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PREM 19/1191

PART 27

SECRET 4997

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CONFIDENTIAL FILING

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Public Expenditure and Cash Limits

ECONOMIC POLICY

Pt1: MAY 1979

Pt 27: MARCH 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~5.3.84~~		PART ENDS.					
~~6.3.84~~							
~~7.3.84~~							
~~21.3.84~~							
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~~23.7.84~~							
~~3.8.84~~							
22.8.84							

PREM 19/1191

1984 Report by the Public Expenditure Survey Committee can be found in the folder at the back of this file.

+ Treasury Report on Public Expenditure for 'The Next Ten Years' – March 1984.

PART 27 ends:-

CST to PM 30.7.84.

PART 28. begins:-

SS/DTI to PM 5.9.84.

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
C(84) 16	29.06.84
C(84) 17	02.07.84
C(84) 18	02.07.84
CC(84) 25th Conclusions, Minute 5	05.07.84

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 OWayland Date 22 August 2013

PREM Records Team

Published Papers

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

1. Cmnd. 9189: The Next Ten Years: Public Expenditure and Taxation into the 1990s, HM Treasury, March 1984

2. House of Commons Hansard, 6 March 1984, columns 742-826 "Public Expenditure"

3. House of Commons Hansard, 4 July 1984, columns 333-401 "Estimates 1984-85"

Signed CWayland Date 22 August 2013

PREM Records Team

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29

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Secretary of State for Energy
Department of Energy
Thames House South
Millbank
LONDON
SW1P 4QJ

22 August 1984

Dear Secretary of State,

TF 22/8

with TF 14.8

ENERGY SAVING CAMPAIGN

Thank you for your letter of 14 August.

I can see that additional expenditure on advertising at the start of the winter might help endurance and that this could be useful if the miners strike were to last through the Autumn. The case for a campaign looks a good deal less strong if the strike ends earlier.

I would be willing to agree to the additional expenditure if the strike does last through the Autumn and if you take steps to secure all the necessary savings from within the cash limits on your departmental expenditure. The state of the contingency reserve is such that we cannot use it to meet any part of this expenditure.

If the strike ends earlier I suggest we reconsider the case for additional spending.

I am copying to the Prime Minister, the Lord President, the Chancellor and Sir Robert Armstrong.

Yours sincerely

Paul Pegler

pp PETER REES
(approved by the Chief Secretary and signed in his absence)

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Public Expenditure?

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CCANO

NAPM
AT
24/7

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

22 July 1984

Dear Andrew

CASH LIMITS 1983-84

The annual White Paper showing provisional outturn of expenditure against cash limits for 1983-84 is ready for publication. The Chief Secretary proposes to publish it on Thursday 26 July immediately after Question Time.

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

The White Paper is published primarily as a matter of record. It may attract further attention to the local authorities 1983-84 capital overspends, and the implications for 1984-85, but they have already been the subject of statements by Mr Jenkin and Mr Roberts.

I am sending copies of this letter to the Private Secretaries of other members of Cabinet, and to Richard Hatfield.

Yours sincerely

J.R. Gieve

JOHN GIEVE
Private Secretary

CONFIDENTIAL

MASTER

CASH LIMITS 1983–84 PROVISIONAL OUTTURN

(AND 1982–83 OUTTURN)

Presented to Parliament by the Chief Secretary to the Treasury
by Command of Her Majesty
July 1984

LONDON
HER MAJESTY'S STATIONERY OFFICE
£0.00 net

Cmnd. 0000

CASH LIMITS

1983-84 PROVISIONAL OUTTURN

(AND 1982-83 OUTTURN)

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1983-84 and revised figures for 1982-83.

2. The cash limits for 1983-84 for central government voted expenditure were published in the Supply Estimates and listed in table 1a of the Chief Secretary's memorandum on the Supply Estimates 1983-84-Cmnd 8817. The original cash limits relating to local authorities capital expenditure and certain other expenditure were announced by written PQ on 15 March 1983.

3. Table 1 shows changes to the original limits announced subsequently, excluding token increases. Reductions for National Insurance Surcharge (NIS) and the 7 July measures are separately identified.

4. Tables 2 and 3 give provisional outturn figures for 1983-84 compared with final cash limits. These figures may be subject to some adjustments when the final accounts are available.

5. On the current figures there were five breaches of cash limits. The Department of Trade and Industry (Class IV, Vote 6) overspent their £322.3m cash limit by £0.9m and the Scottish Courts Administration (Class XV, Vote 11) breached theirs (£7.6m) by £0.05m. Three cash limits relating to local authority capital expenditure were breached; the Department of the Environment non-voted cash block DOE/LA1 (£2,935.4m) by £368.0m; the Welsh Office non-voted cash block WO/LA1 (£348.6m) by £7.0m, and the Scottish Office non-voted cash block SO/LA2 (£444.4m) by £17.1m.

6. Table 4 gives final outturn figures for central government cash limited expenditure in 1982-83. Table 5 shows revised figures for the same year for the capital blocks of local authorities and certain other bodies. These may still be subject to some subsequent revision. Provisional outturn figures for 1982-83 were published in July 1983 in the White Paper "Cash Limits 1982-83 Provisional Outturn" (Cmnd 8987).

7. Table 6 gives original external financing limits (EFLs) of nationalised industries in 1983-84, revised EFLs and provisional outturn for each industry.

CHANGES TO 1983-84 CASH LIMITS EXCLUDING TOKEN INCREASES

Table 1

£ thousand

Class and vote		Department	reductions NIS ~~changes~~	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
CENTRAL GOVERNMENT VOTES							
I	1,2,4&5	Ministry of Defence	-13,317	-240,000	-13,773	-267,090	Transfer of £0.05m to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 12 May 1983. Transfer of £0.37m to vote II, 2 (non-cash limited). Announced on 27 July 1983. Transfers of £10.153m to ~~the~~ vote VIII, 4 ~~PSA votes~~ to cover maintenance costs at the historic dockyard at Chatham and £3.2m ~~for~~ to vote XIV, 2 to cover increased staff costs. Announced on 1~~6~~ 3 February 1984.
II	1	Foreign & Commonwealth Office	-239	-4,000	947	-3,292	Additional provision of £4.85m for expenditure on overseas students. Announced on 22 June 1983. Transfer of £0.006m to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 12 May 1983. Reduction of £1.246m in respect of breach of 1982-83 cash limit. Transfer to vote XIV, 3 of £2.65m in respect of the purchase of Hanslope Park by the PSA on behalf of the FCO. Announced on 27 March 1984.
	3	Foreign & Commonwealth Office	-95	-500	—	-595	
	4	Foreign & Commonwealth Office	—	-500	2,062	1,562	Additional provision of £0.15m to allow for increased assistance by the British Council to overseas students. Announced on 22 June 1983. Additional provision~~s~~ of £1.912m to enable the British Council to maintain its level of activity in 1983-84. Announced on 7 February 1984.
	6	Cabinet Office	—	-715	—	-715	
	8	~~Foreign & Commonwealth Office~~ FCO: Overseas Development Administration	—	-19,691	—	-19,691	
	9	FCO: Overseas Development Administration	—	-210	—	-210	
III	3	Ministry of Agriculture, Fisheries and Food	—	-2,932	-163	-3,095	Transfer to vote III, 4. Announced on ~~1~~ 3 February 1984.

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X

£ thousand

Class and vote		Department ~~reductions~~	~~NIS changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
		~~Size of change (£ thousand)~~					
	4	Intervention Board for Agricultural Produce	—	—	253	253	To cover an unforeseen increase in the demands made on the Intervention Board. Partly offset by reduction in vote III, 3. Announced on 3 February 1984.
	5	Ministry of Agriculture Fisheries and Food	—	-500	2,005	1,505	To provide for the payment of decommissioning grants to owners of fishing vessels as part of the restructuring scheme for the British fishing industry. Announced on 8 November 1983.
	6	Forestry Commission	-160	-879	—	-1,039	
	7	Ministry of Agriculture Fisheries and Food	-358	-350	—	-708	
IV	2	Department of Trade and Industry	—	-650	3,000	2,350	To cover new initiatives by the English Industrial Estates Corporation. Announced on 2nd February 1984.
	4	Department of Trade and Industry	-228	-200	—	-428	
	5	Department of Energy	—	-1,680	—	-1,680	
	6	Department of Trade and Industry	-65	-7,933	20,656	12,658	To finance measures to support British industry (£14·0m) projects under the Industrial Development Act (£5.956m) and a joint project with the Department of Transport (£0.7m). Partly offset by reduction in vote IV, 16 (non cash limited). Announced on 4 July 1983.
	7	Department of Energy	-279	-2,850	—	-3,129	
	9	ECGD	—	-223	—	-223	
	11	Registry of Friendly Societies	—	-18	—	-18	
	12	Office of Fair Trading	—	-53	—	-53	
	13	Department of Employment	-1,068	-3,791	25,000	20,141	To cover anticipated take up of places in community programmes. Offset by reduction in vote IV, 16. Announced on 24 January 1984.
	15	Advisory Conciliation and Arbitration Services	—	—	160	160	To meet additional expenditure on accommodation. Offset by reduction in vote IV, 17. Announced on 31 January 1984.

INSERT BRACKETS

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3

£ thousand

Class and vote		Department	~~NIS changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
	16	Manpower Services Commission	–536	–22,036	–5,114	–27,686	Extension of the Enterprise Allowance Scheme (£19.886m) Announced on 22 June 1983. Offset by transfer of £25m to vote IV, 17. Announced on 27 January 1984.
	17	Department of Employment	–291	–2,472	–160	–2,923	Transfer to vote IV, 15. Announced on 31 January 1984.
	18	Department of Trade and Industry	–145	–150	–18	–313	Transfer to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 12 May 1983.
	19	Department of Energy	–25	–206	~~493~~ 1,293	~~262~~ 1,062	~~Compensation payment of £1.5m to Lazard Freres and Co. for the release of Mr MacGregor to become chairman of the National Coal Board. Offset by savings elsewhere on the vote~~. Transfer of £0.007m to vote XIII, 12 to cover the establishment of an occupational health nursing service. Announced on ~~27 June 1983.~~ 12 May 1983. Compensation payment of £1.5m to Lazard Freres and Co. for the release of Mr. MacGregor to become chairman of the National Coal Board. Offset by savings on votes IV, 5 and IV, 19.
	22	Department of Energy	—	–80	2,000	1,920	To cover reimbursement of expenses incurred by the British Gas Corporation relating to privatisation. Announced on 24 June 1983.
	23	Health and Safety Commission	–120	–100	—	–220	
	25	Department of Trade and Industry	—	—	750	750	To meet preliminary expenses in connection with the sale of shares in British Telecommunications. Announced on 17 November 1983.
VI	1	Department of Transport	—	–14,869	~~1,500~~ —	~~–13,369~~ –14,869	~~To cover existing contractual commitments on the trunk road construction programme. Offset by reduction in vote VI, 2.~~
	2	Department of Transport	–195	–1,578	~~–1,500~~ —	~~–3,273~~ –1,773	~~Transfer to vote VI, 1.~~
	4	Department of Transport	–105	–1,086	–14	–1,205	Transfer to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 12 May 1983.
	5	Department of Transport	—	—	300	300	To meet ~~reanant~~ remnant expenses arising from the sale of shares in Associated British Ports. Announced on 5 July 1983.

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£ thousand

Class and vote		Department	~~NIS changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
		~~Size of change (£ thousand)~~					
	6	Department of Transport	—	—	50	50	To meet preliminary expenses incurred in the sale of British Airways. Announced on 17 February 1984.
VIII	2	Department of the Environment	–106	–1,500	2,600	994	To cover increased expenditure on facilities for children's play (£0.6m). Announced on 30 June 1983. Support for the London Zoo (£2.0m). Announced on 21 December 1983.
	4	Department of the Environment	–70	–340	9,823	9,413	Reduction of £0.14m resulting from revised assessment of level of expenditure. Announced on 12 May 1983. Contribution of £10.153m towards an endowment trust to manage the Historic dockyard at Chatham, offset by £0.19m reduction in respect of overspend on 1982–83 cash limit. Announced on 1~~4~~3 February 1984. X
	5	Department of the Environment	–192	–1,508	–258	–1,958	Reduction of £0.251m resulting from revised assessment of level of expenditure. Announced on 12 May 1983. Transfer of £0.007m to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 17 May 1983.
	7	Department of the Environment	—	–996	29,175	28,179	Transfer of £15.0m urban programme resources originally earmarked for urban development grant within cash block DOE/LA1. Announced on 27 July 1983. Further transfer of £10m from DOE/LA1 to maintain the momentum of development in London docklands. Increased provision of £5.175m to allow for the purchase of the Royal Victoria Dock by the London Docklands Development Corporation, offset by reduction of £1m to allow for the retention of receipts by the development corporation. Announced on 3 November 1983. £1·0m X
IX	1	Lord Chancellor's Department	–99	–468	700	133	To allow for the cost of furnishing the new court complex in Liverpool. Offset by reduction in vote XIV, 3. Announced on 6 July 1983.
	2	Northern Ireland Court Service	—	–121	—	–121	
	7	Home Office	—	–651	—	–651	X

£thousand

Class and vote	Department	~~Size of change (£ thousand)~~ ~~NIS changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
8	Home Office	−1,132	−6,912	4,000	−4,044	Transfer from vote IX, 11. Announced on 15 March 1984.
9	Home Office	—	−1,013	—	−1,013	
11	Home Office	−289	−1,468	−4,000	−5,757	Transfer to vote IX, 8. Announced on 15 March 1984.
12	Treasury Solicitor's Department	—	−94	311	217	Increased expenditure by the Director of Public Prosecutions on the system of investigating fraud (£0.056m). Announced on 26 June 1983. Increase of (£0.255m) announced on 7 February 1984 to cover shortfall of receipts from chargeable services.
13	Crown Agent	—	−110	—	−110	
X 1	Department of Education and Science	—	−5,786	—	−5,786	
3	Department of Education and Science	—	−24,600	1,500	−23,100	To allow for part of the costs of pay awards to clinical academics. Announced on 27 July 1983.
4	Department of Education and Science	—	−856	—	−856	
12	Trustees of British Museum	—	−125	—	−125	
13	Office of Arts and Libraries (Science Museum)	—	−77	—	−77	
14	Office of Arts and Libraries (V and A Museum)	—	−104	−37	−141	Transfer from vote X, 21 to cover the transfer of responsibility for the Slide Library from the Museums and Galleries Commission (£0.03m). Reduction of £0.67m in respect of overspend on the museum's 1982–83 cash limit. Announced on 14 February 1984.
15	Trustees of Imperial War Museum	—	−41	—	−41	
16	Trustees of National Gallery	—	−68	—	−68	
17	Trustees of National Maritime Museum	—	−41	—	−41	

£ thousand

Class and vote		Department	NIS ~~changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
	18	Trustees of National Portrait Gallery	—	−18	—	−18	
	19	Trustees of Tate Gallery	—	−54	—	−54	
	20	Trustees of Wallace Collection	—	−8	—	−8	
	21	Office of Arts and Libraries (The Arts Council and other institutions)	—	−1,059	3,470	2,411	To enable the accumulated deficits of the Royal Opera House and others to be written off (£3.5m). Announced on 19 December 1983. Transfer of £0.03m to vote X, 14. Announced on 14 February 1984.
	22	Office of Arts and Libraries (Libraries, England)	—	−1,022	—	−1,022	
XI	1	Department of Health and Social Security	−15,000	−108,358	24,677	−98,681	To allow for additional capital expenditure (£1.427m) by health authorities on their share of joint financed urban programme projects. Announced on 12 May 1983. To allow a transfer of resources from Peterborough new town to the district health authority (£0.25m) offset by reduction in cash block DOE/LA1. Announced on 27 July 1983. To take account of ~~increased~~ cost of doctors and dentists remuneration (£28.9) offset by refunds of VAT (£5.9m). Announced on 23 January 1984. £28.9m X
XII	5	Department of Health and Social Security	−1,151	−6,219	4,219	−3,151	To allow for the additional administrative costs arising from changes in social security benefits announced in the Budget.
XIII	3	Privy Council Office	—	−8	—	−8	
	4	HM Treasury	−65	−386	−928	−1,379	Reflects transfer of responsibility for the payment of salaries of various Civil List employees now met from standing services. Announced on 16 January 1984.
	5	Customs and Excise	−712	−2,964	—	−3,676	
	6	Inland Revenue	−1,544	−3,904	−18	−5,466	Transfer to vote XIII, 12 to cover establishment of an occupational health nursing service. Announced on 12 May 1983.

£ thousand

Class and vote		Department	NIS ~~changes~~ reductions	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
			~~Size of change (£ thousand)~~				
	10	Department for National Savings	−158	−1,413	−1,037	−2,608	Reduction of £1.0m resulting from revised assessement of level of expenditure. ~~Announced on 12 May 1983.~~ Transfer of £0.37m to vote XIII, 12 to cover establishment an occupational health nursing service. Announced on 12 May 1983.
	12	Management and Personnel Office	−35	−261	171	−125	Transfers from various other votes to cover the establishment of an occupational health nursing service. Announced on 12 May 1983.
	13	HM Treasury	—	−107	—	−107	
	14	HM Treasury	—	−6	—	−6	
	15	Public Records Office	—	−38	—	−38	
	16	Office of Population, Censuses and Surveys	—	−194	—	−194	
	17	Land Registry	−143	−663	350	−4[illegible]5	To cover a contribution towards the cost of building the District Land Registry in Birkenhead. Offset by reduction in DOE/LA cash block. Announced on 30 June 1983. DOE/LA 1
	18	Charity Commission	—	−46	—	−46	
	19	Cabinet Office	—	−106	—	−106	
	20	Office of Parliamentary Commissioner and Health Service Commissioners	—	−12	—	−12	
	21	Her Majesty's Stationery Office	—	−148	389	241	To allow the continuation of the provision of ~~reports of parliamentary debates~~ publications to public libraries at reduced ~~rates~~ prices. Announced on 6 July 1983.
	23	Ordnance Survey	−70	−381	−14	−4[illegible]6	Transfer to vote XIII, 12 to cover establishment of an occupation health nursing service. Announced on 12 May 1983.
XIV	1	PSA of the Department of the Environment	−67	−4,677	3,500	−1,244	To finance additional maintenance of the PSA estate. Announced on 13 February 1984.
	2	PSA of the Department of the Environment	−441	—	6,000	5,559	To pay design consultants' fees arising from an expanding works programme. Partly met by transfer of £3.2m from vote 1, 2. ~~Announced on 13 February 1984.~~

X

£thousand

Class and vote		Department	↑ NIS ~~changes~~ reductions	~~Size of change (£ thousand)~~ ↑ 7 July reductions	^ Other changes	↑ Total	~~Purpose of change~~ Reason for 'Other' changes	
	3	PSA of the Department of the Environment	—	–6,611	–4,350	–10,961	Transfer of £0.7m to vote IX, 1, announced on 6 July 1983, and transfer of £6.3m to votes XIV, 2 (£2.8m) and XIV, 1 (£3.5m). Announced on 13 February 1984. Transfer of £2.65m from vote II, 1 to cover purchase of Hanslope Park on behalf of the FCO. Announced on 27 March 1984.	
	4	Central Office of Informtion	—	–780	—	–780		
	7	Government Actuary	—	–6	—	–6		
	8	Paymaster General's Office	—	–109	—	–109		
XV	2	~~Scottish Office~~ Department of Agriculture and Fisheries for Scotland	—	–946	600	–346	To provide for the payment of decommissioning grants to owners of the restructuring scheme for the British fishing ~~and~~ industry. Announced on 7 November 1983.	× ×
	3	~~The~~ Industry Department for Scotland	—	–2,476	—	–2,476		×
	4	~~The~~ Industry Department for Scotland	–66	–2,308	2,888	514	To cover the extension of the enterprise allowance scheme as announced in the 1983 Budget.	CAPITALS ×××
	6	Scottish Development Department	—	–4,852	—	–4,852		
	14	Scottish Home and Health Department	–2,641	–16,382	3,78~~6~~7	–15,236	To take account of increased costs of doctors and dentists remuneration (£4.13m). Offset by refund of VAT (£0.344m). Announced on 23 January 1984.	
	15	Scottish Education Department	—	–921	–95	–1,016	Transfer to vote XV, 1~~5~~. Announced on 2 November 1983.	7 ×
	17	National Library of Scotland	—	–38	95	57	To meet contractual payments in respect of the Scottish libraries co-operative automation project. Offset by reduction in vote XV, 15. Announced on 2 November 1983.	
	18	National Galleries of Scotland	—	–42	—	–42		

£ thousand

Class and vote	Department	reductions ~~NIS changes~~	7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
		~~Size of change (£ thousand)~~				
19	National Museum of Antiquities of Scotland	—	-11	—	-11	
21	Scottish Record Office	—	-12	—	-12	
22	Registrar of Generals Office, Scotland	—	-43	—	-43	
24	Scottish Office	-205	-510	—	-715	
XVI 1	Welsh Office	-1,016	-7,039	18,505	10,450	Increase of £17.1m to cover existing contractual commitments on the trunk road construction programme. Announced on 2~~1~~0 December 1983. Partly offset by reduction of £2.7m in vote XVI, 5, and reduction of £0.4m in vote XVI, 7. Funding of the 1983-84 health authority pay awards (£4.13m) offset by £0.344m refund of VAT payments. Announced on 24 January 1984.
4	Welsh Office	-35	-1,193	1,475	247	To cover the extension of the enterprise allowance scheme as announced in the 1983 Budget.
5	Welsh Office	—	-3,737	-5,53~~0~~1	-9,26~~7~~8	To provide for the payment of decommissioning grants to owners of fishing vessels as part of the restructuring scheme for the British fishing industry (£0.17m). Transfer of £3m in Welsh Development agency's grant in-aid to European Coal and Steel Community to cover projects in arrears due to steel closures. Announced on 8 November 1983. Transfer of £2.7m to vote XVI, 1. Announced on 21 December 1983.
7	Welsh Office	-55	-283	-400	-738	Transfer to vote XVI, 1. Announced on 20 December 1983.
XVII 1	Northern Ireland Office	-599	-5,000	—	-5,599	
XVIII 15	Crown Estate Office	—	-14	—	-14	
TOTAL		~~43,117~~ -43,117	~~562,496~~ -562,496	~~142,001~~ 140,801	~~463,612~~ -464812	

CAPS. XXX

£ million

Class and vote	Department	NIS ~~changes~~ reductions	~~Size of change (£ million)~~ 7 July reductions	Other changes	Total	~~Purpose of change~~ Reason for 'Other' changes
OTHER NON-VOTED BLOCKS						
BOE 1	Bank of England	-0.1	-1.1	—	-1.2	To cover expenditure on various projects particularly on home improvement grants. Announced on 21 December 1983.
DOE/HC1	Department of the Environment	—	-9.6	4.0	-5.6	To fund outstanding applications under the do-it-yourself shared ownership scheme. Offset by reduction in DOE/LA1 cash block. Announced on 3 November 1983.
DOE/LA 1	Department of the Environment	—	—	-29.6	-29.6	Transfer of £0.35m to vote XIII, 17 announced on 30 June 1983. Transfer of £15m (£15.0m) to vote VIII, 7 announced on 27 July 1983. Further transfer of £10m (£10.0m) to vote VIII, 7, transfer of £4m (£4.0m) to cash block DOE-HC1 and reduction of £0.25m to offset increased expenditure on derelict land reclamation grants on vote VIII, 2. Announced on 3 November 1983.
DOE/NT1	Department of the Environment	—	-5.~~0~~ 1	-0.~~3~~ 2	-5.3	To allow a transfer of resources from Peterborough new town to the district health authority (vote XI, 1). Announced on 27 July 1984.
SO/LA1	Scottish Office	—	~~-2.7~~ —	~~—~~ -18.0	~~-2.7~~ -18.0	Transfer to SO/LA2. Announced on 15 March 1984
SO/LA2	Scottish Office	—	-2.7	23.0	20.3	Additional provision of £5.0m to cover environmental improvement work as announced in the 1983 Budget. Transfer of £18.0m from SO/LA1 announced on 15 March 1984.
WO/LA1	Welsh Office	—	-0.9	50.0	49.1	
NID 1	Northern Ireland Departments	-2.2	-6.9	3.9	-5.2	To cover additional work by the Northern Ireland Housing Executive in Enveloping schemes (£2.0m), to meet pay costs following the Doctors' and Dentists Review Body (£1.2m) and to allow the continuation of the enterprise allowances scheme (£0.7m). All announced on 17 February 1984.
	TOTAL	~~-2.3~~ STET	~~-26.2~~ -26.3	~~28.0~~ 33.1	~~-0.5~~ 4.5	

This should be alongside WO/LA1 ie

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CASH LIMITS 1983–84: PROVISIONAL OUTTURN

CENTRAL GOVERNMENT VOTES

Table 2

Class and vote		*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Provisional outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
I	1	Ministry of Defence	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	6,044.397	6.017.801		
	2	Ministry of Defence	Defence procurement	7.370.029	7.139.002	-251,980 ~~-252.418~~	-1.7 (a)
	4	Property Services Agency	Defence accommodation services etc	933.000	933.~~098~~ 536		
	5	Ministry of Defence	Dockyard services	421.826	426.933		
II	1	Foreign and Commonwealth Office	Overseas representation: diplomatic, consular and other Foreign Commonwealth services	325.614	~~323.058~~ 325,324	-290 ~~-2.556~~	-0·1 ~~-0.8~~
	3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	76.582	76.367	−215	−0.3
	4	Foreign and Common wealth Office	British Council	41.795	41.795	0	0·0
	6	Cabinet Office	Secret service	70.785	70.645	−140	−0.2
	8	FCO: Overseas Development Administration	Overseas aid	1.007.674	1,001,000	-6,674	-0·7
	9	FCO: Overseas Development Administration	Overseas aid administration	25.234	24.601	−633	−2.5
III	3	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	94.729	~~88.632~~ 89,205	-5,524 ~~-6.097~~	-5·8 ~~-6.4~~
	4	Intervention Board for Agricultural Produce	Central administration	18.408	18.017	−391	−2.1

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	28.208	23,460 ~~21,928~~	−4,748 ~~−6,280~~	−16.8 ~~−22.3~~
	6	Forestry Commission	Forestry	58,482	56,746 ~~57,305~~	−1,736 ~~−1,177~~	−3.0 ~~−4.5~~
	7	Ministry of Agriculture, Fisheries and Food	Departmental administration	192.848	186,268 ~~184,250~~	−6,580 ~~−8,598~~	−3.4 ~~−4.5~~
IV	2	Department of Trade and Industry	Miscellaneous support services	34.842	33,375 ~~32,172~~	−1,467 ~~−2,130~~	−4.2 ~~−6.1~~
	4	Department of Trade and Industry	Pay, general administrative expenses, export promotion, shipping services, etc	196.178	191,747 ~~187,244~~	−4,431 ~~−8,934~~	−2.3 ~~−4.6~~
	5	Department of Energy	Industrial support	83.604	80,904 ~~81,134~~	−2,700 ~~−2,470~~	−3.2 ~~−3.0~~
	6	Department of Trade and Industry	Scientific and technological assistance	322.320	323,021 ~~323,213~~	+701 ~~+893~~	+0.2 ~~+0.3~~
	7	Department of Energy	Scientific and ~~technical~~ technological assistance: nuclear energy	207.441	206.969	−472	−0.2
	9	Export Credits Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	25.632	25,001	−631	−2.5
	11	Registry of Friendly Societies	Pay and general administrative expenses	1.677	1,547	−130	−7.8
	12	Office of Fair Trading	Pay and general administrative expenses	6.556	5,846	−710	−10.8
	13	Department of Employment	Labour market services	519.281	516.349	−2,932	−0.6
	15	Department of Employment	Advisory, Conciliation and Arbitration Service	12,789	12,773	−16	−0.1
	16	Department of Employment	Manpower Services Commission	1,183,~~565~~ 755	1,089,~~755~~ 565	−94,190	−8.0

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	17	Department of Employment	Administration	184.091	175.304	−8.787	−4.8
	18	Department of Trade and Industry	Central and miscellaneous services	75.504	74.76~~9~~8	−73~~5~~6	−1.0
	19	Department of Energy	Administrative and miscellaneous services	23.~~0~~840	~~22.583~~ 22,767	~~−457~~ −1,073	~~−2.0~~ −4.5
	20	Department of Energy	Administrative expenses of the Britoil sale	1	0	−1	−100.0
	22	Department of Energy	Administrative expenses of the sale of British Gas Corporation's oil interests	3.920	1.236	−2.684	−68.5
	23	Department of Employment	Health and Safety Commission	87.773	85.998	−1.775	−2.0
	24	H M Treasury	Administrative expenses of the sale of shares in British Petroleum Company plc	1	0	−1	−100.0
	25	Department of Trade and Industry	Administrative expenses of the sale of shares in British Telecommunications plc	750	~~475~~ 515	~~−275~~ −235	~~−36.7~~ −31.3
	26	H M Treasury	Administrative expenses of the sale of share in Cable and Wireless plc	1	0	−1	−100.0
VI	1	Department of Transport	Roads, etc. England	~~718.939~~ 717,439	708.557	~~−10.382~~ −8,882	~~−1.4~~ −1.2
	2	Department of Transport	Transport services and central administration	~~111.583~~ 113,083	102.000	~~−9.583~~ −11,083	~~−8.6~~ −9.8
	4	Department of Transport	Driver and vehicle licensing	98.810	95.335	−3.475	−3.5
	5	Department of Transport	Administratrive expenses of the sale of shares in Associated British Ports plc.	300	258	−42	−14.0
	6	Department of Transport	Administrative expenses of the sale of shares in British Airways plc	50	50	0	0.0

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(–) £ thousand	Over-spend(+) or under-spend(–) %
VIII	2	Department of the Environment	Central environmental services, etc	118,702	118,000	–702	–0.6
	4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments, etc	82,046	79,700	–2,346	–2.9
	5	Department of the Environment	Central administration and environmental research	168,805	163,075	–5,730	–3.4
	7	Department of the Environment	Urban Development Corporations, England	94,824	94,824	0	0.0
IX	1	Lord Chancellor's Department	Administration of justice: England and Wales	85,687	84,130	–1,557	–1.8
	2	Northern Ireland Court Service	Administration of justice: Northern Ireland	7,821	7,~~698~~ 717	~~–125~~ –104	–1.~~6~~ 3
	7	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	39,199	37,567	–1,632	–4.2
	8	Home Office	Prisons: England and Wales	534,333	533,9~~33~~ 85	~~–400~~ –348	–0.1
	9	Home Office	General protective services and civil defence: England and Wales	78,538	73,825	–4,713	–6.0
	11	Home Office	Central and administrative services	159,230	152,222	–7,008	–4.4
	12	Treasury Solicitor	Pay and general administrative expenses	10,978	10,872	–106	–1.0
	13	Crown Office	Pay and general administrative expenses	11,903	11,877	–26	–0.2
X	1	Department of Education and Science	Schools, further education and other educational services	174,303	168,340	–5,963	–3.4

Class and vote	Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
3	Department of Education and Science	Universities, etc	1,418.460	1,417.629	−831	−0.1
4	Department of Education and Science	Central administration and education services	46.464	45.467	−997	−2.1
5	Department of Education and Science	Agricultural Research Council	45.982	45.840	−142	−0.3
6	Department of Education and Science	Medical Research Council	113.709	113.709	0	0.0
7	Department of Education and Science	Natural Environment Research Council	62.500	62.500	0	0.0
8	Department of Education and Science	Science and Engineering Research Council	254.495	254.495	0	0.0
9	Department of Education and Science	Social Science Research Council	22.440	22.440	0	0.0
10	Trustees of British Museum (Natural History)	British Museum (Natural History)	9.429	9.416	−13	−0.1
11	Department of Education and Science	Research councils, etc: other science	4.951	4.941	−10	−0.2
12	Trustees of British Museum	British Museum	12.411	12.390	−21	−0.2
13	Office of Arts and Libraries	Science Museum	7.651	7,647	−4	−0.1
14	Office of Arts and Libraries	Victoria and Albert Museum	10.315	10,275	−40	−0.4
15	Trustees of Imperial War Museum	Imperial War Museum	4.099	3.890	−209	−5.1
16	Trustees of National Gallery	National Gallery	6.729	6.659	−70	−1.0
17	Trustees of National Maritime Museum	National Maritime Museum	4.039	3.989	−50	−1.2

Class and vote		*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Provisional outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
	18	Trustees of National Portrait Gallery	National Portrait Gallery	1,771	1,770	−1	−0.1
	19	Trustees of Tate Gallery	Tate Gallery	5,321	5,310	−11	−0.2
	20	Trustees of Wallace Collection	Wallace Collection	783	780	−3	−0.4
	21	Office of Arts and Libraries	Art, the Arts Council, etc	111,770	111,671	−99	−0.1
	22	Office of Arts and Libraries	Libraries: England	45,277	45,234	−43	−0.1
	23	Office of Arts and Libraries	Central administration	3	0	−3	−100.0
XI	1	Department of Health and Social Security	Health and personal social services: England	8,454,143	8,445,767	−8,376	−0.1
XII	5	Department of Health and Social Security	Administration and miscellaneous services	711,022	~~698,137~~ 703,090	~~−12,885~~ −7,962	~~−1.8~~ −1.1
XIII	3	Privy Council Office	Pay and general administrative expenses	909	854	−55	−6.1
	4	HM Treasury	~~Pay and general administrative expenses~~ Economic and financial administration	41,562	40,680	−882	−2.1
	5	Customs and Excise	Pay and general administrative expenses	318,047	318,029	−18	0.0
	6	Inland Revenue	Pay and general administrative expenses	748,015	~~736,770~~ 747,216	~~−11,245~~ −799	~~−1.5~~ −0.1
	8	Exchequer and Audit Department	Economic and financial administration	11,237	~~11,227~~ 10,356	~~−10~~ −881	~~−0.1~~ −7.8
	9	National Investment and Loans Office	Pay and general administrative expenses	1	~~1~~ 0	~~0~~ −1	~~0.0~~ −100.0
	10	Department for National Savings	Pay and general administrative expenses	141,934	137,375	−4,559	−3.2

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	12	Management and Personnel Office	Central management of the Civil Service	30.625	29.925	−700	−2.3
	13	HM Treasury	Computer and telecommunications	11.273	8.982	−2.291	−20.3
	14	HM Treasury	Civil service catering service	295	50	−245	−83.1
	15	Public Record Office	Pay and general administrative expenses	8.458	8,188 ~~7.985~~	−270 ~~−473~~	−3.2 ~~−5.6~~
	16	Office of Population. Censuses and Surveys	Pay and general administrative expenses	23.696	23.333	−363	−1.5
	17	Land Registry	Pay and general administrative expenses	64.477	63.987	−490	−0.8
	18	Charity Commission	Pay and general administrative expenses	4.820	4.819	−1	0.0
	19	Cabinet Office	Pay and general administrative expenses	13.891	13.5~~1~~2	−369 ~~−379~~	−2.7 ~~−2.4~~
	20	Office of the Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	1.684	1.651	−33	−2.0
	21	Her Majesty's Stationery Office	Payments to the trading fund	7.238	7.238	0	0.0
	23	Ordnance Survey	Pay and general administrative expenses on mapping services	16.894	13,558 ~~15.007~~	−3,336 ~~−1.887~~	−19.7 ~~−11.2~~
XIV	1	Property Services Agency	Civil accommodation repayment services	276.991	272,992 ~~271.333~~	−3,999 ~~−5.658~~	−1.4 ~~−2.0~~
	2	Property Services Agency	Administration and miscellaneous services	320.305	319.451	−854	−0.3
	3	Property Services Agency	Other civil accommodation services	154.946	154.~~306~~ 859	−87 ~~−640~~	−0.1 ~~−0.4~~
	4	Central Office of Information	Publicity and departmental administration	48.301	47.5~~7~~7 5	−744 ~~−724~~	SEE ~~−1.5~~

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	7	Government Actuary's Department	Pay and general administrative expenses	1.024	982	−42	−4.1
	8	Paymaster General's Office	Pay and general administrative expenses	10,251	9.820	−431	−4.2
XV	2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries: Scotland	58.544	55.999	−2.545	−4.3
	3	~~The~~ Industry Department for Scotland	Regional and general industrial support: Scotland	129.800	128.673	−1.127	−0.9
	4	~~The~~ Industry Department for Scotland	Manpower Services Commission: Scotland	137.769	118.541	−19.228	−14.0
	6	Scottish Development Department	Roads. transport and environmental services. etc: Scotland	143.151	135.467	−7.684	−5.4
	11	Scottish Courts Adminis-tration	Administration of justice: Scotland	7.617	7,665 ~~[illegible]~~	+48 ~~+51~~	+0·6 ~~0.7~~
	14	Scottish Home and Health Department	Law. order. protective services and health: Scotland	1.347.902	1,341,462 ~~1.343.000~~	−6,440 ~~−4.902~~	−0·5 ~~−0.4~~
	15	Scottish Education Department	Education. libraries. arts and social work: Scotland	111.728	109.125	−2.603	−2.3
	17	Trustees of National Library of Scotland	National Library of Scotland	2.839	2.836	−3	−0.1
	18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	2.667	2.664	−3	−0.1
	19	Board of Trustees National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	788	787	−1	−0.1

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Provisional outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	21	Scottish Record Office	Pay and general administrative expenses	1.433	1.371	−62	−4.3
	22	General Register Office for Scotland	Pay and general administrative expenses	3.852	3.598	−254	−6.6
	23	Department of the Registers of Scotland	Pay and general administrative expenses	2	0	−2	−100.0
	24	Scottish Office	Pay and general administrative expenses	93.715	5 92.~~7~~04	−1,211 ~~−1.011~~	−1·3 ~~−1.1~~
XVI	1	Welsh Office	Tourism. roads and transport. housing. other environmental services. education. libraries. arts. health and personal social services: Wales	728.589	725,172 ~~728.651~~	−3,417 ~~62~~	−0·5 ~~0.0~~
	4	Welsh Office	Manpower Services Commission: Wales	71.142	61.674	−9.468	−13.3
	5	Welsh Office	Agricultural services. support for fishing industry. industrial development: Wales	46.948	46.499	−449	−1.0
	7	Welsh Office	Other services	30.506	19 30.3~~71~~	−187 ~~−135~~	−0·6 ~~[illegible]~~
XVII	1	Northern Ireland Office	Law. order and protective services: Northern Ireland	384.717	371.957	−12.760	−3.3
XVIII	1	Department of the Environment	Rate support grants ~~(1983-84)~~ to local revenues: England	9.416.002	9.192.000	−224.002	−2.4
	2	Welsh Office	Rate support grants ~~(1983-84)~~ to local revenues: Wales	827.502	815.042	−12.460	−1.5
	3	Department of the Environment	National parks. supplementary grants ~~(1983-84):~~ : England	5.265	5.265	0	0.0
	4	Welsh Office	National parks. supplementary grants ~~(1983-84):~~ ; Wales	1.800	1.800	0	0.0

Class and vote	*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Provisional outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
5	Scottish Office	Rate support grants ~~(1983-84)~~ to local revenues: Scotland	1,744,250	1,696,450	−47,800	−2.7
15	Crown Estate Office	Pay and general administrative expenses	1,667	1,650	−17	−1.0
18	Department of Transport	Transport supplementary grants ~~(1983-84)~~ : England	450,000	450,000	0	0.0
19 ~~20~~	Welsh Office	Transport supplementary grants ~~(1983-84)~~ : Wales	31,000	31,000	0	0.0
TOTAL CASH-LIMITED VOTES			~~51,566,651~~ 51,567,451	~~50,699,106~~ 50,720,562	~~−867,545~~ −846,889	~~−1.7~~ −1.6

NOTE
(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.

CASH LIMITS 1983–84: PROVISIONAL OUTTURN
LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND ~~FOR~~ CERTAIN OTHER ~~BODIES~~ EXPENDITURE

Table 3

Department	*Cash block*	*Description of expenditure*	*Cash limit £ million*	*Provisional outturn £ million*	*Over-spend(+) or under-spend(–) £ million*	*Over-spend(+) or under-spend(–) %*
Bank of England	BoE1	Bank of England administration costs in respect of note issue, exchange equalisation account and debt management	76.8	75.9	–0.9	–1.2
Department of the Environment	DoE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	624.4	624·3 ~~620.0~~	–0·1 ~~–4.4~~	0.0 ~~–0.7~~
Department of the Environment	DoE/LA1	Capital expenditure in England by local authorities on environmental services	2,935.4	3,303·4 ~~3,242.0~~	+368·0 ~~+306.6~~	+12·5 ~~+10.4~~
Department of the Environment	DoE/NT1	Capital expenditure in England by new towns on housing, roads, sewerage and commercial and industrial investment	62.0	36.0 ~~39.0~~	–26.0 ~~–23.0~~	–41·9 ~~–37.1~~
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	110.5	95.9	–14.6	–13.2
SCOTLAND Scottish Office	SO/LA1	Capital expenditure in Scotland by local authorities on ~~environmental services~~	385·3 ~~403.3~~	375·6 ~~383.4~~	–9·7 ~~–19.9~~	–2·5 ~~–4.9~~
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	467·3 ~~444.4~~	484·4 ~~461.4~~	+17.1 ~~+17.0~~	+3·7 ~~+3.8~~

roads and transport, housing, schools, further education and teacher training, personal social services and other

roads and Transport, water and sewerage, general services, urban programme, police and social work, schools, further education and teacher training

Department	Cash block	Description of expenditure	Cash limit £ million	Provisional outturn £ million	Over-spend(+) or under-spend(−) £ million	Over-spend(+) or under-spend(−) %
WALES						
Welsh Office	WO/LA1	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on environmental services and by the Land Authority for Wales	348.6	~~358.6~~ 356.0	~~+10.0~~ +7.4	~~+2.9~~ +2.1
NORTHERN IRELAND						
Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	1,972.4	1,962.0	−10.4	−0.5
		TOTAL	~~6,077.8~~ 6,982.7	~~7,237.8~~ 7,313.5	~~+260.4~~ +330.8	~~+3.7~~ +4.7

roads and transport, housing, schools, further education and teacher training, personal social services and other

CASH LIMITS 1982–83 OUTTURN
CENTRAL GOVERNMENT VOTES

Table 4

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(–) £ thousand	Over-spend(+) or under-spend(–) %
I	1	Ministry of Defence	Pay etc of the armed forces and civilians, stores, supplies and miscellaneous services	5,925,845	5,908,217		
	2	Ministry of Defence	Defence procurement	6,510,825	6,504,542		~~(a)~~
	4	Property Services Agency	Defence accommodation services etc	735,000	740,182	–26,606	–0.2 (a)
	5	Ministry of Defence	Dockyard services	434,485	426,608		
II	1	Foreign and Commonwealth	Overseas representation: diplomatic and consular services	218,890	220,136	+1,246	+0.6
	2	Property Services Agency	Overseas representation: accommodation services	31,615	31,858	+243	+0.8
	3	Foreign and Commonwealth Office	British Broadcasting Corporation: external services	69,916	69,802	–114	–0.2
	4	Foreign and Commonwealth Office	British Council	39,450	39,450	0	0.0
	5	Foreign and Commonwealth Office	Foreign and commonwealth services	27,973	26,726	–1,247	–4.5
	8	Cabinet Office	Secret service	66,500	66,343	–157	–0.2
	10	FCO: Overseas Development Administration	Overseas aid	935,029	928,892	–6,137	–0.7
	11	FCO: Overseas Development Administration	Overseas aid administration	21,373	19,029	–2,344	–11.0
III	3	Ministry of Agriculture, Fisheries and Food	Other agricultural and food services	91,282	85,072	–6,210	–6.8

As per page 12.

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	4	Intervention Board for Agricultural Produce	Central administration	16.232	15.962	−270	−1.7
	5	Ministry of Agriculture, Fisheries and Food	Support for the fishing industry	32.030	26,650	−5.380	−16.8
	6	Forestry Commission	Forestry	61.210	56,900	−4.310	−7.0
	7	Ministry of Agriculture	Departmental administration	144.306	142.188	−2.118	−1.5
IV	2	Department of Trade and Industry	Miscellaneous support services	38.798	27.578	−11.220	−28.9
	4	Department of Trade and Industry	Pay, general administrative expenses, export promotion, shipping services, etc	163.212	153.683	−9.529	−5.8
	5	Department of Energy	Industrial support	683.549	677.244	−6.305	−0.9
	6	Department of Trade and Industry	Scientific and technological assistance	254.946	242.764	−12.182	−4.8
	7	Department of Energy	Scientific and ~~technical~~ technological assistance: nuclear energy	223.194	217.728	−5.466	−2.4
	9	Export Credits Guarantee Department	International trade: export credit services and insurance of investment overseas (central services)	18.650	17.461	−1.189	−6.4
	11	Registry of Friendly Societies	Pay and general administrative expenses	1.022	1.015	−7	−0.7
	12	Office of Fair Trading	Pay and general administrative expenses	4.578	3.761	−817	−17.8
	13	Department of Employment	Labour market services	283.544	265.156	−18.388	−6.5
	15	Department of Employment	Advisory, Conciliation and Arbitration Service	13.046	12.079	−967	−7.4
	16	Department of Employment	Manpower Services Commission	1.090.151	893.684	−196.467	−18.0

Class and vote	*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
17	Department of Employment	Administration	117,851	101,492	−16,359	−13.9
18	Department of Trade and Industry	Central and miscellaneous services	57,355	54,582	−2,773	−4.8
19	Department of Energy	Administrative and miscellaneous services	14,849	13,596	−1,253	−8.4
20	Department of Employment	Health and Safety Commission	81,176	80,142	−1,034	−1.3
21	Department of Energy	Administrative expenses of the Britoil sale	1,501	0	−1,501	−100.0
V 2	Department of Trade and Industry	Government investment in Nationalised Industries	10,000	0	−10,000	−100.0
VI 1	Department of Transport	Roads, etc. England	748,010	742,277	−5,733	−0.8
2	Department of Transport	Transport services	65,579	52,585	−12,994	−19.8
4	Department of Transport	Central and miscellaneous services	35,590	33,428	−2,162	−6.1
5	Department of Transport	Driver and vehicle licensing	78,630	72,904	−5,726	−7.3
6	Department of Transport	Administrative expenses of the sale of shares in Associated British Ports plc.	601	0	−601	−100.0
VIII 2	Department of the Environment	Central environmental services, etc	110,476	106,880	−3,596	−3.3
4	Department of the Environment	Royal palaces, royal parks, historic buildings, ancient monuments, etc	51,315	51,504	+189	+0.4
5	Department of the Environment	Central administration and environmental research	153,879	142,047	−11,832	−7.7
7	Department of the Environment	Urban Development Corporations, England	63,487	61,938	−1,549	−2.4

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
IX	1	Lord Chancellor's Department	Adminstration of justice: England and Wales	54,421	53,375	−1,046	−1.9
	2	Northern Ireland Court Service	Administration of justice: Northern Ireland	7,806	7,799	−7	−0.1
	7	Home Office	Services related to crime, treatment of offenders, community and miscellaneous services	37,856	36,766	−1,090	−2.9
	8	Home Office	Prisons: England and Wales	494,404	486,745	−7,659	−1.5
	9	Home Office	General protective services and civil defence: England and Wales	59,066	56,281	−2,785	−4.7
	11	Home Office	Central and administrative services	115,761	111,214	−4,547	−3.9
	12	Treasury Solicitor	Pay and general administrative expenses	9,151	9,077	−74	−0.8
	13	Crown Office	Pay and general administrative expenses	9,306	9,253	−53	−0.6
X	2	Department of Education and Science	Universities, etc	1,384,646	1,384,445	−201	0.0
	4	Department of Education and Science	Educational services	114,725	107,272	−7,453	−6.5
	5	Department of Education and Science	Central administration	34,019	32,960	−1,059	−3.1
	6	Department of Education and Science	Agricultural Research Council	43,624	43,624	0	0.0
	7	Department of Education and Science	Medical Research Council	107,502	107,502	0	0.0

Class and vote	*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
8	Department of Education and Science	Natural Environment Research Council	58.035	58.035	0	0.0
9	Department of Education and Science	Science and Engineering Research Council	234.402	234.402	0	0.0
10	Department of Education and Science	Social Science Research Council	20.901	20.651	−250	−1.2
11	Trustees of British Museum (Natural History)	British Museum (Natural History)	9.068	9.051	−17	−0.2
12	Department of Education and Science	Other science	4.509	4.495	−14	−0.3
13	Trustees of British Museum	British Museum	11.722	11.602	−120	−1.0
14	Office of Arts and Libraries	Science Museum	7.143	7.117	−26	−0.4
15	Office of Arts and Libraries	Victoria and Albert Museum	9.298	9.365	+67	+0.7
16	Trustees of Imperial War Museum	Imperial War Museum	4.130	3.871	−259	−6.3
17	Trustees of National Gallery	National Gallery	6.041	6.005	−36	−0.6
18	Trustees of National Maritime Museum	National Maritime Museum	3.855	3.796	−59	−1.5
19	Trustees of National Portrait Gallery	National Portrait Gallery	1.687	1.674	−13	−0.8
20	Trustees of Tate Gallery	Tate Gallery	5,025	5.023	−2	0.0

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(–) £ thousand	Over-spend(+) or under-spend(–) %
	21	Trustees of Wallace Collection	Wallace Collection	765	759	–6	–0.8
	22	Office of Arts and Libraries	Art, Arts Council, etc	113.281	113.268	–13	0.0
	23	Office of Arts and Libraries	Libraries: England	43,475	43,475	0	0.0
XI	1	Department of Health and Social Security	Health and personal social services: England	8,114,983	8,085,891	–29,092	–0.4
XII	4	Department of Health and Social Security	Administration and miscellaneous services	586,667	580,485	–6,182	–1.1
XIII	3	Privy Council Office	Pay and general administrative expenses	688	650	–38	–5.5
	4	HM Treasury	~~Pay and general administrative expenses~~	36,281	35,417	–864	–2.4
	5	Customs and Excise	Pay and general administrative expenses	268,466	268,413	–53	—
	6	Inland Revenue	Pay and general administrative expenses	609,677	608,620	–1,057	–0.2
	8	Exchequer and Audit Department	Economic and financial administration	8,821	8,451	–370	–4.2
	9	National Investment and Loans Office	Pay and general administrative expenses	109	72	–37	–33.9
	10	Department for National Savings	Pay and general administrative expenses	138,153	135,321	–2,832	–2.0
	12	Management & Personnel Office	Central management of the Civil Service	24,103	24,035	–68	–0.3
	13	HM Treasury	Computer and telecommunications	8,083	8,081	–2	0.0

× Economic and financial administration

Class and vote		*Accounting department*	*Description of expenditure*	*Cash limit £ thousand*	*Outturn £ thousand*	*Over-spend(+) or under-spend(−) £ thousand*	*Over-spend(+) or under-spend(−) %*
	14	HM Treasury	Civil service catering service	1	0	−1	−100.0
	15	Public Record Office	Pay and general administrative expenses	3.630	3.552	−78	−2.1
	16	Office of Population Censuses and Surveys	Pay and general administrative expenses	20.378	20.045	−333	−1.6
	17	Land Registry	Pay and general administrative expenses	55.744	55.697	−47	−0.1
	18	Charity Commission	Pay and general administrative expenses	3.757	3.691	−66	−1.6
	19	Cabinet Office	Pay and general administrative expenses	8.860	8.741	−119	−1.3
	20	Parliamentary Commissioner and Health Service Commissioners	Pay and general administrative expenses	1.204	1.199	−5	−0.4
	21	Public Trustee	Pay and general administrative expenses	1	0	−1	−100.0
	22	Her Majesty's Stationery Office	Payments to the trading fund	6.796	6.796	0	0.0
	24	Ordnance Survey	Pay and general administrative expenses on mapping services	16.637	15.219	−1.418	−8.5
XIV	1	Property Services Agency	Office and general accommodation services	481.048	468.418	−12.630	−2.6
	2	Property Services Agency	Administration and miscellaneous services	260.239	258.935	−1.304	−0.5
	3	Central Office of Information	Publicity and departmental administration	40.507	40.006	−501	−1.2
	6	Government Actuary's Department	Pay and general administrative expenses	565	518	−47	−8.3

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	7	Paymaster General's Office	Pay and general administrative expenses	9,798	8,933	−865	−8.8
XV	2	Department of Agriculture and Fisheries for Scotland	Agricultural services and fisheries: Scotland	66,380	60,873	−5,507	−8.3
	3	~~The~~ Industry Department for Scotland	Regional and general industrial support: Scotland	134,841	134,573	−268	−0.2
	4	~~The~~ Industry Department for Scotland	Manpower Services Commission: Scotland	151,285	107,414	−43,871	−29.0
	6	Scottish Development Department	Roads, transport and environmental services, etc: Scotland	144,432	134,796	−9,636	−6.7
	11	Scottish Courts Administration	Administration of justice: Scotland	3,944	3,937	−7	−0.2
	14	Scottish Home and Health Department	Law, order, protective services and health: Scotland	1,270,553	1,257,156	−13,397	−1.1
	15	Scottish Education Department	Education, libraries, arts and social work: Scotland	110,608	108,589	−2,019	−1.8
	17	Trustees of National Library of Scotland	National Library of Scotland	2,763	2,749	−14	−0.5
	18	Board of Trustees National Galleries of Scotland	National Galleries of Scotland	2,611	2,610	−1	0.0
	19	Board of Trustees National Museum of Antiquities of Scotland	National Museum of Antiquities of Scotland	764	764	0	0.0
	21	Scottish Record Office	Pay and general administrative expenses	1,303	1,158	−145	−11.1
	22	Registrar General's Office: Scotland	Pay and general administrative expenses	2,251	2,067	−184	−8.2

Class and vote		Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
	23	Department of the Registers of Scotland	Pay and general administrative expenses	1	0	−1	−100.0
	24	Scottish Office	Pay and general administrative expenses	77,652	77,124	−528	−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	66~~9~~6,348	~~−1,443~~ −4,443	~~−0.2~~ −0.7
	4	Welsh Office	Manpower Services Commission : Wales	78,749	56,003	−22,746	−28.9
	5	Welsh Office	Agricultural services, support for fishing industry, industrial development: Wales	64,429	62,296	−2,133	−3.3
	7	Welsh Office	Other services	24,404	24,380	−24	−0.1
XVII	1	Northern Ireland Office	Law, order and protective services: Northern Ireland	364,330	356,184	−8,146	−2.2
XVIII	1	Department of the Environment	Rate support grants ~~(1982-83)~~ to local revenues: England	9,160,000	8,781,000	−379,000	−4.1
	2	Welsh Office	Rate support grants ~~(1982-83)~~ to local revenues: Wales	814,700	796,417	−18,283	−2.2
	3	Department of the Environment	National parks, supplementary grants ~~(1982-83)~~ : England	5,000	5,000	0	0.0
	4	Welsh Office	National parks, supplementary grants ~~(1982-83)~~ : Wales	1,690	1,690	0	0.0
	5	Scottish Office	Rate support grants ~~(1982-83)~~ to local revenues: Scotland	1,677,700	1,634,400	−43,300	−2.6
	15	Crown Estate Office	Pay and general administrative expenses	1,240	1,222	−18	−1.4

Class and vote	Accounting department	Description of expenditure	Cash limit £ thousand	Outturn £ thousand	Over-spend(+) or under-spend(−) £ thousand	Over-spend(+) or under-spend(−) %
19	Department of Transport	Transport supplementary grants ~~(1982-83).~~ : England	456.900	456.900	0	0.0
20	Welsh Office	Transport supplementary grants ~~(1982-83).~~ : Wales	30,000	30,000	0	0.0
	TOTAL CASH-LIMITED VOTES		48.757.092	47.7~~28~~31.823	1.02~~8~~5.269	−2.1

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.

roads and transport, housing, schools, further education and teacher training, personal social services, the urban programme and other

CASH LIMITS 1982–83: OUTTURN

LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND ~~FOR~~ CERTAIN OTHER ~~BODIES~~ EXPENDITURE

Table 5

Department	*Cash block*	*Description of expenditure*	*Cash limit £ million*	*Outturn £ million*	*Over-spend(+) or under-spend(−) £ million*	*Over-spend(+) or under-spend(−) %*
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	−0.9	−1.2
Department of the Environment and Welsh Office	RWA 1	External Financing requirement of Regional Water Authorities in England and Wales	412.3	320.0	−92.3	−22.4
Department of Trade	CAA 1	External financing requirements of the Civil Aviation Authority	34.6	2.5	−32.1	−92.8
Department of the Environment	DoE/HC1	Capital expenditure in England on housing financed through the Housing Corporation	680.0	680.0	0	0.0
Department of the Environment	DoE/LA1	Capital expenditure in England by local authorities on environmental services	3,384.7	2,515.0	−869.7	−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	52.9	−54.6	−50.8
Department of the Environment	UDC 1	External financing requirements of Urban Development Corporations	63.8	63.0	−0.8	−1.3
Home Office	HO/LA1	Capital expenditure by local authorities on police, courts and probation	94.4	81.9	−12.5	−13.2

X

roads and transport, water and sewerage, general services, urban programme, police and social work, schools, further education and teacher training

Department	Cash block	Description of expenditure	Cash limit £ million	Outturn £ million	Over-spend(+) or under-spend(–) £ million	Over-spend(+) or under-spend(–) %
SCOTLAND Scottish Office	SO/LA1	Capital expenditure in Scotland by local authorities on ~~environmental services~~	397.1	~~370.0~~ 375.6	~~–27.1~~ –21.5	~~–6.8~~ –5.4
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	~~406.0~~ 422.8	~~–50.3~~ –33.5	~~–11.0~~ –7.3
WALES Welsh Office	WO/LA1	Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on environmental services, and by the Land Authority for Wales	318.9	250.0	–68.9	–21.6
NORTHERN IRELAND Northern Ireland Departments	NID 1	Services analogous to Great Britain services covered by cash limits	1,854.7	1,849.0	–5.7	–0.3
		TOTAL	7,877.8	~~6,132.8~~ 6,685.3	~~–1,145.0~~ –1,192.5	~~–18.5~~ –15.1

roads and transport, housing, schools, further education and teacher training, personal social services and other

NATIONALISED INDUSTRIES EXTERNAL FINANCING LIMITS 1983-84: PROVISIONAL OUTTURN

Table 6

	EFL for 1983-84		*£ million (1)*
	As in Cmnd 8789	*Revised (NIS and other changes)*	*Latest estimated outturn*
National Coal Board	1,111	1,195	1,183
Electricity (England and Wales)	−312	−418	−484
North of Scotland Hydro-electric Board	7	−2	−20
South of Scotland Electricity Board	283	274	253
British Gas Corporation	−8	−43	−45
British National Oil Corporation (2)	−1	9	10
British Steel Corporation	195	321	318
British Telecom	96	−117	−225
Post Office	−43	−51	−51
National Girobank	—	−1	−1
British Airways Board	5	−58	−174
British Airports Authority	33	33	18
British Railways Board	960	953	811
British Waterways Board	42	41	41
National Bus Company	67	65	65
Scottish Transport Group	19	19	15
British Shipbuilders (3)	150	180	307
Civil Aviation Authority	21	21	−7
Water (England and Wales)	365	359	349
Enterprise Oil (4)	—	—	−65
Total	2,989	2,780	2,296

X

Notes

1. All figures to the nearest £ million.
2. Because of uncertainties associated with oil trading, the BNOC External Financing Requirement is not expressed as a formal limit. 1/c xxx
3. The outturn figure for British Shipbuilders includes all costs associated with Scott Lithgow. The revised EFL excluded these: estimated outturn against that EFL was £174 million.
4. No EFL was set in Cmnd 8789 for Enterprise Oil which first began trading in May 1983, when BGC's offshore oil producing interests were transferred to it. X

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NDPM
AJ 3/8

MR TURNBULL 3 August 1984

INVESTMENT IN THE REGIONS

1. A great deal of money is being spent on investments in the Regions, often not very profitably. As with the National Enterprise Board, (now British Technology Group), the Scottish and Welsh Development Agencies have built up a substantial portfolio of investments. Greater pressure to encourage disposal of them is desirable, to avoid ever-increasing investment of public funds in an assorted portfolio.

2. The portfolios of factory buildings in the agencies could also do with a good shake out to introduce private capital. As a first step, the agencies might be encouraged to spend on new factories no more than they can release by the sale of existing units.

3. Performance in Northern Ireland has been particularly poor since De Lorean and Lear Fan have caused the loss of some £120 million. £76.92 million was invested by the time receivers were appointed in De Lorean and £1.95 million was paid in training grants. A few million pounds may be recovered in the receivership, but it looks as if £70 million was lost. The PAC has investigated this affair and has made many criticisms.

4. Lear Fan is a more recent story. It seems that the total committed to the project is $83 million or, say, £55 million. The figure is not clear in the accounts of the Industrial Development Board or the Northern Ireland Appropriation accounts. Indeed, these accounts show as a 'repayment', £9 million plus interest of £1 million (£10 million). This is an amount which HMG 'released the company from its obligation to repay' under the September 1982 Financial Agreement for Lear Fan. Further 'repayments' from Lear Fan totalled over £9 million. These were loans to the company converted into grants. These grants represented employment grants 'received by the borrower in anticipation of the creation of 1,250 jobs in Northern Ireland'. The factory is now closed and there are no jobs.

CONFIDENTIAL

5. It would be much better for a failure of this kind to be acknowledged frankly rather than covered up in the accounts by 'paper transactions' of this kind. The Industrial Development Board of Northern Ireland should set an example by publishing accounts fully up to commercial standards.

6. Greater care, better monitoring and clearer reporting of performance would all help to get better value for money out of these regional programmes. Too much has been spent, often not wisely; it has not been well monitored. More disposal of buildings and investments could be built into the figures for the PESC round.

David Hobson

DAVID HOBSON

cc MASTER SET

28

10 DOWNING STREET

From the Private Secretary

23 July 1984

PUBLIC EXPENDITURE

The Prime Minister held a meeting today to consider whether there should be an increase in the price of electricity to cover the increased cost of electricity generation as a result of the miners' dispute. Present were the Chancellor of the Exchequer, the Secretaries of State for Energy, Scotland, and Trade and Industry. Also present were Sir Robert Armstrong and Mr. Gregson.

The Chancellor set out the difficult position he was facing on public expenditure. There were already strong pressures on the Reserve and if the strike continued until the end of September it would cost the PSBR £600-700m. If, when it ended, it were decided to continue oil burn to allow stocks to be replenished rapidly, the cost could be even greater. After local authority current expenditure this was likely to be the largest claim on the Reserve. In order to demonstrate the Government's determination to hold public expenditure within the planning total, the increased cost of electricity generation should be reflected in the price to the consumer. To recoup the additional costs in full would require an increase of 10%. He was suggesting, however, an increase of 6% from September which would in effect bring forward by six months the increase he believed was necessary from April 1985. He thought the CEGB could be persuaded to put forward such an increase in its own name.

The Secretary of State for Energy accepted the principle that the consumers should pay for the increased cost of generation as they had, as a result of oil-burn, enjoyed continuity of supply. He questioned whether the cost to the PSBR was as high as the Chancellor had estimated. He thought the Chancellor's figures had been based on a gross cost of oil burn of £50m a week; he now believed the figure to be around £40m a week. Net of various offsets the cost to the PSBR was £12½m a week.

His main reservation was that it would be politically unwise to announce an increase now. First, the ESI was about to report 1983-84 profits of £900m before and £456m after interest. In these circumstances he did not believe it would be possible to persuade the industry to volunteer an increase in prices. The Government would face a difficult task in arguing the case through the consumer councils. Secondly, it would allow the NUM to mount a case that the money being spent on extra oil burn could be better used to keep open uneconomic pits. The reaction of public opinion could not be relied upon. He recommended, therefore, that no increase be made while the strike was continuing but a surcharge should be imposed when it had ended which would be identified as the cost of the dispute.

The Secretary of State for Scotland agreed that the consumer should pay eventually. It would be especially difficult at present to secure an increase in Scotland as the strike had had no adverse effects on SSEB's results as it was exporting the higher cost electricity to the CEGB through the interconnector. The Government had to persuade the miners that they were engaged in a long struggle and to do so it had to demonstrate that the economy was not being damaged by their action. An increase in the price of electricity would make this presentation more difficult.

The Secretary of State for Trade and Industry also agreed that the extra cost should be borne by the consumer. He argued that there were advantages in bringing home to the public now the true cost of the dispute. On balance, though, he favoured delaying any increase as it was uncertain how the public would react.

Summing up the discussion, the Prime Minister said it was agreed that the extra cost of electricity generation should be recouped in full from the consumer either in this financial year or the next. This should be done through an increase over and above whatever was settled for the normal increase for 1985-86. For the time being, the meeting took the view that it would be better to avoid making any increase while the strike continued but to impose a surcharge immediately it had ended. The Chancellor should report again to the group in September.

I am copying this letter to Michael Reidy (Department of Energy), John Graham (Scottish Office), Callum McCarthy (Department of Trade and Industry) and Richard Hatfield and Peter Gregson (Cabinet Office). As with the papers circulated for the meeting no copies should be taken of this letter, it should not be allowed out of Private Offices and officials should be allowed to see it only a strict need to know basis.

ANDREW TURNBULL

David Peretz, Esq.,
H.M. Treasury.

SECRET

27

PRIME MINISTER

ELECTRICITY PRICES

For once I have doubts as to whether the Chancellor's proposal has been presented in the most effective way.

(i) I think it is a mistake to roll together recouping the cost of oil burn with the regular increase required next year. This will allow the industry to argue, with some justification, that the IFR discussions have not yet taken place and the financial target for 1985-86 has not yet been settled. Missing from both Ministerial papers is any discussion of what difference oil burn is making to the rate of return which the industry is earning in 1984-85.

(ii) I do not hold out much hope that the tactic of having this presented as an initiative of the industry will succeed. This is particularly so if, at the same time, emphasis is put on the need to recoup the cost in order to control public expenditure.

(iii) If and when this comes to Cabinet colleagues, I feel Mr. Walker's arguments on the relationship of this to the handling of the miners' strike is likely to prevail.

I have consulted Bernard about the presentation and he believes that the best way is to bring in a separately identifiable surcharge immediately the strike ends which would be seen as "the cost of Scargill".

You will want to consider how to secure wider Ministerial endorsement for whatever conclusions the meeting reaches.

AT

20 July 1984

26

Copy No 1 of 5

SECRETARY OF STATE FOR ENERGY
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Andrew Turnbull Esq
Private Secretary to
the Prime Minister
10 Downing Street
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19 July 1984

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Dear Andrew

PUBLIC EXPENDITURE

David Peretz wrote to you on 16 July and enclosed a memorandum which the Chancellor wished to discuss with colleagues.

I attach a paper which my Secretary of State has prepared in the light of the Chancellor's memorandum. It ought to be subject to the same stringent restrictions on circulation and safeguards as to custody.

I am copying this letter and enclosure to David Peretz (Treasury), John Graham (Scottish Office) and Callum McCarthy (DTI).

Yours sincerely

Michael Reidy

cc Sir Robert Armstrong
Mr Gregson

M F REIDY
Private Secretary

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

Memorandum by the Secretary of State for Energy

1 The Chancellor of The Exchequer's Memorandum proposes an increase in electricity prices of 6% from 1 September in order to raise £250m in 1984/5.

2 As the Chancellor's Memorandum makes clear, the problems he describes about public expenditure in 1984/5 are not primarily the result of the miners' strike. It is not right to say, certainly at this stage, that the miners' strike "stands out", with local authority expenditure, as one of the two areas of upward pressure.

3 On the Chancellor's figures the total prospective overspend on local authority capital and current expenditure is in the range of £2.05bn to £3.05bn against a contingency reserve of £2¾bn. Other items are £½bn already charged to the reserve; £425m for the EC settlement; and £290m for the end-year flexibility conceded last year by the Chancellor. The Chancellor also says that the PSBR costs of the miners' strike to date are about £300m, rising by about £30m a week. This figure consolidates the finances of the CEGB and the NCB and takes account of the second big factor in the net cost calculation beside the oil burn: the £25m a week saving on miners' wages, which is not mentioned in the Chancellor's minute. But it takes no credit for the savings which are so far accruing on NCB capital investment and on RMPS payments. The NCB tell me that if the strike ends on 30 September they would by then have underspent £200m on their capital programme for 1984/5. They would also have underspent £100m (annual rate) on redundancy payments. Even if some of that were later overhauled, we are probably talking of total savings in the region of £250m. It also takes no credit for the fact that the CEGB oilburn has had a significant effect in sustaining the oil market at a time of weakness, and has therefore certainly helped the Exchequer: a difference of 50 cents a barrel on the oil price means about £250m a year to the Exchequer.

4 The conclusion must be that the miners' strike is so far only a minor contributor to incerased public borrowing. The other factors named by the Chancellor total £3bn to £4bn and completely dwarf increased borrowing due to the strike. Even in a public expenditure/PSBR context there is no clear reason, let alone reasons which could be sustained publicly, why costs of this strike ought to be singled out for early attack.

5 But I think it is much more important to look at the proposal to increase electricity prices in the context of the handling of the strike, of public opinion and of the political implications. As the Chancellor recognises, we would have to go through a process of discussion with the industry and of references to Consumer Councils which would take a number of weeks. It is facile to say that I should secure that the proposal for the increase comes from the industry. At the moment the industry's position is that the Government ought to pay for the oilburn. I have not accepted that, but there is no way that I could guarantee to disguise the fact that the proposal for an emergency price increase is coming from the Government. Public opinion and the media would at once characterise this as another instalment of last year's arguments about electricity prices and set about casting Ministers in familiar and unhelpful roles. This impression would be confirmed by public discussion of the 1983/4 results of the electricity industry, which are to be published and presented on 2 August; and which will show profits for 1983/4 of £901m before, and £456m after interest, together with a repayment to the Government of £484m. This is hardly the right background for an emergency price increase.

6 We could rely on Scargill and the Labour Party to exploit a Government-imposed price increase to the full week after week during the consultative process and afterwards. Of course we could say that it was part of the costs which Scargill was imposing on the British people. It would however be perceived as part of the cost of resisting the strike ie of the oilburn; and Scargill would play on that. Obviously he would try to get the consumer on his side and to make as much of a contrast as he could between closing uneconomic pits and charging the consumer for a still more uneconomic oilburn.

He would also make it a golden opportunity to draw as much attention to the oilburn as possible, not least in the hope of inducing other unions to obstruct it. He would play the whole issue for all it was worth in order to give further encouragement to strking miners to stay out.

7 I think it would be a first-class political and industrial "banana-skin" for the Government to launch into this argument. The best course is to review the position as soon as we reach the end of the strike and when we face the costs of restocking. If it is then demonstrated that there is a need for a price increase for strike costs, it would be politically much better to label the increase a "strike surcharge" for a specified period, and not to confuse it with normal increases for the industry. That would avoid the appearance of opportunistic raising of money from consumers by bringing forward a future increase, the case for which has yet to be made out. It would also avoid the political trap of trying to argue before the Consumers Councils for an increase on account of the strike in a form which required them to settle next year's increase first - and before we or the industry have determined the financial framework for that year in the IFR.

P W

19 July 1984

Public Expenditure file

AT 19/7

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

19 July 1984

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew,

As you requested last night, I have asked officials to check whether the information and arguments in table 4.5 of the PEWP on capital expenditure on construction work are still valid. You will see from the attached note that the figures quoted were not, in fact, entirely accurate; revised tables have now been published. This has the effect, I fear, of slightly reducing the cash figures for the years 1982-83 onwards. The figure of £5 billion for total expenditure on repair and maintenance in 1982 is still valid, as is the fact that public accounting conventions require us to classify all defence expenditure as current.

The Chancellor did make a brief reference to the repairs and maintenance point in his wind-up speech in the Budget debates; he discussed the treatment of defence expenditure during the debates on the Autumn Statement on 24 November.

Yours ever,

Judith

Miss J C Simpson
Private Secretary

ECO POL
Public
expenditure

BlOP 2077.

From: M S Stock
19 July 1984

MISS SIMPSON

cc Mr Stibbard
Mr Andren
Mrs Todd

CONSTRUCTION INDUSTRY CAPITAL EXPENDITURE: PEWP TABLE 4.5

Further to your telephone enquiry, the figures for Table 4.5 of the PEWP were unfortunately incorrect, due to a production error. I enclose a copy of the amended table at Annex A. This has been published.

2. I also enclose at Annex B a copy of the relevant page of the Survey Report. This is confidential and is included as background. The totals for 1981-82 up to 1984-85 for the two tables are very close.

3. The figure of £5 billion on repair and maintenance in 1982 stands. However the PEWP, as drafted, is incorrect since it claims that repair and mainteance is now half of all public sector expenditure ie

Capital Contracts	£10.5 billion
Repair and Maintenance	£10.5 billion

This is quite wrong. Repair and maintenance is about half of the capital figure ie around £5 billion.

4. It is valid to say that repair and maintenance contracts represent additional expenditure by the public sector to the value of about 50 per cent of the capital contracts.

Michael Stock.

M S STOCK

Annex A

4.5 Capital expenditure on construction work

Table 4.5 — £ million cash

	1978-79 outturn	1979-80 outturn	1980-81 outturn	1981-82 outturn	1982-83 outturn	1983-84 estimated outturn	1984-85 plans
Direct public expenditure on new construction							
Housing — new dwellings and improvements	2,138	2,454	2,362	2,007	2,328	2,345	2,331
Other environmental services	572	720	888	828	929	943	966
Transport	900	1,113	1,266	1,368	1,661	1,547	1,698
Education and Science, Arts and Libraries	380	433	536	485	436	426	365
Health and personal social services	399	483	629	764	782	806	892
Other(1)	298	393	414	427	436	484	556
Total direct public expenditure on new construction	**4,687**	**5,596**	**6,095**	**5,879**	**6,572**	**6,551**	**6,808**
Grants and loans to housing associations and improvement grants	679	816	940	1,018	1,549	1,919	1,652
Expenditure on new construction identified within the planning total(2)	**5,366**	**6,412**	**7,035**	**6,897**	**8,121**	**8,470**	**8,460**
Nationalised industries							
Electricity	186	227	284	316	426	348	294
Gas	162	202	304	263	207(4)	169(4)	237(4)
Railways	200	146	155	143	104	132	163
Coal	165	221	324	346	358	319	340
Water authorities	534	589	673	666	687	733	732
Other(3)	226	165	201	235	218	350	380
Total expenditure on construction by nationalised industries	**1,473**	**1,550**	**1,941**	**1,969**	**2,000**	**2,051**	**2,146**
Grand total	**6,839**	**7,962**	**8,976**	**8,866**	**10,121**	**10,521**	**10,606**

(1) Defence: agriculture: industry, trade, energy and employment: law, order and protective services: office and general accommodation: some expenditure on new construction for military purposes is classified as current expenditure.
(2) See Table 4.4 for details of all capital expenditure within the planning total.
(3) Certain capital expenditure by the British National Oil Corporation and Enterprise Oil which is classified in the accounts as new buildings and works has been excluded from this table since little of the work is produced by the construction industry. The "nationalised industry" figure for 1984-85 includes planned spending on construction by British Telecom.
(4) These figures have been revised to exclude BGC's expenditure on offshore platforms which is included in the corresponding totals in Table 4.5 of the 1984 Public Expenditure White Paper (Cmnd 9143)

May 1984
LONDON: HER MAJESTY'S STATIONERY OFFICE.

CONSTRUCTION TABLE

Annex B

CONFIDENTIAL

ANNEX C

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
CAPITAL EXPENDITURE ON CONSTRUCTION WORK							
(Inside the Planning total)							
Direct public expenditure on new construction							
Housing - new dwellings and improvements	2008	2377	2416	2314	2235	2338	2420
Other environmental services	828	929	932	969	942	955	979
Transport	1359	1640	1544	1700	1765	1843	1889
Educations & Science, Arts and Libraries	485	473	426	363	382	390	400
Health and personal social services	764	782	854	894	931	968	992
Other	409	437	494	523	605	619	635
TOTAL direct public expenditure on new construction	5853	6638	6666	6763	6860	7113	7315
Grants and loans to housing assoc. and improvement grants	1029	1571	2059	1668	1561	1547	1551
Expenditure on new construction identified within the planning total	6882	8209	8725	8431	8421	8660	8866
(Outside planning total)							
Nationalised industries							
Electricity	316	426	348	305	233	194	194
Gas	263	207	169	286	196	172	172
Railways	143	104	132	133	183	163	163
Coal	346	358	319	340	334	320	320
Water authorities	666	687	733	736	766	822	843
Other	235	218	278	392	296	222	226
TOTAL expenditure on construction by nationalised industries	1969	2000	1979	2193	2008	1893	1918
TOTAL CONSTRUCTION:	8851	10209	10704	10624	10427	10553	10784

7.43

SECRET AND PERSONAL

Prime Minister ① 25

Chancellor has made his proposal on electricity prices. Agree l arrange a meeting?

AT 16/7

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

16 July 1984

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

1700 Monday

Dear Andrew

PUBLIC EXPENDITURE

I attach a note which the Chancellor would like to discuss with the Prime Minister and other colleagues.

In view of the sensitive subject matter the Chancellor thinks it important that no copies should be taken of the note, that the note should not be allowed out of private offices, and that officials should only be allowed to see it on a strict need to know basis.

I am sending copies to Callum McCarthy (DTI), Michael Reidy (Energy) and John Graham (Scottish Office).

Yours ever
David

D L C PERETZ
Principal Private Secretary

cc Sir Robert Armstrong
N Gregson

SECRET AND PERSONAL

PUBLIC EXPENDITURE AND ELECTRICITY PRICES

Memorandum by the Chancellor of the Exchequer

As colleagues are aware, the public expenditure outlook for the current year, 1984-85, is distinctly worrying. There is upward pressure in a number of areas, but two stand out: local authority expenditure, both current and capital, and the cost of the miners' strike.

2. The public expenditure Reserve began the year at £2¾ billion. Although under £½ billion - mainly on Health Service Review Body pay awards, launch aid, and the redundant miners' payments scheme - has so far been charged formally to the Reserve, local authority current expenditure is likely to take up a further £1.8 billion, and an additional £425 million will be required for the EC settlement. Beyond that there are many other bids, some of which will be irresistible - including £290 million for end-year flexibility. On top of all this is the huge prospective overspend on local authority capital - now put in the range £¾-1¼ billion.

3. We have discussed separately the prospective overspend on local authority capital expenditure and have agreed that urgent action has to be taken to reduce it.

4. Meanwhile, the miners' strike has cost the public sector about £300 million to date and these costs are mounting at a rate of some £30 million a week. The CEGB's bill for additional oil to the end of June was some £450 million. At the same time they used less coal and, taking this into account, their net extra costs to the same date were some £250 million, a figure that is rising at some £20 million a week. The CEGB's savings are, however,

no help to the PSBR, since savings from using less coal are offset in PSBR terms by a corresponding reduction in NCB sales. Moreover, as and when coal stocks are rebuilt after the strike, the CEGB will find that their present savings on coal purchases are reversed and eliminated.

5. As noted above, these extra costs cannot be met from the public expenditure Reserve. We have, of course, so far deferred considering whether an increase in electricity prices to recover at least part of these costs is needed. But the reasons for such deferment are no longer valid, and further delay now will severely limit the extent to which costs can be recovered in 1984-85. The need to consult the Consumer Councils means that, in any event, it takes about 6 weeks to bring electricity price increases into effect.

7. In these circumstances I believe that the time has now come to look for an early increase in electricity prices. There are various ways in which this could be done, but in my view the best approach would be for the electricity industry to bring forward the price increase normally due in April 1985. No decisions have yet, of course, been taken on the size of that increase, or on the ESI financial target for 1985-1986 and for future years.

8. As the costs of electricity generation are now some 10 per cent higher than expected, this in itself would justify a 10 per cent price rise. But I would not press for so large a figure: it may be right for the industry temporarily to bear part of the cost itself, even though that increases our difficulties with public expenditure.

9. An increase of 6 per cent from the beginning of September for all consumers would produce roughly £250 million in 1984-85. It would add a little under 0.2 percentage points to the RPI, but this would be simply bringing forward a rise that would

in any case have followed an electricity price increase in 1985. On the ESI's present figures for 1985-86, it would represent a return of something over 2 per cent - similar to that expected for the period of its current financial target, before the miners' strike.

10. The Secretary of State for Energy will clearly wish to ensure that the increase is announced by the electricity industry itself and presented as essential to offset the additional cost the industry is incurring to ensure uninterrupted electricity supply to its customers.

11. The financial markets are, of course, well aware of the burden on the public finances that oilburn is imposing, and evidence that this will not be met by increased Government borrowing will have a beneficial effect on confidence.

N.L.
16 July 1984

23

Ref. A084/1902

PRIME MINISTER

Economic Outlook and Public Expenditure
(C(84) 16-18)

BACKGROUND

On 5 July the Cabinet will have their customary initial 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 three papers on the agenda:

(a) C(84) 17: the Chancellor of the Exchequer's memorandum on economic prospects.

(b) C(84) 18: the Chief Secretary, Treasury's memorandum on public expenditure in 1984 and Civil Service manpower.

(c) C(84) 16: a further memorandum by the Chief Secretary, Treasury on contracting out in the public services.

Economic Prospects

2. C(84) 17 shows few changes from the forecasts produced at the time of the Budget in March and published in the Financial Statement and Budget Report (FSBR). The main differences relate to international developments: the six major OECD countries other than the United Kingdom are forecast to grow at 5 per cent in 1984 (FSBR 4 per cent); and world trade is forecast to increase by 6 per cent (FSBR 5 per cent). Associated with this is an increase in forecast United Kingdom exports of goods and services of 6½ per cent (FSBR 5 per cent). This offsets a rather lower forecast increase in domestic demand: consumers' expenditure is now forecast to grow at 2½ per cent (FSBR 3 per cent) and fixed investment by 6 per cent (FSBR 6½ per cent). The forecast increase in total output remains constant at 3 per cent. The main anxiety, as at the time of the Budget, centres on the United States deficit and the risk that this creates of higher interest rates. Domestically, the Chancellor of the Exchequer suggests

that the main cause for concern is continued excessive wage settlements, which are preventing unemployment from falling despite increases in output and low inflation.

3. The Chancellor does not suggest that the economic outlook poses a threat to the Government's published plans and financial strategy. But he stresses the fragility of sentiment in the financial markets and the need for continued firm control of public expenditure.

Public Expenditure Survey

4. The baseline figures for the current survey are as follows:

	1985-86	1986-87	1987-88
		£ million	
Programmes in Cmnd 9143	130,330	133,930	
Sales of assets (net)	- 2,000	- 2,000	
Reserve	3,750	4,750	
Planning total in Cmnd 9143	132,080	136,680	
Agreed changes (a)	- 361	- 388	
1984 Survey baseline	131,719	136,292	139,005

(a) Mainly reduction in National Insurance Surcharge

5. There are large bids, net of reduced requirements, in each year.

Departmental programmes	2,644	2,950	5,615
Nationalised industries	892	1,330	1,315
Local authority current expenditure	1,500	1,500	1,500
Total	5,036	5,780	8,430

6. The Chief Secretary, Treasury proposes that the aim of the survey should be to maintain the baseline figures for 1985-86 and 1986-87. For 1987-88, the baseline for which was constructed by increasing programmes, with the main exception of expenditure in the Falkland Islands, by 2½ per cent, he proposes that the figure should be £140.4 billion: this figure results from using an uplift

factor of 3 per cent rather than the 2½ per cent just mentioned. The figures include reserves of £3 billion in 1985-86, £4 billion in 1986-87, and £5 billion in 1987-88.

7. The Chief Secretary does not, as he did last year, give any indication of which bids he thinks are likely to have to be accepted. But it is clear that an overspend of the order of £1 billion a year, compared with the provision in Cmnd 9143, on local authority current expenditure is virtually unavoidable; the figures for our net contribution to the Community budget, though subject to forecasting errors, cannot be changed by policy decisions; and much of the increase in social security and other demand-determined expenditure is likely to prove unavoidable. A small part of the prospective increase can be absorbed by the reserve (rolling the figures forward from the 1983 survey in effect produces savings of £0.75 billion in each of 1985-86 and 1986-87). But it is clear that in order to bring the figures back to baseline while absorbing those increases which are unavoidable difficult decisions will be needed.

Civil Service Manpower

8. The Government's published objective is to reduce Civil Service numbers to 593,000 by 1 April 1988. Although bids from Departments suggest that this target should be hit, they are asking for numbers slightly higher than the published figures for intermediate years. Even for 1988 there are bids on the contingency margin of 7,500 which suggest that the target may not be hit. The Chief Secretary proposes that the contingency margin should be increased to 10,000 and that the aim should be to produce a significant reduction in the figure of 593,000.

Running Costs

9. Departmental running costs (pay, provision for superannuation, and general administrative expenses) amount to some £16 billion a year, less £2 billion of receipts; the figures include the armed forces. Every year since 1979-80 running costs have increased by more than the general rate of inflation, despite pay settlements below the rate of inflation and reductions in Civil Service numbers.

I understand that the Treasury have been considering trying to tackle the problem by setting explicit targets for running costs, but have rejected this solution because it is technically difficult to reconcile it with the other (fairly numerous) control systems applied to Departments and could be hard to square with expenditure provisions based on pay factors set deliberately low in order to protect the Government's position in pay negotiations with the Civil Service trade unions. However, the Chief Secretary does suggest that Departments should at least produce forward estimates of running costs to provide a basis for discussion when the 1985-86 Supply Estimates are settled this winter.

Contracting Out

10. C(84) 16 is essentially a progress report, with some fairly generalised proposals designed to keep up the pressure on Departments and other public sector bodies. As the memorandum suggests, the Secretary of State for the Environment is due to report to the Ministerial Sub-Committee on Economic Affairs (E(A)) on 25 July on contracting out in local government.

MAIN ISSUES

11. The main issues before the Cabinet arise on C(84) 18:

(i) Do the Cabinet agree with the planning totals proposed by the Chief Secretary, Treasury as the aim for this year's public expenditure survey?

(ii) Do the Cabinet agree with the Chief Secretary's proposals on Civil Service manpower and running costs?

Although less extensive discussion should be required, you will also wish the Cabinet to consider the progress report on contracting out in C(84) 16.

The Public Expenditure Survey

12. It seems unlikely that many members of the Cabinet will suggest that the Government should abandon the planning figures published in Cmnd 9143. The main points likely to be raised in discussion are probably those discussed in paragraphs 13-15 below.

Pay

13. There are two points on pay that may be raised. First, some members of the Cabinet may take up the remarks in paragraph 10 of C(84) 17 and suggest that the Government should be doing more to try to influence outside pay settlements. Secondly, it may be suggested that, in particular, recent experience with the pay review bodies and the teachers' pay negotiations show that the Government is basing its expenditure plans on unrealistic assumptions about likely public service pay settlements and that the public services will not in the end continue to accept pay settlements lower than the economy. There is no need to resolve such points tomorrow, should they be raised: it is usual to consider whether there should be an explicit public expenditure pay factor, and if so what it should be, in September. But to the extent that the points are valid they imply that it would be prudent, at this stage of planning, to maintain a fully adequate reserve.

The Reserve

14. The Chief Secretary proposes a reserve of £3 billion in 1985-86, £4 billion in 1986-87, and £5 billion in 1987-88: £0.25 billion more than the reserves for the corresponding years of last year's survey. These figures may seem large by comparison with past years; but they now cover all expenditure overruns, and not only those resulting from policy decisions by central Government. Moreover, experience this year - for which the reserve is already fully committed - does not suggest that it would be wise to use lower figures. Indeed, if other things were equal, there would be a good case for increasing the Chief Secretary's proposals. But the figures for local authority current expenditure likely to result from this year's survey should be more realistic than in past years; and this should reduce the extent of likely calls on the reserve.

Figure for 1987-88

15. The survey baseline for 1987-88 was produced by increasing the figures for 1986-87, with a few exceptions, by 2½ per cent.

The Chief Secretary proposes a planning figure which is slightly higher. This is produced by using 3 per cent as the uplift factor. Two points may be raised:

(a) The Chief Secretary's proposed relaxation applies to the total, not to individual programmes: the baseline figures for individual programmes would continue to use the factor of 2½ per cent. It may be suggested that this is inconsistent. If so, the Chief Secretary can be expected to reply that the aim of his proposal is to give more room, within an acceptable planning total, for dealing with unavoidable bids and reordering priorities, not to shift the starting point for all departmental bids upwards.

(b) The projection of the public sector borrowing requirement in Table 2.4 of the FSBR showed a public expenditure planning total in 1987-88 of £141½ billion - say, a 3½ per cent uplift. Some Ministers may ask why the current proposal is lower. The reply will be that Treasury Ministers do not consider it prudent, in the light of all the uncertainties, to recommend a higher planning total than £140.4 billion. No doubt they will point out that it is always easier to increase public expenditure than to reduce it. They are also likely to make the point that the figure for 1986-87 (the last year of the 1983 survey) was essentially based on an uplift of 3½ per cent: it would not be easy to square using the same factor this year with falling inflation forecasts and the policy of not allowing public expenditure to rise in real terms.

Civil Service Numbers

16. The Chief Secretary's concern about manpower numbers is understandable, as is his belief that Government should be able to do better than achieve the agreed targets to 1988. It is however very difficult to assess the scale of the problem without knowing the up-to-date assessments of the need for staff in the Ministry of Defence and the Property Services Agency in the survey period. These Departments should be pressed for early

clarification of their needs, so that the Cabinet can return to the issue later in the public expenditure round. Some Ministers are likely to emphasise that, while they fully accept the desirability of reducing manpower as far below the target figures as possible (whether through greater efficiency or greater contracting out or hiving off) it would be very disruptive of departmental planning to seek to set new public control numbers so soon after last autumn's announced decision.

Running Costs

17. Running costs represent about 12 per cent of Government Departments' expenditure, and are directly under departmental control. At present we have a backward-looking annual scrutiny of running costs. The Chief Secretary proposes that this should be replaced by a forward-looking scrutiny. I believe that it would be a pity to lose the retrospective examinations of real running costs which we now have and which are based on fact not estimation. But the two concepts are not alternatives; they should be mutually supportive.

18. Ministers are unlikely to oppose a forward look at running costs, but two points may be raised:

(a) It may be suggested that in view of the substantial real increases in departmental running costs that have taken place in recent years, both in total and in costs per head, something more stringent is required. The Chief Secretary may well accept that there is force in this point; but he is likely to argue that there are genuine difficulties in trying to impose yet more control systems on Departments, especially when the Government is trying to give the departmental managers more freedom and responsibility through the Financial Management Initiative. The Cabinet may well feel that a more stringent system should be examined as a longer-term aim, but should not be imposed on Departments at this stage.

(b) Contrariwise, some members of the Cabinet may be concerned that the "forward-looking scrutiny" may be operated unrealistically. They are likely to be particularly concerned that they may be asked to produce figures based on an optimistic pay factor and then be held to them even if a pay settlement above the factor is agreed. They will fear that a forward look will slip over into a control number. Departments can operate with two control numbers - cash limits and manpower ceilings - but the introduction of further sub-controls would diminish flexibility and devalue the doctrine of the cash limit. I understand that the Chief Secretary is well seized of these points and will be briefed to offer reassurances.

Contracting Out

19. Again, there is unlikely to be much disagreement with the proposals in C(84) 16. You will probably wish to underline the political importance of continuing to make progress, and to back the requests to the Secretary of State for the Environment and the Secretary of State for Social Services to come forward in good time with reports on local government and the National Health Service respectively.

HANDLING

20. You will wish to invite the Chancellor of the Exchequer to open the discussion by describing the current 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

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

(i) Do the Cabinet agree that the aim of the 1984 public expenditure survey should be to arrive at planning totals of £131.7 billion, £136.3 billion and 3% £140.4 billion for the three years 1985-86 to 1987-88? £141.5

(ii) Do the Cabinet agree with the Chief Secretary's proposals on manpower: in particular, that the contingency margin for 1 April 1988 should be increased to 10,000, and that the aim should be to reduce Civil Service numbers by that date below 593,000?

(iii) Do the Cabinet agree that there should be a forward-looking scrutiny of running costs?

(iv) Do the Cabinet endorse what is said about contracting out in C(84) 16?

On the basis of (i)-(iii) above, you will wish to invite the Chief Secretary, Treasury to hold bilateral discussions with spending Ministers and to bring forward further proposals to the Cabinet in the autumn.

RA

Approved by
ROBERT ARMSTRONG
and signed in his absence.

P.S It will be necessary to agree a form of words for the Press and your Questions. Bernard and Treasury have been in touch and agreed the line in the attached minute

AT
4/7

4 July 1984

10 DOWNING STREET

Prime Minister

You will need to discuss procedure for securing agreement of colleagues.

On the substance

(i) what rate of return would the increase produce in 1984-85 and how does that relate to the 1.4 per cent target already set?

(ii) what rate of return is implied in 1985-86?

(iii) should the increase be separately identified or rolled in?

(iv) does increase need to be as big as 6 per cent?

AT 4/7

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Mr A Turnbull
10 Downing Street
LONDON
SW1

4 July 1984

Dear Andrew

PRESS HANDLING AFTER CABINET TOMORROW

Robert Culpin and Bernard Ingham have already been in touch about the line which it is proposed Bernard Ingham should take with the press after tomorrow's Cabinet meeting. The Chief Secretary has seen the formula in Mr Ingham's minute of this morning. This is on the right lines but he would prefer a formula including a reference to 1987-88. I attach a redraft at Annex A that you may wish to show the PM.

In case journalists ask supplementary questions, the Chief Secretary thinks it would be useful to ensure that the Treasury and No. 10 Press Offices are working on the same lines. I attach a brief at Annex B.

Yours sincerely

JSG.

JOHN GIEVE
Private Secretary

ANNEX A

The Cabinet today had its usual July discussion of the next public expenditure review for 1985-86 to 1987-88. It confirmed that aggregate public expenditure in 1985-86 and 1986-87 should be held to the established plans: and agreed that the total for the new year, 1987-88, should be broadly at the 1986-87 level in real terms. The Chief Secretary will now embark on discussions with individual Departments in the light of this decision.

ANNEX B

There may be enquiries about what is meant by the Cabinet's decision to stick to existing expenditure plans for 1985-86 and 1986-87. This means that the Cabinet has confirmed public expenditure planning totals of £131.7m and £136.3m respectively - ie. the February Public Expenditure White Paper (Cmnd 9143) figures, abated to take account of the abolition of the National Insurance Surcharge. There may also be questions about whether the Cabinet has agreed upon any objectives for the Reserve. We suggest that the line here should be to say that the Cabinet agreed that realistic and adequate Reserves should be provided for the three forward years; and that that decision means in practice Reserves not very different from those set last year.

2. There may also be interest in whether the Cabinet discussed public expenditure in the current year. If, as seems quite likely, the Cabinet does not discuss 1984-85 at all, it will be best to say just that; but if there is some discussion of the current year the best line to take would be that the Cabinet was considering the 1984 Public Expenditure Survey, so that its discussion focussed on the three forward survey years, ie. 1985-86 to 1986-87. Further material on 1984-85 was sent over to No 10 yesterday, as briefing for Qeustion Time.

3. If there are questions about manpower our line should be that the Cabinet agreed to improve upon, as far as possible, the planning figures published in Cmnd 9143 (ie. a Civil Service of 593,000 by 1 April 1988). There may, too, be questions about whether a pay factor was discussed. Here we suggest that the line should be (if this turns out to be true) that there was no discussion of a possible pay factor for 1985-

86, but that the Cabinet's consideration of this has in earlier years come somewhat later in the Survey. Finally, there may be questions about the size of the total bids in this year's Survey, where most press speculation so far has been wide of the mark. The line here, we suggest, is that this year, as in other years, there are sizeable additional bids from spending departments. This is perfectly normal and there are no great differences between what is happening this year and what has happened in earlier Surveys.

4. It may be confirmed that, as usual, the review was considered against the background of a report by the Chancellor on the economic prospects. This suggested no very great changes in the economic prospects from those which underlay the Budget [Naturally the Cabinet welcomes the evidence of continuing economic recovery, low inflation and growth of output, and reaffirmed their commitment to the economic strategy which has brought them about.]

SECRET

21

PRIME MINISTER

29 June 1984

PESC CABINET

Public Expenditure in 1985-86

The baseline of public expenditure planned for 1985-86 is £131.7 billion. This is the figure the Treasury will be trying to stick to. Departments have put in additional bids totalling about £7 billion.

After allowing for the frivolous claims that will be in there, some of the bids may prove to be irresistible. The health pay reviews add £400 million; DTI agreed items £100 million; higher unemployment and price increases add £600 million to DHSS; the EEC settlement £200 million; and local authorities may well absorb £1,000 million or more - at present they are overspending substantially - and other items come to around £700 million.

If this is true, we will need to find £3 billion of offsetting reductions:

- £0.75 billion could come from reducing the Reserve for 1985-86 to £3 billion, which is the prudent minimum for getting through the year.

This year experience does not bear this out.

SECRET

* due next week

- Maybe another £0.75 billion from certain "soft" targets. The agriculture review* and implementing the regional policy review should help. Industrial support, housing expenditure and education (in view of falling rolls) are three other possible areas.

- The DHSS will have to find savings. On the health side, Griffiths should be made to deliver more economies. An early outcome to the benefit reviews is all the more important.

- The remaining gap will finally have to be bridged by across-the-board cuts in all cash-limited expenditure.

1985-86 is the key year: if our general strategy of lower taxes and interest rates is to work, public expenditure must be held in 1985-86.

Civil Service Manpower

Civil Service numbers were reduced by 100,000 (or 14%), from 730,000 in 1979 to 630,000 in April of this year. It is expected that numbers will fall by only 37,000 (6%) in the next four years, to 593,000. A Treasury analysis of these changes is shown below.

PLANNED MANPOWER CHANGES

	Reductions*	Increases*
Privatisation/Hiving off	20,500	-
Improved Efficiency	27,600	-
New Technology	7,700	-
Changes in Work Load	-	11,650
Prisons' (working hours reduction)		3,650
Changes in Functions	1,700	1,500
Contingency	-	6,140
Net Change for Smaller Departments	2,700	
Gross Changes	60,200	22,940
Net Change	37,260	

* Based on 10 large Departments, accounting for 85% of total manpower.

These figures reveal that:

i. **privatisation accounts for over half** of the planned net reduction (20,500 out of 37,260);

ii. only 1,700 jobs are to be shed through dropping **functions**; almost as many (1,500) are added back by acquiring **new** ones;

iii. the work load is expected to increase over the next four years, by around 11,000 man-years (more if the contingency is included);

iv. productivity growth is only estimated at 1.4 per cent a year.

Productivity

With FMI, couldn't the Civil Service achieve a productivity growth comparable to that in the private sector, say 2.5%? A 2.5% rate of productivity growth over the 4 years would achieve manpower reductions of 10%, equivalent to additional savings of around 28,000.

It will, of course, be claimed that Civil Service work is fundamentally different, and does not lend itself to this kind of targetting. We doubt the truth of this advice.

Policy

The Government is committed to privatisation, deregulation, contracting out, lighter government, a greater role for the market. Yet leaving aside privatisation, the manpower projections to 1988 anticipate almost the same numbers to carry out functions. Are there mismatches between policy on the one hand, and Departmental commitments as expressed in their manpower targets? For example:

- Transport now has substantial plans to deregulate and might now revise its manpower targets. It currently plans to reduce manpower by only 0.3% by 1988, compared to the average planned reduction of 6% for the Civil Service as a whole.

- DHSS proposes to implement the Griffiths proposals for managing the NHS. Could DHSS make do with 200 central administrators, rather than 2,200, once the new management team are in place?

Is there scope for more ambitious manpower targets on the basis of agreed policies? Could we not aim for additional savings of 15,000 from this source?

A function which is overmanned is "sponsorship". DTI and MAFF employ a total of around 20,000 people on sponsorhip ie promotion, support, advice, as distinct from regulation. The spending policies which emerge from sponsorship are very much at odds with a policy of leaving decisions to the market. Sponsorship distorts governmental processes in favour of the favoured client groups. For example, MAFF deploy 80 or so staff to represent farmers on planning enquiries, and DHSS sponsors drug companies who then swell the drugs bill. Sponsor departments delay progress on privatisation and the competition initiative. Additional savings of around 5,000 might be achieved here.

Manpower Conclusion

The additional savings totalling 43,000 which are illustrated above would bring the Civil Service numbers down to 550,000 by 1988. This rate of decline - 2.5% a year - is well below the rate of natural wastage (8% in recent years).

Contracting-out

We agree with the Chief Secretary that Departments should be required to identify functions suitable for contracting-out, and to test the market for tenders. All departments could consider allowing competitive tenders for items like:

1. Architectural design and quantity surveying
2. Catering
3. Cleaning
4. Computing
5. Information and Public Relations
6. Laundry
7. Maintenance - buildings and land
8. Physical security
9. Printing (large jobs)
10. Vehicle provision and maintenance

Particularly big targets include:

- naval ship repair and maintenance
- NHS support services
- PSA and Crown Suppliers
- National Savings

But we doubt whether a simple "requirement" of the sort suggested by the Chief Secretary will be enough to stimulate rapid and positive action.

We recommend that the Treasury should also use a financial lever to achieve fast results. The Chief Secretary could include in his PESC letters to each Secretary of State:

a. a warning that the government's public expenditure targets can be met only if departments take rapid action to reduce administrative overheads;

b. examples of areas in which such overheads have been substantially reduced by competitive tendering;

c. a statement that additional bids will be seriously entertained only if they are matched by evidence that the department in question is taking positive steps to identify services appropriate for tendering;

d. a request that the Secretary of State should either plan to introduce competition for, say, 10% of his functions, or else explain why he is unable to do so.

Nationalised Industries

Peter Rees is right to draw attention to the need to make a sharp reduction in the bids from the nationalised industry area, and to say that the main part of this correction should take place through reducing costs. There is also, as he points out, considerable scope for squeezing working capital, selling assets and cutting out loss-making new investment programmes. We should avoid returning to using price increases in the nationalised industries as a surrogate method of taxation. However, it would be reasonable to encourage price increases in line with inflation, and we could sell the policy on the basis that the nationalised industries were holding their real price levels.

Conclusion

We need to hold to published targets for public expenditure.

To do so we need to deliver substantial savings in this PESC round.

Manpower targets need reinforcing: 550,000 would be a good target for 1988. The nationalised industries should be reined back.

The task could be made easier by a renewed drive on contracting-out, competition and privatisation which will reduce functions and lower costs throughout the public sector, whilst offering a positive message. (plus a renewed drive on selling surplus land in the public sector)

JOHN REDWOOD

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PRIME MINISTER

27 June 1984

PUBLIC EXPENDITURE

Peter Rees is right to suggest:

1. More rigorous manpower targets. Between 1983 and 1987, there will only be a reduction of 200 jobs in the total central government machine as a result of changing functions.

During the Public Expenditure Survey negotiations, it would be helpful to stress the need for better results on manpower, and even to introduce lower targets for each department, which they have to meet or show good reason why they cannot.

2. Peter Rees is right to draw attention to the need to make a sharp reduction in the bids from the nationalised industry area, and to say that the main part of this correction should take place through reducing costs. There is also, as he points out, considerable scope for squeezing working capital, selling assets and cutting out loss-making new investment programmes. We should avoid returning to using price increases in the nationalised industries as a surrogate method of taxation. However, it would be reasonable to encourage price increases in line

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with inflation, and we could sell the policy on the basis that the nationalised industries were holding their real price levels.

3. <u>Contracting-out</u> is a productive area for investigation. The paper as drafted does not take us any further forward in terms of delivering action. It is vital that the new Griffiths reorganisation of the Health Service treats this problem seriously. In order to encourage contracting-out in central government, Peter Rees might produce a paper on the areas where it could be best pursued, the advantages that would result, and the way in which it can be built in to the public expenditure exercise.

4. <u>Local authorities</u>. Local authority expenditure is still a mess. Leaving it to E(LA) may not produce the desired results, as there is an in-built majority against the Treasury view, and a lack of grip on the financial complexities involved. Should it not be brought to Cabinet as soon as possible, with the Treasury producing an incisive paper on what is needed to control local authority expenditure, and what will happen to colleagues' departmental budgets if the local authority pressures are not abated?

John Redwood

<u>JOHN REDWOOD</u>

cc JR

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

PRIME MINISTER

PUBLIC EXPENDITURE 1984-85

Peter Rees is sending you today the paper on public spending he proposes to circulate for the 5 July Cabinet.

2. I also have it in mind to circulate the usual short background paper on the economic prospects. I attach a draft. It is designed to provide a context for the Cabinet's discussion of public spending.

3. My paper does not, because of the risk of leaks, reveal in detail the latest Treasury forecast. Although the forecast suggests a PSBR outturn this year lower than that projected at Budget time, this is due to an expected rise in tax revenue (chiefly from the North Sea). The public expenditure position remains very worrying indeed. When I minuted you last month about this I said that the latest forecast suggested an overspend of £½ billion. That forecast has now hardened up, and - more disturbing still - there are a number of factors which could mean a substantially worse outcome. For example, there are new uncertainties about local authority expenditure, where we have just learned of a very large prospective overspend on capital in addition to the £1.8 billion overspend on current. Moreover, the forecast assumes that the miners' strike will be over at the end of July.

4. I hope that we can discuss later this week what action we need to take. I do not think it would be right to propose an across-the-board cash limits reduction, of the kind we

announced in July last year. But we will need stern decisions on the local authority front; and the case for an early electricity price increase to recoup the additional cost of oil burn is now, in my view, very strong indeed.

N.

(N.L.)
26 June 1984

CONFIDENTIAL

Draft

Economic Prospects

Memorandum by the Chancellor of the Exchequer

The outlook for United Kingdom growth and inflation over the next two years remains much the same as at the time of the Budget, but the pressures on the world economy from United States policies are a cause for continuing concern. At home, the main danger to an on the whole encouraging prospect lies not in the miners' strike, whose economic consequences have so far been modest, and will in any event be only temporary, but in the relentless pressure for higher public expenditure.

World economy

2. Growth in the world economy is proceeding much as expected, with recovery continuing in the major industrial countries. In the year ahead output may rise at a somewhat slower pace, with some slackening in the recent hectic pace of US growth more than offsetting a steady pick-up in Europe and Japan. This reflects the fact that with the exception of the UK which led the way out of recession, the recovery started rather later outside the US. Overall output in industrial countries may grow by around 4½ per cent this year.

3. Inflation among OECD countries now averages about 5 per cent, with particularly low rates - lower than our own - in the United States, Germany and Japan. It may remain at around that level for a while, with some slight rise in the United States offset by lower inflation in Europe.

4. Better growth, with continuing low inflation, is helping world trade. This is now recovering well and is expected to rise by around 6 per cent this year and next, with particularly rapid growth in imports into North America. The recovery will be especially welcome to the non-oil developing countries, whose rising export revenues should to some extent help to ease their debt problems.

5. But the international prospect remains a source of considerable concern. The heart of the problem is the high level of US interest rates - both nominal and real - resulting from the size and persistence of the US deficit. So long as it remains substantially unchecked, there will be a major question mark over the sustainability of the recovery. US interest rates have risen sharply in recent months, greatly exacerbating the international debt problem. This rise has been reflected, though to a much lesser extent, in many other countries, including our own, with some of the strain showing up in a further increase in the value of the dollar on the foreign exchanges.

UK economy

Actual growth could be ½ per cent less as a result of lower coal output

6. At home, underlying growth in output continues at around 3 per cent - ahead of most of Europe, and so far not greatly affected by the miners' strike.

7. The present recovery will soon have persisted for longer than any recovery since the war. As it continues, so its pattern changes. Personal spending has been growing strongly for two years, helped by lower savings and most recently by strongly rising personal real incomes. It may now slow somewhat, from 4 per cent last year to perhaps 2½ per cent this year, though consumer borrowing is still growing strongly. Companies are now in a better position than for many years as they benefit from improving productivity and only modest increases in unit costs. The ending of NIS in November will also help. Real rates of return

for non-North Sea companies are back to the levels of 1978-79; company liquidity is also at near-record levels; and, with a substantial recovery in profits, companies are now well placed to invest. After allowing for some effect from the Budget measures, fixed investment by industry may increase by some 10 per cent (at constant prices) this year, with another sizeable rise in 1985. On the other hand companies are likely to continue economising on stock levels, so no major restocking seems imminent.

8. The growth of total domestic demand may slow a little from 4½ per cent last year to 3 per cent this year. But, helped by growth in world trade, exports are now recovering strongly: the prospect is for an increase of 6 per cent this year, as against only 1 per cent last year. Overall, therefore, the prospect remains one of growth in UK total output this year of 3 per cent, the same as in 1983, and perhaps a similar increase in 1985.

9. Inflation remains firmly under control, at a shade over 5 per cent in May. At the Budget the increase in retail price inflation was forecast to edge down to 4½ per cent by the fourth quarter of this year, and that remains our best guess. Outside forecasters have tended to be less sanguine, but latterly most of them have been revising their forecasts downwards.

10. Lower inflation is not yet fully reflected in the level of pay settlements. Earnings growth remains obstinately high, probably reflecting a certain amount of pessimism among wage bargainers over the prospects for inflation, but also continued failure to recognise the vital link between pay and jobs. This is the most important single reason why it is proving more difficult to bring down unemployment despite steady expansion and low inflation. But there are some encouraging signs on the employment front. The total number of people in work has been rising for the past year, and is now some 250,000 higher than in early

1983, though the effect on the unemployment register has been masked because some new jobs have been filled by people who were not on the register and others by new entrants to the labour force. Overtime working remains high. But there is still little sign of the labour market producing either the greater flexibility or the lower labour costs needed to produce a significantly better outlook for jobs. The need for greater realism on pay is a message that must continue to be hammered home.

11. The financial markets are going through a difficult patch. This is chiefly because of understandable concern about the international outlook, but there has also been some nervousness about public sector spending and borrowing at home. At least so far as borrowing is concerned these domestic worries should recede as the year unfolds. Despite the recent rise in UK interest rates our short term rates are now more than two points lower than comparable US rates; and if US rates go higher, as in the short run they may do, we ought to be able to avoid following them upward - at least to the full extent. Domestic monetary conditions are satisfactory and, subject to the usual margins of error, the prospects for public sector borrowing this year and (given a satisfactory public expenditure review) next year remain broadly as forecast at Budget time. This year's borrowing profile is more than usually concentrated in the first six months of the year; but there are clear reasons for this and it is now becoming better understood by the markets.

12. Needless to say, the financial picture can change rapidly as we have seen before. But I see no need this year for corrective action of the kind we were obliged to take in July last year. Nevertheless, the public expenditure prospect for the current year is already looking very tight indeed, and it is essential that we maintain the firmest possible control of spending as the year proceeds.

13. Figures from the most recent Treasury forecast are shown in the attached table.

The prospects

14. It is always hazardous to try to look more than a year or two ahead in any detail, since our own progress can always be affected by developments in the rest of the world. But the prospects are unusually promising, provided we can maintain firm control over public spending. The task before us is clearly set out in the paper circulated by the Chief Secretary.

The immediate task

15. I do not underestimate the dificulties in sticking to our published plans. The pressures for higher public spending are intense, as we always knew they would be. If we concede to these pressures now we shall call into question the credibility of our policies in the eyes of nervous financial markets at home and abroad. Our determination to secure a more enterprising and vigorous economy by lowering the burden of taxation will become suspect. We should also make it more difficult to sustain the higher levels of growth needed to bring about more new jobs and a lasting reduction in unemployment. Reducing the tax burden is crucial to the whole thrust of our economic policies - and it is important that we begin the process early in this Parliament.

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

[NL]

CONFIDENTIAL

MAJOR ECONOMIC INDICATORS

with loss of coal?

	UK 1981	1982	1983	1984[1]	OECD[2] 1984 (major 6, excluding UK)
A. Demand and activity					
(per cent change on previous year)					
GDP	-1½	2	3	3	5
Domestic demand	-1½	3	4½	3	5
of which: consumer spending	0	1½	4	2½	3½
fixed investment	-9	6	5	6	7½
Exports of goods and services	-2	1	1	6½	9
Imports of goods and services	-3½	4	5	7½	11½
B Inflation					
Retail prices, fourth quarter (per cent change)	12	6	5	4½	5
Average earnings, fourth quarter (per cent change)	10½	8	8	7½	6
C Other indicators					
(levels)					
Current balance, (£ billion)	7½	6	3	1½	-32
Unemployment level, (per cent narrow definition)	10	11½	12	12½	7½
Interest rates (3 month inter-bank per cent)	14	12½	10	9½[3]	10[3]

(1) Figures consistent with CONFIDENTIAL Treasury summer forecast.

(2) US, Japan, Germany, France, Italy and Canada: Treasury forecasts.

(3) Current level.

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FROM: CHIEF SECRETARY

DATE: 26 June 1984

ECON POL: Public Exp : Pt 27

PRIME MINISTER

1984 PUBLIC EXPENDITURE SURVEY

The first stage of the 1984 Survey has now been completed with the preparation of the Survey Report.

I am afraid that, once again, this is going to be a difficult operation. In a number of areas it will be impossible to resist additional provision; and if we are to stick to our established plans difficult decisions will be needed in reaching the required offsetting reductions.

Colleagues and I have already discussed at length the position on local authority current expenditure. We shall do all we can to hold the position, but I have to say that, in the prevailing Parliamentary climate, there is no avoiding a substantial increase here. If local authorities spend the same in real terms in 1985-86 as they plan to spend in 1984-85 they will exceed the White Paper provision by £1.5 billion (after taking account of reductions in real terms in rate-capped authorities of up to £200 million). Willie Whitelaw, Patrick Jenkin, Keith Joseph and I are to meet shortly to discuss what local authority settlement is best calculated to minimise this huge overspend. But I am sure it will require tougher targets and grant and holdback arrangements than

Patrick and my other colleagues on E(LA) have been prepared to contemplate hitherto.

There will be unavoidable increases, too, in central government expenditure. But whatever the pressures, I am clear that our objective must be to stick to our published plans, for 1985-86 and 1986-87. For the new final year of this Survey, 1987-88, we cannot prudently plan at this stage for aggregate growth of more than 3%, if we are to be sure of fixing plans we can afford and which will give some room for easing the tax burden. If we are to achieve these goals, it will be necessary during this Survey both to resist a large number of bids for extra provision and to identify new areas of saving.

We also have to consider the civil service manpower prospect. Cabinet agreed the plans announced last November on the understanding that every attempt should be made to improve on them. I believe that there is scope for significant reductions in present plans and I intend to pursue this vigorously with colleagues. I hope that we will be able to achieve a significant reduction below the 593,000 total for 1 April 1988.

We need, too, to look more rigorously at departments' running costs expenditure. Hitherto, the annual scrutiny of running costs has been essentially backward-looking; this year I am proposing that we should replace that with a forward look to 1985-86 within the overall Survey framework, so that we can take action to contain the growth of these costs.

A I attach to this minute a draft paper I would like to put to Cabinet - preferably for the 5 July meeting - setting out proposals on these issues. You will see that I have proposed, as in earlier years, that at this stage Cabinet should reach conclusions only on the overall approach and targets; and that I should then have detailed discussions bilaterally with colleagues and report back to Cabinet with my conclusions in the autumn.

B

I am also attaching a separate draft paper about the finances of the nationalised industries. A meeting to discuss this in EA has been scheduled for 3 July. The pressures for additional provision in some areas combined with the difficulty of the Survey generally means that we will have to take a tough line with the industries this year. I am asking colleagues to agree savings below the baseline of £250m in 1985-86 of £500m in 1986-87 and of £1000m in 1987-88.

Tough as these targets are I do not think they are unrealistic. We can go a good way towards them by maintaining general pressures on the industries for greater efficiency for example by setting tough performance aims. But to meet the targets fully we shall also have to accept higher prices notably in the utilities (gas, electricity, and water). While these industries make profits, their rates of return are far below what the private sector is now earning. The current targets for electricity and water are for a return of just over 1 per cent and the target for gas of a 4 per cent return largely reflects the favourable PRT-exempt contracts in the Southern Basin.

I am not suggesting that we should return to anything like the large price increases imposed during the last Parliament. Each 1 per cent on nationalised industry prices is worth some £300m a year and the industries themselves are proposing increases below the projected level of inflation in each year of the Survey period. Quite small real increases therefore, would yield very substantial savings particularly in the later years. We cannot afford to reject this option.

C

Finally I attach a paper on contracting-out from the public sector, which I suggest should also be on the agenda for 5 July.

I would be grateful for your agreement that I should circulate these papers. The nationalised industries and contracting-out papers should I think, be circulated in the normal way.

You may prefer, however, that the public expenditure paper be classified secret and held back until Monday 2 July, to minimise the risk of leaks over the weekend.

PR

PETER REES

A

SECRET

DRAFT PAPER FROM CHIEF SECRETARY TO CABINET

1984 PUBLIC EXPENDITURE SURVEY

The first stage of the 1984 Public Expenditure Survey has now been completed with the preparation of the detailed Survey Report.

2. This paper summarises the position and proposes public expenditure planning totals for the three years 1985-86 to 1987-88, together with revised manpower plans for the same period. It proposes, too, a new emphasis on the control of departments' running costs.

Expenditure Baseline

3. The starting point is the Survey baseline. For 1985-86 and 1986-87 this represents the figures in the last White Paper (Cmnd 9143) less the savings resulting from abolition of the National Insurance Surcharge (NIS). For 1987-88 it was agreed to construct the baseline by adding 2½% to the 1986-87 provision (excluding the Falklands and local authority unallocated margin). The figures are:

£ billion

1985-86	1986-87	1987-88
131.7	136.3	139.0

Departmental Expenditure Bids and Options

4. Colleagues have put forward substantial bids for additional provision in all three years. The details are in annex A. In total, net of reduced requirements and including local authorities and nationalised industries' External Financing Limits (EFLs), the bids rise from £4½ billion in 1985-86 to £8 billion in 1987-88. That is equivalent to 3½% of the baseline in 1985-86 rising to 6% in 1987-88. Acceptance of the bids would totally undermine our achievements of the last few years in reining back the growth of public spending.

5. Colleagues have also prepared material on options for reduction equivalent to 3% of programmes in each year (although the possibilities have not, regrettably, in all cases been properly displayed or ranked in order of acceptability).

Proposals for Expenditure Totals

6. We have laid great emphasis, in the Green Paper "The next ten years" and elsewhere, on the importance of firm control of public spending and of holding to our published plans. For 1985-86 and 1986-87 that means that we must stick to the baseline. Given the bids that colleagues have put forward this will be a formidible task. But we can do no less if we are to maintain the credibility of our economic strategy, and to give ourselves some room for easing the tax burden.

7. For 1987-88 we have now to establish a planning total figure for the first time. As indicated in the Chancellor's paper on the economic prospects, there are of course uncertainties in looking three years ahead. But the overriding requirement is to set a public expenditure total we are sure we can afford.

8. One option would be to uplift the 1986-87 total by 2½%, as agreed for programme baselines. But I recognise that these baseline figures were intended to establish a margin to allow the adjustment of priorities between programmes.

9. I therefore propose that we should allow the planning total to increase by 3% in 1987-88, giving a figure of £140.4 billion. We could not prudently adopt a higher figure.

10. I must warn colleagues now that we will face considerable difficulties in holding public expenditure to these totals. Some of the additional bids are virtually irresistible and the options available to make room for these are limited. There is therefore little or no prospect of accommodating any other additional bids. In addition to the bids by departments our published plans are under heavy pressure from local authority expenditure, the nationalised industries, the pay increases of the Review Body groups, and ~~[reference to the EC budget].~~ and EC Budget contributions which will be higher than the stylised assumptions in Cmnd 9143.

The Reserve

11. Cmnd 9143 provided Reserves of £2.75 billion, £3.75 billion and £4.75 billion respectively for the forward years. There are already very substantial pressures on the £2.75 billion Reserve in 1984-85; for example local authority current expenditure seems likely to take up £1.8 billion - two-thirds of the total - and we have just learned that in addition, local authority capital expenditure poses a new and substantial threat to the Reserve.

12. In the light of this year's experience there is a

strong case for now providing substantially larger Reserves for the three forward years than in Cmnd 9143. It is essential for the credibility of our control over public expenditure to ensure spending is held within the planning total. The pressures for higher spending show no sign of abating. On the other hand, the required level of Reserves depends on how tightly the system is managed. If colleagues accept that the Reserve arrangements should be operated as stringently as possible, with every possible effort to offset unavoidable increases from within programmes, then I think we could risk setting the Reserve provisions at £3 billion, £4 billion and £5 billion respectively for the forward years.

Civil Service Manpower

13. Last autumn Cabinet agreed manpower plans for the years up to 1 April 1988 on the understanding that every attempt would be made to improve on them. Departments were therefore asked in this year's Public Expenditure Survey to aim for lower manpower figures than those published in Cmnd 9143.

14. The prospect in the Survey so far for total Civil Service numbers, allowing for departmental bids and reduced requirements, is:

	1.4.85	1.4.86	1.4.87	1.4.88
Cmnd 9143	608,208	605,255	600,554	592,723
1984 Survey	608,243	605,442	600,614	592,610
	+35	+187	+60	-113

15. These figures are net of reductions of 190, 2404, 2701 and 4068, which are more than off-set by bids for additional staff. Within the totals the figures for the

4

Ministry of Defence and Property Services Agency (together one-third of the total) are the same as those in Cmnd 9143 because these two departments are still further reviewing their manpower requirements and have not yet felt able to submit fresh figures.

16. As they stand the figures do not show the improvements we had hoped for. Moreover, claims already made on the contingency margin of 7,500 which we agreed last year suggest that a bigger margin will be needed to see us through to 1988. I suggest a figure of 10,000.

17. I believe there is scope for significant reductions in the figures proposed by departments. During the rest of the Survey I intend to press departments for further manpower savings. I shall be aiming to find off-setting savings for an addition of 2,500 to the contingency margin to take it to 10,000. I hope also that the reviews by the Ministry of Defence and the Property Services Agency will lead to sizeable reductions in their present planned figures, thereby producing a significant reduction below 593,000 in the 1 April 1988 manpower total. My paper on contracting out (C(84)4) proposes a more vigorous approach to contracting work out from the public to the private sector. The consequent reductions in Civil Service manpower will enable us to reduce the total still further.

Running Costs Targets

18. The annual scrutinies of departments' running costs have shown total costs increasing in each of the last five years faster than general inflation. We must ensure that the growth of these costs is contained.

19. Departments were asked to indicate in the Survey the provision they seek for their running costs in 1985-86. There are some definitional difficulties, and the returns need careful scrutiny and checking. But these figures, which show an aggregate increase of about 3½% over the 1984-85 Estimates provision, are a welcome improvement from the larger increases of earlier years (although running costs in some departments still seem to be rising too quickly).

20. As a first step to improving our arrangements in this area, I invite colleagues to agree that the present backward-looking annual running costs scrutiny should be replaced by a forward-looking scrutiny during the Survey of the provision which Departments have now proposed for this category of expenditure in 1985-86. The agreed plans would then provide the basis for the detailed Estimates discussions during the winter.

Next Steps

21. Parallel discussions are already underway on expenditure provision for local authorities' relevant current expenditure and nationalised industries' external financing limits. We clearly need to conduct these discussions with the utmost stringency. Every addition conceded in these areas will mean increased pressures on central government programmes and will make our overall task correspondingly harder. I now propose that, as in earlier years, I should have a series of bilateral discussions with colleagues on their departmental expenditure and manpower programmes, and report back to Cabinet.

22. Against the background of this very difficult overall

position colleagues will not be surprised if I ask them to examine very critically **all** the bids they have put forward. Additional spending must, wherever possible, be contained within existing programmes by re-ordering priorities. To cover those cases where additional provision for individual programmes proves inescapable, I have to emphasise that it will be essential for me to press for option reductions elsewhere.

Conclusion

23. The longer perspective of the Green Paper "The next ten years" shows how persistent and pervasive are the pressures for increased public expenditure and how difficult it will be to avoid successive upward revisions of public spending plans. Nonetheless, if we are to reap the benefits of our overall economic strategy, we must stick to our published plans.

24. I invite colleagues to agree

(i) public expenditure planning totals of £131.7 billion, £136.3 billion and £140.4 billion respectively for the three years 1985-86 to 1987-88;

(ii) the manpower contingency margin should be increased to 10,000; and, we should aim to reduce Civil Service numbers significantly below 593,000 as at 1 April 1988;

(iii) we should adopt the new approach towards controlling running costs set out in para 20 above;

(iv) I should report back to Cabinet when I have completed discussions with colleagues on individual programme and manpower allocations.

SECRET

ANNEX A

SUMMARY OF ADDITIONAL BIDS NET OF REDUCED REQUIREMENTS

	1985-86	1986-87	1987-88
1. Planning Total (cmnd 9143)	132,080.0	136,680.0	
2. Baseline 1987-88 in PES Report			139,004.0
3. Agreed reductions(NIS etc)(1)	-409.0	-386.0	
4. Adjustments to baseline (2)	48.3	-1.7	1.1
5. Baseline(after adjustments)	131,719.3	136,292.3	139,005.1
6. Additional bids net of reduced requirements			
Ministry of Defence	219.6	182.7	1,046.2
FCO - Overseas Development Administration	14.2	76.1	156.4
FCO - Other	36.3	55.0	60.3
Net contributions to EC institutions	300.0	125.0	185.0
Intervention Board for Agricultural Produce	7.6	-44.6	-69.5
Agriculture, fisheries and food	-47.5	-59.3	-63.8
Forestry Commission	-1.1	-1.7	-1.8
Department of Trade and Industry	205.3	291.0	210.3
ECGD	142.4	193.2	131.6
Department of Energy	7.6	-6.7	-5.4
Department of Employment	77.6	62.0	30.4
Department of Transport	41.0	35.0	62.0
DOE - Housing	250.0	350.0	400.0
DOE - PSA	55.3	11.9	0.8
DOE - OTHER	80.3	92.5	75.8
Home Office	43.8	44.4	67.4
Lord Chancellors Department			36.0
Department of Education and Science(3)	114.0	164.0	175.0
Office of Arts and Libraries	8.0	9.6	15.7
DHSS - Health and Personal Social Services(4)	476.0	625.3	1,078.9
DHSS - Social Security	319.4	387.7	1,515.5
Civil Superannuation	-58.5	-55.3	37.7
Scotland	4.3		
Wales	13.5	14.4	14.6
Northern Ireland			
Territorial departments: formula consequential	260.0	300.0	400.0
Chancellors' Departments	28.4	39.3	4.2
Other Departments	16.7	16.3	20.4
Local Authority current expenditure	1,500.0	1,500.0	1,500.0
Nationalised Industries external finance	892.0	1,330.0	1,315.0
7. TOTAL ADDITIONAL BIDS (NET OF REDUCED REQUIREMENTS)	4,706.2	5,626.2	8,213.7

Footnotes
1. Budget and other agreed changes.
2. Adjustments to baselines in AFF, DOE-Housing and territorials.
3. DES includes £16m, £42m, and £42m for the Switch-the Secretary of States' letter of 20 June refers.
4. DHSS Health includes bid of about £250m for 1984 NHS pay award not yet approved by the Secretary of State but expected next week.

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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

File

CBI

CONFIDENTIAL

Mr Andrew Turnbull
The Private Secretary
10 Downing Street
London
SW1

14 June 1984

Dear Andrew,

I thought that you might like to see an early draft of what our Working Party on Public Expenditure was planning to say in its report on Public Service Sector Efficiency and therefore enclose one.

We are planning to go to press on 2 July so any comments that you have before 20 June would be very gratefully received by Douglas McWilliams who is looking after the drafting of the report. Any earlier comments would be even more welcome!

Clearly at this stage the report still needs a lot of editing and checking. Nevertheless, we would be very grateful if you would draw our attention to anything which looks odd, or any points which you think we have missed.

Yours ever,
John

J T Caff
Director
Economic Directorate

→ SS.
Is this the report you discussed with me earlier?
AT
15/6

I think it must be
Stephen
18/6.

enc.

CONFIDENTIAL

'Efficiency in the Public Services'

Report of the CBI Working Party on Government Expenditure.

3rd Complete Draft
14 June 1984

CHAPTER I

SUMMARY AND CONCLUSIONS

Introduction

1 Improved efficiency is essential for higher living standards and secure jobs. In recent years, business has undergone a revolutionary change in attitudes towards efficiency and this is now beginning to show its effects in better economic performance.

2 The need for efficiency is not confined to the business sector. It is just as important in the public services.

3 This report is about the management structure, incentives and techniques necessary to improve the efficiency of the public service sector and to make it more responsive to the needs of a changing economy.

Recommendations

4 Good management in the public service sector requires:

- identifiable responsibility for costs, devolved as far as possible;

- clear performance objectives;

- systematically prepared management information on costs in a form that can be related to performance and that is as comparable as possible;

- regular and systematic scrutiny of cost-effectiveness; and

- incentives to improve cost-effectiveness.

5 For Central Government we recommend that the principles of the Financial Management Initiative (FMI) are supported by a published time-table for implementation, a system of public scrutiny, cost comparison and incentives for cost-effectiveness. These might range from making promotions and honours dependent on performance, to merit pay,or schemes for giving back a proportion of savings achieved at local levels in discretionary expenditure. We envisage that the system should be in full operation by 1988/89. The drive towards efficiency should be buttressed by tight cash limits and a contingency reserve that is used only for genuine contingencies.

6 Local authorities should also adopt management structures and systems which achieve the objectives set out above. The Department of Environment should issue a circular to this effect. In addition targets for local authority expenditure should be set so as to keep pressure on the authorities to improve their efficiency. Local authority accounting practices should be standardised so as to facilitate comparisons between authorities. Particular attention should be paid to the work of the Audit Commission in identifying ways of improving the efficiency with which the local authorities carry out their services.

7 For the National Health Service, we support the Government's acceptance of the Griffiths Report recommendation that clearer systems for cost responsibility should be set in place. An early time-table for the Report's implementation should be set out and adhered to. A major weakness in the efficient control of resources within the NHS is the lack of appropriate cost information. We make various recommendations to improve this situation.

8 For all parts of the public sector we recommend a major extension of contracting out and competitive tendering. For local authorities, we recommend that this be supported by legislation along the lines of that currently in operation for direct labour organisations (DLOs) which requires competitive tendering for a specified list of services. The evidence available so far suggests that this would enable major savings to be made.

9 We also recommend a substantial extension of charging for public sector services, both to make consumers more aware of the costs and availability of services and to relate the output of services to demand.

10 Public sector remuneration should take full account of all non wage benefits. In the case of pensions, as a first step, we recommend that those in the public sector paying less than the notional eight per cent deducted from civil service salaries should have their contributions raised. Public sector pay should be related to merit, the efficiency with which resources are used and to the state of the labour market. At present, seniority is given excessive weight.

Savings

11 Much of the relevant cost information for the public sector is not available. However, using that information which does exist we have estimated that these recommendations should lead to annual savings of at least £6 billion (at today's prices) by 1988/89. We believe that these savings can be made without cutting the level of public services but if they are not made them there will have to be cuts in programmes.

CHAPTER II

Recent Developments

Introduction

1 We now review recent developments in public expenditure and the progress since the 1981 CBI Working Party reported.

Public Expenditure Levels

2 Public expenditure has virtually doubled in real terms over the past 20 years. Despite economic growth and rising North Sea Oil revenues, this has led to a substantial rise in the burden of non-North Sea taxation from 29% of GDP in 1963/4 to an estimated 38½% in 1983/84[1]

3 Since the mid-1970s, the upward trend in public expenditure has been less rapid, but the measures taken to reduce the growth in public spending have contributed to an imbalance within the total. Items such as capital expenditure, that are relatively easy to cut at short notice, have suffered.

4 The most recent Public Expenditure White Paper[2], suggests that expenditure will remain approximately constant in real terms for the next three years. However, as Graph 1 shows, public expenditure plans have consistently been revised upwards. The real level of spending in 1983/84 was £11 billion higher than envisaged in the 1980 White Paper. Only a third of this can be directly accounted for by changed economic assumptions.

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1. "The Next Ten Years: Public Expenditure and Taxation into the 1990's". Cmnd 9189, Table 4.

2. "The Governments' Expenditure Plans 1984-85 to 1986-87", Cmnd 9142.

Recommendations of the 1981 Report

5 The 1981 CBI Working Party was set up to examine the scope for achieving economies in central Government, local authority and National Health Service current expenditure. The Working Party did not recommend cuts in specific programmes but concentrated on examining the costs of service provision and identifying possible areas of inefficiency. For local authorities and the NHS, this took the form of inter-authority comparisons of manning levels.

6 They itemised savings in current spending, building up to £4-5 bn annually (1981/82 prices) by 1984/85. However the Report only recommended savings of approximately £3 bn, since the Working Party considered that the greater savings of £4-5 bn may not have been possible because of unforeseen difficulties.

7 The savings arose in three main areas: employment, pay and pensions (Table 1). It was recommended that the savings be used to finance tax cuts and increased capital expenditure and the calculations were therefore made on demand-neutral assumptions.

TABLE 1

Summary of Manpower Economies

£ Billion 1981/82 Prices

	Government Planned Savings 1980/81 to 1983/84*	Scope for Extra Savings 1980/81 to 1984/85
Employment	1½	2
Pay	¾-1½	1½-2¼
Pensions	-	¾
TOTAL MANPOWER ECONOMIES	2¼-3	4¼-5

* CBI Estimates

Source: 1981 CBI Working Party on Government Spending

8 The Report recommended several methods which the Government, Local Authorities and the NHS could use to achieve economies. These were:

- Immediate recruitment restriction on non-front line areas to 1 in every 2 leaving.
- Extension of cash limits to total pay bills.
- Wider use of contracting-out
- Ceiling on business rates
- Provision of cost information to all areas of management.
- Value for money auditing
- Increased use of commercial charging
- Business expertise to be used in the scrutiny of expenditure.

Progress Since the 1981 Report

9 This section summarises the progress since the 1981 report was prepared. Fuller details are set out in Annex 2.

10 Progress in achieving the economies recommended in employment has been mixed. The Civil Service is on course to achieving 95% of the recommended reductions without the need for compulsory redundancies. For Local Authorities, the CBI Working Party recommended savings of 12 per cent between 1980/81 and 1983/4 but by September 1983 manpower levels were only 2½ per cent lower, and it appears that local authority employment may have started to rise again recently. In the NHS, the Working Party's recommendations would have involved manpower levels remaining roughly constant from 1979/80 to 1983/4 with a change in the mixture between "front line staff [such as doctors and nurses] and "back-up" staff. There has been a [10] per cent increase in "front-line" staff while the number of "back-up" staff has remained approximately constant.

11 The 1981 Report identified an excessive level of public service sector pay, relative to the private sector. Since then there has been progress, at about the speed recommended in the Report, towards removing this differential. Little has been done, however, to make public service sector pay dependent on market criteria, merit, or success in efficiently using resources.

12 The Working Party thought increased pension contributions would be appropriate for many public sector groups. However, only the police and firemen have had their contributions increased since 1981.

13 A number of studies and programmes to improve the cost effectiveness of the public service sector have been announced. Our recommendations (in Chapter III) involve building on two of the most promising of these initiatives, the Financial Management Initiative for the Civil Service and the recommendations of the Griffiths Report for the NHS.

Conclusions

14 There has been significant progress in making the economies recommended in the 1981 Report in some parts of the public sector (particularly the Civil Service). However, there still seems to be little progress in setting up an appropriate system of public service sector management to create a permanent climate for the efficient use of resources.

ED22QCMDM52

CHAPTER 3

MAIN RECOMMENDATIONS

Introduction

1 The recommendations in this report are aimed at improving efficiency in the public service sector over the longer term, removing the built-in institutional pressures for higher expenditure and replacing them with systems that will encourage cost efficiency. Chapter 4 gives some illustrative figuring on the scale of savings that might be achieved through the implementation of our recommendations.

Public sector management

2 In compiling this report we have found an immense difference between the structures and techniques of management in the private sector and those practised in many parts of the public sector.

3 There is particular scope for improvement in the management of the public service sector in the following areas:

- setting up structures where those using resources have identifiable financial responsibility for them, devolved as far as possible;

- clear performance objectives of a kind that can be related to cost information;

- systematically prepared management information on cost, available for comparison between sections and in relation to performance; and

- systems of incentives to improve cost-effectiveness.

4 Because the public service sector is not subject to the normal disciplines of the market, good management is vital to ensure efficient use of resources At present, for far too large a proportion of government expenditure, there is no one who is responsible for using the resources nor any information by which his performance can be measured. An example of this is given in the Griffiths Report on the NHS which points out ...(insert quotation).

5 It is essential to provide incentives to use resources efficiently. At present, employees in the public service sector have few incentives to minimise their use of resources to set against the temptations of empire building. Private sector experience indicates clear financial responsibility, and information on comparative performance must be combined with adequate structure of incentives.

6 The management weaknesses which we have identified do not imply that those in the public service sector are lazy or inherently self-serving. It is clear that many of those in the public sector are dedicated and hard working, even if this hard work is not always directed towards the best possible use. The task is to channel this dedication into producing public services in the most cost-effective way.

The recommendations in detail

7 The recommendations are divided into four categories:

- setting financial targets and cash limits at levels to encourage efficiency;
- improved management techniques and structures;
- increased exposure to market forces through charging market prices, competitive tendering and contracting out; and
- improved control over manpower costs.

Financial targets and cash limits

8 Strict financial targets for public expenditure are a necessary support to the measures to improve management which we recommend. We therefore urge the Government to continue to set strict cash limits to keep public spending under control. Use of supplementary cash limits or of extra funds from the contingency reserve should be confined to genuine contingencies, not to alleviate the apparent strictness of the initial targets. For local authorities, the Government should use the enhanced powers for which it is fought so hard, to prevent the over-spending that has occurred in recent years.

Improved management

9 Many of the principles for improved management are embodied in the Government's Financial Management Initiative (FMI) for the Civil Service. This initiative sets out a framework for performance objectives, cost information and clear financial responsibility. This initiative should be built upon and extended. We recommend:

- that the Government publishes a programme for implementation of the FMI throughout the Civil Service;
- that the programme ensures that responsibility for cost is devolved to the lowest feasible level;
- when the system is fully in operation, performance indicators and cost targets should be published and performance in relation to these targets should be available for public scrutiny, at least on an annual basis;
- a systematic programme of incentives for cost effectiveness should be introduced, This could range from making promotions and honours as dependent on cost effectiveness as on success in policy areas, to merit pay or methods for giving back a proportion of saving made at local levels through efficient discretionary expenditure.

10 Although we do not propose a detailed timetable here, we believe that the system should be in full operation and generating a high proportion of the ultimate savings by 1988/89. We envisage that initial implemention of this improved management system will involve extra resources for management, software and hardware. £35 million has already been set aside for this. We recommend that extra resources are made available which will be paid for from the savings generated.

11 We recommend that local authorities and the NHS develop similar management systems. For local authorities spending targets should be set at levels to encourage cost effectiveness. The Department of Environment should circularise local authorities on the principles of good management in the public service sector. Assistance could be given to local authorities improving their own management systems, by making available through seminars and courses etc the lessons drawn from the experience in implementing the Financial Management Initiative. Audit Commission and LAMSAC studies should point out scope for cost savings. Accounting systems should be adopted which facilitate comparisons of expenditure between authorities.

12 For the National Health Service complicated issues of clinical freedom exist, but, in a resource constrained world, decisions on the allocation of resources are being made all the time either explicitly or implicitly. We believe that such decisions can be better made if adequate information and lines of responsibility exist. We therefore support the recommendations of the Griffiths Report that clear systems of responsibility and appropriate cost information are made available. Its implementation should be carefully monitored to ensure its effectiveness.

13 For appropriate management information, standardised performance and productivity measures should be prepared and these should be published at both authority and individual hospital levels. In addition, there should be separate accounting not only at overall hospital level but also for individual units within hospitals and at individual practice levels. This necessitates the immediate introduction of clinical budgeting.

14 When asked by the PAC why it had taken so long to prepare a set of indicators by which the work of the DHSS could be measured, it was admitted that:

> 'What was lacking was a standard national set and for a while it was the policy not in fact to attempt to reduce these nationally. In fact it was about 1981 that extra priority was given to this work.'

This belated change of mind within the DHSS is welcomed but, given the late start, the need for improved management information with which to assess and improve effectiveness is even greater.

15 Although clinicians effectively control the allocation of most of the 60 per cent of hospital expenditure covering direct patient services and supplies, they do not generally have budgets nor do they see themselves as accountable to unit budget holders. They have no built-in incentives to use resources economically or effectively beyond their responsibility to the particular patients within their care. Some very important experiments with clinical budgeting, in one form or another, are being undertaken, but the progress is slow and relatively few resources are being devoted to it. Unless a considerable effort is put into developing systems which will sensibly involve clinicians in a rationally allocated budget for the patient services they are providing, the fundamental issue of efficient use of resources will never be tackled.

16 At the moment, it is only possible in a small number of hospitals to cost post hoc different specialities, patient groups, or even wards. Thus clinicians have no cost basis against which to set their activities and the alternative strategies open to them.

17 Indeed, there is almost as little firm clinical evidence available to them of the relative effectiveness of alternative therapies to set alongside any cost information available. For example, there is only a small amount of evidence of the health impact of varying lengths of stay. It is very noticeable that the Government requires much more stringent testing of new drugs than of new surgical procedures. Many long established therapies have never been subjected to any formal scrutiny.

18 Another area of concern is the unnecessary holding of land and property. We welcome the Davies enquiry into the management of the NHS estate which focussed on the many problems of incorporating appropriate incentives to efficient use of land and property. We note that many of its recommendations were followed through in a DHSS Department Circular[2] which required Districts to carry out condition surveys, review the utilisation of their capital stock, value it, and to set up a system of notional rents, so that their performance in terms of the use of capital stock could be considered with the Regional Review System [see Section VII below].

Increased exposure to market forces

19 Where possible the public sector should be exposed to the discipline of market forces. The Government should encourage competitive tendering and contracting out of goods and services and increase the use of commercial charging throughout the public service sector.

(i) Competitive Tendering and Contracting Out

20 The Government should report to Parliament annually on the progress made towards contracting out within central government. We welcome the moves within the Ministry of Defence to save money and manpower by contracting out work such as vehicle maintenance, and the pilot schemes to put the refit of two ships out to competitive tender with commercial shipyards. We also welcome the private servicing of the RAF's Nimrod and Hawk aircraft and the movement of the army's freight to commercial tender. But these should not be seen as tokens. An initial report on the success of these schemes should be presented to Parliament within two years and used as a basis for further extension of tendering and contracting.

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1. DHSS, Underused and Surplus Property in the NHS: Report of the Enquiry (Chairman: Ceri Davies), HMSO, 1983.

2. HC(83)22 Estate Management: Underused and Surplus Property in the NHS, November, 1983.

21 For local authorities, we welcome the progress made so far. The most popular candidate for contracting out is refuse collection. However, by March 1984 only 23 local authorities had contracted out this service. We recommend legislation requiring local authorities to write competitive tenders for a high proportion of their work. Details of this are given in Annex 1. We also include in Annex 1 a further list of services, for which we do not recommend legislation, but where we urge local authorities to seek tenders for the service in order to improve efficiency.

22 The Government has recommended increased contracting out of support services in the National Health Service in the Health Circular HC(83)18, published in September 1983, which asked:

> "...health authorities to test the cost of their support services in order to discover whether savings can be made and resources released for improved patient services."

It required all districts to put forward to their Region by February 1984 a timetable for testing the cost-effectiveness of their domestic, catering and laundry services by putting them out to tender (including in-house tenders) and requiring the contract be given to the lowest tenderer "unless there are compelling reasons endorsed at district authority level" for not doing so.

23 Evidence provided by the DHSS earlier last year to the Social Services Committee[1] showed that the value of services contracted out to non-NHS contractors had increased overall by some 18% in cash terms between 1980-81 and 1981-82. Despite this, the percentage of total hospital expenditure accounted for by contracting services was still less than 0.5%.

24 Table 3.1 shows that in 1981-82 within the overall national (England) position, there were considerable differences between the various NHS support services, and between the Regions.

TABLE 4.3
CONTRACTING OUT IN THE HEALTH SERVICES
(TotalProportion of expenditure in particular services accounted for by Non NHS contractors by region.)

	National Average	Regional Figure	Regional Figure
Catering	0.2%	0.1%	0.3%
Laundry	11.7%	0.6%	20.9%
Domestic and cleaning	2.1%	0.7%	6.4%
Engineering maintenance	32.2%	24.1%	38.3%
Building maintenance	39.0%	31.6%	45.7%
Gardening and farming	14.4%	4.6%	26.8%

[SOURCE: As in footnote one.

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1. DHSS, Written Evidence to the Social Services Committee, Session 1982-1983, Public Expenditure on the Social Services, HC 321 - (i) and (ii).

25 These figures suggest that if the NHS as a whole were to contract out support services even to the still limited extent of the "highest region" the value of such contracts would be increased by some 30%.

(ii) Charging

26 We recommend increased use of commercial charging throughout the public service sector as a way of contributing to improved resource use.

27 If charges are related to the cost of resources used in providing a good or service, output will be related to demand rather than there being arbitrary underprovision, overprovision or rationing as is often the case currently. In addition, consumers are likely to be far more aware of the costs, quality and delivery of a good or service which is charged for and the probability that will bring pressure to bear on producers to improve performance is increased.

28 There are clearly many areas where charges would not be appropriate because individuals would suffer through their inability to pay. But these areas are probably considerably less than is often supposed and there is certainly nothing contentious in appropriate charging for services such as waste disposal, provision of allotments, pest control, sports centres, swimming pools and other recreational facilities. Consultants who carried out a report on many of these services for the Department of the Environment, recommended increased use of charging. There is little evidence that these recommendations have been put into practice.

Manpower costs

29 In the last Working Party report a substantial proportion of the total savings were expected to come from bringing public sector pay relativities back into line with their historic level. A large proportion of these savings have now been achieved. For this reason, although we urge continued firm control over public sector pay, we have not taken credit in our costings for any further savings from this source.

30 However, we do believe that within the total a reformed pay structure is essential so that pay levels in all the public services are based more on market conditions and performance, particularly with respect to cost efficiency, and less on age and years of service. We recognise that for some this will mean higher, and for others lower, relative pay.

31 The Working Party recommends that pressures for raising public sector pay relative to private sector pay should be resisted since those aggregate differentials that exist take account of productivity differences and other factors such as different degrees of job security.

32 The CBI in its submission (give reference) has argued that fully indexed pensions imply a commitment on resources which the economy cannot necessarily afford. The CBI has therefore proposed capping of the degree of inflation protection for such pensions.

33 If this is not done, the Working Party recommends that at least the contributions which are paid in respect of such indexed pensions should be more closely related to the in market cost. Public service employees contributions for indexed pensions should be raised to at least the notional 8 per cent assumed in Civil Service pay calculations.

CHAPTER IV

THE SAVINGS FROM OUR PROPOSALS

Introduction

1 This Chapter gives illustrative figuring showing the savings which we estimate will result from the implementation of our recommendations.

2 We believe that our proposals will result in savings in the cost of providing public services building up to at least £6 billion a year (at 1984/5 prices) by 1988/9. This would represent a saving of 5 per cent of total public expenditure. (Our calculations, in fact, give a higher figure £8 billion but we have deliberately scaled this down to take account of any unforseen circumstances.)

How calculated?

3 The main areas where we see scope for cost savings while maintaining levels of public service are in manpower numbers, manpower costs, procurement and charging. Costings are at 1984/5 prices unless otherwise indicated.

4 Where savings result from contracting out particular services we have costed only the net savings and included them as manpower savings. In practice, the manpower savings from contracting out would be greater but offset by corresponding increases in other payments.

5 Our estimates are derived from breaking down the Government plans for total expenditure into the individual components. Where possible, we have used comparisons with the costs of similar functions performed elsewhere in the public sector. In other instances, we have been able to use comparisons with the costs of providing similar services in the private sector.

6 All the estimated savings are in comparison with the present costs of providing these services. In some instances, the Government's current plans envisage making certain of these cost savings. However, as is indicated in Chapter 2, Government plans have been consistently over optimistic about the scale of economies that can be achieved and it is therefore more realistic to compare savings with current levels of expenditure than with such hypothetical plans.

Manpower

7 We have looked carefully at the main categories of public service employment. We estimate that our recommendations would reduce total public service manpower by about 10% by 1988/89.

8 For illustration we have shown how this could be achieved without changing planned manpower numbers for the armed forces, police, fire services or reducing manpower levels in health and social services and teacher : pupil ratios below their levels in the early 1980s.

9 The reduction would be achieved mainly by reductions in numbers of civil servants and by reductions in supporting staff in the NHS, education and other local authority areas.

10 Our estimated savings seem realistic given:

- the increases in productivity that have occurred during the past five years by many businesses in the market sector;
- the large increases that have occurred in the recent past in public service manpower without comparable increases in public services;
- examples of savings of about a third on average that have been achieved by 'contracting out', or by the pressure of competitive tendering;
- the striking variation between the levels of efficiency in different local authorities and the large regional disparities in the efficiency of the NHS where these can be measured; and
- the large savings that have been achieved in all the local authority services that the Local Authorities' Management Service Advisory Council (LAMSAC) has so far been allowed to study.

11 Table 4.1 sets out the proposed savings in manpower. In aggregate these savings amount to 10% from current levels by 1988/89. Such savings are very small in comparison with the 6% increases in productivity per annum that have occurred since 1981 in manufacturing industry.

TABLE 4.1:

WORKING PARTY PROPOSALS FOR MANPOWER

THOUSANDS

	1983	1988/9 CBI PLANNED LEVEL	REDUCTION
Armed Forces	330	330	-
Civil Service	649	562	87
Local Authorities			
Teaching	597	545	52
Educational Support	418	314	104
Protective and Social Services	497	497	-
Other	745	620	125
NHS			
Front Line Staff	637	606	31
Support Staff	367	306	61
	4240	3780	460

Manpower costs

12 This section quantifies the cost savings from the manpower reductions set out above and the other savings in manpower costs which the report recommends. The pay bill for the public services as a whole represents on some 60% of current spending on providing goods and services, although there are considerable variations between programmes. In addition, pay levels vary considerably between different groups of employees. We have attempted to allow for these variations in calculating the savings.

13 An allowance has also been made for certain associated costs such as personnel overheads and accommodation costs.

14 Table 4.2 shows that the illustrative projections for manpower would save a total building up to £4¼ billion in 1988/89.

Other manpower costs

15 As well as looking at manpower numbers, we have also looked at the potential savings from reducing other manpower costs. These costs fall into three categories; pay, other employers contributions, and other associated costs.

16 In the last Working Party report, a substantial proportion of the total savings were expected to emerge from bringing down the level of public sector pay in relation to that in the private sector. As the calculations set out in Chapter 3 indicate, a large proportion of this recommended adjustment has taken place.

17 The Working Party still believe that further reductions in relative pay in parts of the public service sector would be highly desirable. Nevertheless, in quantifying our savings we have not taken credit for further savings in this area.

18 This does not mean that the Working Party thinks that further control of public sector pay is unnecessary. Such control remains crucial - every one per cent reduction in average pay in the public services saves about £350 million, the equivalent of 40,000 jobs.

19 In the area of employers contributions, this report reiterates the recommendation of the 1981 report that public service sector employees should pay a contribution to the cost of their pensions on a more comparable basis with private sector employees.

20 In most private sector organisations in recent years, employers have exerted substantial pressure to reduce associated employment costs. There is no reason to believe that similar savings cannot be made in the public service sector with improved financial management. We have therefore estimated savings building up to 5 per cent from present levels by 1988/89 in this area. To avoid double counting, we have included them either as part of the overall reduction in manpower numbers or as part of the savings in procurement which are discussed below.

Procurement

21 The 1981 report concentrated on manpower savings as the area allowing the greatest scope for early economies. In this Report, which concentrates on improved management, it is reasonable to suppose that the recommended measures will produce savings from more efficient resource management not only in the area of manpower but also that of procurement. Table 4.3 shows the importance of procurement for the public sector as a whole.

22 Public service procurement comes in two forms:

i) for many services, including those for which we have recommended competitive tendering and contracting out, contracts are typically awarded after competitive tendering on a fixed price basis. In these cases, although competition will already be helping efficient resource allocation and thus reducing the scope for further cost savings, increased experience with this method of procurement and improved management methods should still be able to generate savings; and

ii) those goods and services which are typically purchased on cost plus basis, with margins included on a standardised basis. In areas such as this, where all costs can be passed on, the scope for savings through efficient management are likely to be correspondingly larger. This is supported by studies on cost overruns by the Public Accounts Committee (check references).

23 In making our estimates for procurement savings from improved management we have distinguished those two types of procurement. In those areas where cost plus contracts predominate we have assumed that improved management methods would lead to savings on the same scale as the savings in manpower through improved efficiency. This would generate savings of 10 per cent over the four years to 1988/89. These savings seem realistic in the light of the Government's own analysis of the savings following the introduction of competition.

24 In those areas which are not dominated by cost plus contracts, we have assumed savings on a rather smaller scale, building up to 5 per cent over the four years. These savings again seem realistic given the normal scope for improving productivity and the likely learning curve effects as the public sector gains more experience in contracting out.

25 The total savings from improved management methods for procurement are set out in table 4.4.

Overall savings

26 Table 4.5 shows the overall savings which we estimate would result from the recommendations made in this report. These savings exceed £8 billion. Nevertheless, one of our main criticisms of public service sector management is that there is insufficient cost information and we are therefore well aware that such costings must be rough and ready. To take account of this, although our aggregate calculations have identified potential savings of the order of £8 billion and some members of the working party suspect that savings could be substantially larger, we have scaled down our estimate of the potential savings by a quarter to £6 billion.

CONFIDENTIAL

Mr Turnbull

File
Public expenditure

10 DOWNING STREET

8 June 1984

John Gieve Esq
Private Secretary to
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1

Dear John,

Thank you for your minute of the meeting with the Chief Secretary on 4 June.

I would just like to make clear that the the theme of more fees and charges, which is a Treasury suggestion for the forthcoming PESC round, does have its difficulties, as I explained at the time. Widespread use of this does boost the Retail Price Index, and does not of itself do anything to improve value for money or efficiency within the public services.

However, the development of more customer power over public services is an attractive way of encouraging better efficiency and, more importantly, builds on the main theme of the meeting, namely trying to find policies which are in their own right attractive to Secretaries of State in spending departments, which have as their corollary the fortunate consequence of saving taxpayers' money.

Yours sincerely

John Redwood

JOHN REDWOOD

CONFIDENTIAL

CHIEF SECRETARY TO THE TREASURY

PUBLIC EXPENDITURE SURVEY: MEETING IN HM TREASURY ON 4 JUNE 1984

Present:
- Chief Secretary
- Mr Redwood (Policy Unit)
- Mr Bailey
- Mr Gieve

Mr Redwood said that he had asked for the meeting to have a preliminary discussion of the handling of the Survey and the role the Policy Unit could play. He wondered whether it would not be possible for the Treasury to alleviate the dour message of restraint and cuts to some degree by building on some of the positive themes of the Government's strategy for example deregulation (buses, VED, aviation) disengagement of the Public Sector from certain areas (market advice and regulation in agriculture, sponsorship of industries, control of North Sea licensing) and increasing the power of the consumer through more fees and charges, simplification of taxes and benefits (Housing Benefit) and partnership between public and private sectors in education (FE and HE).

2. The Chief Secretary said it was an attractive idea and he would consider the scope for doing this when the pattern of bids and option became clearer during the Survey. Mr Bailey noted that some of the themes suggested eg. sponsorship and deregulation might be more helpful in terms of civil service numbers than expenditure. However the theme of disengaging Government from certain areas was very important particularly in agriculture and industry.

3. Discussion then turned to particular programmes.

(a) the Chief Secretary said that he was sure that there would be a battle this time round on <u>agricultural</u>

and industrial subsidies; the theme of disengagement could be of value there;

(b) he was also concerned at the cost of the employment schemes, Mr Redwood agreed and suggested that Value for Money might be the theme there.

(c) On social security, Mr Redwood suggested that Housing Benefit still stretched far too high up the earnings scale and was probably the best place to look for short-term savings. Another possibility which he was inclined to favour would be not to increase Child Benefit on the grounds that the Government was giving priority to personal tax allowances. The Chief Secretary said that he doubted whether it would be possible to do less than index child benefit to prices. It was agreed that for the longer term changes in the State Earnings Related Pension Scheme were important.

(d) On the NHS, Mr Redwood pointed to the drugs bill and in particular the inadequacy of the measures taken on parallel imports. Beyond that, the big issue was the use of labour. Only continued improvements in the management structure and continuing tough cash limits would produce improvement there. The Policy Unit were producing a note on planning and professional restrictions on the growth of Private Sector health care which could be important in the longer term.

(e) On Defence, Mr Redwood said that the important thing was to prepare for the day that the NATO commitment collapsed. He was convinced that hundreds of £m were going to waste on procurement. Apparently Mr Levene had suggested that MOD were paying 10 to 20% over the odds on many contracts. He had high expectations of Mr Levene's review of procurement and of his ideas on dockyards. In his view the idea of defining a minimum industrial base had now been abandoned and Mr Heseltine was concentrating on fostering domestic competition.

(f) Mr Redwood thought that both further education and higher education should produce further savings. He noted that Salford University was now flourishing on the basis of partnership between private sector and public sector finance.

(g) Mr Redwood agreed that control of local authorities presented a continuing problem. He thought that further measures beyond the abolition of the metropolitan counties and rate-capping might well be needed in the next couple of years. In the longer run a reduction and rationalisation of the functions of local authorities seemed the only sensible route. The Chief Secretary said he didn't dissent from that in principle but he doubted whether it would be possible to introduce any further major legislation on local authorities in this Parliament.

(h) Mr Redwood said that it was vital that the potential savings from the abolition of the Met. counties should be realised and the disposal of waste land and empty property would be one important source. Indeed that should provide savings more widely; he estimated that the PSA had £300m worth of empty property.

3. The Chief Secretary thanked Mr Redwood for giving his views. He thought it would be useful to reconvene the meeting later in the month when the bids and options were clearer. He agreed with Mr Redwood that members of the Policy Unit and officials in expenditure divisions should keep closely in touch and exchange ideas.

JG

JOHN GIEVE

Distribution:

Distribution:

PPS
Sir P Middleton
Mr Bailey
Mr Anson
Mr Scholar
Miss Kelley
Mr Kitcatt
Mr Pestell
Mr Watson
Mr Monck
Mr Lovell
Mr Ridley
Mr Lord
Mr Portillo
Mr Culpin

17

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

PRIME MINISTER

PUBLIC EXPENDITURE 1984-85

I promised you a note on the latest position on public expenditure and the Contingency Reserve for the current year.

2. You will have seen from the PSBR note that supply expenditure in April was about £400 million above the (unpublished) forecast. Some £250m of that is defence expenditure carried over, under the new arrangements, from March; and the remainder is payments (by ECGD for example) which are believed to have been brought forward from May. So there is no need to be too disturbed by the April figure - although we shall be watching the May figure closely.

3. With the new, tighter, arrangements for controlling the Contingency Reserve, the Treasury is now carrying out monthly monitoring not just of supply expenditure but of public expenditure as a whole. The Budget forecast assumed that there would be neither overspending nor underspending this year, but that Departments would spend right up to ceiling, including the whole of the Contingency Reserve. But this month's forecast, which has just been completed, is distinctly less favourable. It suggests that we might be as much as £½ billion over the top. Local authorities' budgets are now in, and imply that their overspending might be £1.6 billion - higher even than the overrun originally expected. Improved redundancy arrangements for miners and policing costs of the coal strike account for some £170 million. The overall nationalised industry position, including an estimate for the costs of oilburn and other related costs, is £100 million above forecast. About £650 million may be

taken up by a combination of health service and review body pay costs, plus end-year flexibility carry-over and launch aid. The prospects for our net EEC contribution this year have also worsened since the Public Expenditure White Paper and the Budget. And we must leave some room (although there is, on this arithmetic, precious little left) for genuine contingencies in the remaining 10 months of the year.

4. This all adds up to a worrying picture, particularly so early in the financial year. I do not wish to inform colleagues of the detailed position at this stage - not least because any leak would cause the markets to be even more unsettled than they are at the present time. But it is clear that we must be very restrictive indeed about any additional bids on the Reserve.

NL.

N.L.
24 May 1984

16 SCNO

SECRET

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

Prime Minister (2)

To note and await outcome of meeting.

AT 4/5

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1

4 May 1984

Dear Peter

THE NORTHERN IRELAND BLOCK

I have, as you suggested in your letter of 5 March, been giving a good deal of thought to the ideas you set out in that letter, but I still find great difficulty with them.

I am quite sure that we would be unwise to do anything to undermine the present block arrangements. They have, as you say, saved us all a good deal of time over the years - though at the cost to me of some painful decisions on priorities within the block. I received no additional support during the 1983 Survey and I shall also be seeking to solve my problems unaided in the 1984 Survey. I have absorbed this year the consequences for the electricity subsidy of the low level of tariff increases in Great Britain and I have undertaken to cope with the costs of natural gas. It would be very retrogressive if we were to return to the system of annual horse trade which the present system has enabled us to avoid.

It should be remembered that my block includes the entire Trade, Industry, Energy and Employment programme. Unfortunately, investment (particularly inward investment) remains at a very depressed level. I have, therefore, switched into social programmes (particularly Housing, where we inherited an appalling problem) funds which would otherwise have been devoted to creating new viable employment opportunities in the trading sector, which is my top priority. In this way I have been able to bolster what would otherwise be an intolerably low level of economic activity and employment, whilst at the same time meeting genuine social needs. Until there is some prospect of a significant upturn in employment-creating investment in Northern Ireland, I see no credible alternative.

The/....

The latest economic forecasts suggest - and the assumptions used are certainly not unduly pessimistic - that unemployment in Northern Ireland will rise to some 25% by 1988, during a period when unemployment nationally should be stabilising and diminishing. It will be very difficult for me even within the existing arrangements to deal with the problems to which this will undoubtedly give rise and it would certainly be indefensible politically to squeeze public expenditure, however covertly, at such a time. The savings would not even accrue in full to the Exchequer. They would be offset to the extent of the cost of consequent additional social security payments.

As you acknowledge, the report of the Needs Assessment Study itself states that because of admitted weaknesses in methods and data, NAS does not provide a means of determining allocations. Moreover, because of its limited coverage, the Study ignores significant areas of spending for which I am responsible and is not therefore a reliable indicator of whether the block as a whole is too large or too small. Employment needs, critically important not only in their own right but also because of their impact on the security and social problems of the Province, are not included in the Study, nor for example are Energy or Agriculture, which have consistently given rise to major issues in Northern Ireland.

I agree, of course, that need is a vital ingredient in arriving at public expenditure allocations, but the Needs Assessment Study does not offer a satisfactory approach to the calculation of Northern Ireland's needs and I could not accept an NAS update as the basis for a presumption that the provision in my block is greater than need. I would therefore have very considerable reservations about the usefulness of asking officials to embark on a joint study of the Treasury's figures, especially as recent work undertaken by your officials and mine on the new methodology for fixing the Northern Ireland regional rate using a well-tried method of establishing absolute need calls into question the validity of projections based on the NAS. It illustrated that in 1981/82 expenditure on rate relevant services constituted only 81% of grant related expenditure for Northern Ireland calculated on the Welsh formula.

I need not labour the wider political dimensions of changes in the block/formula regime. In Northern Ireland it would be perceived as evidence of a wider integrationist approach, with most unfortunate political consequences. In the context of the EC, which has a very active Information Office in the Province, withdrawal of resources from Northern Ireland would not sit well with our stance on such issues as the net UK Budgetary contribution and additionality.

Thus not only am I unable to accept the validity of the NAS approach in itself but I am forced by the political and economic circumstances of the Province to have regard to the key role which present levels of public spending play in maintaining the political, economic and social fabric of Northern Ireland. I believe, indeed, that they pre-empt the requirement for the higher levels of expenditure in the future which failure to tackle current problems would entail.

I am/....

I am ready to meet you and I understand a date has been fixed. But you will have gathered from this letter that I do not regard the course which you propose as likely to have a useful outcome. I am convinced that the weight of the argument is very much in favour of the status quo.

I am sending the Prime Minister a copy of this letter.

Yours
Jim

Econ Pol: Public Expenditure Pt27

cc Master
Subject: Education
Future Policy Pt 2.

FILE

DA

b/c: OL

10 DOWNING STREET

From the Private Secretary

27 April 1984

Dear Elizabeth

Raising Standards in Education

The Prime Minister held a meeting today with your Secretary of State. Mr. Hancock was also present.

Your Secretary of State set out the political background. The Sheffield speech had been extremely well received but the Government was still seen in a negative light as seeking to reduce the resources available to education. Government policy towards local authorities had caused the Shire counties in particular to cut educational provision though in large measure this was a justified response to falling school rolls. There was a danger that the Government's standards initiative would be taken over by other parties who would gild it with promises of more money.

The efforts of his Department were directed towards raising standards rather than the old battles about organisation. Many parts of the programme required little or no extra expenditure, for example improvements in curriculum, improved initial training for teachers, and increased influence for parents as governors. Two initiatives would require additional resources. Improvements in in-service training of teachers was required, particularly to make good the deficiencies in maths teaching identified by the Cockroft Report, and to prepare teachers for the TVEI; improvements were also necessary in the management of teachers. The latter had two components - the establishment of a system of assessment and the establishment of a performance related pay structure for teachers.

Your Secretary of State said schools lacked any system of assessment such as existed in large companies, the Civil Service or the armed forces. Without it, there was no proper basis for promotion, for remedying the defects in mediocre teachers, or for weeding out inadequate ones. Managers, whether head teachers or Directors of Education Authorities, could not, for example, secure dismissal for incompetence without the evidence of a proper system of records. He was urging local authorities to establish systems of assessment at no extra cost and some authorities were already moving in this direction. It might, however, be necessary to offer some additional money to secure full acceptance of these proposals.

/ He said

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LO

He said he would shortly be seeing local authorities on the question of performance related pay. The proposal was to seek a bargain with teachers under which increments were abolished and replaced by merit increases. Acceptance of a system of assessment was an essential precondition. It was unlikely such a package would be self-financing; the cost could be about £100-200 million a year. He had stressed to local authorities that he would not recommend to colleagues any proposals for performance related pay unless he was totally satisfied that they would be effectively administered. In order to find resources it was necessary to reconsider Government expenditure priorities. He recognised that a number of reviews were in hand which could identify the required savings.

The Prime Minister said she fully endorsed Sir Keith's objectives for raising standards but she was very sceptical about whether the methods he was considering would be cost-effective. Teaching standards had declined despite commitment of substantial additional resources. The duration of additional training had been increased, facilities improved, and the number of graduate teachers increased. She believed the key to improved management lay in the willingness of heads and Directors of Education Authorities to take responsibility for hiring and firing. Without this, assessment would become a bureaucratic exercise. It was generally known which the good and bad teachers were - what was lacking was the will to take action.

She doubted whether an increase in resources for performance related pay scales could be justified given the poor results achieved from past increases in resources. She doubted whether there would be sufficient commitment to manage such a structure rigorously. It might be better to employ teachers on time limited contracts (Sir Keith pointed out that decisions not to re-employ would not be taken if the evidence provided by assessment were not available). She suggested that rather than introducing assessment/performance related pay nationally, a pilot project could be considered. She also asked what were the features of the education systems in France and Germany which allowed them to achieve much higher standards.

Your Secretary of State took note of these points and agreed to report back when the proposals were more fully developed. He repeated his assurance that he would only recommend a system of assessment and performance related pay and seek additional resources to finance it if he were totally satisfied that they would be cost-effective.

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Miss C.E. Hodkinson,
Department of Education and Science.

PRIME MINISTER

MS

Your Meeting with Sir Keith Joseph

Your meeting with Sir Keith Joseph who will be accompanied by Mr Hancock, has three purposes:

(i) In his minute of 21 March Sir Keith said that he was worried that certain large expenditure programmes were not being examined radically enough in order to release resources either for reducing taxation or for increasing expenditure in other areas where worthwhile opportunities had been identified. He was concerned that identification of option savings in the course of the Public Expenditure Survey would not allow sufficient reordering of priorities. Your aim should be to assure him that substantial areas of public expenditure are now under review with the intention of identifying worthwhile savings. Some of these reviews are public, eg. social security but he will know of the existence of others, eg. agriculture and the territorial programmes. You might, however, like to bring him into the know on these. He may be aware that you considered a Seminar of colleagues on public expenditure priorities but finally decided, partly on grounds of diary pressure and partly because of concern that it could turn into a bidding session for additional resources. You should try to convince him that the present clutch of reviews provides a better prospect of securing savings and allowing a shift in priorities to take place.

(ii) He has also put forward proposals for an extra £300 million a year for his own programme. While you should be prepared to listen to his case, you should indicate that he should discuss this with the Treasury as a bid for additional public expenditure. In doing so, however, you can indicate your scepticism, particularly in the case for more money to finance a new pay structure for teachers. A brief on (i) and (ii) has been provided by the Treasury.

/ (iii)

(iii) You have on occasions expressed doubts about whether the DES is fully behind its Secretary of State. I believe both Sir Keith and Mr Hancock will welcome the opportunity to reassure you on this score. I expect they will argue that the relationship has improved greatly since it was decided not to proceed with the voucher scheme. Originally there had been concern in the Department that the Government was interested in raising standards only for the teacher, but since the Sheffield Speech it is now clear that the Government wishes to raise standards across the board and to improve the content of the syllabus. The Department and Ministers fully endorse these objectives.

DWB

pp
ANDREW TURNBULL

26 April 1984

SECRET

BF 26.4

15

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

A Turnbull Esq
10 Downing Street
LONDON
SW1

25 April 1984

Dear Andrew

PUBLIC EXPENDITURE PRIORITIES

Sir Keith Joseph wrote to the Prime Minister on 21 March.

We were asked to provide a brief for the Prime Minister for a discussion she is going to have with Sir Keith Joseph and Mr Hancock.

I attach a short speaking note together with a slightly longer background note.

Yours sincerely,

J.St. Gieve

JOHN GIEVE
Private Secretary

SECRET

SECRET

PUBLIC EXPENDITURE PRIORITIES: SIR KEITH JOSEPHS NOTE OF 21 MARCH

Points to make

i. Agree with need to review blocks of expenditure. A programme of public expenditure reviews is in place covering many of the issues Sir Keith mentions (see list at Annex A). Tourism was reviewed last year. Expenditure in Scotland, Wales and Northern Ireland is also being reviewed separately. [This work is sensitive and the fact of its existence is for Sir Keith Joseph's ears only at this stage]. Priorities for research and development expenditure are now reviewed annually by Dr Nicholson. Support for industry has now been much reduced.

ii. Agree need to tackle spending on agriculture. Are negotiating hard to reduce CAP expenditure and carrying out a thorough - and highly confidential - review of national support for agriculture (reporting to the Prime Minister).

iii. Can take account of savings identified by reviews in the public expenditure Survey; will at the same time consider other options for reductions and claims for additions, such as Sir Keith mentioned in his letter.

Background

Sir Keith Joseph's note says he expects to need extra resources for his programme rising to about £300 million a year by 1986-87. He mentions two main causes:

i. the introduction of a performance-linked pay structure for school teachers. Sir Keith first raised this bid last September when he proposed to tell local authorities they could have up to £150 million. After the Chief Secretary objected it was agreed discussions on a new structure should go ahead but with no promise of additional funds. Some progress has been made, though the cost has not yet been discussed. The Burnham working party currently aims to put a package to Sir Keith by June. As well as the direct costs, there could be repercussions for other public sector pay groups.

ii. More and better in-service teacher training. This idea has been around since the James Committee report in 1971. Sir Keith made a bid for extra resources in the 1982 Survey. Although the bid was turned down he has found room within his programme for a significant programme of in-service training supported through specific grants.

2. In addition, Sir Keith says extra resources would also be needed to enhance the efficiency and effectiveness of teaching and research in science and engineering. He probably has in mind such things as more and better laboratory equipment and reversal of universities recent cutbacks in research spending. He may also however pray in aid the Government's manifesto commitment to increase the number of graduates in engineering and technology. At present DTI and DES are collecting evidence of demand for such courses from employers and students. The DES position previously has been that the necessary cash could be found within their existing PES provision.

Public Expenditure Reviews

3. Sir Keith also mentions a number of areas in which savings might be found to offset the additional expenditure he (and others) will propose. Many of the issues Sir Keith has raised are in fact already being looked at in public expenditure reviews. Some of these reviews will in due course provide savings which will be taken account of in the expenditure Survey. A list of these reviews is attached (Annex A).

SECRET

4. On the particular points Sir Keith mentions:

i. Subsidies to agriculture. The UK is negotiating hard to reduce CAP expenditure. On domestic expenditure, officials are carrying out a thorough review of national support for Agriculture and will report to you (Prime Minister) in time for the 1984 Survey. (The Review is classified Secret and omitted from the attached list).

ii. Subsidies to industry. DTI support for aerospace, shipbuilding, steel and vehicle manufacture was planned in the last public expenditure White Paper to fall from £3,249 million in 1981-82 to just £90 million 1984-85, and £10 million in 1985-86 (though subsequent decisions on the A320 and V2500 will cost an extra £83 million in 1984-85 and £116 million in 1985-86).

iii. Subsidies to promote tourism total £34 million a year. A review of tourism policy was considered by E(A) Committee last November.

iv. Expenditure on research and development throughout Government is being reviewed annually by Dr Nicholson. This years review will be ready in time for the 1984 Survey.

v. Expenditure in Scotland, Wales & Northern Ireland is also being reviewed.[This work is sensitive and the existence of the review is for Sir Keith Joseph's ears only at this stage].

Sir Keith also suggests a gradual reduction in public support for higher education students' maintenance. This may be worth pursuing. But without a full-blown loans scheme - publicly rejected at least for the immediate future - any savings would be very modest in relation to the extra resources Sir Keith seeks for his programme.

5. In addition, the options for reductions which, despite Sir Keith's reluctance, are to be prepared in the Survey should identify the implications of 3 per cent savings on all programmes for Ministers to consider. There is, of course, no presumption that Ministers will wish to decide to make across the board reductions.

Current Policy Reviews (excluding efficiency reviews)

DHSS	Inquiry into Provisions for Retirement (including portable pensions and retirement age)
	Housing benefit scheme
	Supplementary benefit scheme
	Benefits for children and young people
	Contractual relationship between the NHS and the contractor professions in the family practioner services
	NHS charging policy
	Drugs bill
D/Energy	UKAEA
	BNOC
DES	Future size and structure of higher education system
ABRC*	High energy particle physics (including CERN)
Dr Nicholson	Government Research and Development
MAFF	Review of Agricultural Development and Advisory Services (ADAS)
	National Support for Agriculture
MOD	National Defence Technological Capabilities
D/Environment	Urban Programme
	Effectiveness of existing rural economic policy instruments.
	Contracting out of local authority services
	Water Authorities
D/Transport	Public road passenger transport review
Treasury	Territorial block arrangements (Scotland, Northern Ireland)

*The Advisory Board for Research Councils will report to DES.

Policy Reviews completed in 1983

DTI	Regional Economic Policy	Oct 83
	UK space policy	Dec 83
	Review of Tourism Policy	Nov 83
CPRS	Central-local government relations	Summer 83
DES	Cash payments in lieu of Free School Meals	Summer 83
Dr Nicholson	Review of Intellectual Property Rights and Innovation	Oct 83

Econ Pol: Public Exp. A27

File

25 April 1984

MR TURNBULL

FUNDING MEETING

I attended the Funding Meeting yesterday.

It was agreed that National Savings would attempt to speed up the procedures for the withdrawal of certificates so that if the Chancellor wanted to withdraw them within a day and a half of an announcement, he could do so.

The Bank displayed their usual pessimism about the prospects for gilt-edged funding. For once I feel they have a point. The projected figures for the PSBR and redemptions of gilts over the first 3 months of this financial year do present a worrying picture. At the same time, the American background and the miners' dispute do not help their task in selling stock.

The meeting ruled out the idea of introducing a long tap. It kept open deploying a convertible and taplets - both of which I favoured - as well as keeping a full range of other stocks at the short end and in the index-linked market, in case demand materialises.

I suggested that May would also be a suitable opportunity to sell some additional equity. On the Bank's forecast, the annualised rate of growth of sterling M3 over the target period could be running at well over 13 per cent by end June, even if they have sold gilts at a monthly rate of £1,250 million. The equity market has been performing well, and there is no projected Government equity sale for May. The meeting thought it was a reasonable suggestion, and agreed to look at the possibility of selling some British Aerospace shares during that month. This would make a modest reduction in the PSBR total for that month, and thereby take a little of the funding pressure off the gilt market.

JR

JOHN REDWOOD

MINACS

1. ~~DB~~ DMB 19/4
2 ~~IF~~

24/4

10 DOWNING STREET

From the Private Secretary

Note for the Record

Patrick Minford rang to say that
Mr Hattersley is making a speech challenging
the Prime Minister to say whether she
endorses the ideas in Professor Minford's
Institute of Economic Affairs paper. He
will be taking the line, eg in interviews,
that it is ridiculous for Ministers ~~for~~ to
be asked whether they endorse a particular
set of ideas. Ministers have called for a
debate on public expenditure and taxation;
Minford has made a contribution to the debate
and Ministers will want to wait until
other participants have given their views
before pronouncing further.

AT 19/4

FILE
da

bc Nick Owen

cc: FCO HMT
DES LCO
NIO HO
MOD CSO
MAFF
DOE
SO
WO
DTI
LPO
D/Trans.
DHSS
LPSO
D/En.
D/Emp.
CDLO
LG's office
CO

10 DOWNING STREET

From the Private Secretary

9 April 1984

Public Expenditure Survey

The Prime Minister has seen minutes from the Chief Secretary of 21 March and 6 April. She has also seen comments from a number of colleagues, in particular those from the Secretaries of State for Defence, Education and Science, Social Security and Northern Ireland, and from the Foreign Secretary. Having considered the points raised, she feels the base line should be constructed by uplifting the 1986/87 provision by 2½%, and she has noted that this will create a margin within which adjustments between programmes can take place. She also feels that all departments should prepare option savings of 3% in each year.

I am sending copies of this letter to Private Secretaries to members of Cabinet, Mary Brown (Lord Gowrie's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

John Gieve, Esq.,
Chief Secretary's Office,
HM Treasury.

SK

CONFIDENTIAL

PRIME MINISTER

c.c. Mr. Owen

PUBLIC EXPENDITURE SURVEY

The Chief Secretary has received comments from colleagues on his proposals for the 1984 PES guidelines. He now seeks authority to launch the Survey.

There were three significant comments:

i) Mr. Heseltine said he would not identify options as this would be inconsistent with "Government policy to give priority to national security". I can see he has a case for 1985-86 which is subject to the NATO commitment, but not thereafter.

ii) Sir Keith Joseph suggested the options should be phased in as 1 per cent, 2 per cent, 3 per cent.

iii) Mr. Fowler did not dispute the 2½ per cent uplift for establishing the baseline but argued that, because a large part of his programme is determined by inflation in the year before, 2½ per cent would not be sufficient to maintain pensions in real terms. As a result he would inevitably make a big claim on the margin created by having 2½ per cent uplift.

Having studied these arguments, do you nevertheless agree that the Chief Secretary should proceed?

Yes but

AT

6 April 1984

6 April 1984

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

1984 PUBLIC EXPENDITURE SURVEY GUIDELINES

with AT

A number of colleagues have commented on my minute to you of 21 March enclosing proposed guidelines for the 1984 Survey and for the future operation of the Reserve.

2. Several colleagues have referred to the implications of the proposed 2½% uplift for the establishment of the baseline for 1987-88. As I indicated in my earlier minute, setting the baseline for the new year of the Survey is an initial and essentially mechanical step. It does not represent a decision either about the appropriate aggregate planning total for that year or its distribution; those decisions will be taken by the Cabinet as the Survey proceeds. The fact that this baseline could imply some reduction in real terms in individual programmes provides a margin, within the aggregate assumptions in the MTFS, to facilitate the adjustment of priorities during the Survey. I am sure that this is the most appropriate starting point.

3. Some colleagues have also questioned the value of preparing material on options for reductions. My suggestion was that officials should prepare a report showing options for savings of 3% on the baseline in each of the Survey years. I remain convinced we will need this information in order to provide a basis for the subsequent Survey discussions. I do not think it would be right to exempt any one individual programme from this general requirement. The Survey must be used to consider priorities, but we cannot sensibly do this without a guide to the areas where Departments could adjust expenditure for each year - downwards as well as upwards - if priorities were

readjusted between programmes. Last year Departments were asked to identify options of 3%, 4%, and 5% in the three Survey years. This year I have proposed 3% in each of the years, and I do not think anything less would meet the needs of the discussion of priorities. It is, of course, open to colleagues to specify options which exceed these figures and that may well be appropriate if the measures needed to achieve 3% in the first year will give higher savings in later years.

4. Against this background, I hope you will agree we should now proceed on the basis set out in the proposed guidelines.

5. I am sending copies of this minute to members of Cabinet, Grey Gowrie and Sir Robert Armstrong.

PR

PETER REES

Econ Pol: Public Expenditure Pt 27

Econ Pol: Public Exp. Pt 7

CC NO

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

SECRETARY OF STATE FOR SCOTLAND

NBPM

3/4

CONFIDENTIAL

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

3 April 1984

Dear Peter,

SCOTTISH BLOCK

Thank you for your letter of 6 March outlining your suggestion that public expenditure on my programme is higher per head than that on equivalent English programmes and proposing a way of changing the way my public expenditure total is determined.

I was surprised at the figure you quote in your letter for the extent to which my public expenditure provision exceeds your assessment of Scottish needs; and if it is decided to take the study further, I would want my officials to have an opportunity to see and comment on the detailed calculations which your officials have made.

However, before we get to that stage, I think it would be helpful as you suggest, for us to meet to go over the broader questions - especially those relating to the political consequences of any decision to change the way my public expenditure total is determined. I would wish to be accompanied by one or two officials at most. Perhaps my Private Secretary and yours could get in touch to arrange such a meeting.

I am sending the Prime Minister a copy of this letter.

Yours ever,

George

Econ Pol Pt27

Public Exp.

E3 APR 1984

CONFIDENTIAL

e CNO

N BPM AT 3/4

CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE
Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
SW1

2 April 1984

Dear Peter,

Your minute of 21 March to the Prime Minister sought agreement that this year's public expenditure survey should proceed on the lines you propose.

I am generally content. I am sure it is right to ask for running costs to be separately identified and to subject them to special attention in view of the fact that they are rising above the rate of inflation. But I would have preferred to have seen some clearer indication of what is expected in this area. For example, forward projections of running costs should take account of planned changes in programme expenditure; otherwise the aim should be to contain any increases within the levels of inflation.

Our overall aim on running costs must be to help and encourage departments reduce the cost of administering programmes. As you will know much of my department's service-wide efficiency work is directed at getting better value from this type of spending.

It also seems right that the baseline you have set for expenditure in 1987-88 should leave some room for Ministerial maneouvre when determining priorities between programmes. This will be an important further step towards getting public expenditure under firm control.

I am copying this letter to the recipients of your minute.

Yours,
Grey

LORD GOWRIE

CONFIDENTIAL

Econ Pol Public Exp Pt 27

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FCS/84/102

CHIEF SECRETARY, HM TREASURY

Public Expenditure Survey

1. In your minute to the Prime Minister and colleagues of 21 March you proposed an uplift of 2.5% in the cash provision for 1987/88 and indicated that this would mean a real reduction in some programmes. Such a low uplift coming after fairly low levels in the preceding two years, confirms the importance for us of reaching a satisfactory arrangement to deal with the higher overseas inflation rates and the exchange rate fluctuations which affect some 40% of FCO (Diplomatic Wing) expenditure. I emphasised these points in my minutes to you of 23 January on sterling and 19 March on the British Council's finances.

2. We need to take special account of how the cash planning system affects the Government's foreign policy objectives. In the second year of the system, 1983/84, the adverse sterling depreciation effect on the Diplomatic Service Vote 1 was £7 million. In addition, higher overseas inflation cost Vote 1 at least as much as the British Council Vote 4 which was given Supplementary provision of nearly £3 million to offset its effects. This comes on top of a trend of a 4% reductiion in the Overseas Representation programme between 1978/79 and 1983/84 and a 5.5% reduction in the gross provision for the British Council, both in constant cost terms. These figures are based on the GDP deflator which of course derives from our success in combatting inflation at home and thus understates the substantial further reduction in volume terms caused by higher price rises overseas.

3. Over the same period Diplomatic Service manpower provision has been reduced by 7.6% and there is to be a further reduction of 5.2% by March 1988. However, whilst resources are declining, the demands on the FCO Diplomatic Wing are increasing, as the attached table shows. In order to plan ahead for the implementation of foreign policy and the provision of consular, commercial and other

/services,

services, I and the line managers who report to me need some assurance that our efforts will not be disrupted by movements in overseas prices or by an unrealistic annual uplift in sterling terms.

4. I am sending copies of this minute to the Prime Minister, Grey Gowrie and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office

2 April, 1984

CALLS ON RESOURCES: FCO (DIPLOMATIC WING)

	1965	1968	1979	1982/3/4 (latest year)	% Change
Number of Countries Covered	124	136	156	164	+ 32
Number of Britons Travelling Abroad	N/A	5.4m	15.5m	20.6m	+ 281
Number of Passport Issues Overseas	155,555	151,933	211,968	223,007	+ 43
Number of British Business Visitors	N/A	N/A	65,998	72,939	+ 11
Number of Market Information Enquiries	N/A	N/A	42,849 (1980)	58,983	+ 38
Number of Trade Fairs	N/A	N/A	377	391	+ 4
Number of Firms in Outward Missions	N/A	N/A	4,909	5,875	+ 20
Visits by Parliamentary Committees (days spent overseas)	N/A	N/A	77 (1978-80 Av)	156	+ 100

Econ Pol Pt 27

Public Exp.

CC NO

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

30 March 1984

Dear Chief Secretary

I am generally content with the proposals in your minute of 21 March to the Prime Minister. There are two points I should bring out to avoid possible misunderstanding.

The first concerns the final year of the survey. I can see the case for your proposed method of creating the baseline for individual programmes: that by establishing baselines which imply a real terms squeeze, there will be room for adjusting priorities between programmes during the survey. But I take it that you are making this proposal against the background of the Chancellor's overall objective of holding public expenditure level in cost terms, ie a 3½ per cent cash increase from the published planning total for 1986/87. I regard that as an essential part of the framework for the Survey in order to allow an adequate margin for the priority bids. The baseline as defined will, otherwise, be pretty artificial as far as my programmes are concerned. For social security, for example, the planned uprating in 1986/87 will to a large extent be determined by inflation in the year to May 1986, and the 1987/88 uprating by inflation to May 1987. Even if the latter uprating were by no more than 2½ per cent, the programme as a whole would increase by 3½ per cent in the final year, even assuming no changes in the number of beneficiaries. My concern is, therefore, that we should be clear about how the baseline for programmes relates to the objective for the overall planning total which we shall presumably fix in July.

My other point is on timetable. As your officials understand, the proposed timetable gives rise to difficulties for the social security programme, because you will not be able to provide new economic assumptions until the end of April and key statistics of ours will not become available until towards the end of the month. The Red Book text we submit at the end of April can therefore be no more than provisional. Until the demand-determined changes to the programme are known, requirements for manpower and administrative expenditure cannot be finally assessed and we shall not be able to take a firm view of policy on benefit expenditure. Subject to these caveats, we shall meet your deadlines provided economic assumptions are available by the agreed dates.

A further caveat on the timetable is that officials have sensibly agreed on a further round of forecasts between the Autumn Statement and the White Paper and, given the uncertainties of estimating, there is always the possibility of quite large changes, at least in cash terms. You will need to take this into account in setting the Reserve for 1985/86 at a realistic level.

Yours sincerely

Stephen Godwin

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

Public Exp Pt 27

nr

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AT 30/3

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

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

30 March 1984

Dear Peter

1984 SURVEY : GUIDELINES

Thank you for sending me a copy of your minute of 21 March to the Prime Minister.

As you know, I am doubtful about the value of the traditional across-the-board options for reductions. I set out some of the general arguments against them in my letter of 30 March 1982 to your predecessor: but may I make one specific point about my own programme?

We have examined, and rejected, often more than once, the likely (and some unlikely) candidates in previous Surveys. Your proposed 3 per cent means £100m for DES Vote expenditure - much of which could only come from universities or science where there is no room for manoeuvre, at least in the next two or three years.

At the very least, I suggest that, if options are to be sought, they should build up progressively in size (as in previous years) from 1 per cent in 1985-86 to 3 per cent in 1987-88. This would recognise the inefficiency involved in making sudden large changes in programmes like mine with long lead times.

I am copying this letter to those who had yours.

Keith

MO 8

MS

CHIEF SECRETARY, TREASURY

PUBLIC EXPENDITURE SURVEY 1984

File with AT

In your minute of 21st March to the Prime Minister you invited comments on your proposed guidelines for this year's Public Expenditure Survey. I am content subject to the following two points.

2. As you acknowledge, adoption of a 2½% allowance for inflation in 1987/88 will mean a volume reduction on the basis of the MTFS inflation forecasts. Despite your assurance to the contrary I think this is bound to prejudice discussion by placing Departments seeking simply to maintain a level programme in the position of "demandeurs". I believe a more realistic factor would promote more orderly consideration of options.

3. Secondly, your proposal that I should identify options for a 3% reduction in defence spending in 1986/87 and 1987/88 is not consistent with Government policy to give priority to national security. We could not conduct a sufficiently thorough examination of the options for such reductions without this becoming publicly known, with political and international consequences which would wholly outweigh the value of such an exercise. I do not therefore intend to identify options for reductions below the baseline in these years.

copy: Mr Turnbull (No 10 Downing Street)

MH

Ministry of Defence
29th March 1984

14

SECRET

①

PRIME MINISTER

Expenditure Seminar

One possibility would be Sunday, 17 June at Chequers, starting at, say, 5.00 and lasting until 9.00 p.m. Ministers would have most of the weekend for their constituency engagements and could return direct to London afterwards. Another possibility would be 1 July but this is too near the Economic Cabinet.

On invitees, the main spenders are:

(i) S/S for Defence;
S/S for Employment;
S/S for Education and Science;
S/S for Energy;
S/S for Trade and Industry;
Home Secretary;
S/S for Social Services;
S/S for the Environment;
Minister for Agriculture, Fisheries and Food.
SS / Transport

(ii) You will need the Chancellor of the Exchequer and the Chief Secretary, Treasury.

(iii) You may want some neutrals from whom the Star Chamber is likely to be drawn, e.g. Lord President and Chancellor of the Duchy.

(iv) This omits Foreign Secretary; S/S for Scotland and Lord Privy Seal who were members of MISC 99, and S/S for Wales, S/S for Northern Ireland and the Lord Chancellor.

/Agree:

SECRET

Agree:

(a) I try and arrange the meeting at the date and time suggested;

(b) with guest list as at (i) - (iii)?

AT

Yes m

ANDREW TURNBULL

28 March, 1984

CONFIDENTIAL

CC NO

Secretary of State

Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

RECEIVED BY
1 29 MAR 1984
PRIVATE OFFICE

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

28 March 1984

Dear Peter

PUBLIC EXPENDITURE SURVEY

file with AF

I am grateful for the opportunity to comment on the draft Guidelines for this year's Survey and the revised arrangements for the Reserve, as circulated under cover of your memorandum of 21 March to the Prime Minister.

So far as the Guidelines are concerned, I am broadly content with what is proposed. The references to the application of comparability to the territorial programmes are, however, less explicit than they might be and my agreement to them is on the understanding that the application of the established formula arrangements will settle the basic Survey outcome for the territorials, any departure from which would have to be the subject of bilateral discussions with the Secretary of State concerned. I particularly welcome the improved arrangements for notifying the relevant Treasury expenditure division of changes with territorial consequences.

Turning to the proposals for the Reserve, I am content with the general principles. So far as Northern Ireland is concerned, however, there is a major potential difficulty in relation to our Social Security programme. This (which forms part of the block in Northern Ireland unlike Scotland and Wales) accounts for almost 30% of all Northern Ireland expenditure and I am sure that you will understand why it would be quite impossible for me to provide cover from elsewhere in my block for the very considerable forecasting uncertainties which beset demand-determined programmes of this nature. I should therefore welcome an assurance

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that you do not have it in mind to treat my Social Seçurity programme any more restrictively than its Great Britain counterpart and produce a disproportionate effect on the Northern Ireland block.

Yours ever
Tom

cc

PS/SOS (B&L)
PS/Ministers (B&L)
PS/PUS (B&L)
PS/Sir Ewart Bell
Mr Brennan
Dr Quigley
Mr Burns
Mr Norris
Mr Murray
Mr Small
Mr Bickham

MWcC

Econ Pol. Pt 27

Public Exp.

S.C. NO.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NDPM

AT 28/3

CONFIDENTIAL

John Gieve Esq
Private Secretary to the Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

28 March 1984

Dear John,

PUBLIC EXPENDITURE SURVEY

I refer to the Chief Secretary's minute of ~~21~~ March to the Prime Minister.

My Secretary of State has no comments on the draft guidelines for the 1984 Survey or on the Treasury's note on Operation of the Reserve: 1984-85. You can therefore take it that he agrees with the action proposed in paragraph 6 of the Chief Secretary's minute.

I am copying this letter to the Private Secretaries to the recipients of the Chief Secretary's minute.

Yours sincerely

John Graham

J S GRAHAM
Private Secretary

28 MAR 1984

PRIME MINISTER

PUBLIC EXPENDITURE PRIORITIES

Sir Keith Joseph's minute of 21 March makes two suggestions:

(i) a bid for £300 million of additional resources to finance a performance-linked pay structure for teachers and to improve in-service training;

(ii) a discussion between Ministers on public expenditure priorities which would replace or reinforce the "options for reductions" which are a normal feature of the Public Expenditure Survey. The aim would be to identify substantial options for savings which would allow finance to be found for initiatives such as (i) above.

On (i) above, the correct response is to ask Sir Keith to discuss the proposal with the Chief Secretary, as would be done with any proposal for additional expenditure. The Policy Unit have strong reservations about this bid. They believe there is scope for making compensating reductions in the education budget, particularly in higher education where there will shortly be considerable over-provision due to falling student numbers. You have also doubts about paying teachers more to do what they should be doing anyway.

On (ii) above a Ministerial discussion of priorities should, in principle, be a good thing. A frequent criticism of the present public expenditure system is that it works incrementally, adding a bit here and removing a bit there. A wider discussion ought to improve the quality of decision-making.

Nevertheless, both John Redwood and I have reservations about the proposal and doubts as to what it would achieve. First, it could degenerate into a bidding session, each Minister pushing his own programme and making unrealistic proposals about savings in colleagues' programmes. Secondly, if divorced from the actual figures around which the normal bilaterals are conducted, the discussion could be too vague to be useful.

There are three options:

/ (i)

(i) you could hold a formal Cabinet meeting on the subject. This seems undesirable as minuted Cabinet discussions would give a degree of formality which could pre-empt the PES round, and would preclude the kind of 'no holds barred' discussion which is being sought.

(ii) you could hold a Seminar outside the regular course of business, either at 10 Downing Street on a Friday or at Chequers. In order to prevent the discussion degenerating on the lines suggested above, you could suggest the following guidelines:

(a) The existing public expenditure limits would not be questioned. All discussions of priorities would take place within the already agreed framework for public expenditure control.

(b) No Cabinet member would be able to argue the case for his own Department's budgets and any proposals for increased expenditure should be matched by proposals for savings.

The documentation would be very simple, comprising the Green Paper on Longterm Public Expenditure and a common briefing paper - Policy Unit would be happy to produce this - setting out the basic facts on the changing structure of public expenditure, with some analysis of this against stated Government policy and Manifesto aims.

It would be important to co-ordinate such a Seminar with the PES timetable. One possibility is to have a Seminar at Chequers in September. I understand the Treasury would be against this as it is too close to the start of the expenditure bilaterals and Ministers would be coming along heavily briefed by their officials to defend their programmes. An alternative would be a Friday morning here before the Economic Cabinet takes place in July, and before Ministers get bogged down in the details of the bilaterals.

(iii) You could invite Sir Keith in with Treasury Ministers to explain to him the present programme initiated by the Treasury of reviewing major areas of public expenditure with a view to achieving reductions and to enlist his support in this lower profile approach. (The areas the Treasury are reviewing are

/ agriculture,

agriculture, territorial programmes, urban programmes, social security, family practitioner services and defence procurement).

You might like to discuss this with the Chancellor at a bilateral on Wednesday. Of the three options, the third is likely to achieve as much as the second with less risk of going wrong. You may feel, however, that it would be a good thing to bring colleagues in more widely and adopt the second option.

AT

Andrew Turnbull
26 March 1984

NBPM

AT 26/3

SECRET

13

23 March 1984
Policy Unit

PRIME MINISTER

Keith Joseph's letter suggesting a meeting to discuss public expenditure priorities has some merit.

The best way of carrying this out would be to hold a seminar at Chequers in July for all Cabinet colleagues, for a discussion concerning pubic expenditure priorities. There would need to be firm guidelines:

1. The existing published public expenditure limits would not be questioned. All discussion of priorities would take place within the already agreed framework for public expenditure control.

2. No Cabinet member would be able to argue the case for his own Department's budget.

3. There should be a common briefing paper setting out the basic facts concerning public spending totals, with some analysis of this expenditure against stated Government policy and Manifesto aims.

It should also be made clear that this meeting in no way pre-empted the usual PESC round. In the event of the meeting establishing clear priorities for increases and reductions, these would then form the basis for the subsequent detailed negotiations between Peter Rees and the individual spending departments. In the event of there being no clear results of a balanced nature, then PESC would continue as before.

There are two other options which you could consider in response to Keith's paper. The first would be to hold a formal Cabinet on the subject: this seems undesirable, as minuted Cabinet decisions would give a degree of formality which could pre-empt the PESC round, whilst it would be more difficult to have a no-holds-barred discussion based on a sensible and politically-informed brief.

The other option would be to invite Keith in and explain to him the present programme initiated by the Treasury of reviewing six major areas of public expenditure with a view to achieving reductions, and to enlist his support in this softly-softly approach.

Of the three options, we recommend the July seminar at Chequers. If you are worried about this miscarrying, then the option of a private conversation with Keith would seem the second best solution.

We have strong reservations about Keith's request for an extra £300 million of educational expenditure. There is plenty of scope to make compensating reductions in the education budget, particularly in higher education where there will shortly be considerable over-provision due to falling student numbers.

JOHN REDWOOD

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BF 28/3

AT

(2)

PRIME MINISTER

Public expenditure survey

The Chief Secretary's proposals are more-or-less the same as for last year. The timetable is set out at Annex A.

Some colleagues may object to the 2½% uplift for constructing the base line 1987-88, when the MTFS assumption for inflation in that year is around 3%. They may argue that if the Treasury wants a real cut it should seek it as part of the survey and not through the technical assumptions for constructing the base line.

Before responding you might like to see how colleagues react on this point.

AT

M

22 March 1984

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B/F with Treasury response
AT
21/3

PRIME MINISTER

PUBLIC EXPENDITURE PRIORITIES

As you know, I strongly support the Government's decision to keep total expenditure to 1986-87 within last month's White Paper figures. But I wonder whether our reviews of expenditure enable us to get all our priorities right within the total.

2. The policies for schools which, with your approval, I outlined in my speech at Sheffield early in January have been widely welcomed. They are securing a greater acceptance of the need to raise standards. We ought to exploit this change of attitude. The prize to be won is no less than improved standards of understanding, attitudes, skills and knowledge at all ability levels. These policies - with the Technical and Vocational Education Initiative (TVEI) - will, I believe, in time improve effectiveness widely and thereby the performance of the economy. But, like the TVEI, they will also require to be lubricated by some extra resources - over and above those on which we have already counted through redeployment within education.

3. These extra resources are likely to be needed in particular to allow (a) for the introduction of a performance-linked pay structure for a smaller but better school teacher force, together with improved management of that force, and (b) for more and better in-service training for school and college teachers. (Some modest extra resources would also be needed to enhance the efficiency and effectiveness of teaching and research in science and engineering in line with the policy proposals for higher education which I shall be putting to you later in the year.)

4. For these purposes, I believe that we shall need to provide - in addition to whatever resources we judge necessary to sustain our present policies for education and science, and

after allowing for the maximum redeployment - a sum rising to something like £300 million a year by 1986-87.

5. I recognise that it will not be easy to find a sum of this order. There are limits to what we can change in defence, pensions and the health service. The less we can do about these programmes, which together account for nearly half the total, the more important it is that we should look elsewhere so as to make room for new developments. Otherwise policies, like those for education and science, will suffer.

6. I suggest that there are areas of lower priority or promise to which we could look to finance an increase in provision for education and science on the scale I have mentioned above. Is it right, for example, that this Government, with its commitments to market forces, should pay subsidies to agriculture which (CAP and national combined) total £2 billion a year? Do we still need such large subsidies to industry - I realise that they were even bigger in my time - and commerce (including tourism)? Is there parity, after allowing for differing needs, in the treatment of services in England and Scotland? Can some of the public money now going to finance research and development in some programmes be put to better use in others? In my own field, should we aim over a period of years gradually to reduce the dependence of higher education students on public funds for their maintenance? (We took this some distance in the 1983 Survey, with very little fuss, by steepening the means test except for those whose parents are at the bottom of the income scale. I think we can take this process some distance further.)

7. These are only some examples of issues, calling for political decisions that go well beyond the work undertaken by officials in the annual Surveys, which I believe we ought to consider in preference to the across-the-board "options for reductions" which have been a feature of recent years.

8. I hope that some of us can have a discussion with you about all this before the 1984 Survey is launched.

9. I am sending copies of this minute to the Chancellor of the Exchequer, to whom I have already mentioned some of these ideas, and the Chief Secretary Treasury.

21 March 1984

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DRAFT

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DOWNGRADE TO RESTRICTED AFTER

5 YEARS

PESC(84)

PESC(WM)(84)

March 1984

COPY NO

HER MAJESTY'S TREASURY

PUBLIC EXPENDITURE SURVEY COMMITTEE

GUIDELINES FOR THE 1984 SURVEY

Note by HM Treasury

Introduction

1. This paper sets out guidelines for the conduct of the 1984 Public Expenditure Survey, and for the preparation of (a) the 1984 PESC report and (b) a separate report (not for circulation) on options for reductions. A separate PESC(WM) paper will be issued requesting running tallies.

Timetable

2. Departments are requested to undertake the work required for the production of the two reports according to the timetable at Annex A. First running tallies are required by 19 April. A more detailed timetable for the later stages of the survey will be circulated later. It is essential that the deadlines set in the survey timetable should be strictly observed. (Considerable difficulties were caused last year, in particular by the late submission of running tallies and some programme texts.) Any department which finds particular difficulty in meeting the deadline of 27 April/4 May for the submission of draft texts of the PESC report should consult the Treasury Expenditure Division concerned, to establish how best the final deadline of 17/24 May (submission of texts to GE) can best be met.

Longer-term and other related exercises

3. In preparing chapters for the PESC reports, departments should take into account the Government's Medium Term Financial Strategy, the issues discussed in the Green Paper on public expenditure and taxation in the longer term and the results of other exercises (eg policy reviews, efficiency scrutinies and the running costs exercise). It is important that the PESC reports should give, from the outset, a full range of policy options available in the survey period.

Construction of the baseline.

4. Annex B gives detailed information on the construction of the baseline to 1986-87. Baseline figures for the new year,1987-88, will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1986-87, adjusted as in Annex B. In the case of defence, this will apply only to the non-Falklands element of provision; in the case of local authority current expenditure only to the aggregate service provision: this is explained further in Annex B.

Flexibility within the Cash Plans

5. In planning the physical content of their programmes and the levels of service envisaged, Departments should consider carefully the implications of their present cash plans, ie the cash figures in the baseline, for all the years covered by the survey. Possible paths for real growth and inflation in the economy were set out in paragraph 2.19 and Table 5.5 in the Financial Statement and Budget Report,but the margins of uncertainty are wide. Departments should as usual make adequate allowance for this in their planning so that the cash plans can be held even if there is some divergence from the indications given in the FSBR.

Economic assumptions

6. Where they are needed, specific economic assumptions will be issued directly to the Departments concerned; the timetable for the resulting running tallies will be issued later. The assumptions to be adopted for the uprating of pensions and social security benefits will be decided in further discussion with DHSS.

Form of the main PESC report

7. Programme chapters should not repeat the information on programmes contained in Part 2 of the last Public Expenditure White Paper (Cmnd 9143). All chapters should, however, cross-refer to the White Paper as necessary and contain a clear summary of the key figures following the format in Annex C attached. The text should be limited to identifying any proposed departures from the plans in the White Paper, distinguishing optional changes of policy clearly from estimating and other demand-led changes. Arguments in support of bids should be briefly stated; any implications for public service manpower should be indicated.

8. Bids for additional cash should be placed in broad order of priority. They should in all cases be supported by some form of output measure, indicating as precisely as possible what the additional money will buy. The chapter should state what offsetting savings might be found, and what action would be required if the department were obliged to meet the additional requirement within its existing programme. Any estimating reductions should be clearly specified.

9. Departments should indicate whether an additional bid (or a proposed saving) would, if agreed, have effects, through the territorial formula, on expenditure in Scotland, Wales or Northern Ireland (territorial expenditure). ST3 Division of the Treasury will advise in any case of doubt - Mr Pratt (233-5279) and Mr Smith (233-8045).

10. Departments and Treasury divisions are, as usual, asked to ease the substantial task of editing and reproducing the reports by adhering to the standard conventions in Annex E. Compatible word processor copy should be provided if possible (see Annex).

Local authorities

11. Because local authority relevant current expenditure will be discussed separately, in advance of other programmes, the 1984 PESC Report will not contain a separate local authority chapter. Consistently with the general approach in paragraph 7 above, programme chapters need not normally refer in detail to expenditure by local authorities unless the Department concerned wishes to propose:

(a) a specific policy initiative in an area within the Government's control or influence, or

(b) an adjustment to programmes (eg capital expenditure) which will not be covered by Ministers' separate decisions on local authority current expenditure.

Nationalised Industries

12. The external finance of the nationalised industries, and related expenditure as agreed between the Treasury and sponsor Departments (including redundancy provision), will be treated as in the 1983 Survey. Although each industry's external finance and related expenditure will be included as a memorandum item within the relevant functional programmes in the 1984 PESC Report, proposed changes to nationalised industry expenditure plans will be separately considered in the Investment and Financing Review. Arrangements for this have already been notified to sponsor Departments.

Options for expenditure reductions

13. As last year, this material will be contained in a separate (uncirculated) report. Departments should set out and discuss, for each programme, policy or other changes designed to produce programme savings in cash equivalent to 3 per cent of the baseline in each year to 1987-88. Options should not be included for local authority current expenditure. Finance treated as being within the nationalised industries' ring fence is excluded as it is treated separately.

14. In the case of defence, the requirement to set out options for reductions applies only to 1986-87 and 1987-88. For social security benefits the reductions should be applied from the November uprating dates. There is no decision that such reductions will be made. The purpose of these options is to provide material for considering the scope for reductions in some programmes to offset possible increases in others. More detailed instructions for the preparation of this report are in Annex D. In particular the options should be ranked in order of acceptability. Departments should assist fully in costing any options for reductions which may be put forward by the Treasury in the course of the survey.

15. Specific options for reductions need not be produced for the territorial blocks. Other departments should, however, indicate whether the options they propose would have consequences for territorial expenditure.

Supporting analyses

16. The PESC report will include supporting material broadly on the lines of Annexes A to F of the 1983 report. To enable Ministers to see the economic effects of changes proposed and made in the survey, an analysis of significant proposed increases, identified savings, and options cuts will be needed. A technical note will be issued explaining the analysis required in detail.

Civil Service Manpower

17. Figures for Civil Service manpower should be shown separately. The baseline is the figures agreed in last year's Survey up to 1 April 1988, amended by any changes subsequently agreed by the Treasury (a figure for 1 April 1989 is not required). Cabinet agreed these figures on the understanding that every attempt would be made to improve on them. Consequently, departments will be expected in this Survey to aim for lower manpower figures for the years 1985 to 1988. (Where a department exceptionally proposes a higher manpower figure for a particular year, a full explanation should be provided.)

18. Increased productivity, more privatisation, dropping, curtailing, or streamlining functions and, where it would be cost-effective, more contracting out should all be examined as ways of achieving the further reduction. Particular attention will be given to seeking to contract out work more extensively than planned so far. In order to provide a basis for further discussion of this during the Survey, departments are asked to provide information - not necessarily for the PESC report - about services/functions which are:

(a) already contracted out,

(b) under consideration at present for contracting out, or

(c) where contracting out is planned at some future date during the Survey period.

Options for civil service manpower reductions

19. Departments are asked to say what action they would need to take in order to reduce manpower by 5 per cent below the baseline figure for 1 April 1988.

Departmental Running Costs

20. Particular attention will also be paid in the 1984 Survey to departmental running costs. At present, running costs cannot be uniquely identified on the Treasury's Financial Information System (see Annex F) so special arrangements will be necessary this year. Departments will be asked to provide information on their running costs in 1983-84 and to set out the provision they seek for running costs for 1985-86; these figures will have to be constructed manually and no running tallies will be needed. Figures will not be required for 1986-87 and 1987-88. Provision should be sought under the following heads: pay, (excluding notional pensions liability), notional pensions liability, personnel overheads, accommodation, office services, other services, capital, receipts. A PESC(WM) paper will be issued giving further guidance on this work,including a timetable for its completion.

Pay

21. Further consideration will have to be given at a later stage to how to treat public service pay in 1985-86 - in particular whether to have a pay factor as for 1984-85 and, if so, whether to make any corresponding adjustments to existing plans.

European Community expenditure

22. Ministers have agreed that a new sub-Committee should be established within the PESC machinery to consider expenditure under programme 2.7 and related departmental expenditure. Further information on the work of this Committee will be circulated shortly to the Departments concerned in a new series of papers (PESC(EC)).

Smaller Departments

23. The procedures adopted for the 1983 Report will apply for the 1984 Survey. This means that the smaller departments will be covered in two chapters: 'Chancellor's Departments' and 'other Departments'. For the texts, it is necessary to cover only proposed increases and reductions (see Annex C).

Further Information

24. General questions arising from this note should be addressed to the secretaries, Mr Perfect (233-4801) or Mrs Spencer (233-4679). Questions on paragraph 20 on departmental running costs, should be addressed to Ms Gane (233-7188) or Ms Elliott (233-7259).

5.1A

ANNEX A

TIMETABLE FOR PESC REPORT

MARCH	Thursday 22 March. Survey Guidelines issued.
	Friday 30 March. GEP3 Data Unit circulate to Departments and Expenditure Divisions the format of Survey Report tables.
APRIL	Friday 13 April. Last date for Departments/Expenditure Divisions to amend the format of Survey Report tables.
	Thursday 19 April. Last date for Departments to send forms to GE Data Unit putting in Budget changes and any other agreed net additions or reductions to the White Paper figures (including classification changes, agreed switches, changes resulting from Estimates scrutiny and revised outturn for past years).
	Friday 27 April. Last date for Departments to send draft texts of Survey report and any other supporting material to Treasury Divisions. (Friday 4 May if they can provide a fair copy of the text and compatible word-processor disc (see Annex E)). But see also paragraph 2 of main paper.
MAY	Friday 11 May. GE Data Unit circulate to Departments resulting tables showing White Paper figures (and 1987-88 figures), adjustments and resulting baselines.
	Thursday 17 May. Last date for Treasury Divisions to send agreed texts of Survey report to GE (24 May if they can provide a fair copy of the text and compatible word processor disc).
	Wednesday 23 May. Last date for Departments and divisions to send GEP1 agreed Annexes to the Survey report.
	Friday 25 May. Last date for Departments to send draft texts of Options report to Treasury Divisions.
JUNE	Tuesday 5 June. Draft Survey report circulated to PESC.
	Friday 8 June. Last date for Treasury Divisions to send agreed texts of Options report to GE.

		Mid to end-June. Ministerial discussions leading to July announcement of main provisions for local authorities (including service distribution). Tuesday 12 June. Final PESC meeting. Friday 15 June. Final copy to printer. Friday 22 June. PESC Reports available.
JULY		Early July. E Discussions of nationalised industries. 5 or 12 July. Cabinet. Possibly some early bilaterals.
SEPTEMBER		Updating of IFR material as necessary Expenditure bilaterals. Provisional decisions in some areas.
OCTOBER		Further expenditure bilaterals Ministerial discussions of local authorities (later years) Mid to end-October, Cabinet
NOVEMBER		By mid-November, Autumn Statement.

5.1B

ANNEX B

CONSTRUCTION OF THE BASELINE (TO 1987-88)

The starting point for the 1984 Survey will be the cash plans published in Cmnd 9143, adjusted for Budget and any other agreed changes, with figures for the additional year 1987-88 constructed as in paragraph 4 of the main paper and paragraph 2 below. The adjustments will be shown separately in the PESC report from the White Paper figures, as in last year's report, but included in the baseline.

2. The baseline for defence will be the 1986-87 Falklands-exclusive Budget. As before, the baseline for local authority relevant current expenditure in 1987-88 will be the service figures for 1986-87, plus a reserve. This reserve will be calculated by the Treasury and will be equal to 2½ per cent of the aggregate service figures in 1986-87 (not including the unallocated margin of £220 million). As before, the baseline will not include an unallocated margin. Decisions on the total amount to be provided in local authority relevant current expenditure, and the distribution between services and any unallocated margin, will be made by Ministers later in the Survey.

3. With Treasury agreement a Department's baseline figures may be switched between sub-programmes within the same programme in any of the years 1985-86 to 1987-88 except that switches out of local authority current expenditure will be allowed only where explicit policy changes will ensure delivery. Finance treated as being within the nationalised industries' ring fence is excluded from these arrangements as it is dealt with separately.

4. Except where otherwise agreed between the Department and the Treasury, proposals for switches of expenditure between programmes should be identified in the PESC report as matters still to be decided.

5. The Treasury will be in touch with Departments separately about sending in running tallies to enter the Budget changes. These and any other agreed changes to the baseline from 1984-85 to 1986-87, including adjustments to expenditure related to civil service manpower, will need to be sent to the Treasury by 19 April. Classification changes (applying to all years of the survey, 1979-80 to 1987-88) and estimating changes for past years up to 1983-84 should also be sent in by 19 April.

ANNEX C

PREPARATION OF PESC REPORT CHAPTERS

(a) Programme tables

Each PESC report chapter will include one table showing the figures at (i) - (iii) below and another showing the manpower numbers in (iv)-(v). The format of the tables will need to be agreed by Departments & Expenditure Divisions (see timetable - Annex A).

The baseline (i) will be supplied by GE data unit; the figures at (ii - v) by Departments. The figures to be included are:-

(i) the baseline, including agreed changes and classification changes, constructed as in Annex B.

(ii) any switches out of programmes involving local authority current expenditure which the Treasury has not agreed as part of the baseline;

(iii) proposed additions to or reductions in programmes (other than those included in the baseline), including estimating reductions and switches to be identified (paragraph 4 of Annex B);

(iv) the public service manpower numbers implied by the expenditure baseline (showing civil service manpower separately - see paragraph 17 of the main paper);

(v) proposed additions to or reductions in public service manpower numbers (showing civil service manpower separately) (again see paragraph 17).

Any territorial consequences of switches (eg if money is switched from a comparable to a non-comparable programme) should be identified. ST3 Division of the Treasury will advise where necessary. Nationalised industry expenditure dealt with in the Investment and Financing Review should be excluded.

2. Items (ii) - (v) above apply to 1985-86 and later years. Increases for 1984-85 should not be proposed in the survey; any such proposals will be dealt with as they arise through the year as part of the operational control of the reserve and the in-year controls on civil service manpower. Expected reductions in 1984-85 in expenditure or manpower should however be included.

(b) Programme texts: adjustments to programmes

3. Where a Department finds it necessary to propose an increase in expenditure, it should demonstrate, in each case with quantified output data, the consequences for the level of service it provides, of maintaining the present cash programmes unchanged, and say why these consequences are thought unacceptable. Where the case for any increase is related to price movements, Departments should demonstrate that their own costs have moved faster than the provision made (with a consequent effect on levels of service in future years); or that they will move faster than costs generally. They will need to show why the price increases cannot be restrained and why the increased costs cannot be absorbed by increased efficiency.

4. The criteria set out in paragraph 3 should be applied to estimating increases as well as to any increases attributable to changes in policy; estimating reductions, provided that Treasury divisions accept them as sufficiently certain and durable, may be counted as savings. Wherever possible the text should distinguish adjustments arising from changed economic or demographic assumptions (if any) and should indicate increases which Departments and the Treasury have agreed would be necessary for the maintenance of standards provided in existing plans. The text should indicate the spending authority concerned and whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control. Departments should not take credit for proposed reductions in local authority current expenditure unless they can ensure that they will be delivered. Consequences for public service manpower should be stated.

5. Where an additional bid (or a proposed saving) would, if agreed, have effects, through the territorial formula, on expenditure in Scotland, Wales or Northern Ireland, the programme text should make this clear.

ANNEX D

REPORT ON OPTIONS FOR REDUCTIONS

A consolidated list of options should be produced for each department ranked in order of acceptability. Savings on local authorities' relevant current expenditure should not be put forward. New or increased charges may be put forward as possible savings on the same terms as in the 1982 survey.

2. To make it easier to use the separate report, the table at the head of each contribution should show the total of any proposals for net increases (as set out in the PESC report). The texts should be kept brief, and should indicate as appropriate:

- the responsible Department and spending authority
- whether main or subordinate legislation would be required, and whether legislation in which the change could be included is already planned
- the specific areas where the reductions would fall, and their implications
- consequences for civil service or local authority manpower
- any specific effects on employment and industry.
- any consequential effects for territorial expenditure.

Example of table required

	Department	£ million cash 1985-86	 1986-87	 1987-88
1.	Baseline	-	-	-
2.	Net increases proposed	-	-	-
3.	Options for reductions required	-(3%)	-(3%)	-(3%)
4.	Items identified in order of acceptability	-	-	-
	(i)	-	-	-
	(ii)	-	-	-
	(iii)	-	-	-
	(iv)	-	-	-
	(v)	-	-	-
5.	Total options for reductions identified	-	-	-

Followed by notes on each option as in para 2 above.

NOTE ON THE PREPARATION OF DEPARTMENTAL TEXTS

It is extremely helpful to have the Departmental texts etc provided in the correct format. Since the PESC report is now produced on a word processor, Departments with compatible equipment are invited to submit texts on floppy disc together with one typed copy; and the timetable makes allowance for this (see Annex A). Departments are asked to check for compatibility with Mrs P Spragg (01-233-8947) before adopting this approach. Otherwise, typescript should be submitted in the normal way. The conventions to be observed on format are the following:-

1. Texts should be attached to, not incorporated in, a covering note. Typing should be on white A4, 1½ spaced, 1½ inch margin. There should be no heading of the kind "Draft passage for PESC report". To facilitate reproduction Treasury expenditure divisions should send a top and one spare copy to GEP1 division.

2. Avoid the use of capital letters as far as possible.

3. Refer to: the "survey" (small s)
   the "survey report" (small r)
   the 1983 White Paper as "Cmnd 8789"
   in relation to changes refer to "Cmnd 8789".

4. It will be understood that all figures in the report are in cash, unless otherwise stated.

5. Write: "per cent" not "%"
   "1983-84" not "1983/84" or "1983-4"
   "a year" not "per annum" or "pa"
   "£ million" not "£m".

6. Avoid abbreviations except where these are very familiar eg "NATO". Give an initial explanation of unfamiliar abbreviations, thus "Commonwealth Development Corporation (CDC)".

7. In the top right hand corner of each page type the name of the Department in block capitals eg: HOME OFFICE.

8. Number the paragraphs, or, if the particular piece of text will follow another relating to the same Department, leave spaces for paragraph numbers.

5.1G

ANNEX F

IDENTIFICATION OF DEPARTMENTAL RUNNING COSTS IN THE SURVEY

The annual scrutiny of departmental running costs covers the Civil Service, the armed services, the Northern Ireland Civil Service but not the NHS. Most running costs items are classified as Civil Service pay, public sector pay, general administrative expenses and PSA repayment. However:

(a) some running costs items are classified under different headings, for example other current expenditure;

(b) not all expenditure classified as, for example, general administrative expenses is currently included in the scrutiny. Also the public sector pay heading includes the pay of staff not covered by the scrutiny, for example, National Health Service staff;

(c) some receipts, for example payments received from other departments for services provided, are classified as general administrative expenses so that the records of the Financial Information System (FIS) show net expenditure.

2. It will be necessary to reclassify running costs expenditure in such a way that it can be uniquely identified in FIS records. But it will not be possible to complete these reclassifications in time for this Survey. They will need to be done in time for next year's Survey. Further instructions will be issued.

ANNEX G

OPERATION OF THE RESERVE: 1984-85

Note by the Treasury

Background

This note summarises the arrangements for operation of the Contingency Reserve, now to be known simply as "the Reserve", from 1984-85 onwards.

2. Recent practice has been to distinguish between changes in expenditure resulting from explicit Ministerial decisions, such as increases in cash limits, and those which do not, such as estimating changes on demand-led programmes. Only the former have been charged to the Contingency Reserve. The latter have not been charged formally, but they have affected Treasury Ministers' attitude towards use of the Reserve generally.

3. But the effect on the planning total of both types of change is the same. As indicated in paragraph 26 of Part 1 of the latest Public Expenditure White Paper (Cmnd 9143), it is intended in future to operate the Reserve in a way which makes easier the treatment of the planning total as a control total. Hence from 1984-85 onwards increases in expenditure, for whatever reason they arise, will be charged to the Reserve if they cannot be accommodated within existing programme allocations.

4. As in the past the operation of the detailed Reserve arrangements will relate only to in-year controls; developments affecting later years will remain the province of the Survey.

Demand-led Central Government Expenditure

5. Assessment of the prospect for demand led expenditure in the financial year ahead will continue to form part of the Survey process. But to ensure as up to date a view as possible before the year begins, it is envisaged there should be further discussions between the Treasury and Departments with significant blocks of demand led expenditure during the run up to the Budget. The Treasury will make detailed proposals for these arrangements. (Given the point in the annual cycle at which the new system is being introduced, this aspect will not be fully operational in respect of 1984-85).

6. It will be necessary to agree a clear basis for the projections, in terms of economic assumptions, trends in numbers of payments etc, in order to assist subsequent monitoring. The aim will be to produce updated central forecasts of outturn and identify the potential scope for error upwards and downwards.

7. These assessments will then be taken into account by the Treasury in final decisions about the size of the overall Reserve; and, within that, about how much needs to be notionally ear marked to cover the risk of estimating increases, and how much for discretionary increases of the kind hitherto charged to the Reserve.

8. The Treasury and Departments will also need to agree on the timing of revised assessments during the year of the estimated outturn on demand led expenditure. Regular monitoring will take place on the basis of the available monthly data, but more detailed assessments might be undertaken quarterly. If the monitoring process shows a prospect of an overrun on a department's non cash limited programmes, the Treasury reserves the right it has traditionally exercised in relation to discretionary calls on the Reserve to consider the scope for and feasibility of containing the prospective increase or taking action to offset it elsewhere in the Department's programmes.

9. The scope for such action may be affected by considerations of legality and propriety, and account will also need to be taken of the impact on efficiency and policy targets. Any agreed estimated balance of overspending, after all feasible and practical steps have been taken, will be charged against the Reserve. Cases of disagreement at official level between the Treasury and Departments will be settled by Ministers.

Local Authority Expenditure

10. Local authority expenditure is included in the new arrangements. For local authority capital expenditure, which is cash limited, no change from present procedures is necessary. But relevant current expenditure presents particular difficulties given the lack of control by central departments, the practice of setting expenditure targets below "central forecasts", the existence of an unallocated margin, and the deficiencies of monitoring information.

11. A broad view of the prospect for relevant current expenditure (and rate fund contributions to the HRA), and how it compares with the White Paper provision, will be necessary (as now) when final decisions about the size of the Reserve are taken before the start of the financial year. But decisions about the formal charging of any overspending against the Reserve will not be taken until local authority budgets become available; at that stage the excess of budgets over provision will be formally charged to the Reserve. While the Treasury reserves its general right, applying to all types of expenditure, to press for savings during the course of the year if it considers the trend of expenditure constitutes a threat to the Reserve and the planning total, no mechanistic relationship is envisaged between local authority overspend and the central government programmes of "local authority" Departments.

Nationalised Industries

12. Procedures for nationalised industries are unchanged by the new arrangements. All bids for additional external finance are, as before, potential claims on the Reserve. Industries' external finance (other than "social" grants) will continue to be ring fenced from other departmental expenditure.

Discretionary Changes

13. Proposals for new measures in the course of the year, including any which involve increases in cash limits, will be dealt with in the same way as before. All such proposals for access to the Reserve require the personal approval of the Chief Secretary to the Treasury, who in any event of disagreement may wish to bring them to the attention of Cabinet.

14. The Treasury will not be prepared to agree to discretionary increases which, in the Treasury's view, constitute a threat to the Reserve. The existence of potential head room within the Reserve, or underspending elsewhere on a department's programmes, is not in itself a justification for such proposals. It is not, and never has been, an object of policy to spend all the Reserve. The new arrangements will make no difference to this. As at present, access to the Reserve for discretionary increases will be restricted further if the Treasury's assessment of potential estimating increases indicate that such restriction is necessary in order to keep within the planning total.

General

15. The new arrangements highlight the importance of satisfactory systems for monitoring and forecasting expenditure, especially in areas which have traditionally been regarded as demand led and for local authority current expenditure. Many departments are already reviewing their arrangements in this area in consultation with the Treasury. Those that are not should now consider doing so.

CC NO

FROM: CHIEF SECRETARY
DATE: 21 March 1984

CHIEF SECRETARY TO THE TREASURY

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY

We need to settle guidelines for this year's Public Expenditure Survey, which will take us to the year 1987-88. Proposals are set out in the annex to this minute. They are largely procedural and technical and have been discussed at official level. I propose that work on these lines should now be set in hand.

2. I shall make proposals in July about possible objectives for this year's Survey in the light of the work which will be done by officials. But we need to establish now a baseline for the Survey - the starting point from which proposals for increases and decreases will be discussed by colleagues. For 1985-86 and 1986-87 the baseline will be the cash plans in Cmnd 9143, as modified by the Budget and other agreed changes. For 1987-88, I propose an uplift of 2½ per cent in the cash provision made for the various services in 1986-87.

3. On the assumptions about general inflation in the new Medium Term Financial Strategy, that baseline would imply some reduction in individual programmes in real terms in 1987-88, to the extent of course that this was not offset by efficiency improvements. It is convenient that we should establish a margin in this way in order to facilitate the adjustment of priorities between programmes during the Survey. But this does not in any way prejudice our eventual decisions on the total or its distribution.

4. The timetable I propose is somewhat earlier than last year and aims for a discussion in Cabinet on 5 or 12 July. This would allow us a little longer for preparatory work before we begin detailed bilateral discussions after the Summer break. I hope that these would lead to final Cabinet decisions in October and an autumn statement rather earlier in November than last year, when we were delayed by the General Election.

5. I draw colleagues' particular attention to three points:

a) I hope that they will ensure that their departments adhere strictly to the deadlines in the Survey timetable (paragraph 2 of the guidelines). These have been set as realistically as possible, and great practical difficulty is caused if the dates are not met.

b) I expect to pay particular attention in this year's Survey to departmental running costs which have been rising at a rate faster than inflation generally. (paragraph 20 of the draft guidelines).

c) Colleagues will understand that for reasons of security it is not possible to circulate widely regular reports on the Survey as it progresses. I would therefore ask Ministers who wish to propose changes (or who reach agreement with me in the bilaterals) to ensure that others with a related interest are fully consulted, particularly in the later stages. The Treasury will, of course, do its best to help in this.

6. Accordingly, I now seek colleagues' agreement that:-

a) Officials should produce the annual Survey report in the form and to the timetable specified in the guidelines annexed to this minute; and

b) Officials should similarly produce a report on options for reductions to produce programme savings in cash of 3 per cent from the baseline in each of the Survey years.

7. I am also enclosing for colleagues' information the guidelines for the future operation of the Reserve. These have been extensively discussed at official level and I hope that they will meet with colleagues' approval.

8. I am sending copies of this minute to Cabinet colleagues, to Grey Gowrie and to Sir Robert Armstrong. It would be helpful to receive any comments not later than 28 March.

PR

PETER REES

10 DOWNING STREET

Prime Minister (4)

No need to read. Simply to be aware that CST has approached Secretaries of State for Scotland and Northern Ireland on size of their block budgets

AT
2/3

MT

Copy 2 of 5

SECRET

NBPM AT 7/3

12

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The Rt Hon Nicholas Edwards MP

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)
From The Secretary of State for Wales

7 March 1984

Dear Norman

PUBLIC EXPENDITURE REVIEWS

pt 26.

I was interested to read the Chief Secretary's letter of 23 February to you recording agreement between you that three aspects of health spending should be reviewed and suggesting what the scope of each review should be.

I note that the proposition is that these reviews should be undertaken by DHSS and Treasury officials jointly. There can be no objection to that, but I must ask that my officials should be kept very closely in touch with their work; it would be most tiresome if it proved necessary for me to dissociate myself from the outcome because no proper account had been taken of distinctive Welsh circumstances (Welsh prescribing practice, for example, is materially different from that of England). I take the point about strictly limiting the circulation of papers, but this can be achieved by nominating the officials to receive them. At this end it should be the Principal Finance Officer.

/ I am copying this to the Prime Minister, the Chief Secretary and the Secretary of State for Scotland.

Yours ever

Nicki

The Rt Hon Norman Fowler PC MP
Secretary of State for Social Services

Econ Pol: Public Expenditure Pt 27

c. 1/10

11 A

Treasury Chambers, Parliament Street, SW1P 3AG

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

6 March 1984

Dear Secretary of State,

THE SCOTTISH BLOCK

With the Prime Minister's approval I am taking a fresh look, in the interval between annual Surveys, at a number of areas of public expenditure which lend themselves to indepth review. One area where I see a good case for this is the block budgeting regime for Scotland, Wales and Northern Ireland.

This regime has I need not remind you now been operational for about five years, the Scottish block itself being the first to be introduced, in 1978. The attractive simplicity of the block/formula arrangements has saved us all a great deal of time and trouble, and there could be no benefit to anybody in a return to the programme-by-programme horse-trade which preceded them. Nonetheless, given the inexorable pressure we face on all public expenditure programmes, I have felt the time has come to take stock of the public expenditure consequences of this largely automatic system. That can only mean relating expenditure to some assessment of need.

The Treasury has carried out an internal study which attempts to relate expenditure to need for the three territorial blocks. The Prime Minister has seen the results. This is an inherently difficult topic, because no way of measuring need can ever be perfect or free from controversy. There was indeed some dispute over the results of the Needs Assessment Study (NAS) published in 1979, and of its 1980 update, even though the methodology had been broadly agreed by those concerned to be the best that could be devised with the time and resources available. For present purposes, we have seen no alternative but to attempt a further update based on that agreed methodology, in full awareness of its pitfalls and of the necessary limitations of the data available within the Treasury.

Those qualifications granted, I would make two claims for the NAS approach:

i. While its detail is arguable, it can be used with some confidence to point up areas where there is an important divergence between expenditure and need - need, for these purposes, being assessed relative to need in England.

ii. It is a valid indicator of the broad trend, over time, of that relationship between expenditure and need.

The results suggest at first sight that the Scottish block is now running at a level significantly in excess of relative need, and that the gap has widened in the last few years. Absolute precision is not claimed for the figure of £900m, which is the sum total (rounded) of the excesses identified for 1983-84 in those results. But I do believe such a large figure must point to some imbalance in the geographical distribution of public expenditure resources - even when allowance is made for the special needs of Scotland (which, to judge by the indicators, have declined in recent years relative to those of the rest of the country). For some kinds of expenditure this is supported by statistical and anecdotal evidence of rather high relative standards of provision.

How has this situation arisen? Not, the study suggests, through the working of the territorial formula, whose effect tends to be broadly neutral over time, and in any event, very marginal. The excess seems to have grown by around £275m since 1978-79 (as assessed in the earlier study) after inflation is allowed for. Over half of this increase is evidently due to a rise in Scottish expenditure provision relative to England, much of which seems to have been implicit in the forward plans already in existence when the block was established (which looked forward to 1982-83). The rest appears due to reduced relative need in Scotland.

As to the implications, I recognise very clearly the constraints imposed by the political dimension, not least because of major changes that have been taking place in the structure of Scottish industry. I recognise that you might face very great difficulty over any proposal to make large changes to the block expenditure totals already published in the Public Expenditure White Paper. And any fundamental change to the block/formula regime itself would, I am sure, hold as little attraction for the informed public in Scotland as it does for either of us.

But I do believe that, unless we can be shown to have got the problem out of proportion, it has to be tackled. Before coming to any firm view on how to do so, I should like to have a talk with you about it. But what I have in mind is a different approach to the setting of baseline provision for your block for the new final year in each survey round, starting with this year's Survey. The usual procedure is to apply a flat percentage increase to the previous year's provision. Instead I believe we should detach the Scottish block and negotiate each year on the level of the new baseline provision. To make any impact on the problem this would obviously have to be on the understanding that we were looking for an outcome lower than the flat percentage increase would give you. Then the provision would gradually, over time, move more into line with relative need.

I recognise that you will want to think carefully about this, before embarking on any wide-ranging study. So I am not copying this letter widely, and I am sure the first step should be a meeting between the two of us. But I would hope it might be possible to agree that officials should jointly look into the results of the Treasury study and seek to reach some kind of agreed view on them. I have acknowledged that the results are necessarily based on incomplete information, and it may be that your officials will want to propose corrections. But I think it essential that we aim to make some initial impact on this problem in the 1984 Survey.

I attach to this letter, though I am reluctant to inflict them on you, annexes on the methodology and figures.

I am sending the Prime Minister a copy of this letter.

Yours sincerely,

Paul Pegler

pp PETER REES

(approved by the Chief Secretary and signed in his absence)

CHIEF SECRETARY TO THE TREASURY

Andrew

I hope these notes will serve as briefing on the TCSC points

a) the plans are unrealistic

b) the expenditure is not under control

c) this is concealed by creative accounting.

J

Public Expenditure file

Revision of Plans

The cash totals published in this White Paper for each year from 1981-82 to 1984-85 are within the totals published in the 1982 White Paper - the first year of cash planning.

'Overspend' in 1983-84 - £120.3 billion compared to £119.6 billion projected in 1983 Budget - regrettable but relatively small.

The cost terms figures show an increase because we have been able to reduce inflation rather more quickly than we anticipated. Under cash planning we did not attempt to 'clawback' the real increase - any more than we would have conceded more funds if inflation had been slightly higher than anticipated.

Cash limits have greatly strengthened control. Only 4 broken in 1982-83, 2 in 1981-82.

Fiddling of Figures

TCSC recommend adding back asset sales, NIS reductions, sickness benefit (first 8 weeks now paid by employers) etc. They also focus on the total including net debt interest.

Of course, need to take account of composition of totals as well as the overall figure when considering fiscal and monetary policies.

However, no case in logic for these particular adjustments. Asset sales need to be treated like asset acquisitions. The reduction in NIS genuinely reduces public expenditure as it does reduce costs on industry.

When Child Benefit replaced child tax allowances that was properly reflected in an increase in public expenditure.

We prefer to stick to well established definitions but to make clear how the totals are made up.

Realism of provision

1. Nationalised industry figures are realistic given continued economic growth and are based on assumption of price increases at or below the general rate of inflation.

2. Provision for current expenditure by local authorities reflects the targets set for individual authorities. These do imply a squeeze on spending - especially for the most profligate. But the base is too high. If they or any other part of the public sector overspends their

provision the excess will be contained within the planning total.

3. The Reserve is much larger than last year - 1984-85 £2.75 billion, 1985-86 £3.75 billion, and 1986-87 £4.75 billion. We have also introduced changes in its operation to improve control.

01 211 6402

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

6 March 1984

GREEN PAPER ON PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

File with AT.

The main point which strikes me on reading the draft of this paper circulated with your minute of 29 February is as follows.

I find the arrangement and some of the content of paragraphs 48-62 confusing and complex. The sections on public expenditure up to paragraph 47 are clear. But what the layman expects after the Section (III) about future prospects for public expenditure is a section about future prospects for the tax yield. This would correspond broadly to paragraphs 48-54, but these paragraphs are now headed: "Future Prospects for the Tax Burden". That seems to me to blur and anticipate the later head: "Public Expenditure and the Tax Burden". There is also blurring and duplication between the contents of the two sections.

I think a better result could be achieved by sorting out more rigorously the material about factors other than public expenditure bearing on the tax burden and for putting all the material about the impact of public expenditure on the tax burden in the subsequent section. On this thought, the first section would consist of paragraphs 51-54 and paragraphs 48 and 49 would belong in the second section. The material about debt interest ought, it seems to me, either to move forward into the section on future prospects for public expenditure or, less satisfactorily, be treated as a separate section immediately before the Conclusion.

As regards what is said in paragraph 54 about North Sea tax revenues, I would rather give this somewhat less the character of a forecast by simply stating the conclusion, as arrived at on certain assumptions, and referring the reader for details to Annex 4. I would also like to add that the Government will do everything it can to maintain output, and therefore tax revenue, from the North Sea.

I also enclose a note of one or two drafting points.

I am copying this to the Prime Minister.

Yours

PETER WALKER

ANNEX

Some detailed comments

Para.14. There is some awkwardness about showing Energy in Chart 4 as the fastest growing programme and then confining comment to a short footnote about the Redundant Mineworkers'Payment Scheme. The great bulk of the 1983/4 expenditure is deficit and social grants to the NCB (over £700m) and RMPS (£200m). Perhaps the answer is to say, in a footnote or in the text, that about 80% of the 1983/4 Energy expenditure relates to these two factors.

Para.49. The first sentence reads oddly. Its sense turns heavily on giving full weight to the word "total", and it is liable to be read as saying that public expenditure should only reflect "in some degree" the purposes and needs of particular programmes. It might be safer to say that there is a risk that public expenditure as a whole will be driven upwards by demands in particular programmes which are not offset by reductions elsewhere; and that controlling the total calls for a rigorous application of priorities. This is also in line with paragraph 70.

Paras.55/56. It does not seem clear which of these paragraphs is chicken and which egg. 55 says some fall in real interest rates can be expected and adds that falling inflation also points to lower nominal rates. 56 says that falling inflation and interest rates require a further reduction in the PSBR.

Para 65. "The plans in the White Paper, like those in the 1982 and 1983 White Papers, represent a major change in direction ..." Three changes in direction?

- 6 MAR 1984

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Dear Andrew

Here is a final complete brief on the PE White Paper.

Yours ever

John

File

SUMMARY BRIEF - KEY POINTS FOR THE PRESS CONFERENCE

TIMING

Q1. Why is the White Paper later than last year?

It is only a fortnight later - mainly because the General Election held up the timetable of the 1983 expenditure survey. It is still over a month earlier than in other recent years.

OUTTURN 1983-84

Q2. What accounts for the increase from £119.8 billion in the Autumn Statement to £120.3 billion now?

The figure of £119.8 related to plans. Likely spending against the plans was allowed for in Table 1.7 of the Autumn Statement which forecast General Government Expenditure in 1983-84 of £120.5 billion. The White Paper's estimated outturn for the planning total of £120.3 billion is consistent with that earlier view.

Q3. Effect on PSBR?

Developments on public spending since the Autumn Statement do not conflict with our estimate of the PSBR at that time. But even at this stage of the year potential margin of error is considerable on any forecast of the PSBR. A later estimate will appear in the FSBR on Budget day.

Q4. If there is overspending, why do you still show £300 million of shortfall?

The programme figures reflect spending departments' views of outturn. The £300 million is the Treasury's estimate of the net shortfall which is not reflected in departments' returns.

Q5. Was last year's White Paper estimate of shortfall then mistaken?

The 1982-83 outturn showed that departments were collectively spending much closer to their cash limits than we expected. The figure for the current year assumes that this will be repeated, though this is still uncertain (especially with the move to end-year flexibility) and we shall be watching the position closely in the coming weeks. There have also been some significant overruns on some demand-led programmes.

Q6. Significant breaches of cash limits in 1983-84?

The possibility of isolated breaches of individual cash limits cannot be excluded. A small number of cash limits are being adjusted in the context of Spring Supplementary Estimates. But in general Departments are expected to keep within their cash limits, including the reductions announced last July.

OVERSPENDING - GENERAL

Q7. There have been overspends in two of the last 3 years. Doesn't that invalidate your claim to be keeping to the plans? Are they unrealistically low?

The overspend in those two years was 0.3 per cent and 0.6 per cent. That is small in relation to the great uncertainties over demand-led expenditure and continued overspending by local authorities. The new-style reserve is intended to exercise a greater control over such increases in future. (Even in those two years the outturn was within the total of programmes plus the reserve. It was the allowance for shortfall which proved mistaken. The figures do not reveal a loss of control. They show relatively small errors in forecasting an item which has been particularly difficult to estimate.)

Q8. Why has gross debt interest gone up so much since the last White Paper?

A major factor has been higher than expected borrowing in 1982-83 and 1983-84. Other contributory factors were higher than expected interest payments by public corporations to the private sector and overseas, more up-to-date estimates of outturn and higher expenditure on interest support costs. The underlying interest rate assumptions have not been increased.

SHORTFALL IN 1984-85?

Q9. Why no shortfall shown for 1984-85?

Under the new arrangements for the reserve, all increases in programmes during the year must either be offset or charged to the reserve. So any overall underspending will eventually show up as an underspend of the new-style reserve. Whether that will happen in 1984-85 (and if so by how much) is a forecasting judgement which it was too early to make when the White Paper went to print.

[IF PRESSED FOR A FIGURE: Wait for the FSBR. Situation will be reviewed continually between now and the Budget.]

Q10. Did you consider the possibility of shortfall in setting the Reserve?

The possibility of shortfall in some areas is one of many judgement we made in setting the Reserve. We have always said there is no presumption that in any year the reserve will be fully spent.

"REAL TERMS" COMPARISONS

Q11. Has not the planning total for 1984-85 increased by over £1 billion in cost terms since the last Budget?

Yes. In cost terms there has been an increase of about 0.9 per cent. That does not result from any increase in the cash plans. It results entirely from a fall in the expected rate of inflation. The fact that the money will now buy more is one of the benefits of reducing inflation; and one of the factors which has helped us to hold to the cash plans.

Q12. Why not recoup this £1 billion by reducing cash total?

Saw no reason to do so. Reasonable that public should derive some benefit from effect on services of lower inflation. Cannot fine-tune programmes to reflect every small variation in the forecast rate of inflation.

ASSUMPTIONS

Q13. Do the cash increases of 5 per cent, 4½ per cent and 3½ per cent represent your view of inflation in the next 3 years? Assumptions about pay in later years?

With the exception of social security and the pay factor announced for 1984-85, there are no explicit inflation assumptions underlying the plans; and the average cash increases in the planning total reflect other factors as well as prices - for example, changes in levels of service and improvements in efficiency. But the overall cash provision is generally consistent with the Government's intentions (i) to exercise a continuing downward pressure on inflation, and (ii) that in cost terms the pattern of expenditure over the period should remain broadly stable. Up-to-date assumptions about inflation for all three years will be published at Budget time in the FSBR.

Q12. Why are you forecasting a steady level of 2.85 million unemployed?

We are not. The flat path shown for unemployment is a long-established convention; the actual level will depend on developments in the world economy and at home.

Q15. Isn't 3 per cent for increases in pay an unrealistic provision?

We believe that 3 per cent is a reasonable provision overall. But we are committed to genuine negotiations with the unions over the level of this year's pay settlement.

"HIDDEN MANIFESTO"/LONG TERM DEBATE

Q16. Does the White Paper tell the whole story? More cuts to come?

The White Paper shows quite clearly clear that there was and is no "hidden manifesto"of cuts and reductions in the public services.

Q17. Document on the long-term?

The Chancellor has made it clear that the Government wishes to make some more formal contribution to the public debate. He announced in the House on 9 February that he will publish a Green Paper "in due course". [If pressed, precise timing not settled. Cannot anticipate content of Green Paper today.]

THE RESERVE

Q18. How does new-style reserve improve control?

Present practice where only discretionary increases in expenditure are charged to Reserve too limited. The bigger variations tend to arise from "estimating" changes, particularly on demand-led, non cash limited programmes. Under new arrangements, all increases which cannot be absorbed within programme totals will be charged to the Reserve. This will be much better geared to "control total" approach and to managing expenditure within the aggregate cash plans.

Q19. Will you identify the component elements of the new-style reserve?

New Reserve will be treated as a whole. Idea is definitely not to create two Reserves, one for discretionary and the other for estimating changes. At any one time will obviously have a view about likely pressures on the Reserve from both discretionary and non-discretionary sources. But position can change substantially. Judgement of scope for absorbing discretionary changes must take account of developments on demand-led programmes.

Q20. Why such big reserves for later years?

Reflects extended scope of reserve and future uncertainties. Figures will be reviewed in subsequent Surveys in light of experience of the new system in 1984-85.

CAPITAL EXPENDITURE

Q.21 In the new capital table aren't you just throwing everything in to boost the figures?

Not a fair or accurate suggestion. It has been widely stated that public sector capital spending has been falling. This table shows in a commonsense way what the public sector has spent on all capital goods and services in each year since 1978-79. Nothing illegitimate has been included. The level of capital spending in real terms has been virtually stable since 1978-79. The picture is much the same if you take capital spending as a share of GDP - 8.0 per cent a year to 1980-81 and 7.5 per cent since. The table shows the impact of new work generated by the public sector.

Q22. But the share of construction within the total has seriously declined?

There is no "right" level of such spending. It depends on whether the investment will earn a satisfactory return. If so, we are happy to encourage it. Remember too that Table 1.13 does not include work on repair and maintenance. This has steadily increased. In the early 1970s it was about 30 per cent of the total work supplied to the industry by the public sector. In 1982 it was about 50 per cent. So there is a lot of work not shown here which has been increasing.

Q23. Why include defence - surely not productive?

Defence capital expenditure provides work for the capital goods and construction industries so it should be included in the Table. There is no practical difference to the supplying industries between a civil and a military ship or aircraft, or between civil and military buildings. It all generates work of a capital nature. Spare parts, ammunition and so on have not been included.

Q24. But are we not running down the capital stock/failing to maintain the built infrastructure etc?

There are no very firm figures for public sector capital consumption. In any case there is no necessary presumption that it should be maintained intact at its past level. The essential thing is that proposals for replacement and improvements should earn an adequate return and be appropriate to the public sector.

Q25. Why not do more to encourage capital spending?

Not a question of "capital good current bad". Much current expenditure essential and some is an equally good investment in the future - training and R & D for example. But always happy to encourage capital projects which earn a satisfactory return.

Q26. You deduct asset sales from total spending but not from Table 1.13. Why?

Just as the acquisition of an asset adds to total burden of public expenditure so the sale of an asset reduces it. We treat them symmetrically within the planning total which is an overall control total. Table 1.13 serves a quite different purpose. Receipts from the sale of council houses etc self-evidently do not to reduce the public sector's capital purchases from the industries, so they are not deducted in Table 1.13.

DEFENCE

Q27. Have you abandoned the NATO commitment?

Provision up to 1985-86 fulfils the Government's commitment to meet the NATO aim of 3 per cent real growth per annum, with Falklands costs on top. The commitment has not been extended beyond 1985-86. The 1986-87 defence budget, Falklands costs exclusive, will be some £700m higher than the previous year. (The Falklands inclusive increase will be £600m. This is because additional Falklands costs in 1986-87 (£450m) are £100m lower than the 1985-86 figure.)

Q28. What is the total Falklands cost? Is it justified?

Provision over the period is about £3 billion including £780 million in 1982-83. Have no doubt that most people would accept it is fully justified so long as any threat to the Falklands can be foreseen.

EUROPE

Q29. Why is the net payments figure for 1984-85 £75 million lower than in the Autumn Statement?

The fall in 1984-85 reflects a number of factors. On the basis of the exchange rate assumptions used in constructing the projection, our VAT payments in 1984-85 are likely to be somewhat reduced. We are also assuming a larger refund in respect of 1984 than that agreed at the Stuttgart Council in respect of 1983.

Q30. The figures are on an upward trend. Is the Government concerned about this?

The projections are uncertain for the reasons given. The Government is concerned that our corrected net contribution to the Community Budget should be at a level which is fair. It has proposed that a "safety net" ought to be introduced, which would limit our corrected net contribution to our ability to pay, as measured by relative prosperity. This is currently the subject of negotiation within the Community.

AGRICULTURE/IBAP

Q31. Why such large increases for IBAP?

This represents expenditure by IBAP on agricultural support under the CAP. About one-third of the increase is for expenditure which is pre-funded from the Community Budget. The rest reflects forecast extra intervention purchases, particularly for milk products: these costs fall initially on the Exchequer, but they are recouped from sales and by Community reimbursement for losses when intervention stocks are sold.

HOUSING

Q32. How do you justify such a large further cut in housing?

The Housing figures in Part 1 of the White Paper are shown net of receipts. Most of the apparent cut in 1984-85 results from an increase in receipts of about £300 million. The gross provision for capital expenditure in 1984-85 - which is what matters to the general public and the industry - is about the same as for 1983-84.

Q33. Why end temporary Home Improvement Grants?

These measures, introduced in the 1982 Budget, were clearly stated to be temporary. They were designed to take up immediate capacity in the building industry. The original deadline for applications was twice extended and has now been confirmed as 31 March 1984.

HEALTH

Q34. Do the plans meet your election pledges?

They more than do so. The new plans are for spending £845m more in 1984-85 than in 1983-84, and for £877m more in 1985-86 than in 1984-85. The Prime Minister's Edinburgh speech promised increases of £800m and £700m respectively.

Q35. Higher prescription charges?

The Social Services Secretary will be announcing changes later, but the exemptions from charges will remain.

SOCIAL SECURITY

Q36. Is social security expenditure out of control?

No. The reasons for the increases are given in paragraph 8 of Part 1. About half the increase is accounted for by specific policy decisions. The rest is accounted for by estimating changes. We are, however, reviewing procedures for forecasting these demand-led expenditures which are particularly difficult to estimate.

Q37. Why the increase of £360m for 1984-85 since the Autumn Statement?

In the White Paper we have been able to take account of more up-to-date estimates of expenditure on benefits, mainly supplementary benefits.

Q38. Are there more announcements of cuts to come?

There are no plans for further reductions in the programme total. There may be more or less spent on individual benefits as normal part of policy review. Mr Fowler will announce details of November uprating in June.
[If pressed: Mr Fowler is to find some offsetting savings for concessions on housing benefit; this will involve some adjustments within programme total, as well as small (£8m) addition to programme from contingency reserve.]

Q39. Why did you cut housing benefit?

Some savings in the overall social security budget are essential if the increasing cost to the taxpayer is to be kept within reasonable limits. Housing benefit now goes to 1 in 3 households, 40 per cent of the population. Some of these have above average earnings. Cuts affect households best able to afford them. Most pensioner claimants will not be affected. No one on supplementary benefit need be affected.

Q40. But haven't you had to climb down on this?

The modifications announced on 6 February will ease the particular problems identified by the Social Services Advisory Committee. They will give families affected longer to adjust and help local authorities with the administrative task of making the changes. The modifications will not add to the existing expenditure plans.

Q41. Will housing benefit changes deepen or widen the poverty trap?

The trap will be less wide - ie there will be fewer people in it (those who lose benefit will come out). It will be deeper, ie marginal rates will be higher. But the changes mainly affect people above the worst part of the poverty trap.

LOCAL AUTHORITIES

Q42. Is not provision for LA current wholly unrealistic?

No. The targets set allow authorities which have kept spending down a 3 per cent increase over budgets. Authorities which have failed to meet previous targets are faced with a maximum 6 per cent cash cut. Up to authorities now to control their own costs.

Q43. Means high rate rises?

Not if authorities budget sensibly.

Q44. Now penalising responsible authorities?

No authority meeting its targets will lose grant through hold-back. All depends on local authority decisions.

Q45. What saving have you assumed from rate-capping?

The scheme will operate for the first time in 1985-86. The first 12-20 authorities will be selected once Parliament enacts the Bill. There will then be expenditure savings and it will be possible for the target and penalty system to be fairer on authorities who have kept spending down.

Q46. What about LA capital? Still underspending?

Provision for LA capital (almost £3.7 billion) is about the same as forecast outturn for 1983-84. Past high level of underspending seems unlikely to be repeated this year. Likely to be within £250 million of levels given in last White Paper (£3.9 billion).

ASSET SALES

Q47. Latest position on British Telecom and British Airways?

Nothing to add to stated position that sale of BT is planned for next autumn with BA in early 1985.

Q48. What do future year targets imply for method of BT sale?

No final decision has yet been taken on the method of BT sale. Always some uncertainty about level of receipts, but level of £1.9 billion in 1984-85 and £2 billion in each of next 2 years is a realistic and achievable target.

Q49. Future plans?

Not the practice to reveal composition of future sales programmes. Determined by market and commercial considerations and commonsense.

Q50. Frittering away the nation's assets on current spending?

No. It is entirely reasonable to dispose of unwanted assets, particularly where this will increase competition in the economy and help to promote greater efficiency. Treatment of special sales is fully consistent with sales of land, council houses and other assets which also reduce public expenditure.

NATIONALISED INDUSTRIES

Q51. Are you tightening the screw on the industries/forcing them to put up prices?

The fall in their need for external finance arises mainly from further improvements in costs and performance. For 1984-85, industry tariffs are expected to rise at or slightly below the rate of increase in the RPI.

Q52. What about industries' investment?

Allowing for privatisation, investment in 1983-84 is expected to be 12 per cent up on 1982-83 and to be much closer to plan than in previous years. (The apparent fall between 1983-84 and 1984-85 and later reflects the privatisation of British Telecom, BA and Enterprise Oil, whose investment will then be in the private sector.)

Q53. Electricity prices?

The Government suggested a 2 per cent increase in April to give confidence that the electricity supply industry would meet its EFL (-£740 million) and to avoid the risk of sudden large increases later. This rise is consistent with economic pricing and is lower than expected when the present financial target was set a year ago.

16.2

BRIEFING FOR THE 1984 PUBLIC EXPENDITURE WHITE PAPER

A: GEP briefs

A1	Fact Sheet - Key Comparisons
A2	Improvements in Presentation
A3	1983-84 Outturn
A4	Changes since Cmnd 8789
A5	Real terms Comparison
A6	Economic Assumptions
A7	The Reserve
A8	Capital Expenditure
A9	Recent developments in the UK Economy.
A10	Public Service Manpower
A11	Output measures
A12	Public Service Pay and pensions

B: Main Programme briefs

B1	Defence
B2	European Community
B3	Agriculture/IBAP
B4	Housing
B5	Support for Industry
B6	Health
B7	Social Security
B8	LA Current and Rate Support Grant
B9	LA Capital
B10	Nationalised Industries
B11	Special Sales of assets
B12	Debt Interest

C: Background Notes

C1	Spring Supplementary Estimates
C2	1983-84 Outturn
C3	Housing benefit
C4	Local authority Creditworthiness
C5	ECGD Notional cash balances

FACT SHEET - KEY COMPARISONS

Public expenditure held within previous plans:

	Cmnd 8789	Autumn Statement	£ billion Cmnd 9143
1984-85	126.4	126.4	126.4
1985-86	132.3	-	132.1

Fall in ratio to GDP

1983-84 Plan	Outturn	1984-85 Plan
43½%	43%	42%

£ billion

	1983-84 Plan	Estimated Outturn	1984-85 Plan
Rise in cost terms comparing plan with plan. NB Not comparing plan with outturn	113.9 (Cmnd 8789)	114.6 (Cmnd 9153)	114.6 (Cmnd 9143)

	1978-79 on 1977-78 (last full Labour year)	1982-83 on 1981-82	1983-84 on1982-83	1984-85 on 1983-84	1985-86 on 1984-85	1986-87 on 1985-86
Fall in rate of increase of public expenditure	+15.8%	+8.3%	+6.1%	+5.0%	+4.5%	+3.5%

		1984-85 £ million
Main changes between Cmnd 8789 and Cmnd 9143	Agricultural support	+395
	Local authority current expenditure	+600
	Social Security	+1,268
	Defence	-257
	Housing	-492
	Nat Ind EFL's	-700

Capital	1983-84 estimated outturn	1984-85 plan	%increase
Capital spending (new definition)	23.4	23.9	2% or £500m
Capital spending on new construction (Old definition)	10.9	10.9	0

Civil Service Manpower (see brief A10)

Date	Number	% reduction
1.4.79	732,300	-
1.4.82	666,400	9%
1.4.83	648,912	11%
1.1.84	632,600	13.6%
1.4.84	630,000(estimated)	14%
1.4.85	608,208 (estimate)	17%
1.4.88	593,000*(estimate)	19%

*6% reduction over 1.4.84 figure of 630.000

IMPROVEMENTS IN PRESENTATION

1. Volume 1

Volume 1 contains a new presentation of capital spending (Table 1.13) which gives a more complete picture of Government spending on capital goods. And manpower figures for Government departments are included for the first time (Table 1.15)

2. Volume 2: Clearer statement of objectives

Volume 2 of the Public Expenditure White Paper now contains clearer statements of the the policy objectives to which expenditure is directed; these will in turn be related to progress and performance indicators wherever possible. There are now some 550 output measures, an increase of 40 per cent since last year. All programmes now include some output measures.

3. References included for Estimates and Votes

The programme chapters on planned expenditure include references to the Estimates presented to Parliament for control purposes. The intention is that both the White Paper and the Estimates should, as far as possible be derived directly from the information systems which departments are already developing for the management of both programmes and their own activities and costs.

4. New contents pages for the text tables

A new item this year. A useful reference for locating text tables because of increased size of publication.

5. The change to the cover of the PEWP

This follows the layout approved by the Chancellor for the "family" of Treasury publications (Autumn Statement, FSBR and PEWP)

6. Part Four

Two new Tables 4.6 and 4.7. Procedure Committee's recommendations,to show more detail on how the public corporations are financed.

7. Part 3

Now includes all the Nationalised Industries text in one place. Water authorities included for the first time as separate item in part 3.

8. Volume 2 longer

Volume 2 this year is 172 pages compared with 130 pages last year. Length does not equal quality, but the increase reflects the improvements described above.

9. Analyses by Economic Category and Spending Authority.

The analyses of total public expenditure by economic category, and by spending authority and economic category are now carried through for the last two years of the survey. The figures for the last two years are very provisional.

1983-84 OUTTURN

1. Comparision with Autumn Statement?

The Autumn Statement planning total of £119.8 billion shown in Table 2.1 relates to plans, not estimated outturn. Consideration of the likely spending against those plans was allowed for in Table 1.7 and it should be evident that the White Paper estimated outturn of £120.3 billion does not represent a change in view since then.

2. PSBR overshooting?

The Autumn Statement increased the 1983-84 PSBR estimate in the Budget from £8.2 billion to £10 billion. This estimate incorporated the view of likely spending against the Autumn Statement plans and developments since then, on public expenditure, do not conflict with it. Even at this stage of the year the potential margin of error on any forecast of the PSBR is considerable. A later estimate will appear in the FSBR on Budget day.

3. Where has the overspending occurred?

Compared with Autumn Statement plans the White Paper estimated outturn, after broadly assessing where the £300 million shortfall is likely to occur, consists of £½ billion overspend on central government expenditure and £1¼ billion on local authority current expenditure partially offset by nearly £½ billion underspend on nationalised industries EFLs and an unspent Contingency Reserve of around £¾ billion. The total net overspend, £½ billion, is unchanged from the view taken at the time of the Autumn Statement although some of the components have change very slightly.

4. If there is overspending why does shortfall appear in the White Paper?

The overspending is against Autumn Statement plans, the shortfall is against departmental views of outturn. The £300 million shortfall is the Treasury's estimate of the net shortfall which is not reflected in departmental returns.

5. Why is the 1982-83 outturn in Financial Statistics Table 2.4 so different from that in the White Paper? And 1981-82?

The figures derived from national accounts sources in Table 2.4 allow for known differences between general government expenditure, as measured in the national accounts, and the planning total. The reconciliation between these figures and the White Paper figures is a continous process and more work needs to be done. Unexplained differences, though unsatisfactorily high, are low in relation to planning total as a whole.

CHANGES SINCE CMND 8789

There have been few changes to the plans for 1984-85 since Cmnd 8789. The net result has been a £35m fall in the planning total. Table 4.2 provides details of the changes.

2. Agricultural support expenditure has risen £395 million since Cmnd 8789 due to increases in Intervention Board for Agricultural Produce spending, particularly on milk products.

3. Local authority current expenditure is £600 million higher than planned.

4. Social Security expenditure increased £1300 million since Cmnd 8789. Reasons include increases in child benefits and one parent benefit and effects of changes in uprating assumptions. Plans for next year show a rise of £360 million since Autumn Statement mainly because of revised estimates of expenditure on supplementary benefits.

5. Housing provision is £600 million lower than in Cmnd 8789 due to higher receipts and lower current expenditure.

6. Defence expenditure is £257 million lower than in Cmnd 8789. The effects of the March 1983 NIS reduction, and the 1983-84 cash limit cut were reflected in the autumn statement figures. The defence budget is now £21 million higher principally due to the transfer of COI services to repayment basis and an adjustment to the charging basis for fishing protection.

7. The Central Office of Inf~~lation~~ormation has now been put on a repayment basis. The PES provision has been transferred from Common Services to other programmes.

REAL TERMS COMPARISONS

1. Definition of cost terms

Cost terms figures are the cost figures adjusted for general inflation, as measured by the GDP deflator at market prices, to the base year 1982-83. The GDP deflators used for 1983-84 and 1984-85 are 5 per cent, as given in the Autumn Statement (paragraph 1.48). The cost terms figures for 1984-85 are not themselves plans - they are derived from the cash plans.

2. Why no cost terms figures beyond 1984-1985

The cost terms figures in Table 1.4 go only as far as 1984-85 because figures for the GDP deflators are not available for later years.

3. [NOT FOR USE]

(Last year a revised and extended cost terms table was published, by means of an arranged PQ, after the Budget. It took account of the GDP deflators given in the FSBR and of the effects of Budget changes on the public expenditure planning total in 1982-83 and 1983-84). If GDP deflators are given in the FSBR on Budget day we will suggest a similar procedure this year.

4. What the figures show: 1984-85

On the assumption of an increase in the general price level (as measured by the GDP deflator) of 5 per cent between 1983-84 and 1984-85, Table 1.14 shows that public expenditure expressed in cost terms is expected to be broadly stable between the two years.

5. Comparison with the cost terms figures in Table 2.2 of the Autumn Statement

For 1984-85, the PEWP cost terms figure is the same in rounded terms as in the Autumn Statement figure - this results entirely from the increase in the corresponding cash figures.

6. Comparision with 1983 Budget

The 1984-85 planning total expressed in cost terms in Table 1.14 is some £1.1 billion more than the corresponding 1984-85 figure given in the past 1983 Budget cost terms PQ (Hansard 17 March WA Col 240) convented to base year 1982-83. This is because there has been a reduction in the expected rate of inflation, as measured by the GDP deflator in both 1983-84 and 1984-85, since the 1983 Budget. This does not mean that the expenditure plans for 1983-84 have increased. In fact the cash planning total for 1984-85 in the 1984 PEWP is virtually the same as in the 1983 PEWP. The fact that this planning total will now buy more in one of the benefits of reducing inflation. [The figures underlying the above are set out below:

	1983 Budget	1984 White Paper
Planning total, cash	126370 (1983 PEWP figure)	126353
Deflators, per cent		
1983-84	5.5	5.0
1984-85	5.5	5.0
Planning total, cost terms base year 1982-83	113540	114606

7. Should not all programmes have been revised downwards for 1984-85 as a result of falling inflation?

One of the main aims of cash planning is to require programme managers to plan to achieve optimum service levels within the cash constraints. Price changes, in general, have to be absorbed. Automatic downward adjustment to programmes when inflation falls would inevitably mean automatic upward adjustment if inflation was to rise. This would destroy the object of cash planning. The fact that the planning total for 1984-85 will now buy more is one of the benefits of reducing inflation.

ECONOMIC ASSUMPTIONS

Prices and Unemployment

1. Where are the economic assumptions published?

Economic assumptions on prices and unemployment are published in Part 1 paragraphs 7 and 42 and Part 2.12 paragraph 35. They are needed mainly for costing the social security programme. GDP deflators for 1985-86 and 1986-87 are not included but may be published in the FSBR on Budget day.

2. What are the figures

To calculate the social security programme, it is assumed that unemployment (GB narrow) will be 2.85 million in 1983-84 and subsequent years and that prices will rise by 5½ per cent in the twelve months to May 1984 and by 4½ per cent and 4 per cent respectively in the two subsequent years.

3. Any changes since Autumn Statement?

The assumptions for next year (1984-85) are the same as those already published in the Autumn Statement (paragraph 3.04) and by the Government Actuary in his latest report (Cmnd 9092). The PEWP extends the assumptions to the following two years when they become increasingly provisional.

4. Flat path for unemployment conventional?

The flat path for unemployment for the later years follows the usual convention; the actual level will depend on developments in the world economy and at home.

5. How have the assumptions changed since the last White Paper?

Unemployment is now projected as a flat 2.85 million instead of 3.02 million, mainly reflecting the effect of changes in the 1983 Budget which removed about 0.15 million people from the unemployment count. In comparing the price assumptions must bear in mind that those in Cmnd 8789 were for annual increases to November each year while the latest assumptions are May on May, following the return to the historical method of uprating social security benefits. The assumed uprating are in fact ½ per cent higher than Cmnd 8789 for both 1984 and 1985, but it is not surprising that May on May rises are slightly higher than November on November in view of continued downward trend in inflation. The udnerlying price assumptions have hardly changed. The slight rise assumed in the first half of 1984 (reflected in the 5½ per cent figure for May 1984) should be seen as a temporary rise in an otherwise declining trend.

Interest rates

6. Working assumptions (not forecasts) on interest rates are used for costing some programmes eg export and shipbuilding credits and housing subsidies and, outside the planning total, debt interest - see note B12. It is not appropriate to publish the interest rate assumptions as they are market sensitive.

THE RESERVE

POSITIVE

1. Reason for Change

Aim already established of operating the public expenditure planning total as a control total. Present practice where only expenditure increases for "decisions" are charged to the Reserve does not serve that purpose well. The bigger variations within planning total tend to arise from "estimating" changes, particularly on demand-led, non cash limited programmes. New arrangements whereby all increases (which cannot be absorbed within programme totals) are charged will be much better geared to "control total" approach and to managing expenditure within the aggregate cash plans.

2. Change of Name

Will in future be simply termed "the Reserve" rather than "Contingency Reserve" to underline that all changes, not just one category, fall within its scope.

DEFENSIVE

3. TCSC Recommendation:One or Two Reserves/Publish Component Parts/Reduction of Parliamentary Control

New Reserve will be treated as a unified whole. Idea is definitely not to create two Reserves, one for contingencies and the other for estimating changes. At any one time will obviously have a view about likely pressures on the Reserve from both discretionary and non discretionary sources. But position can change substantially. Whole purpose of new arrangement is to ensure management of Reserve can take account of these changes eg so that scope for absorbing discretionary increases takes account of developments on demand led expenditure and anticipated shortfall. Mistake to publish forecasts of how Reserve is expected to be spend when its role is as a control mechanism for keeping within planning total.

No question of reducing Parliamentary control. Reserve is an operational tool for Governments use in expenditure monitoring and control. Parliament will continue to have opportunity to scrutinise revisions to Departmental Estimates, both discretionary and non-discretionary as year proceeds.

4. Publication of State of the Reserve/Forecasts of Planning Total Outturn

No rigid plans about publication of details or latest forecasts as year progresses. [If necesary] Will obviously respond to questions about latest state of Reserve as year proceeds. [If pressed on provision for discretionary increases]. There is no precise allowance. But note that under old arrangements actual charges on the Reserve have been well below the Reserve total - £1145m out of £2500 m in 1981-82, £1400m out of £2400 m in 1982-83 and £750m now estimated out of £1500m for 1983-84

5. Will Estimating Savings/Shortfall be added to Reserve?

Concept of Reserve as link between individual programme totals and aggregate planning total means that monitoring of the Reserve must take account of estimating reductions as well as estimating increases. In future shortfall will form one element of a net Reserve allowance. [If pressed . Shortfall has been taken into accoutn in setting Reserve figure for 1984-85. No intention to withhold information provided in the past. Will consider publishing latest estimate of the shortfall component in the FSBR].

6. Is aim now fully to spend the Reserve?

Never has been an object to spend all the Reserve, and the new arrangements make no difference to that. Size of 1984-85 Reserve has been fixed at a level which is thought adequate to ensure planning total is not over-run. Attitude to calls on it will obviously be influenced by the balance remaining, but won't be consciously trying to "spend out".

7. Will there be automatic access to Reserve for estimating increases?

Consideration will obviously be given to whether it is feasible or sensible to seek to absorb estimating increases elsewhere in programmes.

8. New arrangements unworkable Attempt to operate similar system in 1977 broke down.

Accurately monitoring and controlling aggregate spending of £126 billion has never been easy. New Reserve arrangements not a panacea, but a step in the right direction.

Continuing to make improvements in monitoring procedures. 1977 experience not a good precedent - we had "funny money" then coupled with a high and volatile rate of inflation. Now we have a much lower rate of inflation and a more stable economic conditions; and are firmaly and successfuly launched on cash planning.

9. What happens when Reserve is bust?

Hypothetical question; new system is intended to prevent that happening.

10. Big Reserve figures for later years

Figures will be reviewed in subsequent Surveys, in light of experience in 1984-85 with the new system.

CAPITAL EXPENDITURE

1. Why change the definition of capital expenditure?

The traditional definition of capital expenditure does not give good indication of the work supplied to the construction and capital goods industries. There are three problems with the traditional definition. First, it excludes the capital expenditure of the nationalised industries (it only includes their external finance). Second, it is measured net of asset sales such as council houses. Third, by international national accounting conventions, nearly all defence expenditure, much of which is of a capital nature, is classified as current expenditure.

2. Why include defence - it is not productive investment?

Defence capital expenditure provides work for the capital goods and construction industries so it should be included in this wider definition. For example, there is no difference between capital expenditure on a military hospital and that on a civilian hospital.

3. What is included/excluded from the NATO definition of defence capital expenditure?

The NATO definition includes expenditure on items of a capital nature as opposed to those you would associate with operating costs. Thus it includes expenditure on major equipment (missile systems, aircraft, ships etc) and construction on military buildings. It do not include repair and maintenance work, provision of spare parts or ammunition.

4. Why deduct asset sales from the planning total and add them back in the new table?

It would be wrong not to deduct asset sales in the planning total. This is a measure of public expenditure and as such should include the purchase of assets. They should therefore be deducted when they are sold. (This general principle is followed in both public expenditure and national accounts.) The new table is designed for a different purpose - it shows public spending on new assets. It excludes (where possible) the transfer of existing assets and estimates the value of public sector purchases of new capital goods and services.

5. Do these figures allow for capital consumption (ie depreciation) and if not what is net capital expenditure?

Capital expenditure in the White Paper does not make any allowance for capital consumption. But data published in the national accounts does provide figures of net capital formation (ie gross domestic fixed capital formation less capital consumption) although the method of computing the capital consumption figures is necessarily fairly approximate. Table 11.4 in 1983 edition of National Income and Expenditure blue book shows net capital formation is continuing to be positive overall. But it has been running at a lower level in recent years and certain sectors (notably the manufacturing sector) are negative.

6. Trends in capital expenditure

Under the new definition, capital expenditure has been increasing in cash terms each year and in real terms has remained broadly stable since 1978-79 (see Table 1.13)

7. Table 1.9 shows capital expenditure planned to fall in cash terms through to 1986-87. Using GDP deflators in para 42 for 84-85, and price assumptions in para 35 of social security chapter for later years the fall in cost terms is much greater [28 per cent 1983-84 to 1986-87] Why?

Fall in lending to nationalised industries part of the explnation. Capital expenditure is not in itself a good thing. Each capital project has to be assessed on its merits. Plans for future are necessarily subject to revision in this field. The lower inflation and the lower current expenditure the more room will there be for public capital expenditure. No point increasing total public expenditure if that is just going to stop private sector capital investment by raising interest rates. New presentation of capital only goes up to 1984-85 because of uncertainty in this area. This follows the practice in previous PEWP's.

8. What is happening to capital expenditure on construction work?

Table 4.5 shows the figures for capital expenditure on construction work. In cash terms expenditure has increased between 1978-79 and 1983-84 but is expected to show a slight fall in 1984-85. However, although capital expenditure on construction work has been declining in real terms, more work on repair and maintenance is now being undertaken. This has steadily increased from about 30 per cent at the beginning of the 1970s to about 50 per cent in 1982 of the total work supplied by the public sector to the construction industry.

9. Capital/Current split

After adjustment for defence expenditure, the split between capital and current expenditure of general government (central and local) on goods and services has remained broadly stable since 1978-79. (Current expenditure on goods and services excludes social security which is included as current grants to the private sector). But some types of current expenditure are just as important in terms of investment as capital expenditure. For example, Research and Development, expenditure on industrial training etc. Also it can provide work for the private sector. For example for the construction industry, NHS purchasing drugs from the pharmaceutical industry.

10. Isn't proportion of capital still falling on the new definition?

Estimates on the new presentation of the capital proportion of total goods and services expenditure by central and local government show very little change in recent years. Even when current transfers, like fast growing social security, are included in the figures, the implied fall in capital share is small - 11½ per cent in 1978-79 to 11 per cent in 1984-85. Very difficult to do comparable current figures for nationalised industries.

11. Do the 1983-84 and 1984-85 figures of capital expenditure include an estimate for shortfall?

The planning total for 1983-84 assumes an overall level of shortfall of £300 million. It is not possible to break down this overall estimate with any precision. [NOT FOR USE: It is likely that the shortfall on the new definition of capital will be higher than this, probably about £600 million, about half of this will be by the nationalised industries, a quarter on defence (end-year flexibility will mean that it is moved into 1984-85) and the remainder by central and local government]. The 1984-85 figure is planned expenditure and does not include any allowance for shortfall.

12. Why have you dropped the old construction table?

The new definition is a more appropriate measure of public sector spending on capital goods and the work provided for the construction industry. But we have not dropped the construction table; it appears as Table 4.5 in Volume 2.

13. Why is the new definition of capital expenditure not used elsewhere in the White Paper?

The Table is designed to show the impact of capital expenditure on the capital goods and construction industries. Reasons for not adopting the three adjustments elsewhere are as follows:-

a. nationalised industries are controlled through their external finance not their expenditure, so the planning total reflects this;

b. standard convention in public expenditure and national accounts is to measure expenditure net of asset sales such as council houses;

c. public expenditure follows national accounts convention on defence expenditure. We would not want public expenditure to move out of line with the national accounts.

A9

RECENT DEVELOPMENTS IN THE UK ECONOMY

FACTUAL

Financial Conditions

In last six months annualised rate growth in monetary aggregates around middle of 7-11 percent target range. PSBR between April and December 1983 estimated just over £10 billion (not out of line with forecast in Autumn Statement of £10 billion for financial year 1983-84 as usually substantial tax receipts in final January-March quarter). Three month and long term interest rates remained fairly stable in January. The dollar reached all-time high against sterling of around $1.39 in early January but sterling relatively stable in "effective" terms against all currencies in the range 82 to 82½.

Inflation and Costs

(i) Domestic and external inflationary pressures remain subdued. In 1983 as a whole retail prices 4½ percent higher than 1982, lowest increase since 1967. Import prices remained steady since early 1983. Producer output price inflation (year on year) remained steady at 5½ percent during 1983H2, whilst producer input price inflation fluctuated between low of 6½ percent (July) and high of 9½ percent (September).

(ii) Year on year increase in whole economy average earnings remained at 7¾ percent in recent months. Wage settlements (mfg) were about 5½ percent in 1983H2, according to CBI Pay Databank (compared with 6½ percent in the same period in 1982.) Unit wage costs rose at historically low rates in 1983.

(iii) Cost competitiveness in manufacturing (as measured by relative unit labour costs) estimated to have improved by around 20 percent since early 1981. Over same period UK unit labour costs have risen less than average of major competitors.

Company Sector Finances

Substantial improvement in financial situation of company sector. Total gross trading profits of non-North Sea industrial and commercial companies (net of stock appreciation) rose by 30 percent between 1982Q3 and 1983Q3. Real profits of these companies increased by about a third between 1981H1 and 1983H1, according to Bank of England. ICC's in financial surplus of £6¾ million in first three quarters of 1983; as percentage of total final expenditure in economy this is highest since early 1970s. Liquidity now approaching 1978 peaks, according to latest DOI Survey of Company Liquidity. CBI forecast 7½ percent net real rate of return for 1984, compared with low of 4½ percent for 1982.

Output and Demand

(i) GDP (average) in 1983Q3 about 3 percent higher than year earlier; running above 1979 level.

(ii) Output of production industries continues to show steady growth and was 4 percent higher in 1983Q4 than year earlier and 7½ percent higher than its trough in 1981Q1.

(iii) Service industry output - over half of whole economy output - grown steadily to 1983Q3 and now about 2½ percent above 1979 average.

(iv) Manufacturing output (about quarter of whole economy output) recovered during 1983. Electrical engineering and chemicals have grown by 15 percent and 9 per cent respectively since 1981 trough.

(v) Consumers' expenditure and retail sales in 1983 3¾ per cent and 5½ per cent respectively up on 1982. Total fixed investment in first three quarters of 1983 about 10 percent higher than first half of 1981.

External demand and the current account

Export volumes fluctuated considerably during 1983, increasing by 1½ percent between 1982 and 1983 as a whole, but increasing by 10 per cent in fourth quarter. Import volumes grew steadily during 1983 (reflecting continued strength of domestic demand) and were 7 percent higher in year as a whole compared to 1982. Current account-estimated £2 billion surplus in 1983 (cf. £5½ billion 1982) including £¾ billion surplus in December. Deficit of almost £1 billion on visible trade more than offset by £3 billion surplus on invisibles.

Labour market

(i) Continued strengthening in demand for labour. Employed labour force increased by 87,000 1983Q1 to 1983Q3; about 200,000 new jobs in service sector in first three quarters of 1983. Short time working (mfg) at lowest level for four years, overtime working picked up strongly since last Summer. Vacancies up 59,000 since 1981 trough but have fallen in each of last 3 months.

(ii) There has been broad levelling out of seasonally adjusted adult unemployment (despite 29,000 recorded increase in January). Over last 6 months increase averaged 4,000 a month, cf. 21,000 a month over previous 6 months.

Forecasts

Industry Act forecast in Autumn Statement expects GDP growth of about 3 percent in 1984 with retail price inflation falling to 4½ percent by 1984 Q4. Consensus of outside forecasts for 1984 expects some small increases in year on year GDP growth, retail price inflation, and unemployment.

POSITIVE

1. Evidence for continued growth in activity?

Recovery becoming more broadly based - confirmed by CBI's Industrial Trends Survey (January), which shows growth spreading to capital goods producers and points to 7 per cent increase in manufacturing investment this year. Export volumes increased by about 10 per cent in 1983 Q4. Outside forecasters - including OECD - generally agree strong growth in investment and exports in prospect. This should complement continued strength in consumer demand.

2. Evidence of improvement in labour market?

The labour market continues to respond to rise in output. Total number of people at work - including self employed - now rising. Short-time working at lowest level for four years. Strong rise in overtime working since mid-1983. Vacancies up substantially since 1981.

DEFENSIVE

1. Recovery will falter this year because too narrowly based?

DTI Investment Intentions Survey further points to investment increasing 9 percent in manufacturing and 6 percent in services. Export volumes increased by about 10 percent in 1983 Q4. Outside forecasters - including OECD - generally agree strong growth in investment and exports in prospect. This should complement continued strength in consumer demand. Latest Trends Survey from CBI (Jan) presents evidence that recovery in mfg expected to become more broadly based. Nothing in recent movements of CSO's leading indicators to suggest activity will peak in the course of 1984.

2. January rise in adult unemployment means Chancellor's hopes for fall in 1984 look over-optimistic?

Wrong to place too much emphasis on one month's figures. After series of small monthly rises and falls January's figure appears to be an erratic movement. No grounds for changing assessment that there has been broad levelling out in seasonally adjusted unemployment. Over last 6 months increase has averaged 4,000 a month, compared with 21,000 a month over previous 6 months.

MANPOWER

CIVIL SERVICE

POSITIVE

1. Civil Service still too big/does too much/is over staffed?

Already there are 99,700 fewer staff in post than in April 1979. These results were achieved by reductions in functions, privatisation and improvements in efficiency. We are now confident of achieving the 630,000 target by April 1984. A further run-down to 593,000 by 1988 is planned.

DEFENSIVE

2. Why do the Government's manpower plans after 1984 envisage only a relatively modest manpower reduction by 1988?

Given the very substantial reductions between 1980 and 1984 (14 per cent), it was not to be expected that there would be a reduction of similar size in the next four years. The planned reduction of 6 per cent between 1984 and 1988 is a net figure. The net reduction of just over 37,000 reflects gross reductions of some 60,000 offset by increases of around 23,000 eg some 5,400 for the prison service.

3. The Manpower cuts and departmental targets are arbitrary, and are damaging the quality of service?

They are not arbitrary. They are a considered judgement of what is necessary. Following rigorous departmental reviews the aim has been to match staff numbers as closely as possible to the essential work each department has to carry out. Sensible reductions were planned to take account of increased efficiency and transferring work out. But increases have been allowed where the needs of the work dictate, and a contingency margin included for unforeseen circumstances, eg changes in demand-led services. Great savings have been made with little adverse affect on provision of services.

4. Is the Government planning large reductions in public service manpower given that IMF study shows we have for too much?

The IMF study is misleading and inaccurate. Excluding the NHS, UK has much the same number of public servants as the IMF would expect. IMF accept errors and are reprinting the document

5. Is the 1988 target the end of the Government's plans to reduce the Civil Service?

No. The Government intend to maintain a continuing downward pressure on the size of the Civil Service. Departmental manpower figures will be reviewed each year in the Public Expenditure Survey. The presumption is that the figures will be adhered to, or reduced further where possible.

6. Why reduce numbers of staff who gather in money (Customs, Inland Revenue)?

We have to balance all the factors. Preventing under-payment of tax or over-payment of benefits is important. And so is the level of public spending. Adjustments can be made, within manpower limits, to meet particular requirements. In the Revenue Departments the number of specialist investigatory staff is greater than before the last Parliament (75 per cent in Inland Revenue and 30 per cent in Customs).

ARMED FORCES

DEFENSIVE

7. Defence service manpower sufficient for commitments?

Yes. And numbers have been increased since Cmnd 8288 to take account of commitments in the South Atlantic.

8. Correct balance between 'teeth' and 'tail'?

Yes. The MOD is always seeking to increase the efficiency of support areas to allow strengthening of the front line.

LOCAL AUTHORITIES

DEFENSIVE

9. Local authority manpower still too high?

Manpower reductions are a key to reducing local authority spending. The recent rise in manpower is therefore very disappointing and must be reversed.

NATIONAL HEALTH SERVICE

POSITIVE

10. Size and efficiency?

(i) The government has settled manpower targets with Regional Health Authorities, providing for a reduction of 4,800 staff (½ per cent) between March 1983 and March 1984.

(ii) New arrangements have been introduced from 1984-85 whereby manpower control is to be central feature of health authoarity short-term programmes and an integral part of overall planning. Authorities are expected to ensure manpower targets are consistent with service objectives and cash available. Any unsatisfactory plans will be rejected.

(iii) The NHS Management Inquiry on effective use and management of manpower and related resources in the NHS reported in October 1973 and the general thrust of the report has been accepted.

(iv) All health authorities are required to carry through a substantial and sustained cost improvement programme which will make services more efficient and release resources for improvements and new developments. Any plans omitting such a programme will be rejected.

(v) The government is urging health authorities to contract out services to the private sector wherever it would be economical to do so (from 1 September 1983 VAT relief will be available when this occurs).

DEFENSIVE

11. Are manpower control arrangements for 1984-85 not reversal of last year's manpower targets policy?

No. The 1983 targets were a necessary response to failure by authorities to secure adequate manpower control. The new arrangements are the intended longer term outcome to the wider manpower exercise launched 2 years ago.

Fact Sheet - Key Comparisons

Civil Service Manpower

Date	Number	% Reduction
1.4.79	732,300	-
1.4.82	666,400	9%
1.4.83	648,912	11%
1.1.84	632,600	13.6%
1.4.84	630,000 (estimate)	14%
1.4.85	608,208 (estimate)	17%
1.4.88	*593,00 (estimate)	19%

*6% reduction over 1.4.84 figure of 630,000

OUTPUT MEASURES

(Note: this brief refers to many examples of output measures published for the first time in a public expenditure white paper. Some have, of course, been published in other places before).

1. What are they and why include them?

Output measures describe what is produced by public expenditure. They sow the public, especially taxpayers, what they get for their money. These basic facts are essential for informed debate about public expenditure.

2. More measures this year?

Yes. This white paper includes about 550 output measures; an increase of about 40 per cent on Cmnd 8789.

For the first time every programme includes some output measures. (Note: the local autority section has none, but some LA outputs are quoted under central government programmes).

For example the Northern Ireland section includes output measures covering well over 90 per cent of expenditure. Measures not published in previous white papers include the number of farmers participating in agricultural advisory programmes and improvements in milk yield and silage production, kilometres of watercourses built and maintained, a target to reduce unfit housing by 1 per cent per year, numbers of public sector improvements to housing and grants and a range of health service activity statistics.

3. A few of the other new measures are:

a) Research sponsored by MAFF has demonstrated how to achieve savings in distribution of tomatoes that should amount to 2 per cent of the value of home production;

b) projects for over 3,000 hostel beds have been approved by the Housing Corporation;

c) the other environmental services section quotes occupancy rates for advance factories built by the Development Commission.

4. Better measures this year?

Yes. Careful comparison shows most programmes quote better, as well as more, measures. A few examples:

a) the value of the trunk roads programmes to the public has been published before, as a benefit: cost ratio. For the first time this white paper quotes some measures of environmental disturbance - namely dwellings affected by noise - that is not included in the cost benefit analysis;

b) some details like the increase in employment in Assisted Areas as a result of regional policy, are included for the first time;

c) more measures, including the number of miles of motorway and other trunk road constructed, and the numbers of people covered by sheltered employment schemes, now describe a run of years so that trends can be seen;

d) the Energy programme includes some precise planned outputs, or targets, for power output from nuclear reactors;

e) the urban programme and Scottish sections describe how public sector investment 'levers' private sector investment in certain cases.

5. Why not more?

Space is limited. The bibliographies at the end of each section include references to other sources for output measures. Some measures, especially in the Defence area, should not be published for national security reasons.

6. Why not better?

Output measurement is technically difficult. For example the Education section quotes improvements in examination results, while saying this is only a limited measure of progress. At the moment it is not surprising that most output measures describe physical levels of activity or provision. Improvements will continue, eg under FMI, the Treasury will continue to encourage these developments and when suitable measures are developed they can be presented in the white paper. For example the Urban Programme section includes a commitment to develop suitable measures within two years.

includes a commitment to develop suitable measures within two years.

7. Output and volume

Output measures are much better than the old volume figures because they show what the public is getting. Volume figures can only show the value of expenditure to the public in two special circumstances: when a programme has only one output or when the price paid by government for all outputs is in direct proportion to their value to the public. These circumstanes rarely, if ever, apply.

8. Output and cost terms/cash

Obtaining maximum output from the cash available depends on good planning improving efficiency and on keeping price rises as low as possible. The Transport section includes a discussion of the factors affecting output.

PUBLIC SERVICE PAY AND PENSIONS

Q1. How realistic are the Government's pay factors - past and present?

These assumptions are used to plan public expenditure. They do not relate to any individual pay settlement. Settlements higher , or lower, than 3 per cent are not ruled out. We believe the 3 per cent provision for 1984-85 is a reasonable one overall. [If pressed: In 1983-84 a 3½ per cent assumption did not preclude a settlement of 4.86 per cent for the Civil Service, 4 per cent for the NHS etc.]

Q2. But 3 per cent is low compared with pay settlements in this round - how will it be made to stick?

The Government intends to have genuine negotiations on pay. These will take account of a number of factors, including cost. 3 per cent is an important indication of cost considerations.

Q3. What if pay awards cannot be financed from within the estimated provision? Will there be manpower implications?

As in previous years the presumption is that the additional cost of any settlement above 3 per cent would be found from within the existing provision. To the extent that there are pressures for higher rates of increase, the question of the trade off between pay and jobs must inevitably start to come into focus. [If necessary: But recourse to the Contingency Reserve is not absolutely ruled out.]

Q4. Provision in the plans for pay in the later years and the future of the pay factor

The practice of setting future plans in cash terms is now firmly established. No specific assumptions for pay are incorporated in the figures for the later years. It will be for consideration whether to announce a specific pay factor for 1985-86 later this year.

Q5. What is the redundancy cost of the planned rundown in Civil Service numbers?

In general we expect to achieve the rundown to 1988 by natural wastage although there may be a small number of redundancies. Where staff are transferred with their work out of the Civil Service terms and conditions will usually be no less favourable and redundancy compensation will not be paid.

Q6. What assumptions have been made about employees' pensions contributions, in view of the manifesto commitment to ensure that they are 'realistic'?

The PEWP pay figures are based on current contribution levels - ie, the non-contributory civil service and armed forces schemes, 5/6 per cent in the large, normal accrual schemes (teachers, local government, NHS), and 11 per cent for police and firemen. The Government remains committed to the policy of ensuring that public sector employees make realistic contributions towards their index-linked pensions.

DEFENCE

£ million	1983-84	1984-85	1985-86	1986-87
Cmnd 8789	15987	17290	18330	
net difference	-271	-259	-270	
Cmnd 9143	15716	17031	18060	18660
of which Falklands	624	684	552	450

POSITIVE

1. Defence budget growing

Provision up to 1985-86 meets the NATO aim of 3 per cent real growth per annumn, with Falklands costs on top.

2. Size of defence budget

Defence is the second highest public expenditure programme. The UK defence budget is the second highest in NATO. As a proportion of GDP and per capita, it surpasses all our major European allies.

3. Cost terms growth in defence

In cost terms, the 1984-85 Falklands- inclusive defence budget will be over 26 per cent higher than in 1978-79 (some 22 per cent higher Falklands-exclusive) - table 1.14 of Part I.

DEFENSIVE

4. Limit to 3 per cent commitment

The commitment to plan for annual real growth of 3 per cent has not been extended beyond 1985-86. By then, the defence budget will have increased in real terms every year for seven successive years. The 1986-87 defence budget, Falklands-exclusive, will be some 4 per cent (£700m) higher than the previous year, with an addition for Falklands expenditure.

5. Reductions since Cmnd 8789

The reductions from Cmnd 8789 provision take into account the March 1983 NIS reduction, the 3 per cent public service pay assumption for 1984-85, and the 1983-84 cash limit cut.

6. Reasons for £21 million increase since Autumn Statement

1984-85 provision of £17,031 is higher than the autumn statement figures of £17,010 owing to transfers from D/Employment to meet the cost of defence Youth Training Scheme, the transfer of COI services to repayment basis, and an adjustment to the charging basis for fishing protection. There is no net increase in public expenditure.

7. Falklands

Provision over the period is some £2300 million (£3100 million including £780 million in 1982-83). Provision up to 1985-86 was announced in Cmnd 8789. The declining trend reflects the phasing of expenditure on capital facilities for the garrison and on the replacement of equipment losses.

8. Manpower

A target for civilian numbers has been set of 170,000 at 1 April 1988. This compares with 200,000 civilian personnel at 1 April this year.

EUROPEAN COMMUNITIES

FACTUAL

NET PAYMENT TO EUROPEAN COMMUNITY INSTITUTIONS (EXCL. OVERSEAS AID)

1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
751	839	221	153	580	500	375	550	600

1. Are our net payments to Community institutions the same as our net contribution to the Community Budget?

No. The figures shown in the White Paper reflect the net Public Sector cash flow from the UK to the EEC Budget together with adjustments in respect of the European Investment Bank; European Coal and Steel Community and overseas aid. Our net contribution is the difference between our gross payments and our gross receipts (ie. both public and private sector).

POSITIVE

2. Net payments: how certain are the figures?

Net payments figures fluctuate considerably from year to year. They are subject to a wide variety of uncertainties, for example, UK and EEC imports and import prices (which affect our budget contributions) and the future pattern of expenditure in the Community budget (which affects our budget receipts).

The projections also depend on the stylised assumptions about our budget refunds (see further below), and an assumption about the growth of the Community budget. These matters are the subject of negotiations within the Community.

3. What are the assumptions on refunds?

In respect of 1984 and later years, it has been assumed that the UK will receive a net refund equal to about two thirds of our net contribution to the "allocated" budget (this excludes expenditure on overseas aid, refunds and certain other items). This is a stylised assumption, and not a forecast nor a negotiating objective. It is assumed that the bulk of the refunds will be paid by 31 March in the year following that in which they arise.

A refund equivalent to two thirds of our net contribution to the allocated budget is what the UK actually achieved on average over the four years 1980 to 1983. [The net refund is grossed up to ensure that the UK does not pay towards either its own refunds or the German compensation towards their share of the refunds].

DEFENSIVE

4. What if refunds are not paid by 31 March?

The Government expects that the bulk of the refunds agreed at the Stuttgart European Council will be paid by the end of March. The Prime Minister has stated that if they are not received then we shall have to take steps to safeguard our position. Slippage of our refunds from 1983-84 to 1984-85 would increase public expenditure in 1983-84 and reduce it in 1984-85 by an equivalent amount.

5. Net payment figure for 1984-85 drops to £375 million - why?

The fall in 1984-85 reflects a number of factors. On the basis of the exchange rate assumptions used in constructing the projection, our VAT payments in 1984-85 are likely to be somewhat depressed. We are also assuming a larger refund in respect of 1984 than that agreed at the Stuttgart Council in respect of 1983. The 1984 refund reflects the stylised assumption used for future years. The refund in respect of 1983 agreed at Stuttgart took account of the relatively favourable refund payments received in 1980 and 1981.

6. The figures are on an upward trend. Is the Government concerned about this?

The projections are uncertain for the reasons given. The Government is concerned that our corrected net contribution to the Community Budget should be at level which is fair. To this end, it has proposed that a "safety net" ought to be introduced, which would limit our corrected net contribution to our ability to pay, as measured by relative prosperity. This is currently the subject of negotiation within the Community.

7. What has been assumed about the payment of the £42 million risk-sharing money?

This money should have been included in the 1983 Community Budget. The projections assume that it will be paid by the end of March 1984. The Foreign Secretary has written to Mr Thorn, President of the Commission, requesting payment. We are awaiting his reply.

8. Why do the UK's receipts level off from 1984-85?

This is the result of the assumption that 1 per cent own resources ceiling is maintained, which has the effect of levelling off the size of the total Budget and with it, our receipts and contributions.

9. What about milk disallowance?

The Commission have decided against disallowance of 1978 and 1979 expenditure on milk. The question of disallowing expenditure in later years has not yet arisen. We see no case for it. The Commisssion have not withdrawn their authorisation of the Milk Marketing Boards.

PM Statement in HOC on 31 January 1983. "We would regard it as absolutely intolerable if the Commission were to try to disallow this expenditure. It would be without precedent and would not be justified in any way. The Commission have authorised the Milk Marketing Boards under the rules laid down, and have not attempted to withdraw that authorisation".

MAKE CLEAR: THERE IS NO CONNECTION WITH UK REFUNDS.

AGRICULTURE/IBAP

1. Cuts in MAFF spending

MAFF expenditure has been reduced below Cmnd 8789 totals by £13 million in 1984-85 and £33 million 1985-86. The cuts have mainly fallen on agricultural capital grants.

Agriculture cannot be exempt from Government policy on public expenditure.

2. Increases in IBAP spending

There are substantial increases in IBAP's expenditure over the totals in Cmnd 8789 (£413 million in 1984-85 and £233 million in 1985-86). This represents expenditure by IBAP on agricultural support under the CAP. About one third of the increase is for expenditure which is pre-funded from the Community Budget. The rest reflects forecast extra intervention purchases, particularly for milk products: these costs fall initially on the Exchequer but are recouped from sales and by Community reimbursement for losses when intervention stocks are sold.

3. IBAP increses demonstrate Government does not want to reform CAP

The increases reflect the latest forecast of the cost of implementing existing CAP policies. Forecasts are highly uncertain as they depend on assumptions made about the weather, Community harvests and world market conditions. Common prudence to include up to date forecasts for such expenditure. Current trends emphasise the importance of Government's policy of pressing vigorously for reform of CAP and for a strict guideline for CAP expenditure.

4. What about milk disallowance?

The Commission have decided against disallowance of 1978 and 1979 expenditure on milk.

PM Statement in HOC on 31 January 1983. "We would regard it as absolutely intolerable if the Commission were to try to disallow this expenditure. It would be without precedent and would not be justified in any way. The Commission have authorised the MIlk Marketing Boards under the rules laid down, and have not attempted to withdraw that authorisation".

HOUSING (England)

FACTUAL

				£bn
		1984-85	1985-86	1986-87
Net provision	2.8	2.5	2.6	2.7
	1.5	1.6		
Gross provision	4.3	4.1	na'	na'

'receipts assumed to be at least £1.3bn (after £1.6bn in 1984-85).

POSITIVE

1. Comparison with 1983-84 provision in Cmnd 8789

The gross provision for capital expenditure for 1984-85 on housing is the same as that provided for 1983-84 in Cmnd 8789. Receipts are now expected to be £200 million higher and the provision for current expenditure is £100 million lower than the provision for 1983-84 in Cmnd 8789

2. What is happening to capital expenditure

The gross provision for capital expenditure in 1984-85 is about the same as for 1983-84. But the outturn for local authority gross capital expenditure is expected to be some £300 million above provision. But receipts are even higher above plan so it is likely that the new end-year flexibility scheme will give local authorities a provision for capital spending some £29 million above that shown in Cmnd 9143.

3. Private Sector

Private sector housing starts in 1983 the highest since 1973.

DEFENSIVE

4. Reductions: Effects on construction industry.

The 1984-85 cash provision for gross capital expenditure, the significant element in the total for the construction industry, is broadly the same as for 1983-84.

5. Ending of temporary Home Improvement Grant measures.

These measures, introduced in the 1982 Budget, were clearly stated by the then Chancellor to be temporary measures designed to take up immediate capacity in the construction industry and not to add to longer term demands on it. The original deadline for applications was twice extended and has now been confirmed as 31 March 1984.

6. Local authority capital allocations. Amount available for particular items.

The total available for allocation is broadly the same as last year. Individual authorities are free to determine their priorities for capital expenditure within their total.

7. Lack of forward planning

Local authorities were promised at least 80 per cent of their 1983-84 allocations in 1984-85 and that undertaking has been honoured. For 1985-86 and 1986-87 local authorities have been promised 80 per cent and 70 per cent respectively of their 1984-85 allocation.

8. Capital underspending by local authorities.

Although net underspending in 1983-84 is some £200 million, gross expenditure by local authorities (ie before deducting receipts) is likely to be some £250 million above provision mainly because of increased spending on home improvement grants.

SUPPORT FOR INDUSTRY

1. Why is Support for Industry falling?

The DTI's budget (excluding nationalised industry EFL's) falls from £1578 million in 1983-84 to £1360 million in 1984-85. This is largely because no provision is made for BL in 1984-85 after a £150 million provision in 1983-84. BL is expected to be independent of Government finance after this financial year.

2. What about subsequent years?

The DTI budget (excluding nationalised industry EFLs) is fairly constant after 1984-85 with a provision of £1300 million in 1985-86 and £1270 million in 1986-87.

3. What are the main changes within the DTI provision?

Support on industrial research and development and innovation continues to increase, reflecting the high priority the Government gives to promoting technological advance to enable industry to improve its international competitiveness. Assistance towards shipbuilding and steel redundancies tapers off over the Survey period as the restructuring of these industries is completed. There is also a reduction in assistance to Rolls Royce, reflecting the end of the RB 211 development stage.

4. Do these figures include the effects of the proposed regional policy changes?

No. The figures will be adjusted in the course of the year when Ministers have taken decisions about rate of grant and the new assisted area map. Substantial savings are expected.

5. How much will the regional policy changes save?

Too early to say.

6. Do the figure include launch aid for the A 320 and V2500?

No. Ministers have decided in principle to provide some launch aid towards the V2500 engine but the figure has yet to be settled. Discussions continue with British Aerospace about the A320.

7. Why has Concorde fallen to zero?

Because the Government plans to transfer responsibility for the in-service support of Concorde to British Airways from April 1984.

HEALTH

POSITIVE

1. Comparison with last year's plans

Planned spending on the NHS is up on the plans in last year's White Paper.

£m	1984-85	1985-86
New plan	13138	13860
Old plan	13130	13710

2. Meeting costs of demographic change

The new plans imply growth in resources of about 1 per cent a year - double the long-term planning assumption - and sufficient to cover full costs arising from growing numbers of old and very old people.

3. Consistent with Election Pledges

The new plans are for spending £845m more in 1984-85 than in 1983-84, and for £877m more in 1985-86 than in 1984-85. This rate of increase more than fulfils the Prime Minister's Edinburgh speech (figures: £800m and £700m respectively). [Note: these are figures for health spending Great Britain which cannot be calculated from the White Paper tables.]

4. Efficiency

The NHS is being expected to bring forward major efficiency savings to provide for improvements in services and to reduce waiting lists. The Griffiths report recommends ways of transforming the management of the NHS and will make it much easier to secure such savings. The Government is requiring each health authority to devise a substantial cost improvement programme.

5. Achievements

Since coming into office the Government has:

- doubled health spending: an increase 17% above the RPI
- increased health services by over 7 per cent

Results shown in White Paper:eg -

½ million	more in-patient day cases
nearly ½ million	more people visited at home by Health visitors and District nurses

2¾ million more courses of dental treatment

DEFENSIVE

6. Prescription charge going up?

Changes in charges will be announced by Social Services Secretary, but the exemptoins from charges will remain. [Note: Mr Fowler has not yet decided when to announced new levels of charges.]

7. 1984-85 plan based on unreal pay assumption?

The Government announced on 5 September that it was making provision of 3 per cent (in its cash plans) for pay increases within central government, but that this did not predetermine any individual settlement. Fruitless to speculate on what action might be taken if NHS settlements next year turn out at a difference figures.

8. Government not funding costs of new medical technolgy

Reasonable to look to improved efficiency and cost reduction to offset the costs which can arise from advances in medical science. Many medical advances actually reduce costs (eg drugs which allow the mentally ill to be treated at home rather than in long-stay institutions).

[Background: some people estimate costs of medical advance to be ½% a year but there is no sound basis for any such figure].

9. Manpower cuts damage NHS

Nonsense to suggest a big organisation like the NHS cannot stand manpower cuts of just ½%. Government had to act because of clear evidence that health authorities had failed to get a grip on their manpower. For the fugure health authorities have been asked to merge their plans for manpower with their plans for services. As efficiency increases services will rise faster than resources, and resources by more than manpower.

SOCIAL SECURITY

1. Changes since CMND 8789

Plans show increases of about £1300 million in 1984-85 and £1600 million in 1985-86. Reasons include effects of the 1983 benefit improvements in uprating, (including 11 per cent increase in child benefit and one-parent benefit), and effects of changes in uprating assumptions slightly offset by lower unemployment assumptions. Together these add about £600 million in 1984-85 and £850 million in 1985-86. Another factor is revised estimates of expenditure on certain benefits including supplementary benefit, associated with a higher number of beneficiaries than previously estimated, and housing benefit. These are partly offset by lower estimates of expenditure on unemployment benefit. Modified proposals for reductions in the coverage of help with housing costs were announced by the Secretary of State for Social Services on 6 February.

2. Changes since Autumn Statement

Plans for 1984-85 show an increase of about £360 million because of revised estimates (based on later information) of expenditure on benefits, mainly supplementary benefits. The increase is being met from the reserve.

3. Provision for Uprating

Programme provides for upratings in November based on rise in prices in the year ending in the previous May. Actual decisions on benefit levels will normally be announced by Secretary of State for Social Services in June of each year. (The projections assume that the retail price index will rise by 5½ per cent in the 12 months to May 1984 and by 4½ per cent and 4 per cent respectively in the subsequent two years).

4. Government Pledges to Maintain Value

The Government is committed to its pledge (renewed in the Election Manifesto) to maintain the value of pensions and linked long-term benefits.

5. Child Benefit Uprating

The decision on the level of child benefit from November 1984 will be taken in the light of all relevant circumstances and announced at the appropriate time. (Meanwhile, provision in the programme is, by convention, based on the uprating assumptions for pensions and linked long-term benefits.

6. Expenditure still growing

Social security expenditure is assumed to grow by about £2 billion in each of the three years 1984-85 to 1986-87. About half of this growth is expenditure on pensions (about £750 million in 1984-85 and just over £1 billion in each of the following two years).

7. New Benefit

The severe disablement allowance will, subject to passage of the Health and Social Security Bill, be introduced from November 1984 at an initial cost when fully phased in of about £20 million for a full year. It will replace the non-contributory invalidity pension and housewives' non-contributory invalidity pension.

8. Housing Benefit cuts

Why are cuts necessary?

Some economies have to be made in Social Security programme if overall public expenditure is to be contained. Reasonable to look for some offset to ever-increasing cost of paying for benefits. Housing benefit currently goes to 7 million households 1 in 3. Goes higher up the income ladder than any other means tested benefit. Some recipients have above average income. Better to make savings there than on means tested safety net.

9. Government has backed down on housing benefit cuts?

Government still believes it is right to make economies in this area. In particular, Government considers it perfectly reasonable to expect those who are working to make a contribution to housing costs (largest losses are among families with working teenagers). Modifications announced on 6 February are to ease particular problems identified by Social Services Advisory Committee and give local authorities more time to deal with administrative task of implementing changes.

10. Effect of changes

The modifications will soften the impact of the changes for 1,300,000 households. 300,000 who would have lost all benefit in April will now not do so (NB. some of them may lose all benefit in November). In April, over half of claimants will face losses of under 50p a week. 81 per cent (89 per cent pensioners) will face losses of under £1. Those facing larger losses (mainly better off families with working teenagers) will have longer to adjust.

11. Cost of concessions

Cost of concessions put at £45 million in 1984-85 and about £15 million in 1985-86 but that does not all count as public expenditure. (Help with rates does not). The public expenditure cost will be contained within the published plans.

[If pressed - some of the cost is being met by postponing the planned real increase in children's needs allowance. Part (£8 million in 1984-85, £3 million in 1985-86) is being met from the reserve. The rest will be met by savings in the social security programme.]

LOCAL AUTHORITY CURRENT EXPENDITURE AND RATE SUPPORT GRANT

DEFENSIVE

1. Provision inadequate?

No. Represents a £600m increase over provision underlying last year's White Paper, to take account of overspending by local authorities of 1983-84 provision. Cash standstill over 1983-84 budgets - but they are too high. Targets set consistent with that provision allow authorities which have kept spending down a 3 per cent increase over budgets; authorities which have failed to meet previous targets, faced with maximum 6 per cent cash cut (except GLC); key to what targets mean for services lies with authorities' ability to control own costs.

2. Grant settlement means high rate rises?

No. All depends on local authority spending decisions. AEG before holdback £100m higher than in 1983-84. Stiffer penalties in England and Wales: but no authority meeting its targets will lose grant through holdback. No need for there to be excessive rate increases if authorities budget sensibly.

3. Expenditure savings from rate capping in 1985-86?

Selective rate limitation scheme will operate in 1985-86. The first 12-20 authorities will be selected once Parliament enacts the Rate Bill. Capping the highest spenders will mean expenditure savings. Operation of rate capping powers will enable target/penalty system to be fairer on those authorities who have kept spending down (cf commitment given by Messrs Jenkin and Waldegrave in the RSG Debate on 23 January). [Not for use: provision agreed for 1985-86 takes no specific account of impact of rate capping].

4. Rationale for unallocated margin throughout survey period

Unallocated margin reflects expenditure that government realises is inevitable, in light of authorities' past spending performance but considers undesirable. Local authorities' past spending record suggests that they wil not reduce their spending level to the levels the government considers desirable over the Survey period.

5. Government wrong to accuse LAs of excessive spending?

No. Local authority current spending has gone up well ahead of increase in general level of prices since 1978-89, despite government urging restraint. Capital and current together have gone down as a percentage of GDP, because of very large fall in net capital spending i.e after taking off council house sales.

LOCAL AUTHORITY CAPITAL SPENDING

POSITIVE

1. What is the level of LA capital spending?

Provision for LA capital in 1984-85 (GB) is almost £3.7 billion, which is about the same level of spending as that forecast as the outturn for 1983-84.

2. Has the high level of underspending seen in LA capital over the past few years been repeated in 1983-84?

The high level of underspending which has been a feature of LA capital over the past few years seems unlikely to be repeated this year. The latest forecast outturn for 1983-84 indicates that local authorities will be within £250 million, or about 7 per cent, of the levels given in the last White Paper (£3.9 million).

3. What steps have the Government taken to help local authorities plan their capital programmes?

Once again the government has given local authorities guidence about the likely level of future allocation. (Plans for 1985-86 for education, transport and social services are indicated in the programme tables; for housing and local environmental services, subject to some conditions, local authorities have been told that their allocations for 1985-86 will be at least 80 per cent of 1984-85 levels.) Additionally, for the first time and where applicable, there is to be a system of end year flexibility on the national cash limits which will allow some underspending to be carried forward into the next financial year.

DEFENSIVE

4. Why does table 2.18 show LA capital falling between 1983-84 and 1984-85?

Although the plans show a fall of about £200 million between 1983-84 and 1984-85 it must be remembered that the figures are net of receipts. If receipts are allowed for, the gross spending between these two years is planned to rise from £5.8 billion in 1983-84 to £6.6 billion in 1984-85.

5. Will the rates limitation cause capital spending to be restricted?

In determining the rates limit local authorities overall spending will be looked at in detail. This means that the limit will be set with reference to both capital and current spending. Since it is current spending we wish to see reduced we would hope that capital spending continues at its planned level.

6. Will the rates limitation legislation bring into question the creditworthiness of LA's and cause them to default on their loans?

No. Concern about creditworthiness is utterly unfounded. It is true that English legislation does not describe lending as a first charge on an authority's revenues. But it is specified as being a charge - and since it is the only liability so specified anywhere in the whole of English legislation on local government the charge is in effect a first charge. [A more detailed brief is attached at C4].

NATIONALISED INDUSTRIES

1. What has happened to Nationalised Industry External Finance since Cmnd 8789?

				£m
	1983-84	1884-85	1985-86	1986-87
Cmnd 8789*	2290	2615	2145	-
Cmnd	2250	1881	1145	91
Difference	- 490	- 734	-1000	-

*With figures added for the water industry (England and Wales) which is included for the first time this year in the nationalised industries section of White Paper.

A marked strengthening in industries' position therefore shown over the forward look period.

2. Does the fall in External Finance in future years represent a tightening Government screw on the Industries?

Not in that sense. The marked fall in industries' expected need for external finance in future years, largely arises from further cost and performance improvements.

3. What assumptions are made about British Airways and British Telecom?

EFLs for BT and BA are included in 1984-85 for sake of consistency with Autumn Statement. These EFLs are subject to great uncertainty because of impending privatisation. No more detailed breakdown of these figures is given in the White Paper Tables. Remains Government's stated position that the sale of British Telecom is planned for next autumn with British Airways in early 1985.

4. Are financial plans realistic?

Plans based on comprehensive reviews of industries' requirements. But depend on industries keeping current costs, including wage costs, under control in the way that private sector companies have to do. Failure do this is likely to mean either higher prices or less investment. No evidence that plans are unrealistic.

5. Is industries' investment currently at a satisfactory level?

Yes. In fact

(a) allowing for privatisation and a change in BT's accounting treatment of fixed assets, industries' expenditure on fixed assets in 1982-83 increased by 7 per cent over 1981-82; and

(b) again allowing for privatisation, investment in 1983-84 is expected to show a 12 per cent increase over 1982-83 and to be much closer than in previous years to the industries' plans.

6. Do not future years show a drastic fall in industries' projected investment?

Not at all. The marked fall in industries' investment between 1983-84 and 1984-85 and subsequent years reflects the expected privatisation of British Telecom, British Airways and Enterprise Oil and the exclusion of their figures from the Nationalised Industries totals. Investment by these industries will of course take place in the private sector to the full extent that it can be justified on commercial grounds.

7. What does all this mean for prices?

Industry tariffs in 1984-85 are expected to rise at, or slightly below the rate of increase in the RPI.

8. What about the recent debate over electricity prices?

The Government suggested a 2 per cent increase in April to give confidence that the electricity supply industry would meet its EFL (-£750 million) and to avoid the risk of sudden large increases later. This rise is consistent with economic pricing and is lower than expected when the present financial target (a low 1.4 per cent return on assets to March 1985) was set a year ago.

9. <u>Does not the rapidly decreasing external financial figures for the nationalised industries in futue years imply massive gas/ electricity price increases?</u>

Not at all. No connection can be drawn with price levels in any one industry. Gas and electricity prices for future years have still to be settled.

SPECIAL SALES OF ASSETS

1. **What changes in outturn/targets have taken place since Cmnd 8789?**

£m cash

	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
Cmnd 8789	+ 79	- 550	- 750	-1500	- 500	-
Cmnd	+ 70	- 488	-1200	-1900	-2000	-2000
Difference	-	+ 62	- 450	- 400	-1500	-

Changes since Cmnd 8789 reflect decisions on privatisation since last targets published and make allowance for additional disposals arising from the continuing scrutiny of potential candidates for privatisation. Target of £1.9 billion asset sales in 1984-85 previously announced in the Autumn Statement.

2. **What is latest position on British Telecom (BT) and British Airways (BA) impending privatisations?**

There is nothing to add to the Government's stated position that the sale of British Telecom is planned for next autumn with British Airways in early 1985.

3. **What do future year asset sales targets imply for method of BT sale**

No final decision has yet been taken on the method of BT sale. Always genuine uncertainty about level of receipts but level of £1.9 billion in 1984-85 and £2 billion per annum in 1985-86 and 1986-87 is realistic and achievable target.

[NOTE: You will not wish to be drawn any further on any apparent connection between the method of BT sale and target figures for 1984-85 and future years].

4. **What individual sales are included in the 1983-84 estimated outturn?**

Sales this year include those of further BP (£540 million) and Cable and Wireless (£262 million) shares and receipt of second instalment (£293 million) from earlier Britoil share sale. The estimated outturn of -£1200 million compares with a target of -£750 million at the time of the 1983 White Paper, itself subsequently revised to -£1250 million. Full details of this year's receipts will be published after the end of the financial year.

5. Is Wytch Farm included in the 1983-84 figures?

Yes. We are continuing to look for completion of the first stage of the Wytch Farm disposals this year.

What are future privatisation plans?

Exact shape of programme in future years will be determined by market and commercial considerations and commonsense. Not practice to reveal composition of future asset sales programmes but will be consistent with Manifesto commitment.

7. What is included in "Special Sales of Assets"?

Special Sales of Assets record those privatisation receipts that are treated as negative public expenditure within the planning total. Receipts that are retained by nationalised industries or within Departmental programmes are not included.

8. Are not higher targets just a covert way of financing PSBR?

No. Any cash income is naturally welcome as is the future reduction in interest payments from a lower PSBR. But the Government's aim in its privatisation programme is to increase competition and promote efficiency. This benefits the economy as a whole.

9. Effect of higher asset sales on public expenditure

The receipts from assets sales reduce net public expenditure in the same way as purchase of capital assets increase expenditure. The receipts help to reduce the pressure on other types of public expenditure.

10. Will not higher asset sale targets in future years cause capacity problems in the UK financial targets?

No reason to believe this will be so. 1983 UK listed company capital issues in London were 50 per cent higher than even before. The nature of privatisation shares is such that, in any event, investors are likely to want to adjust the balance of their portfolios in order to accommodate them.

DEBT INTEREST

1. Changes since Cmnd 8789?

£ million

	1982-83	1983-84	1984-85	1985-86
Gross Debt Interest				
Cmnd 9143	15580	15500	15500	15500
Cmnd 8789	14750	14750	14750	14750
Change	830	750	750	750
Net Debt Interest				
Cmnd 9143	5946	7000	7500	7500
Cmnd 8789	6000	6500	6500	6500
Change	-54	500	1000	1000

Revisions to gross debt interest are due to a number of factors. These include revisions to the CSO's outturn figures, higher than expected borrowing in 1982-83 and 1983-84, higher expenditure on interest support costs and higher interest payments by public corporations to the private sector and overseas. It is not the case that the underlying interest rate assumptions have been increased.

The revisions to net debt interest (which were mostly anticipated in the public expenditure/GDP percentages in the Autumn Statement) do not follow those to 'gross' one-to-one because of variable effects on the adjustments subtracted from 'gross' to obtain 'net'. (The adjustments are general government interest receipts, interest provision in general government trading activities, interest support costs and public corporations payments to the private sector and overseas.) For 1982-83 the revision to gross is more than offset by revisions to each of the adjustment components, all working in the same direction. Detailed forecasts of the adjustment components are not published because to do so would indicate spurious accuracy.

2. Flat path for gross debt interest for forward years?

Flat path reflects broad expectation that effects of additional public sector borrowing (ie a positive PSBR) will be offset by lower interest rates, leaving overall interest payments unchanged. [IF PRESSED on interest rates assumed: Precise interest rate assumptions are not published because they are market sensitive, but path indicated is consistent with a steady decline.]

3. Large rise in net debt interest in 1983-84?

[Gross debt interest likely to change little in 1983-84 compared with 1982-83; net figure shows projected increase of about £1 billion.]

Debt interest gross is little changed, lower interest rates being offset by the increasing stock of debt. On interest receipts (and on the other adjustments to "net") the full effect of the interest rate falls comes through, causing the net amount of debt interest to be financed by taxation and further borrowing to rise. [Cmnd 8789 also showed net debt interest increasing in 1983-84 with gross staying flat.]

4. Any significance in path for servicing of index-linked securities?

Servicing of indexed linked securities

£ million

	1982-83	1983-84	1984-85	1985-86	1986-87
Cmnd 9143	865	750	1000	1050	1150
Cmnd 8789	800	750	900	950	..
Change	65	-	100	100	..

a. Main reason for dip in 1983-84 is the reduction in the rate of inflation affecting the uplift on index-linked gilts and National Savings certificates, as anticipated in Cmnd 8789.

b. In 1984-85, servicing of index-linked gilts rises due mainly to the effects of substantial new issues in 1983-84, again mostly anticipated in Cmnd 8789.

a. 70

SPRING SUPPLEMENTARY ESTIMATES

66 Spring Supplementary Estimates for a total of £1313 million are being presented at 2.30pm on 16 February, one hour before your press conference on the White Paper. A copy of the press notice on the Supplementaries is attached.

1. Do the White Paper figures take account of the Spring Supplementaries

Although the detailed figures for these Supplementaries have been finalised after it was necessary to "close the books" for the White Paper their general level was anticipated in and is consistent with the estimated aggregate public expenditure outturn for 1983-84 shown in the White Paper.

2. How do the Spring Supplementaries affect programmes and the Contingency Reserve

Of the £1313 million extra provision represented by these Supplementaries, £296 million is not classified as public expenditure (eg transactions within the public sector). The remaining £1017 million is made up as follows:-

(a)	Offset by savings within existing totals:	£498 million
(b)	Charged to the Contingency Reserve within the planning total:	£128 million
(c)	New public expenditure from demand-led programmes:	£391 million.

3. What are the main Spring Supplementaries

The largest Supplementaries all concern demand-led programmes. They are:-

(i)	£289 million on support to the coal industry	(Class IV,3)
(ii)	£213 million on Supplementary benefits	(Class XII,2)
(iii)	£169 million on housing benefits	(Class XII, 4)
(iv)	£168 million on housing grants	(Class VII,1)

4. These figures include substantial offsets within existing planning totals.

Cash limits

All substantive changes to cash limits have been announced to Parliament.

5. Treasury Supplementary Estimates

Questions on individual Supplementaries and cash limits should be directed to the department concerned. Two Supplementaries fall within the responsibility of Treasury Ministers:-

(i) Class IV, Vote 26 covers the recent sale of shares in Cable and Wireless plc and is for a token £1000 as receipts a outstrip expenditure.

(ii) Class XIII, Vote 7 (Inland Revenue) seeks £10 million extra provision for relief on life insurance premiums and mortgage interest charges, following changes in interest rates and revised tax thresholds since the main Estimate was presented last March.

6. Comparison with Spring Supplementaries in previous years.

The extra provision sought this spring is lower than that for the corresponding period in each of the past 3 years. The figures are as follows:

	£ million
1980-81	2165
1981-82	1459
1982-83	1587
1983-84	1313

7. Outturn on Estimates

7. The final outturn of Supply Expenditure will differ from the total of Estimates presented so far because there will inevitably be some underspend on votes. The pattern over recent years has been:

£ million

	Total voted	Outturn	Saving
1980-81	69,234	67,637	1,597
1981-82	76,290	74,273	1,997
1982-83	82,682	80,605	2,077

C2

BACKGROUND NOTE: 1983-84 OUTTURN

The planning total figure of £120.3 billion in the White Paper is arrived at by adding up departmental returns of their latest estimate of outturns on spending programmes and applying to this total a 'general allowance for shortfall' - amounting to £300 million - which is the Treasury's estimate of the net shortfall which is not reflected in departmental returns.

2. By its nature this £300 million cannot be allocated precisely to programmes in the White Paper, nor in the derived analyses by economic category, spending authority and department. For this reason it can be misleading to compare 1983-84 figures in this sort of detail with plans published in the previous White Paper or in the Autumn Statement. Nevertheless, the economic forecast suggests that the shortfall is mainly on local authorities current expenditure (about £100 million) and nationalised industries EFLs (about £200 million). Furthermore, an analysis of the current/capital split suggests that the White Paper figures for total current expenditure are reasonably accurate with most of the shortfall expected to fall on total capital expenditure.

3. The estimated outturn of £120.3 billion in the White Paper does not represent a change in view since the Autumn Statement - as the table below illustrates:

		£ billion
Total expenditure in national accounts terms - Autumn Statement Table 1.7		139
Change since FSBR		+ 1½
of which:	on debt interest	+ ½
:	directly affects planning total	+ 1
Planning total estimated outturn - FSBR Table 5.6		119.3
∴ Implicit estimated outturn underlying Autumn Statement		120.3

C3

BACKGROUND NOTE: HOUSING BENEFIT CUTS

On Monday 6 February the Secretary of State for Social Services announced a number of modifications to the cuts in housing benefit announced in the Autumn Statement. The modifications took account of criticisms made by the Social Security Advisory Committee in a report which the Secretary of State published, along with the Government's response, on 6 February.

2. Original Proposals

The main features were:-

(i) a sharp increase, from 21% to 31%, in the taper for assistance with rent (ie the rate at which households above the housing needs allowance lose benefit on income rises);

(ii) an increase in the taper for assistance with rates from 7% to 9%;

(iii) an increase in the level of minimum payments from 10p to £1 for rent assistance and from 20p to 50p for rate assistance (eliminating a large number of small claims, mainly to ease administration);

(iv) an increase in the contributions expected from young working non dependents: 16-17 year olds to start contributing at a rate of £3.10 a week; contributions for 18-20 year olds to rise from £5.55 to £8.20; contributions from over 20s to rise from £6.55 to £8.20. (Note: Average weekly wages for 16-17 year olds are £61 (male), £55.70 (female), and for 18-20 year olds £95 (male), £78.20 (female);

(v) to restrict the number of authorities which can give extra help to claimants in high rent areas. Qualifying threshold to be raised to 130% of national average rent.

3. The cumulative effects of the changes, in certain circumstances meant that some households (particularly those with young working non-dependents) stood to lose significant amounts of money (extreme figures of £14 a week were quoted) and a number of occupational pensioners stood to lose over £3 a week. The local authorities also claimed it was impossible to implement the more complex changes from the proposed date of 1 April (for example, they have no records of the work

status of 16-17 year olds).

4. Modifications Announced

The main modifications announced on 6 February were:

(i) the rent taper to rise to just 26% in April and 29% in November;

(ii) the minimum payments to remain at their present level for those with incomes below the needs allowance;

(iii) for those above the needs allowances, the minimum payments to rise to only 50p for rent and 50p for rates, and the changes to be postponed until November;

(iv) the changes affecting 16-17 year olds to be postponed until November;

(v) the changes to the high rent scheme also to be postponed until November.

5. The net effect of these concessions is that:-

(i) the immediate impact of the cuts is softened for 1,300,000 families;

(ii) 300,000 families who would have lost all benefit in April will not now do so (though some of them may lose entitlement in November);

(iii) those with incomes below the needs allowance will now be unaffected by the changes in the tapersand minimum payments (though they may be affected immediately or in due course by some of the other changes);

(iv) Average weekly losses will now be about 70p (59p for pensioners) in April and 88p (73p for pensioners) in November, compared with 96p (80p for pensioners) from April as originally proposed;

(v) in April, 87% of pensioners and 81% of all claimants will lose less than £1 a week. For more than half of all claimants, losses will be less than 50p.

(vi) local authorities' administration problems have been eased.

6. Mr Fowler has quoted the value of the concessions at about £45 million in 1984-85 and £15 million in later years. To help pay for this, he announced that the proposed real increase in the childrens needs allowance will be postponed. It was to have increased from £11.90 to £12.90 in April. It will now rise by 50p in November. But, Mr Fowler announced that there will be a further £1 rise in April 1985; so overall, there will be a real increase of £1.50 by April 1985 instead of the planned £1.

7. Public Expenditure Consequences

The original proposals were expected to yield savings of £230 million, of which £180 million was public expenditure. (Help with rates does not score on public expenditure). The revised package is expected to yield savings of £197 million in 1984-85 (£149 million of public expenditure) and £225 million (£179 million of public expenditure) in 1985-86. A small part of the difference (£8 million in 1984-85 and £3 million in 1985-86) will be met from the reserve. The remainder will be met by offsetting savings within the social security programme. (Note: for public consumption, Mr Fowler may quote the revised value of the savings as £185 million in 1984-85 and £230 million in 1985-86. That ignores the changes to the child needs allowance.

8. Because of printing schedules, the figures in the White Paper will be consistent with the original package.

9. Effect on the Poverty and Unemployment Trap.

The changes will mainly affect people whose incomes are too high to qualify for FIS and who are therefore above the worst part of the poverty trap. The changes will raise marginal rates for some, including about [130,000]* working families, from 67% to 74% in April and 77% from November. For other families, including [150,000]* working families, who lose entitlement to benefit altogether, marginal rates will fall from 67% to 39%.

10. The changes will worsen the unemployment trap, but the effect will not be dramatic. It is estimated that the proportion of the unemployed with ratios over 80% will rise from 21% to 22%.

* Based on original proposals. Revised figures coming from DHSS.

11. The most considered outside reaction to the original proposals came from the Institute of Fiscal Studies (IFS). The modifications announced on 6 February would not significantly affect their conclusions which broadly endorse the line above.

12. Review of the housing benefit scheme

Mr Fowler announced on 6 February that he was setting up a review of the Housing Benefit scheme and its operation, under independent chairmanship to report to him. The objective will be "examine the structure and scope of the scheme to ensure it is as simple as possible and that help is concentrated on those most in need, and to improve its adminstration by local authorities".

BACKGROUND NOTE:

LOCAL AUTHORITY CREDITWORTHINESS

1. Traditionally, local authorities have enjoyed a very high credit standing with the market. This is based on the legal requirement for an authority to make provision in its budget for servicing debt and then to rate to cover the budget; on the financial prudence imposed on an authority by not being allowed to borrow long-term for revenue purposes; on all debt having equal priority as a charge on the revenues of an authority; on the requirement for audit, the availability of the PWLB as a lender of last resort and the power of a lender to appoint a receiver.

2. During the passage of the Local Government Finance Act 1982, banning supplementary rates, we looked hard at the possible effect on creditworthiness and after some debate included a provision that "debt" as a charge on the revenues was to be taken to refer to both principle and interest. This was intended to be purely clarificatory, not to amend in any substantive way a situation which we believed to be quite adequate, and it appeared to satisfy the market for the time.

3. An article in the Financial Times on 31 January reported that concern was growing in the City that the Rates Bill would affect local authorities' creditworthiness because in English law lenders do not have an explicit first call on an authorities assets.

4. We are confident that neither rate limitation nor abolition will affects the real ability of authorities to service debt. Debt is specified to be "a charge" on the revenues of an authority; since it is the only such charge in law, lawyers advise that it is in practice the first charge. (In Scottish law the fact that it is the first charge is specific.) It is inconceivable that any authority should be affected by the new policies that it does not have the funds to service its debt if it gives that servicing the absolute priority laid down in law.

5. There is no Government guarantee of local authority borrowing. This does not matter legally for the above reason; neither does it seem to affect the market's view of creditworthiness much. The market does value the PWLB's lender of last resort facility, which provides a sembalance of guarantee (although there is no absolute promise, in fact, that the Board will lend). The very existence of the facility has undoubtedly helped to make its use unnecessary! There is no question of any change in the PWLB rules.

6. We have been having discussions with CIFA (Mr Hepworth) and the Sterling Brokers' Association (Mr Packshaw), referred to in the FT article. We believe that neither body disputes the above interpretatic of the actual legal position, but they think positive steps are needed to reassure the market. The Sterling Brokers seek a further cosmetic change to legislation going beyond that made in 1982. CIPFA are suggesting substantive legal changes to the budgetting and rate-setting duties of an authority and to the role of a treasurer vis-a-vis his councillors. We are not at present persuaded that any of the changes proposed are other than harmful. Discussions are continuing.

LINE TO TAKE

EFFECT OF RATE CAPPING

7. Will the Government set rate limits which will force local authorities to default on their loans?

[FT article, 31 January, reported concern that Rates Bill would impair local authorities creditworthiness.]

Concern about creditworthiness is utterly unfounded. It is true that English legislation does not describe lending as a first charge on an authority's revenues in so many words. But it is specified as being a charge - and since it is the only liability so secified anywhere in the whole of English legislation on local government, the charge is in effect a first charge. Secondly, there will be no change in the PWLB rules. I say with complete confidence that it is inconceivable that an authority would be so tightly constrained by rate limitation that it was unable to fulfil legal liability to lenders provided it gave them the absolute priority required by law.

8. If the general scheme is brought in could the Government not find it has accidentally set a rate limit that will force authorities into default?

If authorities think they cannot live within the rate ceiling they will have a chance to make representations to that effect before the limit becomes binding. But this is a matter for my Rt Hon Friend the Secretary of State for the Environment, and not of immediate relevance to the matter in hand.

9. What happens if an authority refuses to cut its expenditure to a level consistent with the rate ceiling and puts itself in a position where it cannot meet its debts?

Arrangements will clearly have to be made to deal with such a situation, but a decision on what is the best approach remains to be taken. But this is primarily a matter for my Rt Hon Friend the Secretary of State for the Environment and not of immediate relevance to the matter in hand.

10. Will the Government have powers to appoint Commissioners if an authority puts itself in a postion where it cannot pay the debts?

That is obviously one of the options we will have to consider, though there may be an alternative better solution. But this is a matter for my Rt Hon Friend the Secretary of State for the Environment and not relevant to the matter in hand. I hope authorities will act responsibally and that the situation will not arise.

ABOLITION OF THE GLC/MET COUNTY COUNCIL

11. Won't abolition prejudice the creditworthiness of the GLC/MCCs?

No. After abolition the existing debt of each authority will continue to be managed by a single body with all the necessary expertise. The debt will be funded by all the successor bodies; it will therefore continue to be backed by the rateable resources of the whole area.

BACKGROUND NOTE: ECGD'S NOTIONAL CASH BALANCES

Recent press comment related to ECGD's heavy claims experience and the running-out of its cash reserves may lead to interest in the public expenditure provision for ECGD. This provision covers four specific programmes: interest support, refinance, cost escalation cover and the mixed credit matching facility.

Explanation

2. ECGD's credit insurance trading activities are intended to be self-financing and are not classified as public expenditure: a trading surplus or deficit on these activities is classified as revenue rather than expenditure, and is recorded in the Department's Trading Accounts.

3. ECGD's notional cash reserves from it trading operations, invested in the Consoldiated Fund, are expected to be exhausted by the end of March 1984. It has been agreed that the Department may make borrowings from the Consolidated Fund, with an appropriate notional rate of interest being a charge in its Trading Acounts.

4. Although ECGD's net cash flow (excluding any notional items) increases or decreases the PSBR pound for pound, as long as the Department is able to service its notional loan from the Consolidated Fund, its trading activities will not be counted as public expenditure.

From: THE PRIVATE SECRETARY

SECRET AND PERSONAL

CMO

NDPM 10

AT 6/3

HOME OFFICE
QUEEN ANNE'S GATE LONDON SW1H 9AT

6 March 1984

Dear John,

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

The Home Secretary has seen the Chancellor's draft Green Paper on Public Expenditure and Taxation in the Longer Term. He agrees with the Prime Minister's view that the trends in the ratio of public expenditure to GDP should be presented using the PEWP definition rather than using general Government expenditure, a point which I raised orally with your Office last night. He has no detailed comments on the text other than those which have already been passed on by officials here, with which he fully concurs.

The Home Secretary believes that it is now of crucial importance to ensure that the document does become the basis for taking forward the debate on the important issues it raises. He would be interested to know whether consideration is being given as to how this might be achieved and would himself certainly wish to contribute in any way that would be helpful.

I am copying this letter to Andrew Turnbull (Number 10), to the Private Secretaries to other members of the Cabinet, to Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Hugh Taylor

H H TAYLOR

John Kerr, Esq

SECRET AND PERSONAL

CMO

NBPM A56/3 cc NO 9.

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

6 March 1984

Dear Nigel.

PUBLIC EXPENDITURE IN THE LONGER TERM

Thank you for sending me a copy of your minute of 29 February to the Prime Minister enclosing a copy of the draft Green Paper.

As you know, I welcome the publication of a Green Paper of this kind and in the main I am content with the presentation. I am sure you would not find helpful, nor have I had time to suggest, too many drafting amendments at this stage. I have, therefore, concentrated on the sections covering my own programmes.

My main concern is with the section on future prospects for social security. As at present drafted, the section is a little misleading. For instance, the juxtaposition in paragraph 32 of an increase in the number of pensioners with a statement about the average cost per pensioner ignores the fact that the actual cost increase will be considerably less. This is because most of the new pensioners will be married women who became entitled to pensions in their own right. The additional cost will, therefore, only be the difference between the current adult dependency addition and the basic pension, not the full pension itself. It is also misleading to say (end of paragraph 32) that under SERPS pensioners will "in general be a lot better-off, even relative to those in work, than they are now". In fact on the present policy of price upratings and historic experience on real earnings' growth, most pensioners will, by the end of the population projection period, be no better-off in relation to earnings than they are now.

I think it is also important that the Green Paper should record the fact that the Government is conducting a major review of this field, without appearing to prejudge its outcome. As I have a number of points on paragraphs 29 - 32, I attach a revised draft of this section which I hope you will find suitable.

I am copying this letter only to the Prime Minister.

Yours ever Norman

NORMAN FOWLER

SECRET

29. The main factor affecting the social security programme is the provision which has to be made for the elderly. About half of present expenditure goes on this group and the proportion is likely to increase. Demographic pressures are the main cause of this increase. The total number of people above pension age will show very little increase between now and 1995/96 - from about 9.9 million to 10.2 million. But after the turn of the century numbers will rise rapidly as those born during the high birth rate period of the 1950s and early 60s reach retirement age. The latest projections suggest a total of 12.3 million by 2025/26.

30. But before the turn of the century other factors will have a major impact on the costs of provision for retirement. Although the elderly population will not increase much, the number of pensioners will increase by some 600,000 - largely because more people - particularly married women - will be entitled to a pension in their own right. More significantly, the earnings-related element of the State Earnings-Related Pension Scheme (SERPS) established under the 1975 Social Security Act is beginning to increase expenditure. After SERPS reaches maturity, most people without a private occupational pension will be entitled to a full earnings-related pension in addition to the basic state pension.

31. The cost of provision for the elderly during this period, and after the turn of the century, depends on the interaction of many factors - including demography; the balance between private and state pension provision; the relationship between prices (by which benefits are uprated) and earnings (on which contribution costs depend); and the level of additional support available through supplementary pension and housing benefit. The implications of the present SERPS scheme are

under study in the Government's Inquiry into Provision for Retirement but remain a major factor in the future pressures on social security expenditure.

33. (renumbered) etc as before

Econ Pol: Public Exp

A27

6 MAR 1984

SECRET

cc NO

8A

Treasury Chambers, Parliament Street, SW1P 3AG

5 March 1984

The Rt Hon James Prior MP
Secretary of State
Northern Ireland Office
Whitehall
London SW1A 2AZ

Dear Secretary of State,

THE NORTHERN IRELAND BLOCK

With the Prime Minister's approval I am taking a fresh look, in the interval between annual Surveys, at a number of areas of public expenditure which lend themselves to in-depth review. One area where I see a good case for this is the block budgeting regime for Scotland, Wales and Northern Ireland - overall rather similar, despite important differences in your constitutional position and in the wider coverage of your block.

This regime has now been operational for about five years, the Northern Ireland block itself having been introduced in 1979. The attractive simplicity of the block/formula arrangements has saved us all a great deal of time and trouble, and there could be no benefit to anybody in a return to the programme-by-programme horse-trade which preceded them. Nonetheless, given the inexorable pressure we face on all public expenditure programmes, I have felt the time has come to take stock of the public expenditure consequences of this largely automatic system. That can only mean relating expenditure to some assessment of need.

The Treasury has carried out an internal study which attempts to relate expenditure to need for the three territorial blocks. The Prime Minister has seen the results. This is an inherently difficult topic, because no way of measuring need can ever be perfect or free from controversy. For present purposes, we have seen no alternative but to attempt a further update based on the inter-departmentally agreed methodology used in the 1979 Needs Assessment Study (NAS) and its 1980 repeat - while aware that that methodology has had its critics. I would nonetheless make two claims for the NAS approach:-

SECRET

(i) While its detail is arguable, it can be used with some confidence to point up areas where there is an important divergence between expenditure and need - need, for these purposes, being assessed relative to need in England.

(ii) It is a valid indicator of the broad trend, over time, of that relationship between expenditure and need.

The results suggest at first sight that the Northern Ireland block is now running at a level significantly in excess of relative need, and that the gap has widened in the last few years. No absolute precision is claimed for the figures. But you should know that the sum total of the excesses identified in those results for 1983-84 is around £400m if one includes the law and order programme, or £200m if one excludes it. In recognition of your politico-security problem I am ready to agree that we should set aside the higher figure, though the precise amount must be a matter for debate. Moreover the study has not covered some important programmes such as public and private sector industry (which fall outside other territories' blocks), where again there is reason to suspect some over-provision. I also acknowledge that our own data on Northern Ireland are less complete even than those for the other territories; but there is little doubt that housing, and health and personal services, are the main programmes where there is evidence of excess provision in relation to relative need.

It seems to me evident that such a large figure as £200m must point to some imbalance in the geographical distribution of public expenditure resources. For some kinds of expenditure this is supported by statistical and anecdotal evidence of rather high relative standards of provision.

How has this situation arisen? Not, the study suggests, through the working of the territorial formula, whose effect tends to be broadly neutral over time, and in any event, very marginal. On a comparable basis, the excess seems to have grown by around £175m since 1978-79 after inflation is allowed for. About 90% of this increase is evidently due to a rise in Northern Ireland expenditure provision relative to England, much of which seems to have been implicit in the forward plans already in existence when the block was established (which looked forward to 1982-83). The rest appears due to reduced relative need in Northern Ireland.

As to the implications, I recognize very clearly the constraints imposed by the political dimension. I recognize that you might face very great difficulty over any proposal to make any changes to the block expenditure totals already published in the Public Expenditure White Paper. And any fundamental change to the block/formula regime itself would, I am sure, hold as little attraction for the Assembly or the informed public in Northern Ireland as it does for either of us.

SECRET

But I do believe that, unless we can be shown to have got the problem out of proportion, it has to be tackled. Before coming to any firm view on how to do so, I should like to have a talk with you about it. But what I have in mind is a different approach to the setting of baseline provision for your block for the new final year in each Survey round, starting with this year's Survey. The usual procedure is to apply a flat percentage increase to the previous year's provision. Instead I believe we should detach the Northern Ireland block and negotiate each year on the level of the new baseline provision. To make any impact on the problem this would obviously have to be on the understanding that we were looking for an outcome lower than the flat percentage increase would give you. Then the provision would gradually, over time, move more into line with relative need.

I recognise that you will want to think carefully about this, before embarking on any wide-ranging study. So I am not copying this letter widely, and I am sure the first step should be a meeting between the two of us. But I would hope it might be possible to agree that officials should jointly look into the results of the Treasury study and seek to reach some kind of agreed view on them. I have acknowledged that the results are necessarily based on incomplete information, and it may be that your officials will want to propose corrections. But I think it essential that we aim to make some initial impact on this problem in the 1984 Survey.

I am sending the Prime Minister a copy of this letter.

Yours sincerely

Paul Peget

p. PETER REES

(approved by the Chief Secretary and signed in his absence)

NBPM
AT43
NO 8

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

5 March 1984

SECRETARY OF STATE FOR SCOTLAND

SECRET

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

Dear Nigel,

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

Thank you for circulating the text of your draft Green Paper. I think the analysis it offers is well presented and the approach to determining public expenditure levels in the longer term is cogently argued. It should thus provide an excellent basis for the kind of public discussion you are seeking to stimulate.

File with A7

There is one point which concerns me, namely the use of the expression "real terms" to mean "cost terms". "Real terms" has in the past been generally assumed to imply changes in volume at constant prices and its use here may puzzle and irritate readers, especially those with an interest in particular services. Special difficulty is caused by the references to "real terms" growth in paragraph 15, eg paragraph 15(iii) quotes 33% real terms growth in law and order but admits that this includes substantial increases in pay. I think it would be wise to avoid any scope for misunderstanding on this point and suggest you refer to "cost terms" throughout the document when that is what is meant.

I am copying this letter to the recipients of your covering minute.

Yours ever,

George.

George Younger

Econ Pol: Public Expenditure pt 27

- 6 MAR 1984

Econ Pol: Public Exp: Pt 27

NBPM 7

AT 5/3

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

John Kerr Esq
H M Treasury
Parliament Street
LONDON SW1P 3AG

5 March 1984

Dear John,

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

My Secretary of State has only two comments on the Green Paper on Public Expenditure attached to the Chancellor's minute of 29 February. Both arise on paragraph 7 of Annex 3, "Growth in the long term".

His main point is on the last sentence of the paragraph. He is concerned that without more this could be used to imply that the Government is accepting that there will be only a slight fall in unemployment over the next five years, or perhaps no fall at all. He suggests that the words "but modest" should be inserted between "steady" and "decline" in the last sentence; and that a further sentence should be added at the end to read:

> "Higher output growth would of course imply a greater decline in unemployment".

His second point arises on the third sentence of paragraph 7. He feels this would read better and be more accurate, if it read,

> "No explicit assumptions about future changes in employment or unemployment have been made because they were not necessary for the purposes of the Green Paper".

I am copying to Private Secretaries to recipients of the earlier correspondence.

Yours sincerely

David Normington

DAVID NORMINGTON
Principal Private Secretary

NBPM 6

AT 6/3

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~930 7022~~ 218 2111/3

MO 8

5th March 1984

Dear John,

The Defence Secretary has seen the draft Green Paper attached to the Chancellor's minute to the Prime Minister of 29th February and has asked me to pass on to you the following comments.

a. Paragraph 15(i) As drafted, this paragraph implies that in the context of the NATO 3% aim we have increased defence expenditure by 23% since 1978/79. In fact, of course, the 23% calculation has been done on a cost terms basis, while our performance against the NATO aim is measured in input volume terms. The Defence Secretary therefore asks that "in real terms" in the first sentence is amended to "in cost terms": indeed he considers that to avoid misunderstanding it would be preferable for all the measurements in this section of the Paper to be expressed as "in cost terms". In addition he feels that the last sentence implies, inadvertently, that Falklands costs are in addition to the 23% increase. He suggests that the second two sentences are redrafted to read:

> "This reflects the Government's commitment to meet the NATO aim of real increases in defence expenditure of 3 per cent per annum up to 1985/86 and to meet defence Falklands costs out of monies additional to the 3 per cent annual rate of growth."

b. Paragraph 35 The reference to "a more equitable division of the common defence effort among the European Allies" reflects no current positive aspect of Government policy and should be omitted.

c. Paragraph 42 30 per cent, not 37 per cent, of the defence budget is attributable to pay: 37 per cent includes service pensions costs.

I am copying this letter to the Private Secretaries to the Prime Minister, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Yours sincerely
Nick Evans

(N H R EVANS)

J O Kerr Esq

Econ Pol: Public Exp: Pt 27

- 6 MAY 1984

SECRET

5. file NO

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

NBPM

AT 6()

SECRETARY OF STATE FOR NORTHERN IRELAND

copied to:
All cabinet members
Chief Whip
Attorney General
Robert Armstrong.

Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

5 March 1984

Dear Chancellor

File with AT

Thank you for sending me a copy of the draft Green Paper on 'Public Expenditure and Taxation in the Longer Term'. I think it will make a valuable contribution to the debate about public expenditure trends and leave the Government less vulnerable to conspiracy theories about our intentions in this field. I have no specific Northern Irelands points to raise.

There are, however, a few small points in the text with which I was not wholly happy, and I wonder if some adjustments could be made?

page 2, para 4, final sentence: I think this formulation is a little bald, surely a major factor in deciding 'what can be afforded' is what the public feels should be priorities. There can be no absolute and immutable calculation of precisely how much public expenditure can be afforded by the country in isolation from consideration of the tasks which have to be undertaken. For this reason I prefer the formulation to be found in paragraph 25, that is: 'it is necessary to turn the argument round the other way, to decide first what can and should be afforded, and then to set expenditure plans for individual programmes consisently with that decision'.

page 3, para 10: It is quite right to include an analysis of the 'powerful forces at work driving public expenditure upwards' and this is done comprehensively later in the text but taken this early in the text I think it may be politically dangerous to single out the rise in social spending only in company with the growth of public spending for 'economic reasons'. It would, I believe, be more even handed, and more in tune

SECRET

with the tone of the rest of the document, if other factors were also mentioned here such as: the rise in unemployment and the costs associated with this; the growth in public sector manpower; the increases which have taken place in spending on law and order; the problem of nationalised industries; and, perhaps, differential inflation in some public sector programmes such as health and defence.

page 11, para 18: Either here, or arguably, earlier in the text I think we need to guard ourselves against suspicion that we intend to attack those sections of social spending aimed at the most disadvantaged in society by entering a disclaimer such as adding at the end of this paragraph: ' Of course a significant part of these increases in public expenditure arose because Government took an increasing role, particularly in the provision for severely disadvantaged groups in our society for which action a clear consensus existed at the time and still exists today.'

page 19, para 41: I wonder if this paragraph on capital expenditure understates the problems which we may have to face over the next 20 years as some of the infrastructure put in place during the Victorian era becomes in need of replacement?

page 21, para 49: I would suggest a rejigging of the last two sentences to read: 'However, as experiences over many years and in many countries has shown, the reality of spending decisions has been that total public expenditure has been raised to a level which shows too little attention to the consequences for incentives and growth. This process cannot be allowed to continue. Far too little regard has been paid to what taxpayers will tolerate, although their willingness to pay relatively high taxes is enhanced in the case where there is wide consensus on the objectives being pursued by Government, and if the public has confidence that public expenditure is producing good value for money. In the late 1960s the then Chancellor of the Exchequer, Mr Roy Jenkins, questioned whether Britain was reaching the limits of her taxable capacity, the question is still more urgent today'.

Yours sincerely

Derek Allet

Approved by the
Secretary of State
and signed in his
absence.

D3CON12 SECRET

CMO

ECON POL: Public Exp: Pt 27

N BPM

4 1

AT 5/3

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

5 March 1984

Dear Nigel.

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

see Pt 26

Thank you for sending me a copy of your minute of 29 February to the Prime Minister enclosing a draft of the Green Paper.

I think that the authors have done a very good job. The publication should do much to improve public understanding and stimulate debate. I particularly welcome the balanced concluding passage, with its emphasis on the choices to be made between lower taxes and improvements in services.

Officials here have already sent to the Treasury some suggested amendments to the passages (paragraphs 15 vii, 27, Table 4 and paragraph 40) in which I have a Departmental interest. With one or two further amendments I endorse all these suggestions and, for convenience, reproduce in the annex to this letter the two most important. I believe it would be wrong to add to our troubles with the local authorities by including anything like the present 15 vii, which only tells one side of the story; equally the near-stability in spending since 1978-79 on a programme as big as education and science deserves a short paragraph; and the present paragraph 40, on the future prospects for education, needs filling out.

I also have one or two other comments:-

Paragraph 10

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

SECRET

CMO

Paragraph 10. In fairness to my predecessors, including the Prime Minister, we should add demography to the list of forces which have driven up social spending in the last 20 years. (The school population, for instance, rose by almost 2 million or over a quarter between 1965 and 1975, and has since fallen only by a million.)

Pragraph 21, penultimate sentence

Increased rates have resulted from a reduction in the Exchequer grant percentage as well as from higher expenditure.

Pargraph 33, last sentence

Would it not be worth emphasising that child benefit is not taxable?

Paragraph 35

This is very brief by comparison with the treatment of the (smaller) health and education programmes, and I hope that you and Michael Heseltine can strengthen it. A reference to possible economies in defence R and D expenditure might be useful.

Paragraph 71

I wonder whether "unacceptably" is correct here: we have made our preference clear. At this stage in the argument there is surely virtue in posing the three choices. Alternatives would be to substitute "historically" for "unacceptably" or to omit "unacceptably" but insert after "taxation" - "involving, inter alia the costly but important purpose of raising tax thresholds in real terms -."

I am copying this letter to those who had your minute.

Ever,
Kevin

ANNEX

Paragraph 15 (vii) Delete, and substitute:-

"Expenditure on education and science, three quarters of it by local authorities, has increased by 1 per cent in cost terms since 1978-79, compared with a fall of 12 per cent in the school population and an increase of 10 per cent in the number of home students in higher education. Within the total there have been important shifts, largely because of demographic changes, from primary to secondary and further education and from capital expenditure, which has fallen by a third, to current expenditure. Expenditure on school meals has also fallen by a third."

Paragraph 40 Delete, and substitute:-

"40. Demographic changes affecting education over the next decade are such that, if current levels of provision per pupil and per student were broadly maintained, education's share of GDP could be expected to decline significantly. The number of pupils in maintained schools is expected to fall from over 8.9 million in 1984 to some 8 million in 1991. If the cost per pupil were maintained at existing levels every 100,000 fewer pupils would lead on average to savings of around £90 million a year. The latest projection, currently under review, of the number of full-time and sandwich home students in higher education shows a fall from over 500,000 now to well under 450,000 in the early 1990s, with the decline in the size of the relevant age-groups more than outweighing a continued increase in the age participation rate. This would yield savings in student grants even without a further reduction in the dependence of students on public funds for their maintenance, and also in expenditure on universities, polytechnics and colleges.

40A. A number of factors are however likely to work in the opposite direction. In addition to inescapable diseconomies of scale as pupil and student numbers fall, there is a case for a better as well as a smaller teaching force (see Cmnd 8336) and better in-service training. There will be pressure for a further increase in the participation rate of under fives, though it is currently at a record level of 40 per cent. Technological advance in industry should result, in the national interest, in extra demand for relatively expensive courses in science and technology within further and higher education - although there may be scope for involving employers and employees in the financing of some such courses."

Elsas PCR
plus Esp PX27

E 5 MAR 1984

SECRET AND PERSONAL
CMO

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10 DOWNING STREET

From the Private Secretary

5 March 1984

Dear John.

Public Expenditure and Taxation in the Longer Term

The Prime Minister has seen the draft Green Paper on Public Expenditure and Taxation in the Longer Term and was content with the text. She agrees with the choice of options illustrated in Section V. She thinks that to widen the range further would blur the message.

She has noted, however, that the trends in the ratio of public expenditure to GDP are illustrated using general Government expenditure rather than the definition used in the Autumn Statement and the PEWP ie the planning total plus net debt interest. She questions whether it is wise to bring in a different definition. First, an additional series will tend to confuse the debate. Secondly, the programme analysis elsewhere in the draft relate to the planning total. Finally, and most importantly, the General Government definition, while broadly the same over a twenty year span, shows a rise in 1982-83 rather than the fall shown by the PEWP definition. This is a fall for which Government has already claimed credit. For these reasons, she would prefer to see the figures presented using the PEWP definition.

I am copying this letter to the Private Secretaries to members of the Cabinet, to Murdo Maclean (Chief Whip's Office), Henry Steel (Law Officers' Department) and Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew

(Andrew Turnbull)

John Kerr, Esq.,
HM Treasury

SECRET AND PERSONAL
CMO

File

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew

Long term public expenditure

We spoke about the Charts 1 & 2 in the Green Paper. Here are the earlier versions which show both General Government Expenditure & the Planning total. The main reasons for using the latter are

a) it is more familiar to ~~expenditure~~ those who read & think about expenditure - mainly because it is used by Ministers almost to the exclusion of GGE

b) it shows an earlier peak in the GDP ratio

c) the GDP ratios are the ones we & the PM use v. frequently ie 44% in 1981-82 falling to 42% in 1984-85; they will appear in the FSBR.

d) the programme analysis in Chart 3 and Tables 1 & 2 is all based on the planning total definitions.

JG

I

SECRET

mr 2

PRIME MINISTER

PUBLIC EXPENDITURE AND TAXATION IN THE LONGER TERM

You will want to look through the draft Green Paper. It has come out rather well (with much of the credit due to Michael Scholar). Could I draw your attention to the following points:-

(i) Most of the attention will be focused on Part V beginning at paragraph 48. Despite the suggestions of some Cabinet colleagues that a wide-range of options should be illustrated, table 6 shows only two growth rates for GDP and two for public expenditure, four options in all. The text in paragraph 61 discusses the option of two per cent growth of expenditure. I think any further options would serve only to blur the message.

(ii) Paragraph 62 seeks to illustrate the options by reference to the effect on income tax.

(iii) Paragraph 31 no longer refers to possible changes in SERPS. At some stage the Government will have to confront this problem head on, though in the meantime it is probably better not to stir up this hornets nest by an oblique reference in this document.

(iv) In paragraphs 6 to 7 and in Charts 1 and 2, the ratio of public expenditure to GDP is calculated using general Government expenditure. In the Public Expenditure White Paper the definition of public expenditure was the planning total plus net debt interest. Over the broad sweep of history there is little difference in the trends shown by the two definitions but I think there is a strong case for sticking to the PEWP definition.

I agree: The other can be deleted.

(a) There will be confusion if the public debate is conducted using two definitions.

/(b)

(b) The PEWP definition showed a fall in the ratio in 1982/3, enabling the Government to claim that the process of reducing expenditure in relation to GDP has already begun. The general Government definition shows a further rise in 1982/3 with the fall not beginning until 1983/4.

See attached graph not ✓

(c) The PEWP definition uses net debt interest which I think makes more sense since it is this which has to be financed from taxation. The general Government definition uses gross debt interest.

(d) The programme analysis in Chart 4 and tables 1 and 2 is based on the PEWP definition.

The Chancellor has chosen general Government because he believes markets are suspicious about the planning total definition. In my view, the arguments for the White Paper definition are stronger. Which do you prefer? I agree the PEWP defn

The main criticism that will face the Green Paper is that it poses the question but does not provide the answer, i.e. it seeks to estabish that there is a public expenditure problem but does not show what changes in programmes will be made to deal with it. The answer will have to be that the debate needs to start by establishing the argument that there is a need to control public expenditure very tightly, since even this has been challenged. It is not possible to project precisely the costs of individual programmes and an attempt to do so would represent a false degree of precision. The best that can be done is to illustrate, as the Green Paper does, the sources of pressure for higher public expenditure.

AW

2 March 1984

Chart 1

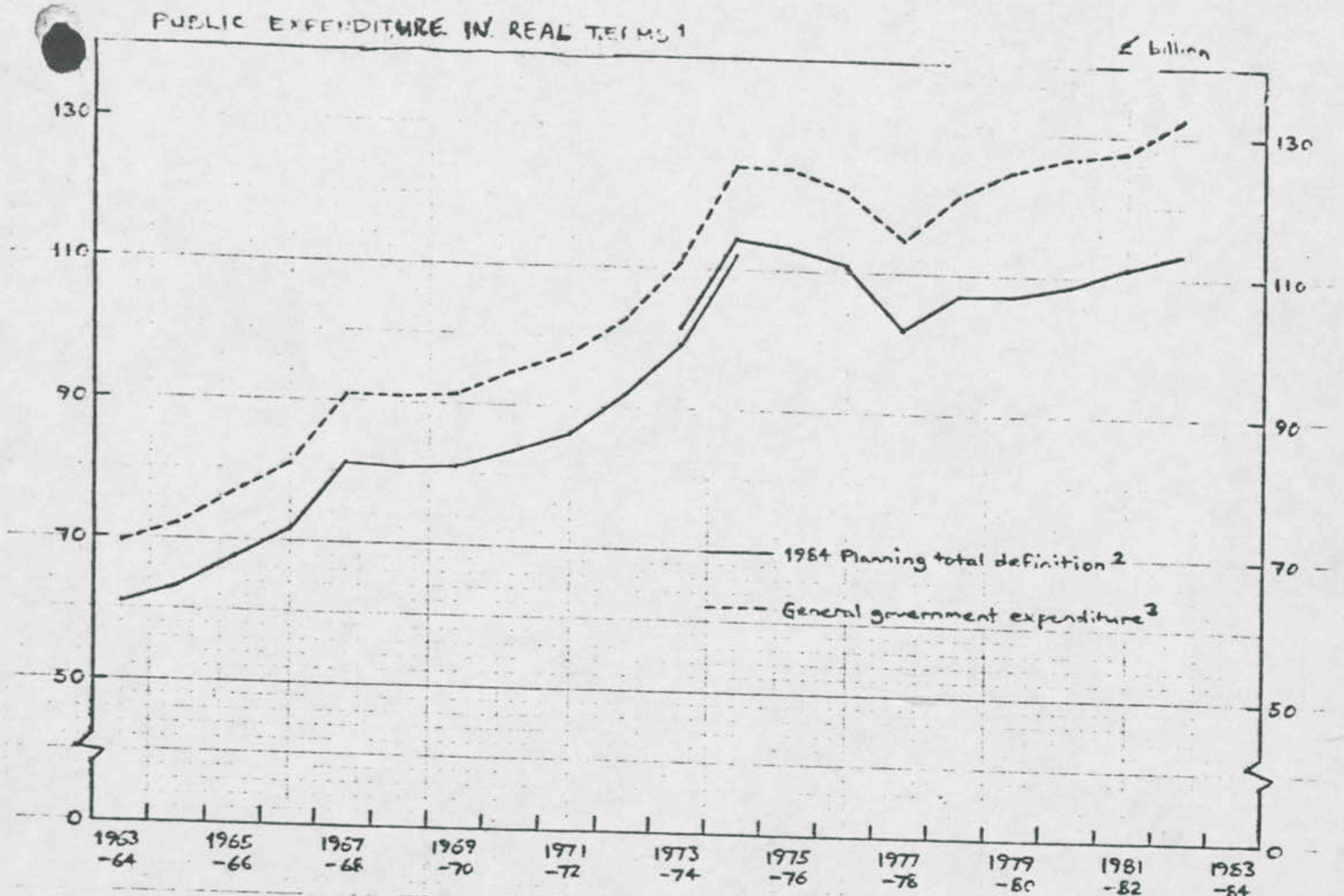
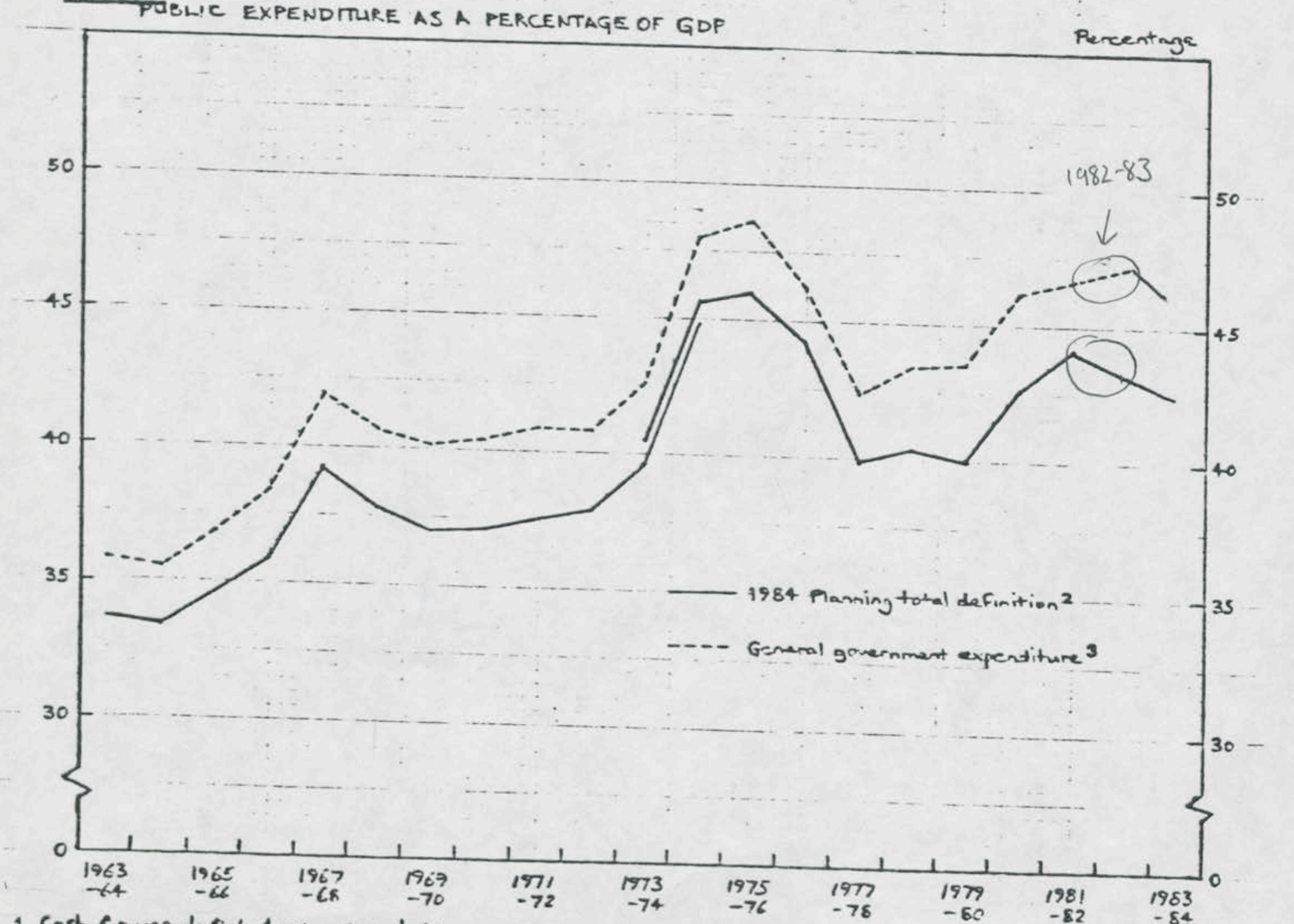


Chart 2



1 Cash figures deflated using GDP deflator 1982-83 = 100.
2 Two overlapping series are given for this definition. The earlier series excludes PC's market & overseas borrowing.
3 National accounts source.

SECRET

LTPE file file

2 March 1984

MR TURNBULL

I have now read the draft Green Paper on Public Expenditure and Taxation. My comments are these:

1. In paragraph 3, I do not think the assumptions about the economy in the final sentence need be called "reasonable and defensible"; that can be left to the reader to decide.

2. In paragraph 7, I think the figure for the current level of public spending as a proportion of GDP should be included in the text. ie 1983-84

3. In paragraph 15(vii), more could be made of the surge in local authority spending and manpower, as this is a very large programme which has been difficult to control. It provides background to the rate-capping measures being introduced.

4. Paragraph 21. Corporation Tax: attention could be drawn to the rising company profitability now being experienced which will lead to an increase in the yield of Corporation Tax.

5. In paragraph 39 on health, it is stated that as affluence increases, people should make a larger direct contribution to the cost of their medical treatment through charges. The Government is pledged during the lifetime of this Parliament not to make any charges for items like stays in hospital which are not currently covered by a charging system. If this is not rephrased, it could be used by the Opposition as evidence that the Government does intend "to dismember the National Health Service", and intends to levy substantial charges on some of those using it. It also reads as a veiled attack on the middle classes in the revised version.

6. In paragraph 57, the projected decline in the PSBR in later years seems quite modest. This does not seem to be compatible with zero inflation. I also agree strongly with Alan Walters' comments on the target for the PSBR in 1984-5.

7. Paragraph 37. The 1 per cent standstill figure starkly reminds readers of the severity of current expenditure controls on health. Could the potential for efficiency be highlighted to offset it?

JOHN REDWOOD

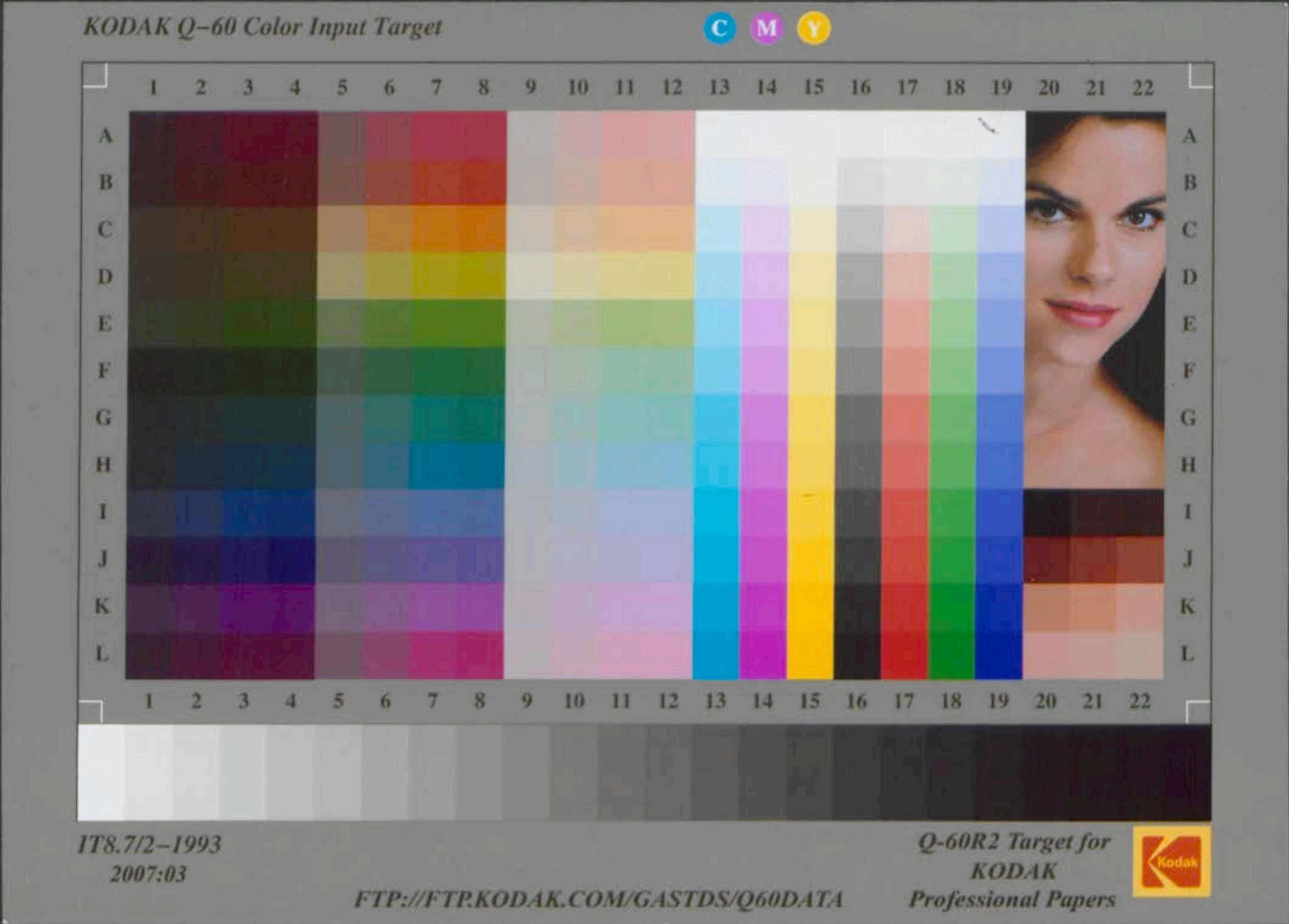
SECRET

PART 26 ends:-

Ch/Ex to PM 29.2.84

PART 27 begins:-

J Redwood to AT 2.3.84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