transferring rate receipts to housing revenue accounts.
WO/LA1	Welsh Office	—	+4,900	+4,900	Additional provision to cover cost of construction measures announced in 1982 Budget.
RWA 1	Department of the Environment and Welsh Office	-6,700	—	-6,700	
CAA 1	Department of Trade	-1,200	—	-1,200	
DOE/HCI	Department of the Environment	—	+150,000	+150,000	Additional provision to cover extra expenditure on fair rent, hostel and low cost home ownership schemes. Announced on 15 November 1982.
TOTAL		-18,300	+184,926	+166,626	

**CASH LIMITS 1982-83: PROVISIONAL OUTTURN
CENTRAL GOVERNMENT VOTES**

Table 2

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>	
I	1	Ministry of Defence	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	5,925,845	5,908,217	-0.2 (a)
	2	Ministry of Defence	Defence procurement	6,510,825	6,504,542	
	4	Property Services Agency	Defence accommodation services etc	735,000	738,653	
	5	Ministry of Defence	Dockyard services	434,485	426,608	
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic and consular services	218,890	214,000	-2.2
	2	Property Services Agency	Overseas representation: accommodation services	31,615	31,383	-0.7
	3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	69,916	69,802	-0.2
	4	Foreign and Commonwealth Office	British Council	39,450	39,450	—
	5	Foreign and Commonwealth Office	Foreign and commonwealth services	27,973	26,669	-4.7
	8	Cabinet Office	Secret service	66,500	66,342	-0.2
	10	FCO: Overseas Development Administration	Overseas aid	935,029	924,000	-1.2
	11	FCO: Overseas Development Administration	Overseas aid administration	21,373	19,029	-11.0
III	3	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	91,282	85,376	-6.5
	4	Intervention Board for Agricultural Produce	Central administration	16,232	15,969	-1.6
	5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	32,030	26,650	-16.8
	6	Forestry Commission	Forestry	61,210	56,000	-8.5
	7	Ministry of Agriculture, Fisheries and Food	Departmental administration	144,306	142,446	-1.3

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<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over- spend(+) or Under- spend(-) %</i>	
IV	2	Department of Industry	Miscellaneous support services	38,798	27,518	-29.1
	4	Department of Trade	Pay, general administrative expenses, export promotion, shipping services, etc	163,212	155,954	-4.4
	5	Department of Energy	Industrial support	683,549	677,244	-0.9
	6	Department of Industry	Scientific and technological assistance	254,946	242,000	-5.1
	7	Department of Energy	Scientific and technological assistance: nuclear energy	223,194	217,060	-2.7
	9	Export Credits Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	18,650	17,436	-6.5
	11	Registry of Friendly Societies	Pay and general administrative expenses	1,022	1,014	-0.8
	12	Office of Fair Trading	Pay and general administrative expenses	4,578	3,761	-17.8
	13	Department of Employment	Labour market services	283,544	265,000	-6.5
	15	Department of Employment	Advisory, Conciliation and Arbitration Service	13,046	12,079	-7.4
	16	Department of Employment	Manpower Services Commission	1,090,151	893,660	-18.0
	17	Department of Employment	Administration	117,851	101,492	-13.9
	18	Department of Industry	Central and miscellaneous services	57,355	55,000	-4.1
	19	Department of Energy	Administrative and miscellaneous services	14,849	13,597	-8.4
	20	Department of Employment	Health and Safety Commission	81,176	80,143	-1.3
	21	Department of Energy	Sale of shares in Britoil	1,501	0	—
V	2	Department of Trade	Government investment in Nationalised Industries	10,000	0	—

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<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over- spend(+) or Under- spend(-) %</i>	
VI	1	Department of Transport	Roads, etc, England	748,010	742,317	-0.8
	2	Department of Transport	Transport services	65,579	52,566	-19.8
	4	Department of Transport	Central and miscellaneous services	35,590	33,446	-6.0
	5	Department of Transport	Driver and vehicle licensing	78,630	72,911	-7.3
	6	Department of Transport	Sale of shares in Associated British Ports	601	0	—
VIII	2	Department of the Environment	Central environmental services, etc	110,476	107,000	-3.1
	4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments, etc	51,315	51,505 51,350	+0.4 +0.1
	5	Department of the Environment	Central administration and environmental research	153,879	141,902	-7.8
	7	Department of the Environment	Urban Development Corporations, England	63,487	61,938	-2.4
IX	1	Lord Chancellor's Department	Administration of justice: England and Wales	54,421	53,375	-1.9
	2	Northern Ireland Court Service	Administration of justice: Northern Ireland	7,806	7,800	—
	7	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	37,856	36,203	-4.4
	8	Home Office	Prisons: England and Wales	494,404	485,797	-1.7
	9	Home Office	General protective services and civil defence: England and Wales	59,066	56,198	-4.8
	11	Home Office	Central and administrative services	115,761	110,889	-4.2
	12	Treasury Solicitor	Pay and general administrative expenses	9,151	9,078	-0.8
	13	Crown Office	Pay and general administrative expenses	9,306	9,256	-0.5

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
X 2	Department of Education and Science	Universities, etc	1,384,646	1,384,445	—
4	Department of Education and Science	Educational services	114,725	107,272	-6.5
5	Department of Education and Science	Central administration	34,019	32,960	-3.1
6	Department of Education and Science	Agricultural Research Council	43,624	43,624	—
7	Department of Education and Science	Medical Research Council	107,502	107,502	—
8	Department of Education and Science	Natural Environment Research Council	58,035	58,035	—
9	Department of Education and Science	Science and Engineering Research Council	234,402	234,402	—
10	Department of Education and Science	Social Science Research Council	20,901	20,651	-1.2
11	Trustees of British Museum (Natural History)	British Museum (Natural History)	9,068	9,051	-0.2
12	Department of Education and Science	Other science	4,509	4,495	-0.3
13	Trustees of British Museum	British Museum	11,722	11,612	-0.9
14	Department of Education and Science	Science Museum	7,143	7,117	-0.4
15	Department of Education and Science	Victoria and Albert Museum	9,298	9,339	+0.4
16	Trustees of Imperial War Museum	Imperial War Museum	4,130	3,867	-6.4
17	Trustees of National Gallery	National Gallery	6,041	6,007	-0.6
18	Trustees of National Maritime Museum	National Maritime Museum	3,855	3,796	-1.5
19	Trustees of National Portrait Gallery	National Portrait Gallery	1,687	1,674	-0.8
20	Trustees of Tate Gallery	Tate Gallery	5,025	5,023	—
21	Trustees of Wallace Collection	Wallace Collection	765	763	-0.3
22	Department of Education and Science	Art, Arts Council, etc	113,281	113,195	—
23	Department of Education and Science	Libraries: England	43,475	43,475	—

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
XI 1	Department of Health and Social Security	Health and personal social services: England	8,114,984	8,089,760	-0.3
XII 4	Department of Health and Social Security	Administration and miscellaneous services	586,667	580,000	-1.1
XIII 3	Privy Council Office	Pay and general administrative expenses	688	650	-5.5
4	HM Treasury	Pay and general administrative expenses	36,281	35,331	-2.6
5	Customs and Excise	Pay and general administrative expenses	268,466	268,350	—
6	Inland Revenue	Pay and general administrative expenses	609,677	608,707	-0.2
8	Exchequer and Audit Department	Economic and financial administration	8,821	8,607	-2.4
9	National Investment and Loans Office	Pay and general administrative expenses	109	72	-33.9
10	Department for National Savings	Pay and general administrative expenses	138,153	134,581	-2.6
12	Management and Personnel Office	Central management of the Civil Service	24,103	23,985	-0.5
13	HM Treasury	Computers and telecommunications	8,083	8,000	-1.0
14	HM Treasury	Civil Service catering service	1	0	—
15	Public Record Office	Pay and general administrative expenses	3,630	3,556	-2.0
16	Office of Population Censuses and Surveys	Pay and general administrative expenses	20,378	19,909	-2.3
17	Land Registry	Pay and general administrative expenses	55,744	55,697	—
18	Charity Commission	Pay and general administrative expenses	3,757	3,691	-1.7
19	Cabinet Office	Pay and general administrative expenses	8,860	8,737	-1.4
20	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	1,204	1,199	-0.4

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over- spend(+) or Under- spend(-) %</i>	
	21	Public Trustee		1	0	—
	22	Her Majesty's Stationery Office		6,796	6,796	—
	24	Ordnance Survey		16,637	14,562	-12.5
XIV	1	Property Services Agency		481,048	462,620	-3.8
	2	Property services Agency		260,239	258,328	-0.7
	3	Central Office of Information		40,507	40,005	-1.2
	6	Government Actuary's Department		565	518	-8.3
	7	Paymaster General's Office		9,798	8,931	-9.8
XV	2	Department of Agriculture and Fisheries for Scotland		66,380	60,873	-8.3
	3	Scottish Economic Planning Department		134,841	134,573	-0.2
	4	Scottish Economic Planning Department		151,285	107,414	-29.0
	6	Scottish Development Department		144,432	134,786	-6.7
	11	Scottish Courts Administration		3,944	3,936	-0.2
	14	Scottish Home and Health Department		1,270,553	1,253,317	-1.3
	15	Scottish Education Department		110,608	108,589	-1.8
	17	Trustees of National Library of Scotland		2,763	2,763	—
	18	Board of Trustees National Galleries of Scotland		2,611	2,611	—

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over- spend(+) or Under- spend(-) %</i>
19	Board of Trustees National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	764	764	—
21	Scottish Record Office	Pay and general administrative expenses	1,303	1,098	-15.7
22	Registrar General's Office: Scotland	Pay and general administrative expenses	2,251	2,069	-8.1
23	Department of the Registers of Scotland	Pay and general administrative expenses	1	—	—
24	Scottish Office	Pay and general administrative expenses	77,652	77,124	-0.7
XVI 1	Welsh Office	Tourism, roads and transport, housing, other environmental services, education, libraries, arts, health and personal social services: Wales	670,791	669,000	-0.3
4	Welsh Office	Manpower Services Commission: Wales	78,749	56,003	-28.9
5	Welsh Office	Agricultural services, support for fishing industry, industrial development: Wales	64,429	62,299	-3.3
7	Welsh Office	Other services	24,404	24,399	—
XVII 1	Northern Ireland Office	Law, order and protective services	364,330	356,542	-2.1
XVIII 1	Department of the Environment	Rate support grants (1982-83) to local revenues: England	9,160,000	8,781,000	-4.1
2	Welsh Office	Rate support grants (1982-83) to local revenues: Wales	814,700	796,417	-2.2
3	Department of the Environment	National parks, supplementary grants (1982-83): England	5,000	5,000	—
4	Welsh Office	National parks, supplementary grants (1982-83): Wales	1,690	1,690	—
5	Scottish Office	Rate support grants (1982-83) to local revenues: Scotland	1,677,700	1,634,400	-2.6

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Provisional outturn £ thousand</i>	<i>Over- spend(+) or Under- spend(-) %</i>
15	Crown Estate Office	Pay and general administrative expenses	1,240	1,240	—
19	Department of Transport	Transport supplementary grants (1982-83): England	456,900	456,900	—
20	Welsh Office	Transport supplementary grants (1982-83): Wales	30,000	30,000	—
TOTAL CASH-LIMITED VOTES			48,757.093	47,705.824	-2.2

NOTES

- (a) The four cash-limited defence votes are each separate cash limits, but by agreement with the Treasury they are managed as a block cash limit.

CASH LIMITS 1982-83: PROVISIONAL OUTTURN

**LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND
CASH BLOCKS FOR CERTAIN OTHER BODIES**

Table 3

<i>Department</i>	<i>Cash block</i>	<i>Description of expenditure</i>	<i>Cash limit £ million</i>	<i>Provisional outturn £ million</i>	<i>Over- spend(+) or Under- spend(-) %</i>
Bank of England	BoE 1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	73.5	72.6	-1.2
Department of the Environment and Welsh Office	RWA 1	External financing requirement of Regional Water Authorities in England and Wales	412.3	293.0	-28.9
Department of Trade	CAA 1	External financing requirements of Civil Aviation Authority	34.6	2.5	-92.8
Department of the Environment	DoE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	680.0	679.8	—
Department of the Environment	DoE/LA1	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	3,384.7	2,515.0	-25.7
Department of the Environment	DoE/NT1	Capital expenditure in England by new towns on housing, roads and commercial and industrial investment	107.5	83.0	-22.8
Department of the Environment	UDC 1	External financing requirements of Urban Development Corporations	63.8	63.0	-1.2
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	94.4	75.5	-20.0

<i>Department</i>	<i>Cash block</i>	<i>Description of expenditure</i>	<i>Cash limit £ million</i>	<i>Provisional outturn £ million</i>	<i>Over- spend(+) or Under- spend(-) %</i>
SCOTLAND Scottish Office	SO/LA1	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	397.1	372.0	-6.3
Scottish Office	SO/LA2	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	456.3	413.2	-9.4
WALES					
Welsh Office	WO/LA1	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	318.9	281.0	-11.9
NORTHERN IRELAND					
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	1,854.7	1,849.7	-0.3
TOTAL			7,877.8	6,700.3	-14.9

**CASH LIMITS 1981-82: OUTTURN
CENTRAL GOVERNMENT VOTES**

Table 4

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>	
I	1	Ministry of Defence	Pay, etc, of the armed forces and civilians, stores, supplies and miscellaneous services	4,987,722	4,993,045	—
	2	Ministry of Defence	Defence procurement	5,805,702	5,827,873	(a)
	4	Property Services Agency	Defence accommodation services, etc	635,000	615,305	
	5	Ministry of Defence	Dockyard services	425,780	413,069	
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic and consular services	206,972	191,001	-7.7
	2	Property Services Agency	Overseas representation: accommodation services	36,123	31,233	-13.5
	3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	61,898	61,798	-0.2
	4	Foreign and Commonwealth Office	British Council	34,226	34,117	-0.3
	5	Foreign and Commonwealth Office	Foreign and Commonwealth services	26,184	25,162	-3.9
	8	Cabinet Office	Secret service	61,000	60,937	-0.1
	10	FCO: Overseas Development Administration	Overseas aid	979,603	925,402	-5.5
	11	FCO: Overseas Development Administration	Overseas aid administration	20,800	19,040	-8.5
III	3	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	82,107	77,326	-5.8
	4	Intervention Board for Agricultural Produce	Central administration	15,624	15,332	-1.9
	5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	40,568	32,360	-20.2
	6	Forestry Commission	Forestry	59,195	57,195	-3.4

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>	
	7	Ministry of Agriculture, Fisheries and Food	Departmental administration	144,887	136,061	-6.1
IV	2	Department of Industry	Miscellaneous support services	60,231	37,801	-37.2
	4	Department of Trade	Pay, general administrative expenses, export promotion, shipping services, etc	158,731	144,850	-8.7
	5	Department of Energy	Industrial support	312,485	308,517	-1.3
	6	Department of Industry	Scientific and technological assistance	234,810	194,906	-17.0
	7	Department of Energy	Scientific and technological assistance: nuclear energy	221,375	208,382	-5.9
	9	Export Credits Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	18,835	17,327	-8.0
	11	Registry of Friendly Societies	Pay and general administrative expenses	1,012	1,005	-0.7
	12	Office of Fair Trading	Pay and general administrative expenses	4,457	3,484	-21.8
	13	Department of Employment	Labour market services	183,152	176,619	-3.6
	15	Department of Employment	Advisory, Conciliation and Arbitration Service	12,738	11,005	-13.6
	16	Department of Employment	Manpower Services Commission	848,812	809,090	-4.7
	17	Department of Employment	Administration	120,475	103,673	-13.9
	18	Department of Industry	Central and miscellaneous services	49,728	45,368	-8.8
	19	Department of Energy	Administrative and miscellaneous services	15,993	13,938	-12.8
	20	Department of Employment	Health and Safety Commission	80,816	72,882	-9.8
	24	HM Treasury	Cable and Wireless Ltd	1	—	—
	25	Department of Energy	Amersham International Ltd	1	—	—

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
VI	1	Department of Transport	695,396	641,592	-7.7
	2	Department of Transport	85,611	78,017	-8.9
	4	Department of Transport	54,376	47,057	-13.4
	5	Department of Transport	73,410	70,964	-3.3
	6	Department of Transport	1	612	(b)
VIII	2	Department of the Environment	85,037	76,386	-10.2
	4	Department of the Environment	47,398	44,727	-5.6
	5	Department of the Environment	151,372	135,400	-10.5
	7	Department of the Environment	70,255	37,493	-46.6
IX	1	Lord Chancellor's Department	54,946	52,953	-3.6
	2	Northern Ireland Court Service	7,319	7,274	-0.6
	7	Home Office	40,597	37,096	-8.6
	8	Home Office	448,121	439,687	-1.9
	9	Home Office	51,650	46,513	-9.9
	11	Home Office	118,056	112,984	-4.3
	12	Treasury Solicitor	8,715	8,367	-4.0
	13	Crown Office	8,907	8,529	-4.2

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>	
X	2	Department of Education and Science	Universities, etc	1,166,181	1,166,118	—
	4	Department of Education and Science	Educational services	103,282	99,120	-4.0
	5	Department of Education and Science	Central administration	31,924	31,533	-1.2
	6	Department of Education and Science	Agricultural Research Council	41,934	41,934	—
	7	Department of Education and Science	Medical Research Council	101,539	101,524	—
	8	Department of Education and Science	Natural Environment Research Council	54,291	54,291	—
	9	Department of Education and Science	Science and Engineering Research Council	216,755	216,755	—
	10	Department of Education and Science	Social Science Research Council	20,656	20,656	—
	11	Trustees of British Museum (National History)	British Museum (Natural History)	8,512	8,493	-0.2
	12	Department of Education and Science	Other science	4,206	4,196	-0.2
	13	Trustees of British Museum	British Museum	11,116	11,116	—
	14	Department of Education and Science	Science Museum	6,448	6,388	-0.9
	15	Department of Education and Science	Victoria and Albert Museum	8,850	8,749	-1.1
	16	Trustees of Imperial War Museum	Imperial War Museum	3,844	3,709	-3.5
	17	Trustees of National Gallery	National Gallery	5,697	5,657	-0.7
	18	Trustees of National Maritime Museum	National Maritime Museum	3,622	3,563	-1.6
	19	Trustees of National Portrait Gallery	National Portrait Gallery	1,606	1,581	-1.5
	20	Trustees of Tate Gallery	Tate Gallery	4,708	4,681	-0.6
	21	Trustees of Wallace Collection	Wallace Collection	671	656	-2.2
	22	Department of Education and Science	Art, Arts Council, etc	95,221	95,199	—
	23	Department of Education and Science	Libraries: England	38,948	38,948	—

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
XI 1	Department of Health and Social Security	Health and personal social services: England	7,624,882	7,593,945	-0.4
XII 4	Department of Health and Social Security	Administration and miscellaneous services	552,140	491,906	-10.9
XIII 3	Privy Council Office	Pay and general administrative expenses	668	657	-1.6
4	HM Treasury	Pay and general administrative expenses	21,879	18,243	-16.6
5	Customs and Excise	Pay and general administrative expenses	260,396	254,356	-2.3
6	Inland Revenue	Pay and general administrative expenses	587,969	561,483	-4.5
8	Exchequer and Audit Department	Economic and financial administration	8,382	7,524	-10.2
9	National Investment and Loans Office	Pay and general administrative expenses	299	263	-12.0
10	Department for National Savings	Pay and general administrative expenses	80,400	78,860	-1.9
12	Management and Personnel Office	Central management of the Civil Service	37,194	36,183	-2.7
13	HM Treasury	Computers and telecommunications	8,914	7,384	-17.2
14	HM Treasury	Civil service catering service	1	—	—
15	Public Record Office	Pay and general administrative expenses	3,563	3,223	-9.5
16	Office of Population Censuses and Surveys	Pay and general administrative expenses	49,626	44,789	-9.7
17	Land Registry	Pay and general administrative expenses	49,777	48,386	-2.8
18	Charity Commission	Pay and general administrative expenses	3,319	3,062	-7.7

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
19	Ordnance Survey	Pay and general administrative expenditure on mapping services	18,590	16,227	-12.7
20	Cabinet Office	Pay and general administrative expenses	10,284	9,814	-4.6
21	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	1,222	1,140	-6.7
22	Public Trustee Office	Pay and general administrative expenses	1	—	—
24	Her Majesty's Stationery Office	Payments to the trading fund	5,954	5,954	—
XIV 1	Property Services Agency	Office and general accommodation services	466,786	441,804	-5.3
2	Property Services Agency	Administration and miscellaneous services	249,908	234,326	-6.2
3	Central Office of Information	Publicity and departmental administration	41,653	39,638	-4.8
6	Government Actuary's Department	Pay and general administrative expenses	583	534	-8.4
7	Paymaster General's Office	Pay and general administrative expenses	10,048	8,902	-11.4
XV 2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries: Scotland	68,870	63,671	-7.5
3	Scottish Economic Planning Department	Regional and general industrial support: Scotland	117,627	106,543	-9.4
4	Scottish Economic Planning Department	Manpower Services Commission: Scotland	104,543	92,211	-11.8
6	Scottish Development Department	Roads, transport and environmental services, etc: Scotland	142,346	125,191	-12.0
11	Scottish Courts Administration	Administration of justice: Scotland	1,167	999	-14.4
14	Scottish Home and Health Department	Law, order, protective services and health: Scotland	1,189,015	1,177,889	-0.9

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
15	Scottish Education Department	Education, libraries, arts and social work: Scotland	99,072	95,889	-3.2
17	Trustees of National Library of Scotland	National Library of Scotland	2,710	2,656	-2.0
18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	2,263	2,222	-1.8
19	Board of Trustees National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	728	727	—
21	Scottish Record Office	Pay and general administrative expenses	875	789	-9.8
22	Registrar General's Office: Scotland	Pay and general administrative expenses	6,472	5,396	-16.6
23	Department of the Registers of Scotland	Pay and general administrative expenses	1	—	—
24	Scottish Office	Pay and general administrative expenses	71,983	67,866	-5.7
XVI 1	Welsh Office	Tourism, roads and transport, housing, other environmental services, education, libraries, arts, health and personal social services: Wales	621,580	614,914	-1.1
4	Welsh Office	Manpower Services Commission: Wales	54,592	48,865	-10.5
5	Welsh Office	Agricultural services, support for fishing industry, industrial development: Wales	81,189	80,985	-0.2
7	Welsh Office	Other services	23,881	23,535	-1.4
XVII 1	Northern Ireland Office	Law, order and protective services	335,575	334,446	-0.3
2	Northern Ireland Office	Central and miscellaneous services	7,329	5,900	-19.5
XVIII 1	Department of the Environment	Rate support grants (1981-82) to local revenues: England	9,031,096	9,031,000	—

<i>Class and vote</i>	<i>Accounting department</i>	<i>Description of expenditure</i>	<i>Cash limit £ thousand</i>	<i>Outturn £ thousand</i>	<i>Over-spend(+) or Under-spend(-) %</i>
2	Welsh Office	Rate support grants (1981-82) to local revenues: Wales	745,036	745,036	—
3	Department of the Environment	National parks, supplementary grants (1981-82): England	4,500	4,500	—
4	Welsh Office	National parks, supplementary grants (1981-82): Wales	1,360	1,360	—
5	Scottish Office	Rate support grants (1981-82) to local revenues: Scotland	1,597,100	1,512,300	-5.3
15	Crown Estate Office	Pay and general administrative expenses	1,174	1,166	-0.7
19	Department of Transport	Transport supplementary grants (1981-82): England	416,500	416,500	—
20	Welsh Office	Transport supplementary grants (1981-82): Wales	40,000	40,000	—
TOTAL CASH-LIMITED VOTES			44,741,243	43,946,780	-1.8

NOTES

- (a) The four cash-limited defence votes are managed by agreement with the Treasury as a block cash limit.
- (b) Excess vote authorised by Parliament in March 1983 Consolidated Fund Act.

CASH LIMITS 1981-82: OUTTURN
LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND
CASH BLOCKS FOR CERTAIN OTHER BODIES

Table 5

<i>Department</i>	<i>Cash block</i>	<i>Description of expenditure</i>	<i>Cash limit £ million</i>	<i>Outturn £ million</i>	<i>Over-spend(+) or Under-spend(-) %</i>
Bank of England	BoE 1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	76.3	74.7	-2.1
Department of the Environment and Welsh Office	RWA 1	External financing requirements of Regional Water Authorities in England and Wales	453.0	281.5	-37.9
Department of Trade	CAA 1	External financing requirements of Civil Aviation Authority	46.7	13.5	-71.1
Department of the Environment	DoE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	491.0	491.3	+0.1
Department of the Environment	DoE/LA1	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	3,138.8	2,610.0	-16.8
Department of the Environment	DoE/NT1	Capital expenditure in England by new towns on housing, roads and commercial and industrial investment	106.0	99.6	-6.0
Department of the Environment	UDC 1	External financing requirements of Urban Development Corporations	70.7	39.0	-44.8
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	44.2	23.8	-46.1

<i>Department</i>	<i>Cash block</i>	<i>Description of expenditure</i>	<i>Cash limit £ million</i>	<i>Outturn £ million</i>	<i>Over-spend(+) or Under-spend(-) %</i>
SCOTLAND					
Scottish Office	SO/LA1	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	416.5	374.5	-10.1
Scottish Office	SO/LA2	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	458.3	400.1	-12.7
WALES					
Welsh Office	WO/LA1	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	260.5	221.0	-15.2
NORTHERN IRELAND					
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	1,742.5	1,717.5	-1.4
TOTAL			7,304.5	6,346.5	-13.1

**NATIONALISED INDUSTRIES EXTERNAL
FINANCING LIMITS 1982-83: PROVISIONAL OUTTURN**

Table 6

	<i>EFL for 1982-83</i>		<i>£ million(1)</i>
	<i>As in 1982-83 FSBR</i>	<i>Revised (NIS and other changes)</i>	<i>Provisional outturn(2)</i>
National Coal Board	1026	962	951
Electricity (England and Wales)	-232	-148	-154
North of Scotland Hydro-electric Board	11	9	-2
South of Scotland Electricity Board	214	211	127
British Gas Corporation	-75	-87	-230
British National Oil Corporation (3)	-85	-85	-118
British Steel Corporation	350	575	568
British Telecom	340	310	-323
Post Office	-25	-56	-56
National Girobank	—	—	-1
British Airways Board	-9	-10	-35
British Airports Authority	48	47	1
British Railways Board	950	923	848
British Transport Docks Board (4)	-7	-7	-12
British Waterways Board	40	39	39
National Bus Company	71	68	62
Scottish Transport Group	21	20	8
British Shipbuilders	125	122	120
Total Nationalised Industries	2763	2893	1793

Notes

1. All figures to the nearest £ million.
2. Estimated outturn is provisional until industries audited accounts are available.
3. Because of the uncertainties associated with oil trading, BNOC's External Financing Requirement is not expressed as a formal limit. Its 1982-83 EFR presumed full year of upstream activities: outturn figures only include them up until privatisation.
4. British Transport Docks Board figures are up until privatisation.

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From the Secretary of State for Social Services

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

Nigel

PUBLIC EXPENDITURE IN 1983/84: HPSS

I am writing to confirm the basis on which I have had to proceed in announcing the reductions in cash-limited expenditure on the health service.

The increase in expenditure on the non-cash limited Family Practitioner Services now being forecast is £112 million. But the application of your general formula required savings from the health service of £128.4 million. These figures were discussed between our officials, in broad terms, last Thursday morning and have been confirmed in detail since.

I was anxious to ensure that any reductions in cash limited expenditure on the health service should not exceed the increased FPS expenditure. Only by doing so could I satisfy the commitment which you, the Prime Minister and I all made in unequivocal terms on Thursday: that the adjustments being made would not reduce planned spending on the NHS as a whole below the levels in the last Public Expenditure White Paper. It was for this reason that, both before and during Cabinet, I made a proposal to secure savings from payments by the NHS to the pharmaceutical industry of some £25 million in GB terms (or £20 million for England).

time ✓
MCS

This position was clearly understood at official level and the line agreed between our offices and No 10 before your Statement last Thursday. I immediately took action to follow it up by calling a meeting with the Association of the British Pharmaceutical Industry last Friday. Following that meeting I announced that I would be making a £25 million (£20 million England only) saving in the NHS drugs bill.

2000
(2) 10
Prime Minister

It is a pity that
all of the £25m
drugs saving has to be
11 July 1983

part of the £128.4m.

Some of it — since it is non

cash-limited—ought to be part of the
general attempt to get savings on non-
cash-limited programmes. But I see no
way round.
MCS 11/7

The remaining saving of £108.4 million which you require will be made up as follows:

Hospital and Community Health Services	£m
(of which Health Authority Allocations £97m)	102
<u>Centrally financed services</u>	<u>6.4</u>

Both Kenneth Clarke and I used the figure of £97 million for health authority allocations in the immediate aftermath of your Statement and in explaining the position to Health Authority Chairmen. I was, therefore, perturbed to find that doubts were being expressed about it from your Office on Friday. In view of this I have not issued formal guidance to Health Authorities about the changes to their allocations. But I must do so quickly if they are to make sensible plans to reduce expenditure; and I can see no way in which either you or I can resile from that figure in the light of the commitments we have already made. I therefore propose to issue a circular to health authorities as soon as possible explaining the reductions in their allocations of £97 million (£83 million revenue, £14 million capital). I shall also have to use the figures above in answering the enclosed Question from Gwyneth Dunwoody tomorrow.

I am copying this letter to the Prime Minister and to Peter Rees.


NORMAN FOWLER

Mrs Gwyneth Dunwoody (Crewe and Nantwich): To ask the Secretary of State for Social Services, following Mr Chancellor of the Exchequer's statement on spending levels, what he expects to be the reduction in (a) the hospital and community services revenue budget, (b) the hospital and community services capital budget and (c) in other areas; and what real growth he expects in the current financial year in the hospital and community services revenue budget.

SUGGESTED REPLY

Following the statement by my Rt Hon Friend the Chancellor of the Exchequer (Hans Ref Col 418) of reductions in cash limited public expenditure programmes, provision for the Hospital and Community Health Services current expenditure in England is to be reduced in 1983-84 by £88 millions. Of this health authorities will be required to find £83 million; the balance will be from central reserves. The HCHS capital programme is to be reduced by £14 million and the cash limited elements of the centrally financed health services by £6.4 millions. I also intend to reduce the drugs bill by about £25 million on UK basis. The real growth in the hospital and community health services revenue budget will of course depend on inflation; on present assumptions resources should increase marginally, and services by over half a percent as efficiency increases.

Econ Pol
Public Expenditure
p223

SECRET

The Secretary of State for the Home Department is asked to advise the Committee on the possibility of a reduction in the level of public expenditure on the following items: (a) the cost of the police, (b) the cost of the prison system, (c) the cost of the probation system, (d) the cost of the courts, (e) the cost of the legal system, (f) the cost of the civil service, (g) the cost of the armed forces, (h) the cost of the health service, (i) the cost of the education system, (j) the cost of the social services, (k) the cost of the housing programme, (l) the cost of the transport system, (m) the cost of the water supply, (n) the cost of the electricity supply, (o) the cost of the gas supply, (p) the cost of the telecommunications system, (q) the cost of the postal system, (r) the cost of the broadcasting system, (s) the cost of the cultural services, (t) the cost of the scientific research, (u) the cost of the space programme, (v) the cost of the atomic energy programme, (w) the cost of the nuclear power programme, (x) the cost of the nuclear weapons programme, (y) the cost of the nuclear defence programme, (z) the cost of the nuclear energy programme.

SECRET

11 JUN 1964
11 JUN 1964
11 JUN 1964



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10 DOWNING STREET

From the Private Secretary

11 July 1983

The CPRS recently put to the Prime Minister the attached paper on tax and public expenditure in the longer term.

This paper has not been, so far as I am aware, copied outside of CPRS or No. 10. But the Prime Minister has asked me to send you a copy. I believe that the section which she thinks will be of particular interest to you is that entitled "Change departmental attitudes to public expenditure", in particular the suggestion in paragraph 16c that we should introduce a system of incentives (I think the phrase must mean a further or more ambitious scheme of incentives than exist at the moment) under which outstanding contributions to the saving of public expenditure receive due recognition. But she was also attracted to a number of other ideas in the paper, including the proposal that we should carry out an exercise to identify the total number of staff employed on all commercial type activities within Central Government, which could potentially be put out to contract.

M. C. SCHOLAR

Sir Robin Ibbs

A handwritten signature in the bottom right corner of the page.

Prime Minister (2)

8 July 1983
Policy Unit

PRIME MINISTER

MCS 8/7

MJ

PUBLIC EXPENDITURE SURVEY 1983

no MCS

attached

Keith Joseph's letter of 6 July may have been overtaken by events, but the arguments he uses for increasing his bid cannot be allowed to go unchallenged. Because pay settlements in 1983 averaged 5 per cent instead of the 3½ per cent which we assumed in our expenditure plans, Keith argues that the base line in 1984/5 represents a 1½ per cent reduction compared with those plans (paragraph 5 of his letter). This surely only shows the need to stand firm on pay rises for teachers as for other public sector employees. This is, of course, also vital in the interests of those teachers who will not be employed if LEA pay bills rise too fast. It is surely all the more urgent to go public with our pay bill targets as quickly as we can, in order to exert early pressure on the wage round and prevent our PESC calculations from being ruined by further overruns on the pay bill.

FERDINAND MOUNT

fm

*Let the Minister
see the paper*

cc No 8

COPY No 1 of 7 copies

①

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Prime Minister

The argument in paras 4-7 of the paper is put persuasively. There

Qa 06414

To: PRIME MINISTER

From: JOHN SPARROW

7 July 1983 *are one or two*

good ideas in the second part of the

Public Expenditure

paper. Suggest we work out for them in the Chief Secretary's

1. On 21 July Cabinet will be having its first discussion on this paper, year's Public Expenditure Review. This provides an important opportunity paper, for setting public expenditure in the context of the Government's strategy but for the next five years and even beyond. I attach a paper which the CPRS has prepared on the subject.

take no other action. Agree?

2. I have two reasons for sending you this paper. First, I have been struck by the way the annual PES round has become more an instrument of short term cash control and less an instrument for planning and resource allocation over the longer term. This is unfortunate. The beginning of a new Parliament may be the best time to persuade Ministers to do something about it and look ahead. Secondly, the absence of a strategic framework has meant that the Government may have inadvertently lost the room for manoeuvre it needs if it is to secure a proper balance between its various objectives.

MUS 8/7

?

3. One objective of Government policy - and one which I personally regard as important - is the reduction of taxation. Yet, as the analysis in the first part of our paper shows, the extent of commitments and expectations for public expenditure programmes over the years ahead leaves very little scope for meeting that objective even on the most optimistic assumptions about economic growth. The Cabinet needs to be able to determine collectively the balance to be struck between the tax objectives and those other objectives which rely on public expenditure for their achievement. Political judgement may well favour aiming for a less exciting tax reduction target in order to achieve other policy targets. But the important thing is that there should be sufficient room for manoeuvre to allow a free and informed choice to be made.

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4. The second part of our paper canvasses a number of practical suggestions which, if implemented with sufficient vigour by Ministers, might help the Government over time to break out of the current strait-jacket. But the essential first thing to establish with Ministers is the need for a framework to be developed in which decisions about taxation and borrowing can guide (and not be dictated by) public expenditure over the longer term - a framework which does have the possibility of giving the Government a solid record of achievement to present to the electorate in five years time, whilst eliminating the need for sudden short term changes of course in response to the exigencies of the day. The present system imposes (often unseen) policy changes without evaluating them, and seems unable to avoid sacrificing capital spending whilst preserving current spending. In short, cash control can be the enemy, and not the handservant, of proper financial control.

5. A paper such as we have written may not be suitable for wider circulation since it could open up discussion on second order problems to the detriment of attention to the central issue. But I do not know what papers Ministers will have in front of them on 21 July, and we have not seen anything from the Treasury. I hope, however, that our paper may help you to achieve the desired results.

6. I am sending a copy of this minute and its attachment only to Sir Robert Armstrong.

RB.

Att

SECRET

cc Sir L Tibbs
(ICD)

COPY NO 1

TAX AND PUBLIC EXPENDITURE IN THE LONGER TERM

Note by the Central Policy Review Staff

1. This note addresses two questions:
 - i. Are present policies for the public provision of goods, services and transfers consistent with the long-term commitment to lower taxation and borrowing and the desire to restrain the encroachment of the public sector on the life of the community as a whole?
 - ii. If not, how might tax and public expenditure objectives be reconciled?

Conflicting Objectives

2. Among the important objectives, set out in the Manifesto and elsewhere, which will require the public funding or supply of goods, services and transfers are:

- strengthening the rule of law;
- defending Britain's freedom;
- improving the quality of life in our cities and countryside;
- protecting the weak;
- encouraging free enterprise (through, for example, help for the new technologies and an improved road network).

3. The current public expenditure plans (described in the White Paper published in February 1983) imply that these objectives are consistent with no increase in public spending in real terms over the three years to 1985-6. Looking further ahead the objectives have not been translated into firm long-term

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public expenditure commitments. The only specific Manifesto commitment concerns the price protection of retirement pensions and other linked long-term benefits. However, the public expenditure plans and the absence of Manifesto commitments almost certainly give a misleadingly optimistic picture of the prospects for holding down public spending.

4. There are several reasons why the current expenditure plans are misleading. First, with cash planning the PES system has become more an instrument of short-term control and less an instrument for resource allocation and planning over the longer term. This carries the risk that later years will produce unpleasant surprises. Some of these are already emerging. Second and closely related, the White Paper shows sharp changes in the expenditure trends for the programmes that have been growing most rapidly. The question is whether this is realistic. Defence, for example, is projected as growing by only one per cent in cost terms in 1985-6, after growing at an average of four per cent per annum over the previous six years. The health and personal social services programme is projected as falling in cost terms in every year after 1982-3 although it rose by 17 per cent over the previous five years. Finally, the planned flat profile of spending owes much to one-off savings. There are limits to how far future savings can be achieved by ending subsidies to "lame-duck" industries and by relying on demographic trends to reduce expenditure on education.

5. We have analysed the public expenditure plans for 1985-6 in terms of Government-encouraged expectations about future trends in spending. For programmes responsible for about half of all public expenditure (eg defence, health, pensions and law and order) Government statements have created a strong expectation that expenditure will rise in cost terms throughout this Parliament. For programmes accounting for another quarter of public spending (eg employment, education, roads and the welfare safety net) Government statements have implied that expenditure will continue to be maintained at about the level planned for 1985-6. (Within this group are some categories of spending that should show a decline if unemployment decreases significantly). There is an expectation (sometimes expressed as a hope) that expenditure will fall in cost terms in programmes responsible for less than one tenth of public expenditure (eg nationalised industries and

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housing). Over the remaining programmes, which account for less than one-fifth of public expenditure, Government statements have probably created no strong expectations about long-term future trends. But for most of these programmes the Government's stance has encouraged the belief that expenditure is more likely to be maintained than to be significantly reduced.

6. Thus, even with a minimum of Manifesto commitments, there are Government-engendered expectations that spending will be maintained or increased in cost terms across programmes accounting for three-quarters of total public expenditure. It is unclear how far the Government's specific programme objectives really warrant such expectations. In some cases the expectations may be based on a confusion in the public mind between the level of spending and the standard or quality of service.

7. Whether these pressures on public spending can be reconciled with the Government's objectives on taxation and borrowing will depend on the future rate of economic growth and on how far Ministers want to go with reducing tax and borrowing by 1988. Even with economic growth at the top end of the likely range meeting present spending expectations and achieving a modest reduction in taxation and borrowing will require firm control of public expenditure and of any new commitments. Weaker economic performance or a more ambitious tax objective (eg returning the tax burden as a proportion of GDP to a level below that inherited in 1979) would necessitate extraordinarily large public expenditure cuts across a very narrow range of programmes. The obvious alternative would be to review the implied assumption that for most public sector programmes stable or rising public spending is essential for the achievement of the Government's objectives. A further approach would be to consider revising the Government's objectives for some programmes.

Reconciling Tax and Public Expenditure Objectives

8. Ministers face a basic choice:

- to allow progress towards the tax and borrowing objectives to be determined by public expenditure totals that largely emerge as the sums of individual programme decisions;

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- or, first, set targeted levels of tax and borrowing and then use these as the framework within which competing claims for public expenditure would be assessed, and priorities determined.

The first option has been the approach adopted for much of the post-war period. It carries the strong risk that any tax (and borrowing) objective will be completely over-ridden. The second option is more logical for a Government that gives great weight to the importance of tax rates and the size of the market sector in determining incentives, freedom of choice and economic growth. But it carries the risk that important programme objectives will be forfeited.

9. If Ministers decide to hold down total public spending what approaches are open to them consistent with minimising damage to individual programme objectives? A fundamental requirement is to break the public and departmental illusions that improved quantity and quality of services must mean higher public expenditure and that achievement of government objectives can be met principally by means of public expenditure. Four strategies could help to challenge these assumptions:

- management efficiencies;
- better targeting;
- shifting responsibility to the private sector;
- changing bureaucratic attitudes to public expenditure.

None of these approaches is new. All have been used to obtain greater control over public expenditure in recent years. However, in our judgment all can and need to be taken further. Even together they may not yield sufficient savings in sufficient time. This leaves a fifth strategy: to revise programme objectives in the light of what can be afforded.

i. Management efficiencies

10. The Financial Management Initiative and Rayner Scrutinies will continue to improve value-for-money and to contribute efficiency savings. Three areas where there is scope for further initiatives are:

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a. Contracting out. The advances over the last three years have relied on a "bottom-up" approach - ie on departments bringing forward their own suggestions - with no clear view of the total scope for savings. Emulating the US Federal Government, an exercise should now be carried out to identify the total number of staff employed on all commercial type activities within Central Government that could potentially be put out to contract. The onus should then be on departments to contract out such services unless it can be shown that internal arrangements can provide the required standard of service more cheaply. Consideration should be given to extending this approach to local government and to health authorities, backed up if necessary by use of financial penalties or legislation.

b. Competition among suppliers. Significant savings could be made in several areas by opening public procurement, both civilian and defence, to wider competition from the private sector, including foreign companies. Private competition could not only help public spending objectives but would assist the suppliers themselves to become internationally competitive. Again a cross-departmental review would be more effective in identifying opportunities than relying on departmental initiatives.

c. Using results, not inputs, to measure performance The public and many departments still equate public sector performance with expenditure and inputs, not with actual achievements. Educational standards are equated with teacher-pupil ratios, not with levels of numeracy. Health standards are equated with NHS expenditure. Defence capability is equated with defence expenditure. Developing measures of output in the public sector is difficult but it is essential if resource allocation and efficiency are to be improved. Promising initiatives, such as the Assessment of Performance Unit in DES and the Treasury exercise relating output measures to PESC, appear to have lost their way.

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ii. Better targeting

11. The prime cause of the increase in public expenditure since World War II has been the use of the Government budget to redistribute income and welfare. Yet no department regularly reviews who benefits from its redistributive policies with a view to seeing whether benefits, subsidies or services could be more closely targeted on those who need them most. There is a case for requiring all departments sponsoring redistributive policies to provide a biennial report on:

a. who currently benefits, whether individuals or companies, in terms of income bands or other relevant characteristics;

and b. the scope for reducing or ending expenditure on those least in need.

Proposals for improving the targeting of programmes would need to be framed with an eye to the effect on the poverty and unemployment traps. The more they can be co-ordinated with the tax changes they are designed to produce the greater their political acceptability.

12. Interpreted broadly, better targeting is also relevant to other areas of public expenditure such as defence and nationalised industries.

iii. Shifting responsibility to the Private Sector

13. The Government is already committed to transferring activities back to the private sector and choice to the individual via privatization, user charges and contributions and the development of partnerships. This reduces public expenditure. To the extent that the financing needs of the industries privatized are also reduced it helps ease pressure on interest rates.

14. In judging how quickly the privatization of nationalized industry activities can be brought about, the Government should consider whether viability needs to precede privatization, or whether privatization should come first, in the

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expectation that private sector management will secure viability more quickly and more cheaply. The answer will not be the same for all industries. It is also necessary to examine the established operational structure of nationalized industries, since the organization of corporations under state ownership may well not correspond with the market's view of actually or potentially viable businesses. Further, there seems to be no reason to retain a large minority shareholding in some at least of the denationalized industries.

15. The scope for user charges has been studied fairly intensively in some areas, notably health. There is perhaps a case for a cross-sector review to see where opportunities have been neglected. Possible starting points could include local authority planning and refuse functions; agricultural research, development and advisory services; and industrial training.

iv. Change departmental attitudes to public expenditure

16. Tight cash limits have encouraged competition for funds between new policy proposals and existing programmes. But do departments give equal rewards to those who develop new ways of spending money and to those who identify redundant, inefficient or over-generous programmes? Changing attitudes takes time and cannot come wholly from within but the following might contribute to the development of a more critical approach to public expenditure:

a. Increase the emphasis on evaluating the effectiveness of existing programmes and on reviewing departmental procedures for appraising new policy proposals eg by getting the Exchequer and Audit Department to give greater priority to these areas or by transferring more departmental resources into internal audit functions. Procedures for appraising new programmes, particularly those involving current expenditure, remain unsystematic and unstandardized in many departments. Procedures for evaluating on-going programmes are even more primitive.

b. Require all departments to publish regular statistics on productivity growth both within their administrative functions and, where applicable, in their expenditure programmes.

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c. Introduce a system of incentives under which outstanding contributions to the saving of public expenditure received due recognition eg awards, merit pay or promotion.

v. Revising judgement as to what can be afforded

17. Every year Cabinet rejects worthwhile new claims on public resources on the general grounds that the Government cannot afford to do everything asked of it. But too rarely is an attempt made to go systematically back and review existing programmes and promises to see if there are some that should be cut back on the grounds that they can no longer be afforded. If the tax objective is seen as over-riding and the strategies already outlined do not produce sufficient savings, it will be necessary to consider the future implications of previous promises and commitments.

Conclusion

18. You may wish to consider commissioning further work on some of the strategies outlined in paragraphs 10 to 17.

SECRET

Public Expenditure

3.46 pm

7-7-83 Econ Pol Public Ex Pt 23

The Chancellor of the Exchequer (Mr. Nigel Lawson): It is now clear that public expenditure is running at a significantly higher level than is consistent with the 1983-84 planning total of £119.6 billion announced in the public expenditure White Paper, Cmnd 8789, presented by the then Chancellor on 1 February. Some adjustment is clearly needed. I have therefore decided that immediate action must be taken to bring about savings that will bring total spending closer to the planned path. It is both more efficient in terms of departmental management of programmes and more effective to take this action straight away.

Accordingly, the cash limits for the current year will be reduced. The effect will be a 1 per cent. reduction in respect of the pay and central Government administrative element and 2 per cent. reduction in the remainder. The new cash limit figures will be announced as soon as possible.

The total provision for the external financing limits of the nationalised industries will similarly be reduced by 2 per cent. This reduction will be allocated in proportion to their turnover.

The effect of these measures will be to remove at least £500 million of overspending beyond the planned total.

In addition, the programme of asset sales during the current year will be increased by a further £500 million.

Finally, I am also taking the opportunity to introduce some improvements in expenditure control. In particular, a scheme of end-year cash limits flexibility will be introduced. This will permit some carry-forward of underspend on central Government capital programmes. Such a change has, of course, long been advocated by Departments such as the the Ministry of Defence, with substantial capital programmes involving expenditure stretching over a number of years. The change, I believe, is fully justified on managerial grounds, but introducing it as from this financial year should in practice, by reducing the end-year surge, reduce expenditure in the current year by some £100 million. The effects in future years will be taken into account in the forthcoming public expenditure survey. I am satisfied that parliamentary control of expenditure will not be diminished.

The overall effect of the savings and other measures that I have announced will be to reduce this year's likely public expenditure outturn by more than £1 billion. They do not imply any reductions in total as published in the February White Paper. Rather, they are designed to bring spending closer to the course laid down in my predecessor's White Paper.

I told the House on 29 June that in order to maintain the right balance between public borrowing and interest rates we intended to maintain firm control of public spending. I also made clear my determination to take action should our objectives be endangered. Our economic strategy has brought about low inflation and a quickening recovery. We are determined to ensure that unplanned overspending does not deflect our course and put that recovery at risk.

~~Mr. Peter Shore (Bethnal Green and Stepney): This is an astonishing statement in content and timing. Whatever it does for the Chancellor's reputation as an~~

Mr. Biffen: I thought that I had shown the correct blend of generosity and courtesy that was required when I answered that question earlier.

Mr. Donald Stewart (Western Isles): Should not the House debate at the earliest possible moment the implications for local authorities of the judgment of the Court of Session on the adding of fluoride to public water supplies?

Mr. Biffen: I shall draw the right hon. Gentleman's point to the attention of the Minister responsible for that matter.

Mr. Andrew MacKay (Berkshire, East): Does my right hon. Friend agree that before we debate the controversial matter of Members' pay we should ascertain the pay and perks of certain Fleet street editors before making our decision? That would help us to make a decision on what we are worth.

Mr. Biffen: I do not think that I am required to answer that question. A calm and detached assessment of the known evidence should be sufficient.

Mr. Harry Ewing (Falkirk, East): Will the Leader of the House use his good offices to persuade the Secretary of State for Scotland to come to the House and make a statement on the serious allegation made against him by Mr. Ian MacGregor, the outgoing chairman of the British Steel Corporation? He said on television last Sunday that the Secretary of State did not once approach him about the future of Ravenscraig or any other steel plant in Scotland. Has not the Secretary of State neglected his duty? Will the right hon. Gentleman persuade him to make a statement to the House?

Mr. Biffen: I was not entirely clear who was protecting whom by the time the hon. Gentleman concluded his question. I shall certainly draw to my right hon. Friend's attention the argument that has been put forward.

Mr. Terence Higgins (Worthing): Has my right hon. Friend studied the report of the Select Committee on Procedure (Finance) which recommends an early debate on several important financial reforms? If so, will he arrange an early debate, if not next week, then before the summer recess?

Mr. Biffen: My right hon. Friend has raised an important point which I touched upon in winding up the debate on the Loyal Address. I cannot go any further than what I then said.

Mr. Andrew Faulds (Warley, East): Is the right hon. Gentleman aware that it is widely reported that, on the instructions of the Prime Minister, undue pressures are being brought to bear on the Government Whips to get the innocents on the Conservative Back Benches—this new sorry-looking intake — not to press for their full entitlement under Plowden? Will he make whatever efforts he can to ensure that those poor fellows are allowed to make up their minds on a matter which gravely affects them and their future interests?

Mr. Biffen: The Whips Office and the new Conservative intake make the hon. Gentleman look positively lily livered.

Mr. Michael Latham (Rutland and Melton): On what day next week would it be convenient for my right hon. Friend the Prime Minister or for my right hon. and learned

Prime Minister



Gloomy reading especially

the prospect of tax

increases next
year

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

Handwritten initials

MUS 6/7

PRIME MINISTER

THE SUMMER FORECAST

As you know, my paper C(83)21 for tomorrow's Cabinet does not refer to the latest forecast, and I hope that its high figures for the PSBR this year, and the fiscal adjustment next year, will not come out in the discussion. But I thought . . . that you would like to see the attached note by Terry Burns: it picks up all the key points.

2. The version of the forecast which will be circulated in the usual way to economists in the main Departments which contribute to the exercise will not contain the PSBR and fiscal adjustment sections. Omitting them is regular practice. And I have given very firm instructions, which Terry Burns has reinforced, that the figures are not to get into circulation, given the probable market effects if they did. (Realistically, we must expect some leaks at some stage; but it is crucial that there should be none before we have, by announcing action on spending, demonstrated our resolve to get back on track.)

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(N.L.)

6 July 1983

SUMMER FORECAST

The Budget forecast has been updated to take into account recent developments in the economy. The broad outlook for activity and inflation over the next two years is, if anything, a little better than previously expected. But there are emerging problems this year with substantially higher borrowing and monetary growth. The current account of the balance of payments is liable to be in deficit for a time.

Fiscal and monetary policies

2. The forecast takes as given tax rates and public expenditure plans in 1983-84. These now point to a PSBR approaching £12 billion or 4 per cent of GDP. In 1984-85, the assumption is made that taxes will be raised to reduce the PSBR to 2½ per cent of GDP. By how much it would be necessary to increase taxes in 1984-85 to meet this objective is very uncertain: latest estimates suggest £2 billion or more. With short-term interest rates assumed to be held at about their current levels, some overshooting of the monetary aggregates seems probable this financial year. Next year, however, if the course of public borrowing follows the path assumed in the MTFs, monetary growth rates should come back within their target range, permitting small cuts in interest rates.

Activity

3. Activity so far this year seems to have been a little stronger than previously expected. GDP in the first quarter of the year was about 3½ per cent higher than in the 1981 trough, retail sales are now above their record pre-Christmas levels and the period of destocking by industry seems to have come to an end. Overall, growth of about 2½ per cent is now forecast both this year and next.

4. Prospects would be rather better if there were not continued doubts about the strength of recovery in the rest of the world. Although forecasts for the US recovery have recently been revised upwards, activity is expected to remain depressed in most European countries. Continued difficulties are foreseen for the developing

countries and OPEC. This means that total world trade, weighted by the composition of our manufacturing exports, is expected to recover only slowly through this year. UK exports, helped by the improvement in cost competitiveness, should soon be expanding.

	Per cent changes		
	<u>GNP growth (Major 6 countries)</u>	<u>World trade in Manufactures</u>	<u>UK Exports of Manufactures</u>
1982	- 1/2	- 3	1
1983	2	- 1/2	- 3
1984	3	4	3 1/2

5. Final domestic demand has been growing strongly since the beginning of last year. Consumers' expenditure, boosted by lower inflation and interest rates, and greater availability of bank, HP and mortgage credit is now perhaps 4 per cent higher than a year ago. With lower inflation expected to keep the savings ratio down well below the levels of 1979 to 1981, further sustained growth is forecast for personal consumption although the boom in durables may now be passing its peak. Buoyant levels of housing starts suggest a continued recovery in investment in dwellings and a stimulus to the construction sector.

6. Company expenditure has been held back over the last few years by low profitability and poor demand prospects. Indicators of much improved optimism in manufacturing, rising profits and consistently better responses to investment intentions surveys point to some improvement in company expenditure, particularly on fixed investment and stocks.

7. In the early stages of this recovery a substantial proportion of the growth in demand was met by imports rather than domestic production partly because of the relatively poor level of cost competitiveness. The swifter recovery predicted for UK domestic demand than for other developed countries (except the US) implies a much higher growth rate for imports than exports.

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	<u>Constant prices</u>		<u>Per cent change</u>	
	<u>Total Domestic Demand</u>	<u>Exports of Goods and Services</u>	<u>Imports of Goods and Services</u>	<u>UK Output</u>
1982	3	½	5	1
1983	4	½	5½	2½
1984	2½	3½	5	2½

8. The steady growth of domestic output over the next two years is not expected to be fully matched by movements in labour productivity. The forecast growth in employment may not be very different from the projected increase in the population of working age, leaving unemployment perhaps not far from current levels.

Inflation

9. Progress on reducing inflation has been slightly better so far this year than expected. Despite the rise in mortgage rates, this better performance should continue. The flat path of prices in the late summer and autumn of last year and the falling-out of special factors from the RPI nevertheless means that some increase in the annual rate of increase in the RPI must be expected - perhaps back to 5½ per cent by the end of the year.

10. The recent further fall in inflation has been accompanied by a small improvement in profit margins: domestic costs have been held down by substantial gains in productivity in manufacturing, lower wage settlements (down to about 5½ per cent this pay round) and the reductions in NIS. Although it will be difficult for manufacturers to maintain recent rates of productivity growth, the subdued growth of nominal demand and continued competitive pressures should lead them to try to contain costs through further reductions in wage settlements in the forthcoming pay round.

11. Despite the sluggishness of the world recovery, commodity prices - excluding oil and food - have turned up fairly sharply this year. This and perhaps a tendency for the exchange rate to fall slowly could offset the effect of depressed domestic costs for a time, but the assumption of further falls in real world oil prices

(approaching a 20 per cent drop over two years) is likely to keep down the growth in costs in 1984, allowing some improvement in margins whilst rates of domestic price increase hold fairly steady.

	<u>Per cent changes</u>		
	<u>Underlying whole economy average earnings</u>	<u>Private sector unit labour costs</u>	<u>RPI</u>
Year to fourth quarter 1981	10½	7	12
Year to fourth quarter 1982	8½	2½	6
" " 1983	7	3½	5½
" " 1984	6½	5	5½

Current Accounts

12. The current account of the balance of payments moved back into deficit in April and May. It may well remain in deficit this year and next. The deterioration since the Budget forecast reflects firmer non-oil commodity prices this year and a wider disparity between the growth of demand in the UK economy and in the rest of the world.

Public Sector

13. Prospects for the PSBR in 1983-84 have deteriorated significantly since the Budget. In part, this reflects the higher-than-expected outturn for 1982-83. Spending by Central Government Departments (particularly defence) at the end of the financial year turned out much higher than suggested by previous indicators implying outturns for 1982-83 and hence probably later years much closer to cash limits. In addition, developments and information since the Budget suggest that some non-cash-limited programmes will exceed Estimates by larger amounts than previously expected. Borrowing by local authorities exceeded the Budget forecast in 1982-83; together with lower rate increases than expected at Budget time and new information from Local Authorities budgets this suggests rather higher borrowing also in 1983-84.

The central projection for the PSBR in 1983-84 now stands at just under £12 billion. Considerable uncertainty, however, always surrounds PSBR projections with gross revenue and expenditure flows in the public sector now approaching £200 billion per year. Errors of only 1 per cent on each side can imply a £4 billion error in the PSBR. In the past, forecasts made at this time of year have often differed by several billion pounds from the eventual outcome.

Other risks and uncertainties

15. As is customary, most of this note has referred to "central" projections for the major economic variables. In fact, there is considerable uncertainty about all the forecasts presented. As a guide to the risks involved, it is worth noting that average errors on GDP forecasts for the year ahead have been about 1 per cent, on prices over 2 per cent and on the current account equivalent to £2 billion.

16. Particular uncertainties at present must be the strength of the world recovery and the path of US interest rates, the balance of payments and - particularly given the size of recent revisions - the PSBR forecast. Reactions of domestic and overseas financial markets to this year's overshooting of the monetary aggregates, to a higher PSBR and to the turnaround in the current account position will also be crucial.



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

Handwritten: ~~SEN~~ (2)
Prime Minister
Sir Keith Joseph
argues for his

6 July 1983 bids in
the public expenditure
survey.
MCS 7/7

Handwritten: Ian Peter.



PUBLIC EXPENDITURE SURVEY 1983

The Department's contribution to the PESC Report, which is now with the Treasury, includes substantial additional bids both in 1984-85 and in later years. My colleagues here and I have probed in detail, in the course of several meetings, the figures originally submitted to us by officials; and we have made significant reductions in them. I believe that, in their reduced form, the bids are necessary to sustain the policies in our Manifesto. You will be aware of some of the background from my letters of 20 June to Patrick Jenkin about local authority current expenditure and of 21 June to you about capital expenditure; but I should like you and others to have a fuller explanation.

Handwritten: P422

2. The table in the Annex compares the actual and planned movement in expenditure in cost terms set out in the last Public Expenditure White Paper Cmnd 8789, the baseline for the Survey, with the movement in pupil and student numbers over two successive four year periods.

3. The first line in the Table shows that in the four years from 1978-79 expenditure on education and science fell in cost terms by 1 per cent and the weighted average of pupil and home student numbers by 2 per cent. The rise in unit costs in primary and secondary schools, largely due to diseconomies of falling rolls, was partly offset by the fall in further and higher education, including student grants, which reflected economies of scale and tighter staffing ratios as student numbers (and productivity) increased in those two sectors. It was this which

/enabled

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury
Parliament Street
LONDON SW1P 3AG

enabled us to point in the Manifesto to better pupil teacher ratios, higher spending per pupil in real terms and more students in higher education. The second line of the Table presents a very different prospect for the four years from 1982-83. The Survey baseline provides for an 11 per cent reduction in expenditure in cost terms while the weighted average of pupil and student numbers falls by only 5 per cent. Within the total of pupils and students, the demand from those aged 16-19 for non-advanced further education will show a sharp increase (partly as a result of the bleak prospects for employment in these age-groups) which we ought to meet on political and educational grounds alike. Without additional resources average unit costs would fall by some 6 per cent over the period. This would mean a sharp fall in standards of provision at all levels: there would be a severe deterioration in pupil-teacher ratios and less access to post-compulsory education, where student-staff ratios, which we already plan to squeeze sharply, would deteriorate even further.

4. This general picture, which I do not believe we can accept, is the result of a number of different factors. First, the baseline for education does not include any part of the unallocated margin for local authority current expenditure - whereas of course a significant part of this margin is intended for education. A substantial element of the additional resources that I am seeking for 1984-85 thus results from the way in which we plan and is not actually a bid for extra cash for local authorities.

5. There are two other factors which between them account for most of the rest of my proposals on local authority current expenditure. Pay settlements in 1983 averaged 5 per cent instead of the 3½ per cent which we assumed - partly with an eye to influencing pay negotiations - in our expenditure plans. This means that the baseline for 1984-85 represents a 1½ per cent reduction in cost terms compared with those plans. Moreover, cost increases generally in 1984 and later years are now expected, on the basis of the GDP deflator, to be rather higher than those assumed in the baseline. And cost increases of a special kind - an increase in contributions to teachers' pensions as a result of the Government Actuary's quinquennial review, on which we shall shortly have a detailed report - will almost certainly add about £100m a year to local authority expenditure from April 1984. The figures already allow for teacher numbers to fall half as fast again as in 1982-83, and I judge that we cannot go even faster to offset these cost increases without serious dislocation and educational damage.

6. For this part of the education programme, our plans to cap the rates in selected areas and to abolish or reform some of the larger local authorities will help in 1985-86 and beyond. But for 1984-85, as I said in my letter of 20 June to Patrick Jenkin, our position will be unrealistic without a substantial increase in our present cash plans for local authorities, accompanied by an RSG settlement which will bear severely on the over-spenders and help those other authorities, especially the shire counties,

/which

which have co-operated with us. Patrick referred to this general issue towards the end of his letter of 28 June to you about local authority capital expenditure (on which I commented in my letter of 1 July). I agree with what he says there about current expenditure; and I would only add that what we decide about 1984-85 must take account of the needs of individual local services as well as our plans for the total. That is why I believe that those of us concerned with those services must discuss the issues very soon.

7. On Vote expenditure, which accounts for only a quarter of my programme, my main concerns are to maintain and improve the quality of our scientific research, especially in areas of economic importance, and of the universities. Some extra resources are also needed to meet exceptional cost increases outside the control of the institutions concerned. I am not seeking more money for student support except for the bid that is formally required to transfer to my programme the agreed savings on social security resulting from larger student numbers. I consider that any alleviation in the parental contribution will have to be financed by a reduction in the level of the grant itself, even though this has not kept pace with the cost of living.

8. Finally, the baseline for capital expenditure on education contains no increase in cash over the whole period up to 1986-87. The stock of school and college buildings has deteriorated sharply in the last few years and we need extra investment both to remedy this and to enable authorities to re-organise their schools in response to falling rolls. This extra investment now would make it possible later both to cut current expenditure and to improve the educational return for the money spent.

9. The performance of the education service is patchy, and we are pledged to improve it. This certainly cannot be done by money alone but the cuts per child at school implicit in our baseline would make it impossible to maintain even present standards. But I am intensely aware of the fiscal problems created by the cost of the service. We should not only go on looking for savings and for productivity increases, but also consider whether the costs of post-school education can be reduced by transferring part of them to the consumer. One element in this approach could be student loans, to which I am sure we shall have to return, for educational as well as for financial reasons. We must, in preparation for the time when demand for higher education begins to fall in the second half of the 1980s, look afresh now at the scope then for closing and amalgamating institutions, especially in the local authority sector where the weakest of them are to be found. In addition we ought to consider whether more income can be raised by charging fees in this sector or raising those that now exist, but the obstacles are real. I am considering how studies in this area might best be launched.

10. I am sending copies of this letter to the Prime Minister, Nigel Lawson, Jim Prior, George Younger, Nicholas Edwards and Patrick Jenkin.

Younger, Jenkin

ANNEX

EDUCATION AND SCIENCE

	(1) Expenditure in cost terms	(2) Primary Nos	(3) Secondary Nos	(4) NAFE Nos	(5) HE Nos	(6) Weighted average (2)-(5)
With 1978-79=100						
1982-83	99	83	94	112	113	98
With 1982-83=100						
1986-87	89	96	87	106	102	95

Sources

Col (1) 1978-79 - 1985-86 Chief Secretary's Written Answer, 17 March. 1986-87 assumes 3 per cent increase in cash on 1985-86, 4½ per cent increase in costs.

Col (2)-(5) 1978-79 - 1982-83 Actuals
1986-87 Tables 1 and 2 of draft chapter for 1983 Survey.

Col (6) Nos in Cols (2)-(5) weighted by numbers and unit costs in each sector.

Ref.A083/1999

PRIME MINISTER

Public Expenditure in 1983-84: C(83) 21

BACKGROUND

The Public Expenditure White Paper (Cmnd.8789) gave a planning total for public expenditure in 1983-84 of £119.6 billion, made up as follows.

	<u>£ billion</u>	
Programmes	120.3	=
<u>Adjustments</u>		
Contingency reserve	1.5	
Shortfall allowance	- 1.2	
Other	- 1.0	
Planning total	<u>119.6</u>	

The Financial Statement and Budget Report forecast the public sector borrowing requirement (PSBR) for 1983-84 as £8.2 billion, made up as follows.

		<u>£ billion</u>
Central Government	11.5	
<u>less</u> on - lending	- 3.0	
Central Government own account		8.5
Local authorities		- 0.2
Public Corporations		1.1
Unallocated		- 1.3
PSBR		<u>8.2</u>

2. Current indications are that both public expenditure and the PSBR are going off course. Borrowing by central Government is running well above the level for the comparable period in 1982-83; though individual cash-limited programmes are running within their limits, aggregate expenditure on cash-limited programmes is running ahead of profile, which suggests at least

that there is likely to be less shortfall than allowed for in the forecasts and expenditure on non-cash-limited (demand-determined) programmes is also above forecast. The current internal and confidential Treasury estimate is that unless corrective action is taken the PSBR this year will be about £3½ billion above the Budget forecast.

3. Of this excess, about half (£1.7 billion) is due to excess central Government expenditure. £0.6 billion reflects the expectation that shortfall on cash-limited programmes will be less than allowed for; the remaining £1.1 billion is largely due to demand-determined expenditure on agricultural support (a reflection of over-spending on the Common Agricultural Policy) and on social security benefits (reflecting a higher take-up of benefits than expected).

4. Indications of these trends will soon become public. Last month's money supply figures were published this week and have attracted unfavourable comment. Summer Supplementary Estimates totalling some £1 billion will be published on Friday. The central Government borrowing requirement figures for the first quarter will be published on 11 July.

Flag A

5. In this memorandum C(83) 21, the Chancellor of the Exchequer argues that the Government must take immediate action to show that it is determined to control expenditure and borrowing. Otherwise the publication of adverse figures could have serious effects on market confidence and interest rates. He proposes action on public expenditure designed to produce overall savings of some £600 million (the amount of which expenditure on cash-limited programmes seems likely to exceed expectation).

6. Specifically, the Chancellor invites his colleagues to explore possible ways of limiting demand-determined expenditure (but clearly without any expectation of significant savings), and proposes:

- (i) a reduction of 2 per cent in non-pay central Government cash limits (saving £350 million);

- (ii) a reduction of 1 per cent in pay and general administrative expenditure (GAE) central Government cash limits (saving £100 million);
- (iii) a reduction of 2 per cent in the aggregate external financing limits of the nationalised industries (saving £55 to 60 million);
- (iv) the introduction of a scheme of end-year flexibility on central Government capital expenditure, which should reduce expenditure in the current year (perhaps by some £100 million), though at the cost of adding to likely expenditure in 1984-85.

He proposes no reduction in the Rate Support Grant to local authorities; the Secretary of State for the Environment, has recently announced hold-back of grant amounting to £280 million in 1983-84.

7. I understand that the Chancellor of the Exchequer intends, if the Cabinet approves these proposals, to make an announcement in general terms the same afternoon and to follow it as soon as possible - and certainly before the Summer Recess - with detailed figures for individual cash limits.

8. Finally, the Chancellor indicates that proposals will be put forward at official level for improving the flow of financial information to the Treasury.

MAIN ISSUES

9. The essential issues before the Cabinet are whether immediate action on the scale proposed in C(83) 21 is necessary; and if so, whether the Chancellor of the Exchequer's specific proposals are acceptable.

GENERAL SITUATION

10. Your colleagues will naturally be conscious of the political difficulty in any significant action on public expenditure so soon after the General Election. They will be sensitive to changes there there was after all a "secret manifesto" and this

is the first visible sign of it. Moreover, although the Chancellor is correct in saying (paragraph 5 of C(83) 21) that he is not asking for a reduction in the expenditure total, since the proposed reduction in cash limits simply offsets lower than expected shortfall, he is seeking a significant reduction in certain programmes: the Ministers responsible for cash-limited programmes which are within these limits will argue that it is unfair to ask them to find savings to offset not only overruns elsewhere but also the Treasury's underestimate of shortfall on aggregate cash-limited expenditure.

11. Some Ministers may feel that what is proposed is a negation of the cash limits system and of the drive for better financial management, and that a public expenditure system which requires sudden adjustments to planned programmes when cash limits have already been set is fundamentally unsatisfactory. They may question whether a total saving for the year of only £600 million is worth the political passions which will be aroused both generally and in relation to particular programmes. One option which might be ventilated is whether the Government would not be better advised to reduce the borrowing requirement by raising revenue, for example by using the regulator on indirect taxes: but that while dealing with the immediate problem of the monetary numbers, might not impress markets unless it was accompanied by action which showed a clear determination to restore control over spending. Others may say that, if action is required on public expenditure, it ought not to take the form of a general squeeze but that savings should be sought in a more discriminating way from selected programmes.

12. The Chancellor is likely to argue in reply that it is essential to the Government's strategy that the corrective action required should take the form of tightening the control on public expenditure. It is public expenditure that is off course. If the Government is to control public expenditure in the current year it must operate on those programmes which it can change in the short term, however unfair this may appear to those who are not responsible for the potential overrun. Since very early action is required, there is no time to work out a programme of selective cuts.

13. The Chancellor's understandable reluctance to set out the details of the latest forecasts may well increase the difficulties of securing agreement from his colleagues to his present proposals. You will wish to judge as the discussion proceeds how far to encourage the Chancellor to reveal fuller details of the underlying forecasts. He is likely to lay considerable weight on the accumulation of unfavourable trends: the overshoot in the PSBR at the end of 1982-83, and the borrowing and expenditure figures for the first quarter of the current year. He may also argue that if the Government does not take early action now it may later be forced into much more stringent action should the present trends continue. Moreover a major objective is to provide a sounder base for the next Public Expenditure Survey round which the Cabinet will be discussing on 21 July.

PARTICULAR POINTS

14. Particular points raised in discussion may include the following:

(i) Contingency Reserve. It may be suggested that all or part of the proposed reduction should be found by reducing the contingency reserve rather than cash limits. But the contingency reserve (at £1.5 billion) is small by the standards of previous years; and it would be imprudent to reduce it further so early in the year. It seems unlikely that spending Ministers would subscribe to an undertaking that in no circumstances whatever would they ask for additional provision during the current year. Moreover, part of the reserve is likely to be needed to cover an overrun in nationalised industry borrowing (an overrun of £250 million is currently forecast).

(ii) Central Government Pay. Substantial economies have already been assumed on the pay and GAE cash limits in order to cover the Civil Service pay award of nearly 5 per cent (the provision was based on an increase of 3½ per cent). Some Ministers may suggest that it will be impossible to find savings of 1 per cent without an unacceptable effect on services. Certainly redundancies will not help, since they have a substantial first-year cost. There may well be a risk that even if Ministers agreed to find savings of 1 per cent, it will in the event prove impossible to deliver them.

Against all this is the obvious difficulty of appearing to exempt the Civil Service from the effects of reductions in expenditure elsewhere.

- (iii) Other Pay. The figures in C(83) 21 assume that the 2 per cent reduction in non-pay items would apply to grants to bodies outside central Government ("central Government" for this purpose includes the National Health Service). But grants to some organisations, notably the universities and other educational bodies, are calculated on the basis of a notional split between pay and other inputs. The pay element in this year's grant allowed for a 3½ per cent increase, as for the Civil Service. The Ministers concerned can be expected to argue strongly that it is unreasonable to impose on the pay element of the grants a more severe reduction than that applied to expenditure on Civil Service pay and GAE. You will not wish to go into the details of the various services that may be affected; but it does not seem unreasonable to agree that if the calculation of grant was based on an explicit treatment of pay costs on the same lines as for Civil Service pay and GAE, a reduction of only 1 per cent should be applied. Details could be left to be settled bilaterally between the Ministers concerned and the Chief Secretary.
- (iv) Switches between Cash Limits. Several Ministers are likely to wish to be free to find savings, within whatever total may be agreed, on a different pattern from that which would result from the strict application of the Chancellor's proposals to each and every cash limit. In particular, the Revenue Departments would be inclined to argue that the loss of revenue resulting from further staff cuts would far outweigh the financial savings (which might well be negligible if the cuts involved redundancies). The Cabinet will probably agree that some flexibility is desirable; but that, if it is decided that central Government pay cash limits should be reduced by 1 per cent, Departments should not be able to avoid the effects to any significant degree by finding offsetting savings on other items. Subject to this

and any other points that may be agreed, the Chief Secretary might be invited to agree figures for individual cash limits with the responsible Ministers.

- (v) Demand-determined Services. It may be suggested that reductions in expenditure on demand-determined services should be accepted in place of reductions in cash limits. C(83) 21 envisages that reductions in expenditure on demand-determined services should be additional to reductions in cash limits, though no specific suggestions for savings are advanced. The difficulty in finding savings is partly political (the only suggestion so far put forward in inter-departmental discussions is a reduction in student grants, which has so far found no favour with the Cabinet) and partly technical (reductions in demand-determined expenditure are always less certain than reductions in cash-limited expenditure). But if any specific proposals are put forward which seem prima facie acceptable, they could be left for discussion bilaterally, at least in the first instance, between the Ministers concerned and the Chief Secretary.

END-YEAR FLEXIBILITY

Flag B

15. The proposed scheme of end-year flexibility is described in summary terms in C(83) 21, but is intended to be the scheme set out in more detail in the attachment to C(82) 29. It would apply only to capital expenditure and certain procurement programmes and would not extend beyond central Government. Your colleagues are likely to welcome the proposal in general terms; but two main types of point may be raised.

16. First, it may be suggested that the coverage of the scheme should be extended and, in particular, that local authorities should be covered. Treasury Ministers are likely to reply that this would create too great a likelihood of higher expenditure in 1984-85.

17. Secondly, detailed points may be raised on the mechanics of the scheme. You will not wish to spend time on these.

18. If the Cabinet endorses the proposed scheme in principle, you might invite the Chief Secretary to arrange for officials to prepare a more detailed outline for eventual approval by Ministers collectively.

ANNOUNCEMENTS

19. Depending on the decisions reached the Cabinet will wish to consider the form and timing of any announcement.

IMPROVING FLOWS OF INFORMATION

20. There is unlikely to be any objection to the proposal that information flows should be improved.

HANDLING

21. You will wish to invite the Chancellor of the Exchequer to introduce his memorandum. Thereafter all members of the Cabinet are likely to wish to contribute, both from their Departmental and from the general political standpoint.

CONCLUSIONS

22. You will wish the Cabinet to reach conclusions on the proposals in paragraph 15 of C(83) 21 and, if those proposals are endorsed, the form and timing of any announcement.

approved by ROBERT ARMSTRONG
and signed in his absence

Lindsay Wilkinson

6 July 1983



4
Prime Minister

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary
Sir Kenneth Stowe KCB CVO

5th July, 1983

Robin Butler Esq.,
10, Downing Street

Robin
- We shall
have to give
urgent attention to
the fundamental
issues.
ms.

Dear Robin.

BRIEFING FOR MINISTERS AFTER THE ELECTION

I have turned out the papers which I prepared for Norman Fowler on his return to the office after the Election. But looking at them again I think it best to send you the enclosed set, so that you can use them as you think fit.

The key paper is the Personal and Confidential minute of 11th June from me to the Secretary of State which covers the brief on Pay and Public Expenditure. I am sending you my own copies of these two documents. Only the Secretary of State has a copy of my minute and only the two other Permanent Secretaries and the Principal Finance Officer have copies of the Confidential Public Expenditure briefing. A quick reading will make it abundantly clear why I have confined these documents so closely.

It is important to understand that in my personal minute to Secretary of State (and in particular in paragraph 5 of it) I was picking up a theme which he and I had already been discussing before the Election and on which we have a good understanding as to where we want to drive the Department and the NHS. But neither of us underestimates the operational and especially the political hazards of so doing.

/As for ..

E. R.

As for the rest of the briefing, I think the slim green folder on the Management of the Department is interesting and easily assimilable; and the two big blue volumes are an interesting illustration of the depth and density of business in the DHSS bailiwick.

Yours sincerely,

Ken.

PERSONAL AND CONFIDENTIAL

Secretary of State

1. As we were saying before we were interrupted
2. The complete set of briefs which have been sent to each Minister's office covers familiar ground. You will probably want Mr Godber to arrange a programme of meetings, starting with the urgent discussion on The Queen's Speech. He has a timetable ready.
3. I have kept out of the briefing the really big issue - pay and public expenditure. You will see why when you read the attached brief on these closely related issues: it builds up to a PES bid for over £2 billion in a full year in the third year of the next PES round, ie in the year ending nearly four years from now, on the threshold of the next General Election. It is not a bid which the Chancellor, Chief Secretary and Prime Minister will be expecting, although the Treasury know well enough that it is inevitable since the Government's existing policies are flawed in a fundamental respect: there are now commitments on social services which cannot be squared with public expenditure plans as published and based on current forecasts or with commitments to reduce taxation by constraint on public expenditure.
4. I have kept this brief to very few people and will not distribute it further until you have considered how you want to handle it. It is, of course, very urgent: the PES will be taken at Cabinet in about six weeks.
5. This brings me to my main concern. The lesson to be learned from this Department about the last Parliament was that all the difficult decisions were deferred until the end of the third year - and then the issues had to be shelved or buried. You can see the same misery being generated in the public expenditure and pay brief. It makes every kind of political sense for you and your Ministerial colleagues to grapple with this now and to plan immediately what changes you want to bring about over the next two Sessions of Parliament (ending October 1985) so that you face the fourth year (starting November 1986) with established policies which are by then bearing fruit. My fear is that if we here do not start on this process very soon, events will again compel the Treasury/CPRS/Cabinet Office to do so but too late - and they will start from the assumption that it is the policies for the social services which must change - maybe they should, but there are other options, and the sooner we start to explore them the better.
6. I would welcome early discussion.

|| June 1983 .

K R STOWE

PRIVATE SECRETARIES TO MINISTERS

1. Briefs have been prepared for any new Ministers whom the Prime Minister may appoint. I am sending copies to all Ministers' offices so that each Minister, new or not, will have the same kit and know what was done. The briefs are:

i. The Organisation and Staffing of the Department - this outlines the major businesses for which the Department is responsible, sets out its organisation and shows the names and responsibilities of Under-Secretaries and above. It is based on the Prime Minister's FMI.

ii. Queen's Speech and Legislative Programme - this sets out the advice from Cabinet Office on the procedure and timetable for agreeing the Queen's Speech and legislative programme and proposals for DHSS contributions.

iii. The Main Brief - this i. sets out (Part A) the Government's Manifesto statements relevant to the Department; ii. sets out (Part B) more fully the legislative issues, expanding on the Queen's Speech folder; and iii. then summarises a wide range of issues - including some comparatively minor items - which require urgent consideration by Ministers, distinguishing between HPSS (Part C) Social Security (Part D) and Departmental (Part E). For each item there is a summary sheet explaining the issue, timetable and action proposed, and a background note.

iv. Medical Issues - Sir Henry Yellowlees, Chief Medical Officer, has provided a personal note on the main medical issues with which the Secretary of State will be concerned.

v. Summary Fact Sheets - this is an indexed set of single page summaries of resources and activities in the health and personal social services and the social security programme.

2. The briefing has been prepared under the supervision of the administrative Deputy Secretaries who, with their professional colleagues, will be ready to provide additional briefing and should be the first point of contact for further action.

3. Copies of this set of briefs have been distributed only to Under Secretaries (and professional equivalents) and above in the Department and to the Cabinet Office.

Alan Moran
for

K R STOWE

10 June 1983

**available
MONDAY*

Top Copy

(Copy No 1 : Mr Brexton)

BRIEFING FOR MINISTERS

(CONSERVATIVE)

Confidential Annex on Public Expenditure & NHS Pay

Secretary of State

You have Sir Kenneth Stowe's minute and the briefing pack which identifies the essential policy issues to be dealt with in coming weeks. The purpose of this note is to identify some more mundane - but still important - questions which should be settled quickly so that you and your Ministerial colleagues can get on with the real business with minimum distractions.

2. I assume that on Monday morning you will want to meet your Ministers and Permanent Secretaries to
 - i. deal with the Queen's Speech; and
 - ii. think about the next five years.

But before ii. you could usefully settle some of the questions below.

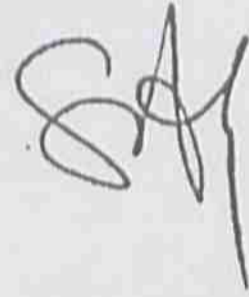
3. Programme for the first few days. I attach (flag A) an outline programme for dealing with the main business facing you. Are you content with
 - a. the proposed order?
 - b. Ministerial participation?
 - c. for weeks 2-3, the allocation of Ministerial leads?
4. Inherited commitments. Flag B gives a list of meetings with outside bodies which can be carried on with but which could be dropped if you wish - advice in general is to carry on. If you proceed, briefing and briefing meetings will need to be commissioned quickly. The list also identifies speaking commitments up to the end of July for all Ministers - you will wish to decide whether the allocation between Ministers is right.
5. Ministerial responsibilities. I attach a copy of the subject distribution between Ministers before the election. Do you wish to start from this basis - allowing junior Ministers to consider over the next week whether they want to make any changes?
6. Handling of Departmental business. Do you wish to give any fresh guidance on the handling of business? In particular

- i. submissions to be routed through junior Ministers?
- ii. PQs. Should answers to eg senior opposition spokesmen always be given by you?

7. Cabinet committees. You were a member of

- E(PS)P - Public Sector Pay
- E(PU) - Government Procurement Policy
- H - Home and Social Affairs
- MISC21 - Rate Support Grant
- 66 - Civil Service Pay
- 79 - Local Government Organisation and Finance.

Do you wish to seek membership of 'E' - for which there is a strong case?



S A GODBER

URGENT ISSUES FOR MINISTERIAL CONSIDERATION

Timetable	Subject	Ministers involved	Briefing	Comment
Day 1	Queen's speech	All	Separate folder	Response required by pm on Day 1
	Social Security Upgrading	S of S MS(SS) PS(SS) PS(L)	Confidential Annex Ch 4	Decisions on tactics needed. Operational decisions later in week 1.
Day 2?	Public Expenditure Survey		Confidential Annex	First consideration of strategy and tactics.
	(a) Health (including long term resource assumptions)	S of S MS(H) PS(H) PS(L)	Chs 2 and 3	
	(b) Social Security	S of S MS(SS) PS(SS) PS(L)	Ch 5	
Day 3?	Legislation issues			
	(a) Social Security Policy Bill	S of S MS(SS) PS(SS) PS(L)	Main Brief Ch 6	Scope of Bill.
	(b) Family Practitioner Services	S of S MS(H) PS(H) PS(L)	Main Brief Chs 4 and 5	Timing and scope of legislation.
Rest of Week 1	NHS Pay	S of S	Confidential	Decisions on form of review body needed.
	(a) Nurses Review Body	MS(H)	Annex Chs 6-8	Approach to discussions with Unions.
	(b) Long term arrangements for other staff			
	Pharmaceutical Issues	S of S	Main Brief	Decisions on objectives of review.
	(a) Review of PPRS	MS(H)	Chs 13, 14 and 15	
	(b) generic substitution			
	(c) imported medicines			

Timetable	Subject	Ministers involved	Briefing	Comment
(No meetings needed)	Use of Commercial Contractors in the NHS	S of S	Main Brief Ch 21	Letter to Chief Sec needed to get VAT concession reinstated in Finance Bill.
	Housing Benefit Transitional Regulations	MS(SS)	Submission next week	Further regulations required.

ISSUES FOR CONSIDERATION IN WEEKS 2-3.

Subject	Ministers involved	Comment	Briefing
Commencement Orders for Health and Social Services and Social Security Adjudication Act 1984	MS(SS) MS(H)		ch 2 & 3 main brief
Implementation of Mental Health Act 1983	MS(H)	Commission has to be working by 1 September	ch 16 main brief
Rubella Immunisation Campaign	MS(H) PS(H)	September launch	ch 17 main brief
Response to Acheson report on primary care in inner cities	MS(H)	Notification to health authorities needed in July	ch 19 main brief
New NHS Spectacle Frames	MS(H)	Announcement needed before 1 July	ch 20 main brief
Assistance with Domestic Rates	S of S MS(SS)	Will be put to Cabinet shortly by DOE	ch 24 main brief
Housing benefit - admin subsidy	MS(SS)	Decision needed by July	ch 25 main brief
Pension age	S of S MS(SS) PS(H)	Response to Social Services Select Committee needed before Summer recess	ch 28 main brief
Review of General Ophthalmic Service	MS(H)	Decision on form and scope of review	ch 11 main brief

Subject	Ministers involved	Comment	Briefing
Review of Artificial Limb and Appliance Centres	S of S MS(SS)	Decisions on form and scope of review	ch 12 main brief
Child Care initiatives	MS(H)		ch 1 main brief
Occupational pension - disclosure - early leavers	S of S MS(SS)		ch 22 & 23 main brief
Social Security operational strategy	MS(SS) PS(SS)	Paper to H Committee needed	ch 26 main brief
Long-term cost of pensions	S of S MS(SS) PS(SS)	Response to Government Actuary's report	ch 27 main brief
DHSS manpower	S of S MS(H) MS(SS)		ch 29 main brief

Fm1

MAJOR MINISTERIAL MEETINGS AND ENGAGEMENTS

a. Meetings on which early decisions are required about whether to go ahead

Date	Meeting	Minister	Comment	Briefing
✓ 21 June	RHA Chairmen	S of S MS(S) PS(H)	Advice is to go ahead	Main brief Ch 8
✓ 24 June	NAHA AGM	S of S	Speech and questions. Who to do?	
28 June	TUC Health Services Cttee	S of S MS(H) PS(H)		
29 June	Chairmen and Directors of Social Services	S of S MS(H) PS(H) PS(SS)	Regular meeting	
29 June and 13 July	Regional Reviews (Yorkshire and NE Thames)	S of S MS(H) PS(H)	Need to consider how to carry review programme forward.	Main brief Ch 7

b. Other speeches in Ministers diaries

19-20 June	European Dialysis and Transplant Association	PS(H) PS(L)		
22 June	AGM of Parkinsons Disease Society	MS(SS)		
6 July	Royal College of Psychiatrists Dinner	MS(H)		
15 July	Association of CHCs AGM	MS(H)		
20 July	Royal College of Midwives Trust - ½ hour speech	S of S		

VACCINE DAMAGE PAYMENTS				
WAR PENSIONS AND ALLOWANCES	X			X
INDUSTRIAL INJURIES BENEFITS	X			
- INJURY BENEFIT				
- DISABLEMENT BENEFIT				
- RELATED BENEFITS AND ALLOWANCES				
NI CONTRIBUTIONS AND CREDITS	X			
REVIEW OF CONTRIBUTIONS BY THE SELF EMPLOYED				X
FRAUD AND ABUSE	X			
ADJUDICATION	X			
TAKE -UP OF BENEFITS			X	
OCCUPATIONAL PENSIONS				X
REGIONAL ORGANISATION			X	
OPERATIONAL STRATEGY AND COMPUTERS			X	
INTERNATIONAL RELATIONS	X			
RE-ESTABLISHMENT CENTRES			X	
VOLUNTARY SECTOR			X	

MINISTERS' DAY-TO-DAY RESPONSIBILITIES FOR SOCIAL SECURITY SUBJECTS: MARCH 1983

	<u>Minister for Social Security - Mr Rossi</u>	<u>Parliamentary Secretaries</u> <u>Mr Newton</u>	<u>Lord Trefg</u>
PENSIONS			X
- RETIREMENT PENSION			
- WIDOWS BENEFITS			
- OVER 80s PENSION			
DEATH GRANT	X		
SHORT TERM BENEFITS			
- SICKNESS BENEFIT	X		
- UNEMPLOYMENT BENEFIT	X		
- MATERNITY BENEFITS		X	
EARNINGS RELATED SUPPLEMENT	X		
INVALIDITY BENEFITS	X		X*
CHILD SPECIAL ALLOWANCE		X	
DEPENDENCY BENEFITS		X	
OVERLAPPING BENEFITS		X	
STATUTORY SICK PAY	X		
FAMILY SUPPORT			
- CHILD BENEFIT		X	
- ONE PARENT BENEFIT		X	
- GUARDIANS ALLOWANCE		X	
- FAMILY INCOME SUPPLEMENT		X	
SUPPLEMENTARY BENEFITS		X	
HOUSING BENEFIT	X		
BENEFITS FOR THE DISABLED	X		
- ATTENDANCE ALLOWANCE			
- MOBILITY ALLOWANCE			
- INVALID CARE ALLOWANCE			
- NCIP			
HNCIP			

CLIENT GROUPS	Mr Clarke	Mr Finsberg	Ld Trefgarne	Mr New
Maternity and neonatal care				
- minimum standards	X			
- Maternity Services Advisory Committee	X			
Children's Services				
- health		X		
- personal social services				X
- adoption				X
- youth treatment centres				X
Mentally ill				
- Mental Health Bill			X	
- Regional Secure Units			X	
- Special Hospitals			X	
Mentally handicapped		MR ROSSI	X	
Elderly		X		
Physically Disabled		MR ROSSI		
HOSPITALS				
Hospital policy	X	X		
Hospital support services				
- contracting out		X		
Hospital scientific services				
- radiological protection (NRPB)			X	
- pathology			X	
- pharmacy			X	
- Public Health Laboratory Service			X	
- cancer			X	
Blood Products		X		
Waiting lists	X	X		
Particular services, specialties				
- orthopaedics	X	X		
- rehabilitation	X	X		
- organ transplants	X	X		
- renal dialysis	X	X		
"Unorthodox practices"				
- homeopathy		X		
- alternative medicine		X		

PRIVATE PRACTICE

- future of the JLC
- liaison with providents

PREVENTATIVE SERVICES

- prevention generally
(eg CHD booklet)
- Abortion
- Family planning
 - contraception and young people
- Smoking
- Health Education
- Environmental hazards
 - dangerous pathogens
- Fluoridation
- Vaccine damage

PRIMARY HEALTH CARE

- General medical practice
 - future of general practice
 - liaison/negotiations with GMSC, RCGP etc

Dental services

- dental strategy

Pharmaceutical services

- negotiations with PSNC
- professional inquiry into pharmacy

Ophthalmic services

- future charging arrangements
- redesign of NHS frames
- the "5 point" plan

LOCAL AUTHORITY SOCIAL SERVICES

- General policy on LASS
- Social work, including training
- Urban Programme, inner cities
- Policy on the family

	X			
	X			
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X	X		
	X			
	X			
	X		X	
	X		X	
	X	X		
	X	X		
	X	X		
				X
				X
		X		X
				X

OPCS		X		
MEDICINES DIVISION AND REGULATIONS		X		
COMPUTERS	X		X	
RESEARCH		X		
HEALTH EXPORTS	X		X	
SUPPLY COUNCIL	X	X		
INTERNATIONAL RELATIONS	X	X		
DEPT MANAGEMENT		X		
GRANTS TO VOLUNTARY BODIES				X
HEALTH SERVICES MANAGEMENT AND REGIONAL LIAISON				
- Restructuring		X		
- FPCs		X		
- Special health authorities		X		
- Management costs		X		
- CHCs		X		
- Closures, other day-to-day business	X			
PERSONNEL (NHS)				
Doctors				
- medical career structure	X			
- doctors terms of service	X			
- overseas doctors	X			
Nurses	X			
PSMs		X		
Other professional and technical staff (eg engineers etc)		X		
Admin and clerical		X		
Ambulance staff		X		
Ancillaries		X		
NHS staff training arrangements		X		
Unemployment and Health	X	X		
Alcohol	X	X		
DHSS Property		X		
All Appointments		X		

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

BRIEFING FOR MINISTERS

CONFIDENTIAL ANNEX ON PUBLIC EXPENDITURE & NHS PAY

JUNE 1983

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PUBLIC EXPENDITURE

CHAPTER 1: INTRODUCTION

The Issues

1. Decisions will be needed on:-

- a. 1983 Public Expenditure Survey (PES), covering 1984-85, 1985-86 and probably 1986-87. This gives an opportunity to take stock of objectives and priorities, and may be linked with review of public expenditure in longer term. (Chapter 2 on health and personal social services and Chapter 4 on social security give details).
- b. Long-term resource assumptions for NHS planning - separate from PES and does not commit resources. Guidance has been promised to health authorities who, at present, are basing plans on private guesses (Chapter 3 gives details).
- c. 1983 social security uprating - separate from 1983 PES, but affects resources in later years (Chapter 5 gives details).

X (2. The main general issue for Ministers collectively will be the conflict between desire to reduce public expenditure and taxation and the expenditure requirements of the main programmes (notably defence, social security, health and the local authority programmes). At low growth rates, objectives will be difficult or impossible to reconcile.

3. If, as seems likely, inflation is higher than cash increases planned in the last White Paper (5 per cent in 1984-85 and 4 per cent in 1985-86), to hold to present spending plans would substantially squeeze unprotected programmes.

4. Issues within DHSS include:-

Health and Personal Social Services (HPSS)

- ✓ a. Provision to be made in NHS for expected pay and price inflation higher than that covered by present plans.

- ✓ b. Provision to be made in NHS for increased service demands (eg. from the elderly) and for service improvements.
- ✓ c. Extent to which (a) and (b) can be financed by increased efficiency.
- ✓ d. Policy towards NHS charges and other measures to contain expenditure.
- e. Policy towards local authority expenditure on personal social services.

Social Security

- ✓ f. Provision for benefit improvement.
- ✓ g. Scope for savings in benefit programmes.
- ✓ h. Policies on uprating of benefits.

Time-table

5. a. Treasury Ministers are likely to put forward early proposals for handling 1983 PES. Departments may have to send to Treasury their draft reports on expenditure plans and proposals by the end of June, preparing for Cabinet discussion in July, bilateral discussions in September and decisions in October/November.
- b. An announcement on the social security uprating will be expected after publication of the May RPI on 17 June. The uprating orders have to be approved by Parliament before the Summer Recess. Implementation needs to begin by the end of June if beneficiaries are to receive new rates on time.
- c. Early guidance was promised on long-term resource assumptions and is now overdue.

Action

- ✓ 6. Ministers will no doubt wish to discuss these issues with officials at an early stage.

CHAPTER 2: HEALTH AND PERSONAL SOCIAL SERVICES - FINANCIAL STRATEGY AND PUBLIC EXPENDITURE SURVEY

Summary

1 For the health services, present plans provide for cash increases of 5 per cent in 1984-85 and 4 per cent in 1985-86. The proposed main bids for additional resources are to cover anticipated short-fall as a result of inflation, pay demands, demographic changes leading to rising demand, changes in patterns of service and estate maintenance and upgrading. In cash terms the bids may be summarised as follows:

NHS	1984-85	1985-86	1986-87
Planned spending (Budget estimates)	13534	14141	-
Main additional bids	612	1001	1560

2. For personal social services, the main bid proposed is for a 1 per cent growth in resources which, together with a 1 per cent annual efficiency saving, would provide enough growth to keep pace with demand. In cash terms the proposals may be summarised as follows:

PSS	1984-85	1985-86	1986-87
Planned spending (Budget estimates)	2522	2645	-
Main additional bids	60	110	1560 270 1830

3. Ministers will no doubt wish to discuss these proposals with officials at an early stage. In the meantime, the proposals are expanded below.

The HPSS Programme

4. This is confined to England, and is in 4 "businesses".

	<u>Expenditure 1983-84 (£m)</u>	
	<u>Revenue (net)</u>	<u>Capital</u>
- Hospital and Community Health Services (HCHS)	8621	680
- Centrally Financed Services (CFS)	534	43
Family Practitioner Services (FPS)	2572	3
Local Authority Personal Social Services (PSS)	2017	108

The first and most of the second businesses are cash limited. The HCHS are funded by allocations to health authorities, whereas the Department is directly responsible for the funding of the CFS. The FPS are provided by independent contractors (GP's etc) and are not cash limited. These three businesses together constitute "the NHS", and are funded 85% from tax, 12% from the national insurance contribution, and 3% from charges. PSS are funded through rates, rate support grant and charges (15%); there are no specific central Government grants for PSS (other than for PSS element in schemes funded under the Urban Programme and Commonwealth Immigrants Programme).

The demand for services

5. All these services are under pressure because of demographic and social changes - especially the growing number of old and very old people - and because medical advance continually makes available new forms of treatment like hip operations, coronary surgery, dialysis and new drugs. If these do not meet demand, people may wait in pain or die. If standards are to be maintained in the face of these rising demands, the main implications are

✓ HCHS: growth in services ¹in 0.8% and 0.5% a year needed to keep pace with demographic change and unavoidable medical advance respectively

- CFS: there are no immediate issues to be decided; a separate brief will be submitted shortly.
- FPS: growth in services of 1.7% and 1.5% a year needed to keep pace with demand and net cost of new drugs respectively
- PSS: growth in services of 2% a year needed to keep pace with demographic and social change.

In addition HCHS and PSS start from an inadequate level of provision in some respects, especially long waiting times for some operations, shortfall in dialysis, poor quality of some services for patients with long-term illness or handicap, and a large backlog in building maintenance. The manifesto proposes to continue to upgrade existing hospitals and brighten shabby wards; it is estimated that up to £150m a year more could be spent on estate maintenance and equipment replacement.

in 60?

The cost of services

6. All services are staff intensive. Health service pay rises (apart from doctors and dentists) have been below other public sector and private sector levels and the RPI. From 1981-82 onwards, HCHS resource growth has in effect been financed by reductions in real pay.

7. Health authority chairmen have agreed to a target of ½% a year efficiency savings, to release resources from existing services for redeployment to new services. (The Management Inquiry - see chapter 10 in main brief - seems likely to recommend that substantially more could be saved provided managers and clinicians could keep a substantial part of the savings to improve services locally.) But the specific savings reported to us by Treasurers were less than the ½% target in 1981-82 and 1982-83. In these years managers were of course heavily preoccupied with reorganisation and industrial action and performance may now improve. Provided authorities do better in future years, ½% a year savings will be available to meet rising demand and other Ministerial priorities, and perhaps ^{as much} as much again for local improvements.

report
in minutes

8. Improvements in efficiency should also be possible in the CFS (separate brief will follow) and PSS, and various savings should be possible in the FPS (see paragraph 20 of this Chapter).

Policies and priorities 1979-83

9. The last major statement of the Government's policies and priorities was "Care in Action" published in 1980. This continued the previous administration's policies of giving priority to improving services for the elderly, mentally ill and mentally handicapped and of shifting more care into the community, but did not prescribe national targets or standards. It also called for partnership with, and a greater contribution from the private and voluntary sectors. The manifesto confirms all these policies.

10. More community care and partnership with the voluntary and private sectors has been developed. Recent initiatives include;

- New policy circular on "Care in the Community", backed by extra joint finance under which health authorities can finance PSS provision through joint projects with local authorities and pay for individual patients transferred from hospital.

- A series of centrally financed initiatives in key policy areas involving health, local authority and voluntary services, including the "Opportunities for Volunteering" scheme.

- Joint work with Inland Revenue on possible fiscal concessions to encourage more private sector provision for the over 65's.

- Sept circular

The manifesto supports continuation of these initiatives.

11. A series of measures has also been taken to improve accountability and value for money, notably the introduction of regional reviews (see ch.7 in main briefing) and setting up of the Management Inquiry (see ch.10 in main briefing). Follow through of these policies should help to ensure that the efficiency savings target [of $\frac{1}{2}\%$ a year] is reached, so that the taxpayer does not foot all the bill for new services, and that further savings are made to improve services locally, so securing better value for patients, as proposed in the manifesto. Appendix A (at the end of this Chapter) sets out the targets for savings on management and administration.

A possible financial strategy

12. Treasury Ministers agreed in February 1983 (see chapter 3 on longterm resource assumptions) that for longer term planning purposes health authorities should assume ^{in resources} in resources of $\frac{1}{2}\%$ a year for the next decade, though there is no commitment to this. Our analysis suggests that the NHS should just about be able to cope with growing demand, and make some slow progress in implementing Ministers' policies to improve standards (as in Care in Action), provided that:

- ✓ a. resources do grow at $\frac{1}{2}\%$ a year on average to provide for the growing number of old people (more is needed in the next few years, less in the 1990's when demographic pressures ease);
- ✓ b. authorities do save $\frac{1}{2}\%$ a year for new services (this would cope with inexorable medical advance);
- ✓ c. health authorities do not have to finance pay awards (eg through a new nurses review body) which are outside the cash limits;
- ✓ d. there is a continuing shift of care to the community (see paragraph 13 below); and
- ✓ e. further savings are made and retained locally for improving standards, reducing waiting lists etc.

unless
produced by?

13. If local authority PSS took the full load of providing alternative care for the mentally ill, mentally handicapped and elderly, they would need to grow at an extra 1½% a year in addition to 2% for demographic and social change. This conflicts with policy on LA expenditure as a whole. Support from families and neighbours and the voluntary and private sectors might fill the gap if the need is widely understood and acted on. If that does not happen, more people will have to be cared for in hospital, and the health service will not make progress towards the Government's objectives.

14. Ministers may wish to seek more funds to support the development of community care, continuing and building on the initiatives set out in paragraph 10 by:

- ✓ a. further pump priming of voluntary sector services;
- ✓ b. extra funds for community nursing and joint finance;
- ✓ c. encouraging private sector provision for the elderly through fiscal incentives. and NHS purchase.

Implications for public expenditure survey

15. The present cash plans for the NHS provide for cash increases of 5% in 1984-85 and 4% in 1985-86, and the baseline in 1986-87 gives a further 3% increase as a starting point for this year's survey. In addition there is provision for an increase in demand in FPS up to 1985-86.

16. Against this background, the main bids which Ministers may wish to consider for the NHS are set out in the following table:

PROPOSED MAIN BIDS FOR NHS

	£m		
	1984-85	1985-86	1986-87
Close gap between planned cash increases of 5, 4 and 3% and forecast <u>inflation</u> (5½ 5 and say 4½%)	64	203	429
Allowance for <u>pay</u> to rise an additional 2%, 1% and 1% (Illustrative bid as discussed with previous Ministers; money would have to be held in contingency reserve)	155	245	341
<u>Maintaining standards in the face of rising demand:</u>			
Increase in resources of 0.8% ayear for HCHS	75	158	246
New drugs and other FPS pressures (net)	135	181	298
Additional <u>services</u> : voluntary sector and community care	33	56	81
<u>Estate</u> maintenance and up- grading - up to	150	158	165
	612	1001	1560

17. For the PSS the main bid might be for cash to provide in the Government's indicative plan 1% a year growth in resources. This, with 1% a year efficiency savings, would provide 2% growth in services, enough to keep pace with rising demand. The bid would be:

	fm		
	1984-85	1985-86	1986-87
✓ PSS 1% growth	60	110	270

✓ This will need to be settled within whatever total is agreed for LA expenditure as a whole.

P. Jenkin.

18. These and a few other smaller bids are set out in detail in a draft chapter for the Public Expenditure Survey, to be submitted separately as a basis for decisions by Ministers.

Options for savings

19. On HCHS and CFS, the only ways of saving significant amounts are to increase efficiency, hold back pay, reduce services or increase charges. The first is already taken into account, the second seems infeasible. Possible ways of cutting out whole services - eg welfare food - or introducing new charges - eg a hospital inpatient charge - have been considered on previous occasions and rejected.

20. The main scope for savings is however probably on the FPS. These services are not cash limited and there have been pressures for some time, particularly from Treasury Ministers, to control and (where possible) reduce spending. A number of studies are in progress or are planned and decisions will be required during the present survey on possible sources of financial savings which may be politically contentious. The details are set out in Appendix B at the end of this Chapter. In summary the possible savings identified are:

POSSIBLE FPS SAVINGS

	£m		
	1984-85	1985-86	1986-87
Pharmaceutical Price Regulation Scheme	0	-15	-30
Generic substitution	0	- 2	- 5
Review of General Ophthalmic Services	Savings likely to be outside Current PESC period.		
Binder Hamlyn Study	0	0	-16
	0	-17	-51

Note: estimates based on assumptions in appendix B.

APPENDIX A: MANAGEMENT COSTS IN THE NHS

1. The Conservative manifesto contains a commitment: "to release money for looking after patients, we will reduce the costs of administering the Health Service."
2. The present management costs target was set in 1980 as part of the process of restructuring the NHS. It was a continuation of a system established in 1976 and requires that the proportion of NHS expenditure devoted to management be reduced by 10%, or from 5.12% to 4.6% by 1984/85. Each Region is required to achieve the same target of 4.61% from a base which ranged in 1979/80 from 4.79% (Mersey) to 5.4% (North East Thames). Current indications are that these targets will be achieved.
3. The advice of the Management Inquiry has been sought on possible further developments in this field and a submission on means of fulfilling the manifesto commitment will be made when the advice has been received.

APPENDIX B: OPTIONS FOR SAVINGS ON FAMILY PRACTITIONER SERVICES

1. The following notes identify, briefly, the areas in which financial savings might be made, with a very broad assessment of the extent and timing. Fuller briefing on each item is given in *the main brief.*

a. Pharmaceutical Price Regulation Scheme

refunds?

A review of this scheme may lead to changes to the pharmaceutical industry's return on capital. If the return on capital could be reduced by two percentage points and some smaller changes made, such as limitation on promotional expenditure, there could be an annual saving of the order of £30 millions. While the changes could be introduced quickly, the full effect might not be seen for about two years.

b. Generic Substitution of Drugs

Recent consideration of this question stems from the Greenfield Report. The full briefing on the Report discusses the various options for introducing a scheme of generic substitution and the range of savings which might flow. Depending on the type of scheme introduced and the degree of acceptance by the parties involved, savings might range from the trivial up to £20 millions per annum. To smooth the way with the pharmaceutical industry, it might be necessary to produce a "package" including a cut in the return on capital (mentioned in (a) above) and a modest generic substitution scheme. Such a package might bring savings of £30-£40 million implying a annual saving from the generic substitution arrangement of about £5 millions. Such a saving would take about two years to achieve in full.

✓

c. Review of the General Ophthalmic Services

The terms of reference for this review are wide-ranging and not specifically directed at reducing expenditure. The review will, however, include consideration of "privatisation" of the general ophthalmic services which would bring substantial savings to the Exchequer. On the assumption that a free service would continue to the groups presently exempt from paying charges and that there would be a greater cost per capita in continuing this free service, a maximum annual saving of about £40 millions could be made. This is of necessity a very speculative figure and could not be realised for some years.

d. Controlling FPS Expenditure - Binder Hamlyn Study

It is likely that the report, due shortly, will suggest controls on the numbers of doctors and dentists entering general practice and, possibly, some constraint on the opening of pharmacists' and opticians' premises. Even if such control is accepted by Ministers (there are considerable political difficulties and primary legislation would be needed), decisions will be required on allowable growth. At present the number of doctors and dentists are increasing by about 2 per cent a year. For illustration, if the growth were to be restricted to 1 per cent, a saving of the order of £13 millions might accrue. Saving from restrictions on the opening of pharmacists' and opticians' premises is difficult to forecast. Taking the extreme of allowing no additional outlets the saving might be no more than £3 millions. Other possibilities for saving may flow from the Binder Hamlyn report but the yield may be relatively small.

CHAPTER 3: HEALTH SERVICE - LONGER TERM RESOURCE ASSUMPTIONS

The problem

1. Health authorities have to take decisions which affect services for many years ahead, especially on building new hospitals, on replacing large long-stay hospitals with district services, and on medical manpower. They need to have a broad comprehensive picture of how they intend to change services within the resources likely to be available; otherwise ad hoc decisions on particular projects will pull funds away from higher priority services.
2. In early 1978 health authorities were told to base their plans on the central assumption that resources would grow at $1\frac{1}{2}\%$ a year nationally, and were given guidance as to how this would be distributed between Regions. They were told to make their plans flexible enough to cope with rather more or less resources. In practice these guidelines have been broadly fulfilled, though with fluctuations from year to year.
3. The prospects for the future are, however, for a significantly lower growth in resources. (Cash plans for 1984-85 and 1985-86 in the last public expenditure white paper imply an actual cut in resources on present expectations about inflation.) Authorities must revise their plans to take account of this change in prospects.

Present Position

4. Treasury Ministers agreed in February to a planning assumption of growth of $\frac{1}{2}\%$ a year in resources on average over the next decade. This is not a commitment, and authorities would be told to plan flexibly to cope with more or less.

Revenue

5. Previous Ministers considered 3 options for distributing such resources within this assumed $\frac{1}{2}\%$ growth. The purpose of the distribution is to move towards the situation where each region has the share of national resources which fairly reflects its share of population and need as measured by objective indicators. That share is known as the target share, and the process is known as RAWP (Resource Allocation Working Party)

Option A: no reduction in resources in the Thames Regions. This would mean that after 10 years there would still be a gap of 7.8% between the best off region (NW Thames - 4.9% over target) and the worst (E. Anglian and Oxford - both 2.9% under target)

Option B: a reduction of 0.25% a year in the Thames Regions. After 10 years, there would still be a gap of 3.3% between the best off region (NW Thames - 2.5% over target) and the worst (East Anglian - 0.8% below target).

Option C: reduction of 0.5% a year in NW Thames and 0.3% a year in the other three Thames Regions. This would put all regions on target after 10 years.

More detail is shown in table 1 at the end of this Chapter. The manifesto confirms the policy of making extra provision for those parts of the country which have been comparatively short of resources.

6. Provided Regions can make efficiency savings of more than $\frac{1}{2}\%$ a year, it should be possible for the Thames Regions to give up the amount of resources suggested in Option C and still have savings left to improve services, especially as the Thames Regions have generally much higher unit costs than other parts of the country. There is much to recommend achieving target over the next 10 years, and on balance officials recommend Option C.

Capital

7. Regions also need guidance on capital, but the present method of allocating capital is causing some technical problems and is being reviewed. This could lead to changes which would have some effect on the assumptions. We therefore suggest that provisional assumptions should be issued now, as in table 2 at the end of the Chapter to be firmed up later in the year. These provisional assumptions will be much nearer the mark than Regions' private guesses. They also suggest a little extra capital for the Thames Regions, which would be helpful to them.

Decisions required

8. Ministers are asked

(a) whether they agree to issue new long-term assumptions based on 0.5% growth nationally

(b) what assumptions should be made about pace of redistribution, eg. as in one of the options set out above.

Procedure

9. Health authorities would need to be informed by circular. If Ministers decide to proceed, officials will submit a draft and will confirm with Treasury that their agreement to the 0.5% assumption still stands.

Constraints

10. Health authorities are at present basing long-term plans and decisions on a variety of private guesses about resource prospects. It is very urgent to give new central guidance so that plans and decisions are sensible and realistic.

TABLE 1: - LONG-TERM REVENUE RESOURCE ASSUMPTIONS

RHA	1983-84 DFT* %	OPTION A		OPTION B		OPTION C	
		Annual Growth %	1993-94 DFT %	Annual Growth %	1993-94 DFT %	Annual Growth %	1993-94 DFT %
1. NORTHERN	-3.7	+0.4	-0.2	+0.4	-0.3	+0.5	-
2. YORKSHIRE	-4.3	+0.5	-1.7	+0.7	-0.3	+0.7	-
3. TRENT	-5.0	+0.9	-2.3	+1.0	-0.5	+1.1	-
4. EAST ANGLIAN	-6.4	+1.3	-2.9	+1.5	-0.8	+1.6	-
5. NW THAMES	+10.7	-	+4.9	-0.25	+2.5	-0.5	-
6. NE THAMES	+8.7	-	+3.2	-0.25	+0.7	-0.3	-
7. SE THAMES	+6.0	-	+2.8	-0.25	+0.3	-0.3	-
8. SW THAMES	+6.4	-	+3.3	-0.25	+0.9	-0.3	-
9. WESSEX	-4.9	+1.1	-2.8	+1.4	-0.7	+1.4	-
10. OXFORD	-	+1.1	-2.9	+1.4	-0.7	+1.4	-
11. SOUTH WESTERN	-4.3	+1.1	-2.3	+1.2	-0.6	+1.3	-
12. WEST MIDLANDS	-3.8	+0.8	-2.7	+1.0	-0.5	+1.0	-
13. MERSEY	-1.5	+0.2	+0.8	+0.1	-0.1	+0.2	-
14. NORTH WESTERN	-4.0	+0.4	+0.7	+0.3	-0.2	+0.4	-
TOTAL	-	+0.5	-	+0.5	-	+0.5	-

*DFT = distance from target share of national resources

TABLE 2: LONG TERM CAPITAL RESOURCE ASSUMPTIONS

RHA	1983-4 share %	1988-9 share %	1993-4 share %
1. NORTHERN	6.4	6.1	5.8
2. YORKSHIRE	8.4	7.4	7.7
3. TRENT	8.8	10.5	10.2
4. EAST ANGLIAN	3.5	4.6	5.5
5. NW THAMES	5.8	5.8	6.0
6. NE THAMES	6.8	6.8	6.9
7. SE THAMES	6.5	7.1	7.8
8. SW THAMES	5.3	5.9	6.6
9. WESSEX	8.0	7.3	6.7
10. OXFORD	4.0	5.5	6.7
11. SOUTH WESTERN	7.4	9.0	7.6
12. WEST MIDLANDS	13.2	12.2	10.2
13. MERSEY	4.6	4.4	4.4
14. NORTH WESTERN	12.3	7.7	7.9
TOTAL	100	100	100

CHAPTER 4: SOCIAL SECURITY - PUBLIC EXPENDITURE SURVEY 1983

1. Any change in social security policy or procedure which would result in higher benefit expenditure has to be bid for during the survey. It is possible also as a separate exercise to negotiate expenditure proposals related to the uprating of benefits at the time of the budget. The public expenditure round is also the major occasion for considering whether reductions in programme spending are required in support of the Government wider spending objectives.

Summary

2. It will be necessary to decide:

- * the bids for benefit improvements.

Ministers may wish to pick this up from where it was left at the dissolution. The point had been reached where after considering proposals from the Social Security Strategy Committee, the Minister for Social Security and the Parliamentary Secretary (Social Security) had placed the proposals in priority order. Table 1 on the next page summarises the bids in that priority order.

- * what programme reductions, if any, should be offered.

The scope for reductions in the social security programme is extremely limited: savings can only be achieved by

- abolishing benefits
- limiting the scope of or entitlement to benefits
- cutting or freezing rates in payment
- deferring or reducing the general uprating of benefits

Most of these measures would require primary legislation and would, inevitably, be controversial. Changes in social security policy made since 1979 are estimated to have saved £1.5bn in 1982/83. Any consideration of reductions would have to be against the background of the renewed Government pledge to maintain the value of pensions and related long-term benefits in line with inflation.

TABLE 1

SUMMARY OF SOCIAL SECURITY BENEFIT IMPROVEMENTS FOR PES 1983

PROPOSALS (in suggested priority order)	CLIENT GROUP	FULL YEAR BENEFIT COST £m	STAFFING Cost + Saving -	NEED FOR LEGISLATION	NUMBERS HELPED	AMOUNT OF HELP (£ per week) base on Nov 1982 benefit rates for
1 Disabled person's invalidity pension (earlier called "severe disablement allowance")	Disabled	22	+30 (plus more for start)	Bill	21,000 plus those on HNCIP or NCIP	£19.70
2 Minor bids fund	All	2	negligible	Regulations (Depends on items funded)	(Depends on Measures adopted)	
3 Extend war widows pension	Disabled	7	+6 for take- on +2 thereafter	Bill	8,000	£42.70
4 Attendance allowance for those in scheduled accommodation	Disabled	0.5-1	- 2	Regulations	Up to 1,000	£17.50 or £26.25
5 Prescribe Vibration White Finger	Disabled	0.5	+ 4 falling to 2	Regulations	500	Up to £53.60 depending on severity of injury
6 Increase Supp Ben and houseing benefit income disregards: (a) to £5/£25 (b) to £6/£30	All	(a) 13 (b) 23 55	+46 for take on +31 thereafter +86 for take on +62 thereafter	Regulations Regulations	210,000 SB 90,000 HB 215,000 SB 90,000 HB	Supp Benn - £1/£3) £2/£6)maxima HB - 70p) £1.40)maxima
7 Increase Supp Ben disregard for educational maintenance allowances	Family	0.7	None	Regulations	6,700 families	Up to £3
8 Invalidity benefit for councillors	Disabled	0.2	Negligible saving	Bill	300	Up to £31.45
9 Unfreeze pensions in Canada	Elderly	3	+ 5	Order in Council	46,000	Up to £32.85
10 Raise occupational pensions limit for unemployment benefit	Unemployed	4	+ 20 (D Emp)	Regulations	11,500	Up to £7

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(Continued Overleaf)

TABLE 1
(continued)

PROPOSALS (in suggested priority order)	CLIENT GROUP	FULL YEAR BENEFIT COST	STAFFING Cost + Saving -	NEED FOR LEGISLATION	NUMBERS HELPED	AMOUNT OF HELP (£ per week) base on Nov 1982 benefit rates for single person
11 (a) Long-term Supp Ben rate for unemployed with children. (b) Fallback: after 2 years on Supp	Unemployed	(a) 220	+410 for year 1	Regulations	395,000 (with 925,000) children)	£10.60
		<i>60</i> (b) 80	+140 thereafter +248 for year 1 +53 thereafter	Regulations	150,000 (with 350,000 children)	£10.60
12 (a) Invalid care allowance for married women (2) Fallback: disabled person over age (2) 60	Disabled [family]	(a) 60	+275	Bill	80,000	£19.70
		(b) 11	+ 50	Bill	14,000	£19.70
13 Restore 5% abatements (invalidity benefit, sickness benefit, maternity allowance).	Disabled	<i>304</i> 70	- 16	Uprating order	620,000 (for IVB)	£1.40 for IVB £1.10 for SB/MA
14 Child benefit for 19 year olds	Family	5	+ 10 or 11	Bill	42,000	£5.85
15 Double Supp Benn single payment disregard for couples	Elderly (and others)	1.8	+ 19	Regulations	26,000 more payments	Amount of single payments
16 Improve housing benefit takeup by up to 5% amongst low earners	Family	15	None (affects LAs)	None	41,000 earners 9,500 others	not known

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3. Decisions will also be needed on the 1983 uprating of benefits, but these are dealt with in Chapter 5.

Next steps

4. Secretary of State will wish to discuss the PES proposals and strategy with Ministerial colleagues and officials at an early stage.

Background

5. Social Security is the largest single programme of public expenditure consuming 29 per cent of the total and affecting over 20 million families and individuals at any one time.

6. The cost of the programme in the financial year 1983-84 is the order of £34 billion rising to about £38 billion in 1985-86; all but £1.5 billion (on administration) is benefit expenditure. A detailed analysis, from the 1983 Public Expenditure White Paper, is given in Table 2 at the end of this Chapter.

7. Benefits are either contributory ie paid out of the National Insurance Fund, mainly financed by contributions and determined according to the individual's contributions record; or non-contributory, ie paid from money voted by Parliament. Non-contributory benefits may be means-tested (eg supplementary benefit) or not (eg child benefit).

8. In 1983-84 contributory benefits will account for 58 per cent of expenditure and non-contributory benefits for 38 per cent. The largest single area of expenditure is retirement pensions, which account for about half of the total. A breakdown of expenditure of broad groups of beneficiaries and the average numbers of beneficiaries are shown at tables 3 and 4 at the end of this Chapter.

9. Benefit expenditure is not cash limited since payment must be made to all eligible claimants who take up their statutory entitlement.

TABLE 2

£ million cash

	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85 ⁽¹⁾	1985-86 ⁽¹⁾
Department of Health and Social Security									
Contributory benefits (ie those paid from the National Insurance Fund)									
12.1 Pension benefits									
<i>Retirement pensions:</i>									
<i>basic element</i> ⁽²⁾	6,613	7,552	8,813	10,533	12,107	13,503	14,561	15,400	16,400
<i>earnings-related component</i>			1	8	19	40	65	100	100
<i>Christmas bonus</i>			96	98	101	101	101	100	100
12.2 Widows' benefits									
<i>Contributory benefits for widows, etc</i> ⁽³⁾	466	505	563	638	691	737	787	800	900
12.3 Unemployment, incapacity and other benefits									
<i>Unemployed benefit</i>	629	632	653	1,280	1,702	1,650	1,850	1,800	1,900
<i>Sickness benefit</i> ⁽⁴⁾	647	696	655	654	680	642	270	300	300
<i>Invalidity benefit:</i>									
<i>basic element</i> ⁽²⁾	704	840	992	1,140	1,345	1,559	1,751	1,900	2,000
<i>earnings related component</i>			3	10	26	52	87	100	200
<i>Death grant</i>	15	16	16	16	17	17	17		
12.4 Industrial injuries benefits									
<i>Industrial disablement benefit</i>	191	216	244	282	315	340	364	400	400
<i>Industrial death benefit</i>	29	32	36	42	47	51	55	100	100
<i>Other industrial injuries benefits</i>	5	5	5	5	5	5	5		
12.5 Family benefits									
<i>Maternity allowance</i>	76	105	125	149	158	153	173	200	200
<i>Guardian's allowance and child's special allowance</i>	2	2	2	2	2	2	2		
Total contributory benefit expenditure	9,377	10,601	12,204	14,858	17,215	18,852	20,088	21,100	22,400
Non-contributory benefits (ie those met from Voted expenditure)									
12.6 Pension benefits									
<i>Non-contributory retirement pensions</i>	36	37	36	38	39	39	38		
<i>Christmas bonus</i>	98	101	5	5	5	5	5		
12.7 War pensions									
<i>All war pensions</i>	310	340	375	424	479	508	533	500	600
12.8 Disability benefits									
<i>Attendance allowance</i>	143	168	203	245	330	405	493	500	600
<i>Invalid care allowance</i>	3	4	4	5	6	8	9		
<i>Non-contributory invalidity pension</i>	44	69	85	108	126	142	158	200	200
<i>Mobility allowance</i>	20	47	79	125	173	237	286	300	400
12.9 Supplementary benefit ⁽⁵⁾									
<i>Supplementary pension</i>	665	801	895	1,079	1,417	1,408	725	800	800
<i>Supplementary allowance:</i>									
<i>long-term rate</i>	338	349	370	502	684	922	900	900	1,000
<i>short-term rate</i>	1,072	1,106	1,171	1,591	2,734	3,687	3,600	4,000	4,200
12.10 Family benefits									
<i>Child benefit</i>	868	1,776	2,787	2,944	3,372	3,704	3,916	4,100	4,200
<i>One parent benefit</i>	6	22	43	61	76	90	105	100	100
<i>Family income supplement</i>	25	24	27	42	66	92	106	100	100
<i>Maternity grant</i>	15	16	16	16	16	17	18		
12.11 Housing benefit ⁽⁶⁾									
<i>Rent rebate</i>	206	207	238	317	490	922	1,756	1,900	1,900
<i>Rent allowance</i>	39	38	40	48	64	73	329	300	400
Total non-contributory benefit expenditure	3,888	5,104	6,375	7,551	10,078	12,259	12,977	13,800	14,400
Adjustment ⁽⁷⁾							-180	-500	-600
Administration and miscellaneous services									
12.12 Administration and miscellaneous services ⁽⁸⁾									
<i>National Insurance Fund administration (collection of contributions and payment of contributory benefits)</i>									
	355	401	450	607	699	706	712	770	810
<i>DHSS non-contributory benefit administration (payment of non-contributory benefits)</i>									
	237	268	316	356	398	509	597	600	600
12.11 Housing benefit ⁽⁶⁾									
<i>Local authority administration</i>	25	27	32	39	45	54	70	70	70
Total Department of Health and Social Security	13,882	16,401	19,378	23,412	28,434	32,380	34,264	35,800	37,800
Department of Employment⁽⁹⁾									
12.12 Administration	35	36	39	46	77	94	130	140	150
Total programme	13,917	16,437	19,417	23,458	28,510	32,473	34,394	35,900	37,900

⁽¹⁾Benefit expenditure rounded to nearest 100 and administration costs to nearest 10.⁽²⁾Includes basic component, graduated pension and increments.⁽³⁾Includes unallocated provision for small items of expenditure.⁽⁴⁾Includes injury benefit 1977-78 to 1982-83.⁽⁵⁾Includes assistance with rent and rates 1977-78 to 1982-83.⁽⁶⁾Includes transfers from other programmes to reflect changes in assistance with housing costs.⁽⁷⁾This line reflects the Government's decision to adjust the public expenditure provision for the social security programme to take into account the fact that provision for the rise in prices in the benefit uprating in November 1982 was higher than the actual rise.⁽⁸⁾From 1 April 1983 departments will repay PSA for accommodation and certain other services, under the new Property Repayment Service. Prior to that date the relevant expenditure is comprised within programme 14.⁽⁹⁾Costs of paying supplementary benefit to the unemployed; the cost of paying unemployment benefit is included in National Insurance Fund administration.

TABLE 3

**Total benefit expenditure by broad groups of beneficiaries
(with the supplementary benefit and related housing benefit component of the total shown in brackets)**

	£ million cash						
	Elderly	Disabled people; long-term sick ⁽¹⁾	Short-term sick	Unemployed people	Widows and orphans	Family ⁽²⁾	Housing benefit not paid with supplementary benefit ⁽³⁾
1977-78	7,400 (665)	1,470 (145)	670 (20)	1,370 (740)	630 (10)	1,480 (495)	410
1978-79	8,480 (800)	1,730 (145)	720 (25)	1,330 (705)	690 (10)	2,510 (570)	410
1979-80	9,830 (895)	2,040 (170)	680 (25)	1,420 (765)	760 (10)	3,570 (570)	480
1980-81	11,750 (1,080)	2,410 (200)	690 (30)	2,470 (1,185)	850 (10)	3,870 (665)	630
1981-82	13,670 (1,415)	2,840 (200)	720 (40)	4,010 (2,300)	940 (15)	4,560 (865)	930
1982-83	15,300 (1,630)	3,370 (280)	700 (60)	4,910 (3,260)	1,010 (25)	5,300 (1,235)	1,060
1983-84	16,460 (1,705)	3,790 (280)	330 ⁽⁴⁾ (60)	5,660 (3,810)	1,080 (30)	5,730 (1,405)	1,120
1984-85	17,340 (1,760)	4,080 (300)	340 (65)	5,980 (4,170)	1,120 (35)	6,030 (1,540)	1,180
1985-86	18,440 (1,810)	4,330 (320)	350 (65)	6,260 (4,380)	1,170 (35)	6,300 (1,620)	1,230

⁽¹⁾ Includes specific benefits for disabled people, invalidity benefit (payable after 28 weeks incapacity), supplementary allowances paid on account of extended incapacity and associated Christmas bonus payments.

⁽²⁾ Includes child benefit, one parent benefit, family income supplement, maternity benefit and supplementary allowances paid to one parent families and to people looking after elderly parents. It does not reflect the value of the former child tax allowance in the years when this was applicable.

⁽³⁾ There is insufficient information available about recipients of this benefit, other than those also in receipt of supplementary benefit, to enable expenditure to be allocated to the main client groups. However, further information is being obtained and where possible will be allocated by beneficiary group in future years. Includes rate rebates, which are not public expenditure, as well as rent rebates and rent allowances.

⁽⁴⁾ Reflects the introduction of statutory sick pay.

TABLE 4

Estimated average numbers receiving the main benefits at any one time⁽¹⁾

	thousands									
	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	
Retirement pension	8,430	8,530	8,680	8,880	9,015	9,075	9,095	9,145	9,260	
Widows' benefits	505	495	490	475	460	445	440	435	425	
Unemployment benefit	620	570	550	960	1,220	1,200	1,260	1,180	1,170	
Sickness benefit	540	560	490	435	445	450	175	170	170	
Invalidity benefit	550	600	620	620	660	700	730	740	740	
Industrial disablement benefit	200	200	200	195	195	190	185	185	180	
Industrial death benefit	30	30	30	30	30	30	30	30	30	
Other industrial injury benefits	10	10	5	5	5	5	5	5	5	
Maternity allowance	90	100	115	120	125	130	135	145	150	
Guardian's allowance and child's special allowance	5	5	5	5	5	5	5	5	5	
Non-contributory retirement pension	75	65	55	50	50	45	40	35	30	
War pension	400	385	370	360	345	330	320	305	290	
Attendance allowance	255	265	285	315	350	390	440	470	485	
Invalid care allowance	5	5	5	5	5	5	10	10	10	
Non-contributory invalidity pension	115	150	165	175	180	185	190	190	195	
Mobility allowance	65	95	140	185	210	265	295	315	330	
Supplementary pension	1,720	1,745	1,720	1,695	1,740	1,730	1,510	1,485	1,460	
Supplementary allowance										
—long-term rate	335	350	350	390	450	510	515	530	550	
—short-term rate	1,010	925	850	1,025	1,535	1,815	1,930	2,010	2,020	
Child benefit ⁽²⁾	13,680	13,480	13,330	13,160	13,145	12,935	12,720	12,510	12,330	
One parent benefit	210	290	370	430	470	505	540	570	600	
Family income supplement	85	85	80	95	125	160	175	170	170	
Housing benefit										
—rent rebate	1,220	1,210	1,205	1,330	1,590	3,050	3,490	3,500	3,500	
—rent allowance	225	225	220	240	250	265	795	800	800	
—rate rebate	3,085	3,055	3,065	3,345	3,705	4,925	6,640	6,650	6,650	

⁽¹⁾ Beneficiaries may be receiving more than one benefit at any one time.

⁽²⁾ Numbers of qualifying children, including children qualifying for one parent benefit.

CHAPTER 5: SOCIAL SECURITY - 1983 UPDATING

Summary

1. Early decisions are required on the amount of the November 1983 updating of social security benefits. Under the provisions of the recent Social Security and Housing Benefits Act 1983, the minimum amount of the updating must be determined by the rate of inflation between May 1982 and May 1983 - using in practice, the May RPI figure published on 17 June.

The decisions required

2. It will be necessary to decide:
- a. the amount of the updating generally:
 - b. whether any particular benefits should have a different updating, (eg. mobility allowance or family income supplement)
 - c. other updating issues, ie the rate of the child dependency addition payable with short-term benefits; the level of the retirement pensions earnings rule; and a special boost in the Housing Benefits children's needs allowance.

Note that the child benefit and one parent benefit increases were announced in the Budget. It is assumed that the 11 per cent updating will go ahead as planned. Order books containing orders at the new rates are already being issued. Also, it was announced in the last Parliament that supplementary benefits would be updated by the May figure for the RPI less housing rather than the full RPI. This change in method was introduced last year when it saved money; it is expected to result in a higher updating of supplementary benefits this year than of the other benefits - 4.3 per cent instead of 3.6 per cent on latest expectations.

Reasons for urgency

3. Decisions are required urgently for three reasons:-

- * The May RPI will be published on 17 June and an immediate announcement about the uprating will be expected.
- * The uprating orders have to be presented to, debated and approved by both Houses of Parliament before the Summer Recess.
- * The operational task of implementing the uprating must begin by the end of June if beneficiaries are to receive the new rates on time.

Next step

4. Secretary of State may wish to discuss the outstanding uprating issues immediately with officials prior to an early meeting with the Chief Secretary. In the meantime the issues are expanded upon below.

Uprating of benefits

5. Not all benefits are required by law to be uprated but, in practice, the weekly benefits are generally uprated each year. The uprating of those benefits which are required to be increased is now governed by the Social Security and Housing Benefits Act 1983. They must be increased (as a minimum) in line with the rise in inflation between May and May, in practice the May RPI. Under arrangements introduced in 1982, the supplementary benefit uprating is based on the RPI excluding housing rather than the full RPI. A list of benefits covered by and of those excluded from the provisions of the 1983 Act is given in appendix A at the end of this Chapter.

6. Special provisions apply to the uprating of statutory sick pay (paid by employers for the first eight weeks of sickness) and housing benefits (administered by local authorities).

7. It is open to the government to uprate benefits by more than the statutory minimum. But in respect of the benefits covered by the 1983 Act, primary legislation would be needed to give less than the minimum or to defer the uprating beyond the end of November.

8. Each 1 per cent uprating of benefits costs about £300m in a full year, £105m in a part-year from November.

The amount of the uprating

9. The choice lies between:

- * an uprating based on the May RPI figure - expected to be about 3.6 per cent. This would be the statutory minimum, but it would be criticised because inflation is expected to be around or just below 6 per cent in November - a gap of up to 2.4 per cent. More particularly, assuming a 6 per cent inflation in November, it would result in a saving of some £250m in 1983-84 compared with the adjustment of £180m which the Government, during the last Parliament, originally intended to make in the 1983 uprating [although this takes no account of £120m Budget improvements.]
- * a higher uprating (4 or 4½ per cent) - this would be up to 0.65 per cent higher than the statutory minimum. 4½ per cent was the amount allowed for in the Budget Red Book as the then expected outturn of the May RPI and achieving planned savings of £180m. It would avoid accusations of making savings at the expense mainly of pensioners so soon after the Election. 4 per cent is the figure currently assumed in the revised PES baseline calculations. It would be no easy task to negotiate such an uprating - so far the proposal to give more than the May RPI figure has been unacceptable to other Ministerial colleagues.

Whether any particular benefits should have a different uprating

10. Two benefits were discussed with Treasury Ministers and officials in the closing stages of the last Parliament but no firm discussions were taken:

- * mobility allowance: during the last Parliament, increases higher than the RPI were given regularly. Transport costs are one factor in determining the uprating and the RPI (transport and vehicles component) is expected to rise by about 6.7 per cent in the year to May 1983. Moreover, pressure has been exerted by Motability for an uprating of not less than 6 per cent. An uprating of 5 per cent would compare favourably with an RPI figure of 3.6 per cent; the extra would cost about £3m in a full year (£1m in 1983-84).
- * family income supplement: The problem here will be that Treasury Ministers may aim to reduce the FIS uprating by the amount of the real increase in child benefit in an attempt to reduce the numbers in the poverty trap. Officials have sought to resist this approach. The main arguments are that low paid working families, in particular, need the full benefit of the child benefit improvement; that there would be only a modest effect on numbers and costs; and that the unemployment trap (the gap between incomes in and out of work) is more important - higher FIS helps with that.

Other uprating issues

11. There are three other issues:-

- * child dependency additions (CDAs) paid with the short-term benefit (mainly sickness and unemployment benefit). The choice lies between paying the existing 30p rate for another year (cost £1m in 1983-84, £2m in 1984-85), or to reduce it to a taken rate of 10p or 5p (cost £1m or £½m in total over the two years). A detailed note at Appendix B at the end of this Chapter. There is also a question of whether to take powers in the proposed 1983-84 Social Security Bill to abolish the short-term CDA (from November 1984) - see ch. 6 in the main brief.

* the level of the retirement pensions earnings rule. The Government restated, in its 1983 Manifesto, the intention to continue raising the limit and to abolish the earnings rule "as soon as we can". Provision is currently allowed for in PES for the rule to be phased out - beginning in November 1984 and ending in November 1985. The choices are to increase the present limit of £57 to:

(i) £59 - in line with the expected May RPI figure and allowed for in PES:

(ii) a rounded figure of £60 - at insignificant extra cost;

(iii) £80 - in line with the movement in earnings since November 1978 at a cost of about £5m in a full year, offset by some extra tax revenue.

A more detailed note is attached at Appendix C at the end of this Chapter.

* a special boost in the housing benefits children's needs allowance. There is a good case for giving an extra £1 on top of the normal uprating in November. It would help 700,000 low income working families with children who were among the losers in the new housing benefits scheme. The extra public expenditure costs would be £3.3m in 1983-84 and £9.6m in 1984-85. There is housing benefits money available from April 1984 which would meet the cost in 1984-85, and most of the cost in 1983-84. A detailed note is at Appendix D at the end of this Chapter.

APPENDIX A: BENEFITS COVERED BY THE SOCIAL SECURITY AND HOUSING
BENEFITS ACT 1983

unemployment benefit

sickness benefit

invalidity pension, invalidity allowance and non-contributory invalidity
pension

maternity allowance,

widow's allowance, widowed mother's allowance and widow's pension

retirement pensions, both contributory and non-contributory

invalid care allowance

attendance allowance

child's special allowance

guardian's allowance

increments in guaranteed minimum pensions

lesser incapacity allowance under the Workman's Compensation
(Supplementary) scheme 1982 and the allowance for partial
disablement under the Pneumoconiosis,

Byssinosis and Miscellaneous Diseases benefits scheme 1983
industrial injury disablement pension and industrial widow's pension.
dependency additions payable with any of the above benefits.

public services pension (see sections 58 & 59A of the Social Security
Pensions Act 1975)*

needs allowance for Housing Benefit*

(*indirectly by associated legislation)

BENEFITS NOT COVERED BY THE SSHB ACT 1983 BUT WHICH CAN BE UPDATED IN THE
SAME OR A DIFFERENT WAY

child benefit,

one parent benefit,

war pension,

family income supplement,

mobility allowance,

supplementary benefit.

[Note: some such as Death Grant and Maternity Grant benefits are not
regularly updated].

APPENDIX B: CHILD DEPENDENCY ADDITIONS (CDAs)

1. Legal advice is that, even though the amount of the 1983 increase in child benefit is sufficient to produce a nil rate of CDA payable with short-term benefits under the uprating formula employed in recent years, such a change (effectively abolishing these CDAs) cannot be made under the existing legislation. Thus an amount of CDA should be payable from November 1983 for which there is no provision in PES.

2. The options are:-

- * leave the present rate of 30p in payment for another year
This would cost £3m in benefit expenditure (about £1m in 1983/84 and £2m in 1984/85 up to November 1984). It would be uncontroversial, but it would represent a departure from the uprating policy applied in recent years.

- * provide, by the Uprating Order, for a token rate of, say, 10p or 5p
A rate of 10p would cost £1m in benefit expenditure; 5p would cost £½m. Either rate would attract criticism and would be disproportionately expensive to administer. The staff cost of paying the CDAs, whether at 30p, 10p or 5p would be the same.

3. Whichever option is chosen, Ministers are likely to be asked what their future intentions are, since the pressure groups will expect this year's large increase in child benefit to lead to the abolition of CDAs. It would be simpler to say now that the aim is to abolish CDAs at the 1984 uprating but Ministers may prefer to say no more than that the position will be reviewed then.

4. It is expected that the Social Security Bill 1983-84 will provide powers to abolish the CDAs from November 1984. (See ch. 6 in the main brief) Abolition will save 40 DHSS staff (and 50 in DE).

APPENDIX C: RETIREMENT PENSIONS EARNINGS RULE

General background

1. The 1979 Conservative Manifesto promised to abolish the RP earnings rule during the lifetime of the Parliament. This was not, in the event, achieved. The new Manifesto commitment is to abolish the RP earnings rule "as soon as we can". During the Government's last period of office, the earnings limit was increased from £45 to £57. The limit was frozen at £52 in 1980 and 1981. If the limit inherited in 1979 had been increased in line with prices, the November 1982 level would have been £72 instead of £57. If increased in line with earnings since November 1978, the November 1982 level would have been £75.
2. PES provision has been taken for the rule to be phased-out beginning in November 1984 and ending in November 1985. Complete abolition of the rule will save about 190 DHSS staff.

This year's uprating

3. While earnings forecasts were being produced for the uprating of benefits, the earnings rule was uprated in line with earnings. With the change to uprating by prices only, the earnings forecasts were no longer done and the uprating was done by prices. Now, however, that the uprating is to be on a historic basis, either method could be used.
4. A prices uprating of 4% would produce an increase of £2 to £59 for which there is provision in PES. An earnings uprating of 6½% would produce an increase of £4 to £61. (The roundings explain the difference of £2). A round sum of £60, at insignificant cost, would represent an increase of exactly one-third on the 1978 level inherited by the Government.
5. An uprating which aimed to restore the value of the £45 inherited level in line with earnings since November 1978 would require a level of £80. The extra public expenditure cost of moving from £59 to £80 would be around £5m in a full year, offset by some additional tax revenue etc.

6. The main beneficiaries from abolition would be some 100,000 people over pension age and still continuing in full time or other highly paid work. These people would be left free to draw full pension on top of their earnings - though at the expense of the increments they could otherwise have earned. A further 4,000 to 5,000 people whose pensions are currently being modified through the rule would be able to get their pension in full. Other pensioners would be free to increase their earnings or take up a job and it has been estimated that this would remove the equivalent of 10,000 full-time jobs from the jobs market.

APPENDIX D: HOUSING BENEFIT - CHILDREN'S NEEDS ALLOWANCE (CNA)

Case for an increase

1. A pre-Budget bid to give a boost of £1 on top of the normal uprating of the CNA from November 1983 was not settled in time to be included in the announcement of the Budget package.
2. This improvement is a high priority for DHSS Ministers. It would help 700,000 families with children, would improve incentives to seek and retain work, and would also help redress the losses experienced by some earners at the start of the new housing benefits scheme.
3. The case for an increase in CNA has been strengthened by the real increase of 40p+ in child benefit in the 1983 uprating. A corresponding increase of 40p in the CNA is required if low-paid families on housing benefit are to receive the full benefit of the increase in child benefit. The effect otherwise would be to reduce the favourable impact of the Budget on work incentives for low wage earners.
4. An increase of £1 in CNA is not actually worth that amount in weekly entitlement. Because of the effect of the income tapers, its value to a rent and rates rebate recipient would be 28 pence if income is above the needs allowance, and 33 pence if income is below that level. The position is further complicated by the interaction with the real increase in Child Benefit, and the combined effect of the two changes improves income by between 44p and 60p a week.
5. The effect on the number of families receiving housing benefit would be:
 - * 34,000 more recipients if real increase of £1 in the CNA;
 - * 10,000 fewer recipients if no real increase in the CNA.

Footnote

+The child benefit uprating will be to £6.50. Had the uprating been 4% or 4.25% only, the increase would have been to £6.10 only.

Financial implications

6. The additional public expenditure arising from an increase of £1 in CNA, would be £3.3m in 1983-84 and £9.6m in 1984-85.
7. The overall financial effect, incorporating rate rebate costs, which are not classed as public expenditure, are shown in the table on the next page.
8. The costs from 1984-85 could be met from savings which accrue from the end of 1983-84 when the present transitional housing benefit arrangements expire. Some resources are available to meet the costs for 1983-84 - there is an unallocated public expenditure saving of about £1.5m in 1983-84 (and £5m from 1984-85) as a result of the change to an uprating method based on the movement of housing costs in Great Britain rather than, as in the past, in England and Wales. Moreover the balance of annual savings of about £9.4m, arising in 1984-85 after deducting the cost of increasing CNAs, would not be allocated before November 1984. In other words, savings of £6.1m would remain unspent for that year. This more than covers the unmet balance of the cost of CNAs in 1983-84.

HOUSING BENEFIT COSTS & SAVINGS (£m)

	Cost of £1 increase in CNA	Savings from HB package	Unallocated savings	Cost of improvements from Nov.1984	Balance of unallocated savings
1983-84 (PE)	3.3	2	2	-	-
1983-84 (overall*)	4.9	0.5	0.5	-	-
1984-85 (PE)	9.6	19	9.4	3.3	6.1
1984-85 (overall*)	14.1	24	9.9	3.5	6.4

* including costs and savings on rate rebates.

NHS PAY

CHAPTER 6: NHS PAY - INTRODUCTION

The Issues

1. The settlement of the 1982 Health Service pay dispute included commitments:
 - a. To establish a new review body covering nursing and midwifery staff, health visitors and professions allied to medicine (such as physiotherapy and radiography). Proposals were set out in a consultation document in February this year and comments received in April.
 - b. To enter into discussions about improved pay determination arrangements for NHS staff not covered by review bodies (about 50% of the total). These discussions have not yet begun.

Background

2. Government will wish to retain a firm control of expenditure on NHS pay. The precise arrangements will need to be considered in the context of the above commitment. The problem, essentially, is that Government decisions on public expenditure are necessarily taken in advance - sometimes well in advance - of the financial year concerned. Yet the review body recommendations will not be received until May 1984 and will take effect from 1 April (in common with the settlements of staff who are not covered by review bodies). If the review body recommendations exceed the provision made by Government for pay increases in the NHS cash limit, Ministers will need to decide whether to cut back the award or to provide additional funds. There are two possible sources - the Contingency Reserve (depending on the size and purpose of the Reserve) and the NHS budget (where additional expenditure on pay would be at the expense of service development).
3. Henceforth, the unions may be reluctant to reach settlements by negotiation (for the staff who are not covered by review bodies) until they have seen the outcome for the review body groups. Whether or not this is the case Ministers will wish to treat all staff equitably (but not

necessarily equally). Accordingly in deciding whether to accept review body recommendations Ministers will need to consider whether the recommendations are within the provision made for pay in the NHS cash limit, the feasibility and desirability of funding any excess from the Contingency Reserve or from the cash limit, and the implications for the pay of other NHS staff (as well as for other public and private sector negotiations).

Timetable

4. The discussions on NHS pay machinery are urgent. The intention is to establish the review body in time to produce its first report by April 1984. This means that the issues of principle such as the groups of staff to be covered and its composition - in particular the Chairman - should be settled and announced before the Summer Recess. In addition the Royal College of Nursing had asked for a meeting with the Prime Minister and a meeting was arranged before the election intervened. Talks on pay arrangements for other staff do not have a fixed timetable but the TUC has asked for exploratory discussions with officials which cannot be refused. Officials need guidance from Ministers on the conduct of those discussions.

Action

5. Ministers will want to discuss the issues arising on future NHS pay arrangements and consider the arrangements for clearance with colleagues. Chapters 7 and 8 expand on the issues and options. A draft letter to colleagues on each issue will be prepared in preparation for meetings with Ministers.

CHAPTER 7: NURSES AND MIDWIVES REVIEW BODY

Background

1. The offer of a review body for nursing and midwifery staff and the professions allied to medicine formed part of the understanding upon which the 1982 NHS dispute was settled. Proposals were set out in a consultation document in February of this year, and comments received by April.
2. The main issues arising and considerations involved are these:-
 - a. The proposal is for a single review body covering all these professions. The Royal College of Nursing (RCN) have argued for the exclusion of nursing auxiliaries. This was the reason for their request for a meeting with the PM. The TUC-affiliated bodies and most others have argued for their inclusion, on the grounds that there was a commitment to their inclusion at the time the NHS dispute was settled. We agree that there is such a commitment.
 - b. Most staff bodies have argued for two review bodies, to enable the nursing and professions allied to medicine groups to be looked at separately. The point can be met by asking the review body to report separately on the two broad groups.
 - c. The proposals envisage replacing the two Whitley Councils concerned by direct Departmental negotiations on terms and conditions of service, with close support from NHS management. Most management and many staff interests oppose this change. The need for direct Departmental involvement lies in better co-ordination with the review body's consideration of pay, and greater Government control. Staff Side opposition to the change is not thought likely to be a sticking-point.

- d. Comparable questions arise on evidence to the review body. It is envisaged that the Department would be in the lead in submitting management evidence.
- e. In general the proposals envisage that arrangements for the new review body would follow those for the Doctors and Dentists Review Body (DDRB), underpinned by a common secretariat (the Office of Manpower Economics) and some common membership with the DDRB and Armed Forces Pay Review Body. The British Medical Association (BMA) and British Dental Association (BDA) alone have argued against this general approach, fearing that it may undermine the DDRB's position.
- f. A Chairman and up to 7 members will be needed. The DDRB analogy suggests that these will need to be of some eminence, and the proposal is that they should be visibly independent. Some staff interests have suggested that a proportion should be their nominees, and individual associations have suggested some names, but mostly the point about independence is taken.
- g. The proposal is that Government should accept the review body's recommendations in full unless there are clear and compelling reasons not to do so. Absolute commitment and/or further definition have been sought.
- h. Some staff groups not covered have sought inclusion, notably scientists and chaplains. A wider question concerns future pay arrangements for other staff groups (see chapter 8).
3. Once DHSS Ministers have decided how they want to proceed on the points of principle, clearance with colleagues will be needed - by correspondence may suffice. The Prime Minister, to whom the review body would report, would need to approve the arrangements, and the membership. A Parliamentary announcement, by Statement or arranged PQ, would be needed. Because of the need to get the review body established in time to

produce its first report by April 1984, it may be necessary for the announcement to cover only decisions of principle and the name of the Chairman, if full membership could not be settled in time. Realistically this stage must be reached at the very latest before the House rises for the Summer recess.

4. No legislative changes are involved, though the Department would need to agree the ground rules, including the reduced NHS management involvement and Whitley changes, with Staff and Management interests and with the review body secretariat.

CHAPTER 8: PAY DETERMINATION FOR OTHER NHS STAFF

Previous and present arrangements

1. Before 1979, NHS pay was, with the exception of that of doctors and nurses, largely determined by links at key points in the NHS pay structure with the pay of other staff groups, chiefly in local government and the civil service. This was abandoned in 1979, largely because it gave little or no recognition to the availability of financial resources (ability to pay) or to market forces (eg ability to recruit and retain staff).

2. Since 1979, NHS pay increases have been determined largely by the cash limit system, and in at least two years have been significantly below the level of inflation and the pay increases secured by staff in other parts of the public services. This has led to dissatisfaction on the part of NHS staff, and also to rigidity in pay settlement, which has been a source of dissatisfaction to NHS management. The Government has recognised (eg in evidence to the Megaw Inquiry on Civil Service pay) the difficulties involved in this type of arrangement.

3. Dissatisfaction on the part of staff interests led to the prolonged pay dispute of 1982. The Government's commitment to talks about pay determination arrangements was given in an attempt to avoid a repetition of such disruption and was complementary to the establishment of a new review body for nurses and the professions allied to medicine (see chapter 7).

Future arrangements

4. Given that systems based on:

- third-party judgement (review body or arbitration); or
- totally free collective bargaining; or

- guided collective bargaining (ie on the basis of systematically collected data).

are not favoured by the Government, the main substantive issue for decision is whether to contemplate moving to a system of constrained collective bargaining on the general lines of Megaw. It is doubtful whether the trade unions would regard such arrangements as adequately meeting their aspirations.

5. Prolonged delay in opening discussions will be represented by the trade unions as a failure to fulfil the Government's undertaking and carries substantial risks of industrial unrest during 1984; at the very least it will jeopardise the search for greater efficiency (lower unit costs) by alienating both management and staff.
6. It can be argued, however, that by setting up a review body for nurses, the Government has dealt with the main pay anomalies (nurses and allied professions with no comparators outside the NHS) and pacified the most powerful staff group. All that is required for the other groups is some minor refinement of the present system.
7. This alternative of minor refinement of the present system would be seen by the trade unions as a breach of faith and as not meeting the Government's commitment. But, if it gave Management Sides more negotiating flexibility (eg by obscuring the pay factor or introducing virement between cash limits and contingency funds) it would have certain attractions for NHS management (though they would probably tend to share the trade unions' view about bad faith).
8. Other issues, organisational and procedural, which will arise include:
 - a. NHS input into questions of the use of overall resources.
 - b. Changes in the Whitley structure, if only to react to the effect of setting up the new review body.

- c. Improvements in the quality and effectiveness of Management Sides.
- d. If a Megaw-type system is set up, establishing a procedure for collecting data to determine the negotiating parameters and for evaluating the factors (market forces, recruitment, job security etc) to be introduced into negotiations.

Immediate action

9. There have been preliminary collective discussions about what the Government's stance should be in the discussions with the Trade Unions, but no final conclusions had been reached before the general election. The TUC has now asked for informal exploratory discussions at official level. This request cannot be refused, and such exploratory discussions may indeed be useful in helping Ministers to determine the substantive issue of what changes in NHS pay determination arrangements might be acceptable to them.

10. The immediate issue, which is likely to need collective discussion or correspondence, is what instructions should be given to officials preliminary to talks with the TUC. Collective discussion of the substantive matters would follow at a somewhat later stage.

Procedure and Timing

11. A draft letter to colleagues about the official discussions will be available immediately after the general election. It should be sent as soon as possible. Nearly six months have elapsed since the December pay settlement. Pressures from NHS management are growing and there are signs that proposals for systems of pay determination which may be unacceptable to Government are gaining more currency than is desirable. Moreover, although pressure from the TUC for progress to be made has not been as great as might have been expected, continued apparent inaction is bound to be used against the Government, and there is a particular danger of accusations that the undertaking to enter into discussions was not given in good faith.



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

PRIME MINISTER

PUBLIC EXPENDITURE IN 1983-84

.. Following our talk at Chequers on Saturday, I have prepared the attached paper for circulation to Cabinet colleagues tomorrow morning in the new restricted CMO series. As agreed, the key proposals now are for a 2 per cent reduction in non-pay cash limits, and a 1 per cent reduction in the pay limits, together with the introduction of the end-year flexibility scheme. Please let me know if you would like any further changes.

2. Peter Middleton proposes to brief key Permanent Secretaries on Wednesday morning. I think that this would be useful; though it obviously does not remove the need for me to see a number of colleagues privately before Thursday.

3. The right time to announce these decisions, assuming they go through, would I think be at Question Time on Thursday afternoon, when it is the Treasury's turn. I should like to avoid making a Statement as such, but I plan to talk to John Biffen about this tomorrow.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.

4 July 1983

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C(83)21

COPY NO

5 July 1983

CABINETPUBLIC EXPENDITURE IN 1983-84Memorandum by the Chancellor of the Exchequer
.....

Overall, public expenditure this year is running substantially ahead of the figures agreed by Cabinet and published in the February White Paper (Cmnd 8789).

2. The surge in expenditure which began late in 1982-83 has continued unabated. Demand related programmes - particularly agricultural support and social security benefits - are growing very rapidly. Local authority current expenditure and nationalised industry borrowing are also likely to be higher than envisaged. The EC Budget refund agreed at Stuttgart was £300 million lower than the White Paper figure. In the light of the 1982-83 outturn, we are also expecting some £600 million less shortfall - about £300 million of it on defence votes, and the rest spread across the field - in cash limited expenditure than the £1200 million which was assumed in the White Paper.

3. The rapid growth in expenditure is reflected in very high rates of public borrowing so far this year. The monthly figures for central government borrowing have caused concern in the markets, and the quarterly figures to be published this month are likely to increase it. The first quarter CGBR figure, due on 11 July, is likely to be some £5,400 million, which is £2,000 million more than the comparable figure last year, and very nearly half the figure envisaged at Budget time for the year as a whole. If it were thought that we were willing to see expenditure and borrowing on this scale continue unchecked, confidence would suffer, and interest rates would be ^{high} ~~pushed up~~ damaging the private sector and the prospects for recovery.

4. We must not allow this to happen. We need to do what we can to step up the disposals programme; and this is already in hand. But that alone will not be sufficient. We also need to tackle the spending surge at source, and bring this year's expenditure totals closer to the Cmnd 8789 path.

5. I emphasise that I am not asking for cuts in published expenditure totals this year: the aim is simply to get back closer to the White Paper totals. It makes sense to consider the problem immediately in order to give the maximum amount of time in which to make the necessary adjustments.

6. The first and most obvious step is to try to curb the increases on non-cash-limited demand-determined expenditure. I should be grateful if those colleagues concerned would explore all appropriate available options.

7. Realistically, however, we cannot expect to achieve a great deal by that route. To get back on course we shall have to take action on cash limits.

8. ^{I believe some} There is ~~in fact~~ room for such action, ^{particularly on the non-pay} ~~side~~ ^{more slowly} because prices this year are in general rising ~~slower~~ than was ^{as expected} expected when departments drew up their plans. On the pay side we need to take account of the pressure resulting from our decision earlier in the year to finance the non-industrial civil service pay increase from ^{Subst. Rate Support Grant} the original provision.

9. I therefore propose a reduction of 1 per cent on the 'pay' element and of 2 per cent on the non-pay element of all central government cash limits. The 'pay' element would include general administrative expenditure (gae). I propose excluding Rate Support Grant, because it is very doubtful whether cuts would actually lead Local Authorities to reduce their current expenditure, and Local Authority capital expenditure.

10. It would not be right to exempt the nationalised industry External Financing Limits, for nationalised industry borrowing is a substantial component of the current surge. I therefore propose a 2 per cent cut in the provision for total EFLs, to be allocated in proportion to turn-over.

11. If Cabinet agrees, the Treasury will agree with Departments a detailed list of the cash limits affected. The savings would be in the range £650-£700 million gross, or around £500 million net of some further reduction in shortfall.

12. At the same time, and to discourage a repetition of last year's end-year surge, I also propose to introduce a scheme of end-year flexibility as outlined by the previous Chief Secretary in C(82)29. (Individual Local Authorities already have a measure of end-year flexibility, and so would not be included.) There would be considerable managerial advantage in such a scheme, and spending Departments have been pressing for it. It would mean that spending in this financial year would be reduced, by perhaps a further £100 million (though pressure next year would of course be increased).

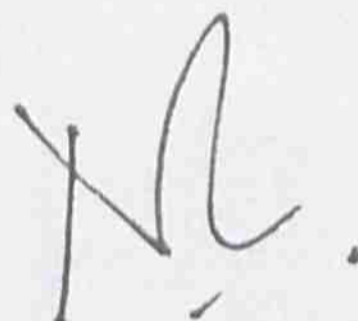
13. The present problem arises in part because it has proved so difficult to provide reliable forecasts of rates of spending. This is a problem throughout the year, but it especially acute towards the year-end, as Departments seek to spend up to their cash limits. There have also been severe problems over forecasting demand-related expenditure. I therefore seek the co-operation of spending Ministers in improving the financial information flows from their departments to the Treasury during and particularly at the end of the financial year. Detailed proposals will be made at official level shortly.

in order to get down to the Public Expenditure published limits

14. To sum up, I propose:-

- a. consideration by the Departments concerned of possible ways of slowing the increase in demand-determined non-cash limited spending;
- b. a reduction of 2 per cent in the non-pay element of central government cash limits - to yield around £350 million in 1983-84;
- c. a reduction of 1 per cent in the pay (and gae) elements, yielding perhaps £100 million net;

- d. a reduction of 2 per cent in nationalised industry EFLs, allocated in proportion to turn-over;
- e. the introduction of a scheme of end-year flexibility on central government capital expenditure at the end of 1983-84, which should take the saving this year to around £600 million;
- f. that all spending Ministers should cooperate in improving information flows to the Treasury about the course of expenditure during the year.

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N L

HM Treasury

5 July 1983

SECRET



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10 DOWNING STREET

From the Private Secretary

4 July, 1983

PUBLIC EXPENDITURE - THE 1983 SURVEY AND THE LONGER TERM

The Prime Minister was grateful for the Chief Secretary's minute of 27 June, giving her an early indication of the approach the Chief Secretary has in mind for this year's public expenditure exercise.

The Prime Minister has agreed that a paper by the Chief Secretary on public expenditure should be circulated for the 21 July Cabinet. She will be grateful for an early sight of the draft. The Prime Minister has indicated that particular care will be needed over the handling of the section which explains in broad terms the implications for taxation at the end of the decade of current trends in expenditure (paragraph 3, page 2 of the minute).

I am sending a copy of this letter to John Kerr (HM Treasury) and to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

J. Gieve, Esq.,
Chief Secretary's Office
HM Treasury

SECRET

①

PRIME MINISTER

PUBLIC EXPENDITURE 1983/84

You have an hour tomorrow morning to look at the Chancellor's draft paper if you need the time (at 1045 am).

The only points which occur to me are

i) that the paper is a little short on advocacy. Shouldn't there be a sentence or two towards the end, in which the Chancellor says that he does not underestimate the political difficulty the Government will face in announcing these reduced cash limits at this time; but that sound finance and competent administration must come first?

ii) the first sentence in paragraph 8, which says that there is room for reductions in expenditure programmes is provocative and will be hotly contested by spending Ministers. The point about prices rising slower than expected is a good one but needs to be included non-provocatively;

iii) The reference to pay in the second sentence of paragraph 8 is too defensive. It might better read "Nor can we exempt pay cash limits from the search for economies - notwithstanding the pressure there is already in this area following our decision to finance the Civil Service 4.86% pay increase from the original 3.5% provision."

(iv) Would it not cause an unnecessary row in the House to announce what will be a highly controversial decision at Question Time, rather than by a statement?

4 July 1983

MCS

I have to report to Cabinet that public borrowing is running at a very high level, principally because public expenditure is so far substantially above the figures agreed by the Cabinet and published in the February White Paper. The CGBR for the first quarter, published on 11 July, is likely to be some £5,400 million, which is £2,000 million more than the comparable figure last year and very nearly half the figure forecast at Budget time for the year as a whole. Unless we take steps to off-set this surge in expenditure and borrowing, confidence will suffer and interest rates will rise. This would damage the private sector and the prospects for recovery.

The most rapid growth is in expenditure and agricultural support and social security benefits, which are demand related and difficult to control. Local authority current expenditure and nationalised industry borrowing also look like being higher than envisaged; and judging by experience at the end of last year, I now expect that under-spending on cash limited expenditure may be some £600 million less than expected at Budget time, of which about £300 million would be on defence votes.



Treasury Chambers, Parliament Street, SW1P 3AG
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MMS 5/7

PRIME MINISTER

PUBLIC EXPENDITURE IN 1983-84

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N.L.

N.L.

4 July 1983

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C(83)21

COPY NO

5 July 1983

CABINET

PUBLIC EXPENDITURE IN 1983-84

Memorandum by the Chancellor of the Exchequer

Overall, public expenditure this year is running substantially ahead of the figures agreed by Cabinet and published in the February White Paper (Cmnd 8789). *If we do not see interest rates will rise unless we take steps will about the recovery spending for jobs.*

2. The surge in expenditure which began late in 1982-83 has continued unabated. Demand related programmes - particularly agricultural support and social security benefits - are growing very rapidly. Local authority current expenditure and nationalised industry borrowing are also likely to be higher than envisaged. The EC Budget refund agreed at Stuttgart was £300 million lower than the White Paper figure. In the light of the 1982-83 outturn, we are also expecting some £600 million less shortfall - about £300 million of it on defence votes, and the rest spread across the field - in cash limited expenditure than the £1200 million which was assumed in the White Paper.

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4. We must not allow this to happen. We need to do what we can to step up the disposals programme; and this is already in hand. But that alone will not be sufficient. We also need to tackle the spending surge at source, and bring this year's expenditure totals closer to the Cmnd 8789 path.

5. I emphasise that I am not asking for cuts in published expenditure totals this year: the aim is simply to get back closer to the White Paper totals. It makes sense to consider the problem immediately in order to give the maximum amount of time in which to make the necessary adjustments.

6. The first and most obvious step is to try to curb the increases on non-cash-limited demand-determined expenditure. I should be grateful if those colleagues concerned would explore all appropriate available options.

7. Realistically, however, we cannot expect to achieve a great deal by that route. To get back on course we shall have to take action on cash limits.

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11. If Cabinet agrees, the Treasury will agree with Departments a detailed list of the cash limits affected. The savings would be in the range £650-£700 million gross, or around £500 million net of some further reduction in shortfall.

12. At the same time, and to discourage a repetition of last year's end-year surge, I also propose to introduce a scheme of end-year flexibility as outlined by the previous Chief Secretary in C(82)29. (Individual Local Authorities already have a measure of end-year flexibility, and so would not be included.) There would be considerable managerial advantage in such a scheme, and spending Departments have been pressing for it. It would mean that spending in this financial year would be reduced, by perhaps a further £100 million (though pressure next year would of course be increased).

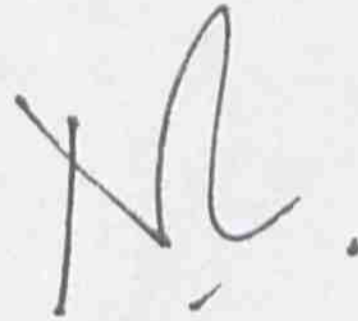
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in order to get down to the Public Expenditure published totals

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A handwritten signature in dark ink, consisting of stylized initials 'NL' followed by a period.

N L

HM Treasury
5 July 1983

PUBLIC EXPENDITURE

It is now clear that public expenditure is running at a significantly higher level than is consistent with the 1983-84 planning total of £119.6 billion announced in the Public Expenditure White Paper (Cmnd 8789) presented by the then Chancellor on 1 February. Some adjustment is clearly needed; and I have therefore decided that immediate action must be taken to bring about savings that will bring total spending closer to the planned path. It is both more efficient in terms of departmental management of programmes, and more effective, to take this action straightaway.

2. Accordingly, the cash limits for the current year will be reduced. The effect of ~~the reduction~~ will be a 1 per cent ^{reduction} ~~cut~~ in respect of the pay and central government administrative element, and a 2 per cent ^{reduction in} ~~cut for~~ the remainder. The new cash limit figures will be announced as soon as possible.

3. The total provision for the External Financing Limits of the nationalised industries will similarly be reduced by 2 per cent. This reduction will be allocated in proportion to their turnover.
4. The effect of these measures will be to remove at least £500 million of over-~~shoot~~^{spending} beyond the planned ~~spending~~ total.
5. In addition, the programme of asset sales during the current year will be increased by a further £500 million.
6. Finally, I am also taking the opportunity to introduce some improvements in expenditure control. In particular, a scheme of end-year cash limits flexibility will be introduced. This will permit some carry-forward of underspend on central Government capital programmes. Such a change has of course long been advocated by departments, such as Defence, with substantial capital programmes involving expenditure stretching over a number of years. The change, I believe, is fully justified on managerial grounds, but introducing it as from this financial year should in

practice, by reducing the end-year surge, reduce expenditure in the current year by some £100 million: the effects in future years will be taken into account in the forthcoming Public Expenditure Survey. I am satisfied that Parliamentary control of expenditure will not be diminished.

7. The overall effect of the savings and other measures which I have announced will be to reduce this year's likely public expenditure outturn by over £1 billion. They do not imply any ~~cuts~~^{reductions} in the total, as published in the February White Paper: rather they are designed to bring spending closer to the course laid down in my predecessor's White Paper.

8 I told the House on 29 June that, in order to maintain the right balance between public borrowing and interest rates, we intended to maintain firm control of public spending.

I also made clear my determination to take action should our objectives be endangered. Our economic strategy has brought

about low inflation and a quickening recovery. We are determined to ensure that unplanned overspending does not deflect our course, and put the recovery at risk.

SECRET

→ AUC AR 4/7
to see
MCS 4/7

1 July 1983
Policy Unit

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PRIME MINISTER

DEFENCE AND PUBLIC EXPENDITURE

The Chancellor's paper on The 1983 Survey and The Longer Term leads, I think, to one overwhelming conclusion: that the prime candidate for reduction in expenditure, this year and for the foreseeable future, must be Defence. The overruns are bigger; the commitment up to 1985/86 is larger; the control of expenditure feebler; and the lack of collective discussion the most painfully felt.

All these defects are obvious in the way Michael Heseltine has presented the Harm/Alarm decision. You will not need the arguments rehearsed yet again. But there is no other area of Government expenditure where £150 million could be so easily saved and performance of the function actually improved. I know of your concern to keep high technology teams together and keep Britain in the forefront of that technology, but so long as defence is the most obvious "soft touch" in the public sector:

- (i) Our research effort will continue to be over-concentrated on Defence, to the detriment of our ability to compete in all other industries.
- (ii) The commercial aspects will continue to predominate over military priorities. I understand that not only the military, but also the officials in the MOD were united, almost to a man, in preferring Harm until compelled by departmental loyalty to fall in line.
- (iii) The MOD will continue to keep these issues in-house and try to avoid thorough collective discussion as far as possible, because they know how weak their case is.

There are other reasons for preferring Harm to Alarm, eg the difficulty of persuading the Americans to buy our advanced military hardware if we refuse to buy theirs, when it is evidently cheaper and superior. But I think the most crucial one for the future of this Government is that, at the outset of the second term, with all the public expenditure difficulties which we now face, we should show that we mean business in controlling expenditure in the Department where the need is greatest.

FERDINAND MOUNT

fm

SECRET

MR. SCHOLAR

PUBLIC EXPENDITURE CORRECTIVE ACTION
CHANCELLOR'S MEMORANDUM OF 29 JUNE

The Chancellor's analysis is, in my view, correct. Although there is great uncertainty about the actual outcome, I would be astonished if we do not get a substantial overrun on the PSBR. And this has been mainly generated on the expenditure side. So the corrective action must be concentrated here.

My only reservation is whether the 2% reduction in cash limits is sufficient. Raising £300-£500 million when there is an expected overrun of about £3 billion does not look a very convincing response to the situation. Indeed the upper limit of £500 million savings does not cover the £600 million overrun on cash limited central government expenditure.

It would be wise to consider trying a higher figure of 3% reduction in cash limits. This would have the advantage of offsetting the estimated overrun on expenditure. Furthermore as we get into the stride of recovery, any reduction in central government expenditure will tend to be matched by private sector expansion.

Prime Minister



ALAN WALTERS
1 July 1983

① Would it not be better to go for 2% across the board, including pay? Why should pay be let off, the private sector might ask? Departments should squeeze everywhere they can.

② Presentation. Rather than have 'July measures' or revisions to cash limits couldn't we say that, just as expenditure fell short last

autumn so we turned the tap wider especially on capital,
so now it is running ahead too fast, so we ask Departments
to reduce all their spending, month-by-month, for, say,
the next 4 months?

(3) Our aim should be to go for current rather
than capital — that also argues for not excluding pay.

(4) Please see, too, Robini's note.

MCS 1/7

PRIME MINISTERPUBLIC EXPENDITURE 1983-84 : CORRECTIVE ACTION

I have a few thoughts on the Chancellor's paper of 29 June.

It seems to me entirely defensible for the Government to take some good housekeeping measures to moderate spending if total public expenditure looks like exceeding the plan. This could be done in quite a low key way, without being presented as "July measures".

I think that it would be a mistake to limit the action to non-pay expenditure, since this would once again amount to stopping expenditure which goes to the benefit of the private sector without taking any action on the Government's own salaries and administrative expenditure. I suggest taking action on all cash limited expenditure, but excluding some departments whose expenditure is only pay and who are under pressure because of the Civil Service pay settlement.

I hope that, in order to defer some expenditure from this year, the Government will not introduce end-year flexibility. Such a scheme not only increases total spending (since departments add to next year money which they would have otherwise lost) but weakens public expenditure control by making annual limits elastic. Such a scheme will certainly be welcomed by the spending departments, but should be opposed by the Treasury and all who give priority to firm controls on expenditure. It would be better to say that any savings which a department can make, after reducing its cash limited expenditure by 2 per cent, would be added on to next year - as an ad hoc incentive to saving this year and not as a general scheme of end-year flexibility.

The Chancellor's paper says that some of the excess arises on the nationalised industries, but does not suggest any action in that area. Can nothing really be done?

SECRET

- 2 -

We need to think about handling in Cabinet. The Cabinet cannot be expected to agree immediately to proposals which are put to them on Thursday and on which they have not had advice. One possibility would be to make proposals orally on Thursday and have a further discussion of them in a subsequent meeting: the trouble about this is that the proposals would leak in the mean time and the resistance would build up. It is worth considering whether Mr Middleton or Sir Robert Armstrong should call in the Permanent Secretaries on Tuesday and tell them privately what is proposed so that they can brief their Ministers and a decision can be taken at Cabinet on Thursday.

H.E.R.B.

1 July 1983

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PART **ends:-**

PART 23 **begins:-**

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