PART 32

SECRET

MT

Confidential Filing

Public Expenditure + Cash Limits.

ECONOMIC POLICY

Part 1: May 1979

Part 32: May 1985

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
|---|---|---|---|---|---|---|---|
| ~~10.5.85~~ | | ~~3.9.85~~ | | | | | |
| ~~13.5.85~~ | | ~~12.9.85~~ | | | | | |
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| ~~21.5.85~~ | | ~~1.10.85~~ | | | | | |
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| ~~6.6.85~~ | | ENDS | | | | | |
| ~~17/6/85~~ | | | | | | | |
| ~~21.6.85~~ | | | | | | | |
| ~~30.6.85~~ | | | | | | | |
| ~~3.7.85~~ | | | | | | | |
| ~~8.7.85~~ | | | | | | | |
| ~~10.7.85~~ | | | | | | | |
| ~~13.7.85~~ | | | | | | | |
| ~~11.7.85~~ | | | | | | | |
| ~~12.7.85~~ | | | | | | | |
| ~~16.7.85~~ | | | | | | | |
| ~~19.7.85~~ | | | | | | | |
| ~~22.7.85~~ | | | | | | | |
| ~~29.8.85~~ | | | | | | | |



Dd 8398366 2M 11/83 JET

PART 32 ends:-

PS/CST to DN 30.9.85

PART 33 begins:-

B.I. to LPC 1.10.85

**TO BE RETAINED AS TOP ENCLOSURE**

# Cabinet / Cabinet Committee Documents

| Reference | Date |
|---|---|
| CC(85) 21st Conclusions, Minute 4 | 20.06.85 |
| C(85) 17 | 08.07.85 |
| C(85) 18 | 08.07.85 |
| E(LA)(85) 13 | 10.07.85 |
| CC(85) 24th Conclusions, Minute 4 | 11.07.85 |
| CC(85) 27th Conclusions, Minute 5 | 12.09.85 |
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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 9 December 2013

**PREM Records Team**

010/112 OlD

SECRET

1 15

Prime Minister
Agree that the CST may circulate his paper as drafted? (There are some points in Annex B worth noting.)
[illegible] 30/9.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
10 Downing Street
London
SW1

Yes [illegible]

30 September 1985

Dear David

**1985 SURVEY: DRAFT PAPER FOR CABINET**

Following his discussion earlier today with the Prime Minister, the Chief Secretary has asked me to send you the enclosed draft paper for Cabinet next Thursday. He would be glad to know that the Prime Minister is content before circulating it. The status of programmes listed in Annex A could change marginally overnight, with consequential minor revisions to the figures. The overall position will not change substantially.

The Chief Secretary is conscious that the question of running costs will need to be handled with particular care on Thursday. He is giving some further thought to this. He proposes to let the Prime Minister have a separate note covering the point before Cabinet.

Yours ever
Richard

**R J BROADBENT**
**Private Secretary**

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**DRAFT PAPER FOR 3 OCTOBER CABINET**

£2 billion [illegible] 2¼ [illegible]

**PUBLIC EXPENDITURE SURVEY 1985**

Increased sales of assets

Memorandum by the Chief Secretary, Treasury

Cabinet agreed on 11 July to public expenditure planning totals of £139.1 billion, £143.9 billion and £148.2 billion respectively for the three years 1986-87 to 1988-89. The Chief Secretary was invited to hold bilateral discussions with the Ministers responsible on individual expenditure programmes and to report back.

2. I have now held one or more meetings with colleagues on all the major programmes and some progress has been made. But we are still a long way from achieving the agreed targets.

The Expenditure Position

3. Agreements have been reached for some programmes. Details are shown in Annex B. In some other cases colleagues have reduced their proposals for extra provision. More meetings are taking place this week and I may be able to report further progress orally.

4. In the non-agreed programmes colleagues are in total seeking additions to programmes which would imply overshoots on the agreed planning totals of £3.0 billion in 1986-87 rising to £5.4 billion in 1988-89. The details are shown at Annex A. I should stress that these implied overshoots are after taking credit for the higher sales of special assets and the transfer to programmes from the Reserve noted at the 11 July discussion.

SECRET

5. It is therefore essential for colleagues greatly to reduce their demands in order to meet our expenditure objectives; and in some areas I must continue to press for substantial reductions below baseline. It is essential that as a Government we not only set limits for public expenditure within what can be afforded but also take the decisions on individual programmes necessary to adhere to those limits.

Nationalised Industries

6. E(A)(85)14th Meeting agreed that the aggregate external financing requirements of those nationalised industries included in this year's Investment and Financing Review should be kept at baseline in 1986-87, and held £250 million and £150 million below the baseline for the following two years. The Prime Minister described these objectives as relatively modest. Although Annex A takes as an assumption that they will be achieved, the gap remaining is large and major issues remain to be resolved in the case of some industries.

Running Costs

7. We have told Parliament that we will set and announce limits for departmental running costs and in his minute to the Prime Minister of 25 September the Chancellor of the Exchequer proposed that these should be totals set without disaggregation into separate components for pay and other costs, and without recourse to a centrally determined pay assumption. I will be seeking to agree limits with colleagues on this basis. We agreed in Cabinet that the Survey aim would be to keep increases to half a percentage point below the rate of inflation (ie 4 per cent in 1986-87). The limits have to be tight, as demanding targets for administration; they have to be realistic, so that we do not face wholesale breaches during 1986-87.

8. The aggregate of departmental bids in 1986-87 represents an increase over the provision for 1985-86 of about 7 per cent. One factor is that departments are bidding for additional manpower, some of which may be justified by the Government's emphasis on extra staff for detecting fraud, for fee-paid services

or to implement policy changes such as the Crown Prosecution Service. The manpower bids are already threatening our published target for 1988 and there will be a large bid from DHSS yet to be considered.

9. If we are to meet the target of getting running costs below the rate of inflation - and our announced manpower targets for Civil Service numbers - I must ask colleagues with whom I have not yet settled running costs to look carefully at their bids and scale them down. The transition to running costs limits needs careful presentation. There must be no suggestion that the Government is going soft on pay or that there is any change in the Government's wish to see pay settlements coming down with the expected fall in inflation. This makes it essential to achieve the lowest possible figures for the increase in running costs.

Surplus Land and Empty Housing

10. We have made satisfactory progress on this initiative. Discussions are still proceeding in some cases, but I presently expect aggregate targets for disposal well in excess of £100 million for both 1986-87 and 1987-88 to be agreed; with a further £100 million in 1988-89.

Next Steps

11. I believe it will be possible to make some further progress in continuing bilateral exchanges, particularly in relation to running costs limits. But given the substantial gap between colleagues' expectations and the total expenditure limits to which the Government has publicly committed itself, the Cabinet will now wish to take stock of the position and to consider whether, as in recent years, a small group of Ministers should be convened under the chairmanship of the Lord President to examine outstanding differences and to make recommendations on how they might be resolved.

Annex A

SECRET

30/9/85

PES 1985: POSITION REACHED AT 30 SEPTEMBER 1985 £million
CHANGE FROM BASELINE

| | 1986-87 Baseline | DEPT | 1987-88 Baseline | DEPT BIDS | 1988-89 Baseline | DEPT BIDS |
|---|---|---|---|---|---|---|
| Survey baseline and proposed changes | | | | | | |
| MOD | 18,558 | 400 | 18,861 | 595 | 19,033 | 897 |
| FCO-ODA | 1,296 | 64 | 1,317 | 82 | 1,350 | 98 |
| FCO-OTHER* | 603 | 36 | 619 | 39 | 635 | 57 |
| EC* | 640 | 10 | 830 | 320 | 850 | 100 |
| IBAP/AFF CAP | 1,277 | 338 | 1,304 | 346 | 1,337 | 346 |
| AFF domestic | 713 | 9 | 699 | 7 | 717 | 5 |
| FORESTRY* | 53 | 0 | 54 | 0 | 56 | 0 |
| TRADE/INDUSTRY* | 1,162 | -13 | 980 | 12 | 1,004 | -25 |
| ECGD* | 78 | 207 | -43 | 219 | -44 | 126 |
| ENERGY | 294 | 27 | 293 | 37 | 300 | 40 |
| EMPLOYMENT* | 3,704 | -74 | 3,901 | -207 | 3,999 | -125 |
| TRANSPORT* | 1,955 | 25 | 1,995 | 34 | 2,045 | 53 |
| DOE-HOUSING | 2,424 | 744 | 2,526 | 1028 | 2,589 | 957 |
| DOE-PSA* | -120 | 7 | -128 | 0 | -131 | 0 |
| DOE-OTHER | 848 | 90 | 860 | 100 | 882 | 120 |
| HOME OFFICE | 1,061 | 87 | 1,104 | 77 | 1,131 | 94 |
| LCD* | 574 | 21 | 610 | 39 | 625 | 72 |
| DES | 3,418 | 168 | 3,505 | 182 | 3,593 | 198 |
| OAL | 333 | 22 | 342 | 32 | 350 | 44 |
| HEALTH & PSS | 14,945 | 409 | 15,622 | 484 | 16,012 | 870 |
| SOCIAL SEC. | 41,547 | 1203 | 43,553 | 1579 | 44,642 | 1771 |
| CIVIL SUPER.* | 1,114 | 65 | 1,226 | 86 | 1,257 | 147 |
| SCOTLAND | 4,300 | 10 | 4,373 | 18 | 4,482 | 12 |
| WALES* | 1,708 | -2 | 1,735 | -1 | 1,779 | -4 |
| N. IRELAND* | 4,464 | 52 | 4,603 | 76 | 4,717 | 105 |
| Territorial conseq. | 0 | 300 | 0 | 400 | 0 | 520 |
| CHANCELLOR'S DEPT | 1,825 | 184 | 1,842 | 179 | 1,888 | 159 |
| OTHER DEPTS | 366 | 55 | 396 | 46 | 406 | 51 |
| (1)LA REL CUR(UK)(ELA) | 26,032 | 601 | 26,301 | 600 | 26,959 | 240 |
| teachers pay | 0 | 228 | 0 | 300 | 0 | 400 |
| NAT IND | | | | | | |
| (2) E(A)target ind | 171 | 0 | -207 | -250 | -210 | -150 |
| Coal | 382 | 508 | 392 | 333 | 402 | 198 |
| RMPS & SRPS | 309 | 194 | 318 | -41 | 326 | -50 |
| BGC,BAA,NBC | -470 | 272 | -390 | 390 | -400 | 400 |
| SPECIAL SALES OF ASSETS | -2,250 | -2250 | -2,250 | -1250 | -2,250 | -1250 |
| RESERVE | 6,000 | -1000 | 7,000 | -1000 | 7,000 | 0 |
| 3 per cent increase in 1988-89 total | 0 | 0 | 0 | 0 | 1,127 | -1127 |
| less double counting(3) | -252 | 0 | -249 | 0 | -258 | 0 |
| TOTALS | 139,062 | 2997 | 143,894 | 4891 | 148,200 | 5349 |

* Agreement reached in bilaterals
(1) The E(LA) figures for later years are the CSTs proposals
(2) The E(A) target industry figures are those agreed by E(A)
(3) DAFS and WOAD are in the baselines of both DAFF/IBAP and Scotland and Wales

ANNEX B

**BRIEF NOTES ON AGREEMENTS REACHED IN BILATERALS**

| | | | |
|---|---|---|---|
| | | | **£ million** |
| 1. **FCO Other** | + 36 | + 39 | + 57 |

The settlement includes increased provision to offset increases in overseas costs, and for BBC external services. In the last year an extra £20m is included to compensate for the ending of loan repayments by Yugoslavia.

| | | | |
|---|---|---|---|
| | | | **£ million** |
| 2. **EC** | + 10 | +320 | +100 |

The figures reflect higher forecast UK contributions to the European Communities.

| | | | |
|---|---|---|---|
| | | | **£ million** |
| 3. **D/Trade and Industry** | - 13 | + 12 | - 25 |

The net changes include increases for aircraft and aeroengine projects and assistance to the shipbuilding and steel industries and reduced requirements for the Government Emergency Communications, aircraft and manpower. The settlement also includes offsetting savings on regional policy.

| | | | |
|---|---|---|---|
| | | | **£ million** |
| 4. **ECGD** | +207 | +219 | +129 |

The agreed bids cover the higher forecast costs of the interest support programme and cost escalation scheme. Offsetting savings will be achieved by reducing banks' margins and making increased use of the capital markets.

£ million

5. **Employment** - 74 -207 -125

Net savings have been agreed, reflecting reduced requirements and the abolition of rebates to employers from the Redundancy Fund (due to be discussed in E(A) on 3 October). Reimbursement of maternity pay will again be kept at 90 per cent for the next two years. These savings are partially offset by bids of £75 million rising to £155 million a year; for 1988-89 over half is for the expansion of YTS announced in the Budget.

£ million

6. **Transport** + 25 +34 + 53

The net change includes increases for national roads, local capital and gross running costs offset by savings from fees, other programmes and the introduction of EFL treatment for local authority transport companies (£40 million a year). The agreement on the programme as a whole is conditional on securing colleagues agreement to the legislation needed to introduce EFL treatment for local authority transport companies.

£ million

7. **PSA** + 7 0 0

Increased provision has been agreed for maintenance and the International Conference Centre in 1986-87. Increased allowance has also been made for Parliamentary building (scored against other departments).

£ million

8. **Lord Chancellors Dept** + 21 + 39 + 72

The agreed changes reflect the increased costs of legal aid and administration of legal aid by the Law Society. A confidential review of legal aid controls will be set up.

| | | | £ million |
|---|---|---|---|
| 9. **Civil Superannuation** | + 65 | + 86 | +147 |

The figures reflect higher forecasts of the cost of payments to civil service pensioners and their dependants.

| | | | £ million |
|---|---|---|---|
| 10. **Wales** | - 2 | - 1 | - 4 |

The Welsh block will be settled according to the usual formula. On other spending net reductions have been agreed for the Welsh Development Agency and the Development Board for Rural Wales. These savings are partially offset by increases for housing revenue account interest payments.

| | | | £ million |
|---|---|---|---|
| 11. **Northern Ireland** | + 52 | + 76 | +105 |

The Northern Ireland block has been settled on the basis of the normal block/formula arrangements.

The figures for Wales and Northern Ireland shown here exclude the effects of the formula, which are dealt with separately.

1. NW

2. pa.

**10 DOWNING STREET**

Prime Minister

I understand unofficially that Peter Walker has today put in a bid for an extra £200m, not reflected in this paper. The Treasury are sending me material on this and other points before Cabinet on Thursday.

DLW

30/9.

Budget.

1. In Pl. total p.e. £2 billion.
added to reserve £2 billion.

2. EC C.)
IBRD - Intervention. | 500 —

3 5 5

001/1515



cc D/W
cc BO

14

FROM: CHIEF SECRETARY
DATE: 24 September 1985

PRIME MINISTER

**PUBLIC EXPENDITURE SURVEY**

There are a number of issues on the conduct of the Survey which the Chancellor and I would like to discuss with you.

State of Play

2. I have now held at least one bilateral with most colleagues and I have to report that the position I find is extremely difficult. Attached at Annex A is a "scorecard" of the kind the Treasury are now producing regularly for me. It shows for each department the bids above baseline being sought; the reductions being sought by the Treasury; and in the middle column our best assessment of where, in the current climate, we might end up.

3. You will see that even after allowing for the increase in asset sales put to the Cabinet and the reduction which comes from rolling forward the Reserve each year, the "forecast outcome" is substantially in excess of the baseline/planning total for all three years. The figures are (centre column, bottom line):

| | | |
|---|---|---|
| | | £ billion |
| 1986-87 | 1987-88 | 1988-89 |
| 1.4 | 2.6 | 2.3 |

The position on running costs is also disappointing. For a variety of reasons, the increase in 1986-87 is currently projected at around 7½ per cent, with smaller increases in the two later years. During the course of the bilaterals I will be seeking to reduce this, but it is certain that the outcome will be some way above our original objective.

Star Chamber

4. Lord Whitelaw has made two points about the work of the Star Chamber. On the one hand he has urged the desirability of keeping to a minimum the number of cases going to Star Chamber; this is essential if they are to do their job thoroughly in a short period. At the same time he has stressed the importance of ensuring that the Star Chamber has the maximum room for manoeuvre - ie the Treasury's bids should have plenty in hand to allow them to be reduced in reaching a settlement.

5. It is difficult, however, to satisfy both of these conditions. There is a degree of trade-off between them - we can reduce the number of cases for Star Chamber by settling the (relatively) smaller cases; but in so doing we considerably reduce the Star Chamber's room for manoeuvre - and visa versa. But from the limited progress I have so far made in the bilaterals, it is apparent that agreement will not be reached on several major departments. Fairly definite candidates for the Star Chamber are:

I. (i) Defence
(ii) Housing
(iii) DOE other
(iv) Scotland
(v) Social Security
(vi) ODA

II. (vii) Energy industries
(viii) Health

III. Other possibilities are:
(ix) Education
(x) Home Office
(xi) DTI
(xii) Health

One possibility is to try to settle some of these directly in trilateral meetings with you before the Star Chamber starts work. The Foreign Secretary and the Secretary of State for Trade and Industry are candidates for this, which would enable Leon Brittan to serve as a member of the Star Chamber.

6. Settlement of the remaining programmes in bilaterals or trilaterals will reduce the total for excess bids shown in Annex A, but it will eliminate the corresponding Treasury bids. The result is likely to be that Star Chamber will find itself in the position that even if it ruled in the Treasury's favour on all the programmes before it, the aggregate so achieved could exceed the totals agreed by Cabinet in July, perhaps by £½ billion in each year. This is a considerably worse position than that faced at this stage in earlier Surveys; last year we were at least able to show the Star Chamber how, with some margin for manoeuvre, the targets could be achieved.

7. This is a disturbing prospect and we need to consider how the "report-back" Cabinet and the subsequent Star Chamber are handled so that we can improve upon it. It would also be helpful if we could have a further discussion with Lord Whitelaw. The main issues to be considered are:

(i) First Cabinet and Remit for Star Chamber

8. We need at Cabinet to impress upon colleagues that tough decisions are needed to achieve the objectives set collectively in July. We need also to change the climate to enable the Treasury a better prospect in Star Chamber.

9. At the same time we must give Star Chamber a target which, though tough, is credible. This will mean taking them into our confidence about the difficulty of the task. It would be wrong for the Treasury to ask them to find savings which it does not believe can be achieved. One possibility, therefore, is to ask them to find savings which will bring programmes to, say, £1 billion more than envisaged in July. It would then be for the Treasury to bridge the gap by higher asset sales and a lower Reserve (and possibly in the second and third years it may in the end be necessary to accept some adjustment to the planning total). This would not be a desirable outcome but it would be better than simply leaving Star Chamber to secure what savings it could.

(ii) Issues in Dispute

Some of these are about cuts in the baseline; others about resisting bids. The list does not explicitly separate them.

10. The bids being made by colleagues and their resistance to savings sought by the Treasury have been justified largely on political grounds. Briefly the main issues are:

(a) Defence

In real terms the programme has risen by 29 per cent since we came into office. The baseline shows a very slight decline from the peak in 1985-86. Has the time now come to reverse some of this huge real increase?

(b) Housing

The Secretary of State for the Environment's highest priority is a massive increase in the renovation of council houses. He wants to spend £19 billion in 10 years, involving an increase of £800 million a year over present provision. Is all this work necessary? Does it have to be done in this timescale?

(c) Scotland

We believe, and the Secretary of State for Scotland does not deny, that in almost all areas of public expenditure provision in Scotland is higher than in England. Can a correction now be made?

Do they mean by this cash cuts from the present baseline, or no increases under the formula? Northern Ireland?

(d) Home Office

Current policy is for a large expansion of prison capacity but this is doing no more than keep pace with the rising prison population. Should there be a moratorium on prison building pending a major review of custodial versus non-custodial sentences? (There are implications for the role of the judiciary.)

(e) Aid Budget

Is an increase a political imperative as the Foreign Secretary claims? Can increased provision for ATP be found within the existing budget?

(f) Education

Is an increase in the Science Budget essential?

(g) DOE - Other

Should the Urban Programme be increased, or is it still failing to give good value for money?

(h) Social Security

Can savings beyond those agreed in the Review be achieved? There are problems even in keeping to the commitments made.

(i) Energy Industries

We still do not have a clear picture of the prospects for coal, but for electricity there could be a re-run of earlier arguments.

(iii) Timing

Last year the "report-back" Cabinet was held before the Party Conference. There are clear advantages in this, eg much of the preparatory work for Star Chamber can be done in the Conference week, though it would be important to impress upon colleagues, as was done successfully last year, that they should not use the Conference to conduct the Survey in public. I very much hope to have made sufficient progress in the bilaterals to allow a discussion at Cabinet on 3 October but if progress with colleagues continues to be slow I may have to request a postponement until 17 October. This would push the Autumn Statement back from 12 to 26 November, leaving very little margin for further slippage.

for JOHN MacGREGOR

ANNEX A

SECRET

[mark2-live]

[DATE:24 /09/85]

COMPOSITE SCORECARD: £million

EX

ac1
ac2
ac3

| | 1986-87 Baseline | 1986-87 1SY | 1986-87 FORECAST | 1986-87 DEPT | 1987-88 Baseline | 1987-88 1SY | 1987-88 FORECAST | 1987-88 DEPT | 1988-89 Baseline | 1988-89 1SY | 1988-89 FORECAST | 1988-89 DEPT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 | 999,999 | 999999 | 99999 | 999999 |
| Survey baseline and proposed changes | | | | | | | | | | | | |
| MOD | 18,558 | -198 | 0 | 424 | 18,861 | -402 | 0 | 593 | 19,033 | -396 | 204 | 909 |
| FCO-ODA | 1,296 | -20 | 13 | 80 | 1,317 | -20 | 24 | 124 | 1,350 | -20 | 33 | 155 |
| FCO-OTHER | 603 | 36 | 36 | 36 | 619 | 39 | 39 | 43 | 635 | 57 | 57 | 61 |
| EC | 640 | 10 | 10 | 10 | 830 | 320 | 320 | 320 | 850 | 100 | 100 | 100 |
| IBAP/AFF CAP | 1,277 | -40 | 339 | 359 | 1,304 | -40 | 347 | 367 | 1,337 | -40 | 348 | 368 |
| AFF domestic | 713 | -10 | 0 | 25 | 699 | -10 | 0 | 24 | 717 | -10 | 0 | 26 |
| FORESTRY | 53 | -2 | 0 | 2 | 54 | -2 | 0 | 2 | 56 | -3 | 0 | 2 |
| TRADE/INDUSTRY | 1,162 | -77 | 10 | 11 | 980 | -128 | 10 | 58 | 1,004 | -189 | -10 | 82 |
| LCGD | 78 | 207 | 207 | 207 | -43 | 219 | 220 | 220 | -44 | 126 | 132 | 132 |
| ENERGY | 294 | 19 | 25 | 27 | 293 | 10 | 20 | 26 | 300 | 5 | 22 | 29 |
| EMPLOYMENT (excl SEMPs) | 3,704 | -175 | -75 | 88 | 3,901 | -354 | -35 | 107 | 3,999 | -372 | 30 | 196 |
| TRANSPORT | 1,955 | 25 | 25 | 25 | 1,995 | 34 | 34 | 34 | 2,045 | 79 | 53 | 53 |
| DOE-HOUSING | 2,424 | -81 | 243 | 744 | 2,526 | -312 | 257 | 1058 | 2,589 | -418 | 156 | 957 |
| DOE-PSA | -120 | 0 | 5 | 24 | -128 | 0 | 0 | 24 | -131 | 0 | 0 | 34 |
| DOE-OTHER | 848 | -110 | -15 | 135 | 860 | -99 | 0 | 130 | 882 | -101 | 0 | 128 |
| HOME OFFICE | 1,061 | -40 | 25 | 76 | 1,104 | -68 | 25 | 66 | 1,131 | -63 | 25 | 83 |
| LCD | 574 | -103 | 24 | 52 | 610 | -155 | 40 | 69 | 625 | -214 | 33 | 99 |
| DES | 3,418 | -29 | 35 | 125 | 3,505 | -41 | 35 | 137 | 3,593 | -66 | 24 | 153 |
| OAL | 333 | -11 | 10 | 24 | 342 | -8 | 10 | 34 | 350 | -9 | 10 | 46 |
| HEALTH & PSS | 14,945 | -24 | 250 | 460 | 15,622 | -20 | 300 | 534 | 16,012 | -18 | 600 | 941 |
| SOCIAL SEC. | 41,547 | -590 | 1300 | 1303 | 43,653 | -1011 | 1250 | 1350 | 44,642 | -1449 | 1200 | 1422 |
| CIVIL SUPER. | 1,114 | -20 | 65 | 85 | 1,226 | 0 | 86 | 86 | 1,257 | 0 | 147 | 147 |
| SCOTLAND | 4,300 | -98 | 7 | 13 | 4,373 | -143 | 12 | 23 | 4,482 | -223 | -18 | -3 |
| WALES | 1,708 | -2 | 1 | 3 | 1,735 | -4 | 0 | 4 | 1,779 | -8 | -4 | 1 |
| N. IRELAND | 4,464 | 27 | 52 | 55 | 4,603 | 26 | 76 | 78 | 4,717 | 30 | 105 | 105 |
| £100m Territorial conseq. | 0 | -120 | 120 | 340 | 0 | -200 | 140 | 440 | 0 | -210 | 220 | 560 |
| CHANCELLOR'S DEPT | 1,825 | -5 | 170 | 188 | 1,842 | -5 | 170 | 185 | 1,888 | -15 | 150 | 165 |
| OTHER DEPTS | 366 | -13 | 50 | 66 | 396 | -14 | 43 | 63 | 406 | -16 | 47 | 67 |
| LA REL CUR(UK)(ELA) | 26,032 | 601 | 601 | 601 | 26,301 | 604 | 761 | 761 | 26,959 | 242 | 363 | 363 |
| teachers pay | 0 | 228 | 228 | 228 | 0 | 300 | 300 | 300 | 0 | 400 | 400 | 400 |
| NAT IND : IFR | | | | | | | | | | | | |
| EFLs coal | 382 | 408 | 458 | 508 | 392 | 233 | 283 | 333 | 402 | 97 | 147 | 198 |
| non coal | 171 | -156 | -49 | 377 | -207 | -536 | -315 | 79 | -210 | -504 | -295 | 362 |
| RMPS & SRPS(1) | 309 | 194 | 194 | 194 | 318 | -41 | -41 | -41 | 326 | -50 | -50 | -50 |
| BGC,BAA,NBC | -470 | 180 | 270 | 270 | -390 | 390 | 390 | 390 | -400 | 400 | 400 | 400 |
| SPECIAL SALES OF ASSETS | -2,250 | -2250 | -2250 | -2250 | -2,250 | -1250 | -1250 | -1250 | -2,250 | -1250 | -1250 | -1250 |
| RESERVE | 6,000 | -1000 | -1000 | -1000 | 7,000 | -1000 | -1000 | -1000 | 7,000 | 0 | 0 | 0 |
| 3 per cent increase in 1988-89 total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,127 | -1127 | -1127 | -1127 |
| less double counting(2) | -252 | 0 | 0 | 0 | -249 | 0 | 0 | 0 | -258 | 0 | 0 | 0 |
| TOTALS | 139,062 | -3239 | 1384 | 3915 | 143,894 | -3688 | 2551 | 5771 | 148,200 | -5235 | 2252 | 6314 |

jc4

ex
zv

(1) The RMPS and SRPS are considered in the IFR.

(2) DAFS and WOAD baselines £251m, £253m and £260m are included in IBAP/AFF dom. and in Scotland/Wales. Rounding discrepancies of +£1m, +£4m and +£2m are also rectified here.

ex

jc5
++
jc6/

jc7/

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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John R R MacGregor Esq MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

11 September 1985

Dear Chief Secretary,

DRIVING EXAMINERS

with MEA TON?

Thank you for your letter of 10 September.

I must come back on it quickly and repeat my clear understanding that Ministers had decided that the emphasis of control over running costs should in future be on a net basis in the special circumstances of the demand-led, fee-earning activities which do not add to public expenditure. The case for the driver testing organisation to be put on a net basis of control has been clearly established. I am in no doubt that the nature of the discussions under the Prime Minister on 11 June and 23 July went beyond the terms you suggest. There was undoubtedly agreement at the E(A) meeting on 23 July that the main focus should be net costs of Government activities rather than on manpower as such. This is stated explicitly in the Prime Minister's summing up. In order to avoid later misunderstandings I specifically asked Nigel Lawson whether gross manning cost controls would be applied in such areas, and he assured me that they would not be. The fee-earning areas generally are the clearest possible case for the application of this principle. I do not accept the gloss that you put on the E(A) minutes as still requiring gross running cost controls for these services.

To repeat the main points: there are no public expenditure implications and there is a political reality of frustrated public demand. In a field such as driving testing this could quite easily cause rapidly increasing criticism which could discredit our overall approach to efficiency and cost saving in the civil service: I yield to no one in my own commitment to this.

I entirely accept the need to promote efficiency where the Government is a monopoly supplier. This consideration was central to the proposals I put to Peter Rees. It would not be served by an inappropriate gross cost regime, which limits our ability to provide the public with a service for which they are prepared to pay and can distort management priorities. The right instrument of control as I have contended is unit cost and performance targeting.

I trust therefore that tomorrow at our PES bilateral discussion we can agree in principle on my approach and instruct our officials to develop the proposals for the 'L' test area for introduction on 1 April 1986. I am of course quite prepared to discuss on merits my Department's manpower and running cost requirements for other services, but I cannot accept your presumption that increases in the fee earning areas must be met by offsetting savings elsewhere. That is quite contrary to what has already been agreed.

I am copying this to the Prime Minister and to the Chancellor of the Exchequer.

Yours sincerely,

Richard Allan

(Private Secretary)

for NICHOLAS RIDLEY

(approved by the Secretary of State + signed in his absence).

11.IX. PM 85

11.IX. PM 85

blind copy: Sir R Armstrong
Mr Wiggins

CONFIDENTIAL

P 01648

From: J B UNWIN
4 September 1985

LORD PRESIDENT

pa

1985 PUBLIC EXPENDITURE EXERCISE

Following the Ministerial changes, I have had a word with the Treasury about the outlook for the 1985 public expenditure exercise and thought it might be helpful to let you know the outcome.

Timetable

2. After preliminary discussion with Mr MacGregor the Treasury are still aiming to keep to the kind of timetable we had in mind before the recess. This is broadly as follows:-

| | | |
|---|---|---|
| 9 September | : | Treasury/Spending Department bilaterals start. |
| 3 October | : | Cabinet discuss Chief Secretary's report on the bilaterals. |
| 14 to 28 October | : | meetings of Star Chamber. |
| 28 October to 1 November | : | Consultation with the Prime Minister and preparation of Star Chamber report. |
| 7 November | : | Cabinet discussion and decisions |
| 12 November | : | Decisions announced in Autumn Statement. |

3. This is pretty tight, but manageable. The most likely slippage is, I think, the report back to Cabinet on 3 October after the bilaterals. If this date is missed, the next regular date after the Party Conference is 17 October. This would, of course, delay the Star Chamber process and almost certainly rule out 12 November for the Autumn Statement. I know that the Chancellor wants to keep aiming at that date, but would not in practice be too distressed if it had to be postponed until the end of November.

Composition of Star Chamber

4. We discussed this before the recess, and the recent changes do not make a great deal of difference. It would, however, be possible to include Mr Tebbit in the team as

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a non-departmental Minister and still to co-opt Mr Brittan with his new responsibiliti on a personal basis. I do not think there are likely to be any major expenditure disputes between the Treasury and DTI. On this basis, you might like to think in due course of a team, under yourself, consisting of Messrs Biffen, Tebbit and Wakeham as non-Departmental representatives, together with the Chief Secretary and (as last year) Messrs Brittan and Younger Edwards? on a personal basis. The only difference from last year would be the substitution of Mr Wakeham for the third departmental Minister; but I should not have thought that it would be appropriate this year to co-opt the new Home Secretary.

5. No decisions are necessary now, but, if you can spare the time, it might be useful for us to have another talk later this month when we see how the bilaterals are shaping up.

J B UNWIN

SECRET

file

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10 DOWNING STREET

*From the Private Secretary*

3 September, 1985

**1985 SURVEY: SCOTLAND AND NORTHERN IRELAND**

The Prime Minister has seen the former Chief Secretary's minute of 22 August, and has noted his opening position and objective for expenditure in Scotland and Northern Ireland.

(D. Norgrove)

R. Broadbent, Esq.,
HM Treasury.

SECRET

CST

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PRIME MINISTER

1985 SURVEY: SCOTLAND AND NORTHERN IRELAND

I am sorry to have to come back to you on this. Further discussion with the Treasury has shown that neither I nor the Policy Unit took fully on board the implications of the Chief Secretary's minute. (The Treasury think it most unlikely that the new Chief Secretary will want to change his predecessor's position on this.)

The proposed cuts set out in the first sentence of paragraph 8 would in the Treasury's mind be largely offset by increases later through the operation of the formula. This is the Treasury's starting point.

But the Treasury also say that to apply the formula to the bids they think they will have to concede would imply cash cuts on the figures in that first sentence, if they got them.

The Treasury aim to finish at a position where there are no increases but no cash cuts, i.e. the result in effect of suspending the formula.

In practice there is a reasonable chance that the Treasury will be pushed quite quickly to their final position. But before that - and even after it - Mr. Younger and Mr. King may feel inclined to appeal direct to you against the Treasury. The Treasury have explained their position to you because they see it as tough, and want to make sure you are not alarmed by it.

The Treasury proposal is a way forward to holding down spending in Scotland and Northern Ireland, without at the end of the day cutting their cash provision.

You may have already taken this on board. But I wanted to make sure that you are content for the Treasury to proceed in this way.

Agree to note the Chief Secretary's opening position and objective?

Yes - it will give trouble but we must try.

MT

DN

DAVID NORGROVE

2 September 1985

EL3AMP

8/1212

CONFIDENTIAL

FROM: T J SUTTON
29 August 1985

cc PPS
PS/FST
PS/EST
PS/MST
Sir P Middleton
Mr Bailey
Mr Anson o/r
Mr Gilmore
Mr Scholar o/r
Mr Wicks
Mr C Allan
Mr Gray
Mr Norton
Mr Perfect
Mr Scott
Mr Cropper
Mr Lord

1. MR REVOLTA
2. CHIEF SECRETARY

I agree. I think that it is helpful to your tactics for this bilateral to make a tough reply.
DWR 30/8

will request if req.

**PES 1985: HOME OFFICE ADDITIONAL BIDS**

The Home Secretary's letter of 15 August asks you to accept additional bids of +£9.3m, +£4.3m and +£4.3m for the three Survey years because of the rise in the prison population. Some elements of the bids are a straightforward consequential for Survey years of the conversion this year of RAF Lindholme for use as a prison for 600 inmates which was recently agreed (Economic Secretary's letter of 2 August) at a potential maximum cost to the Reserve this year of £17.5m. It would be illogical not to accept these elements as additional bids to be discussed in the bilateral. The other elements relate to further development of Lindholme and other demand-led costs of the prison service. Accepting these as bids would cut across your strategy for the bilateral; we recommend that you reject them but keep them in reserve as a useful card to play during PES discussions.

## Background

2. The prison population has grown faster than anticipated. At over 48,000 it is around 3,500 above Home Office expectations and 8,500 over the numbers that the system can accommodate. Your bidding letter proposes a radical review of options for reducing the prison population. The proposal to convert the former RAF station at Lindholme near Doncaster for use as a prison was agreed provided it replaced one of the prisons already in the building programme. The Home Secretary did not accept this but deferred further discussion to the bilateral, where one of your options for reduction is a one-year moratorium on major new projects while we take stock of the scope for policy changes that might make those prisons unnecessary.

3. The Lindholme proposal was accepted primarily for tactical reasons: an outright refusal (which we judged would not have secured Prime Ministerial support) followed by a forced compromise would have seriously undermined the PES strategy in which additional bids of over £100m are at stake. A further consideration was that it opens the way for replacing a new prison not yet started (average cost £25-30m) with a half-price prison. Lindholme will be converted to standards making it acceptable as a permanent addition to the prison estate; it is not a temporary expedient.

Late bids consequential on Lindholme

4. Lindholme also required a net increase in prison service complement of 200. These staff are being found from those the Home Office had budgeted to recruit gradually during 1986-87 as part of an attempt to cut overtime in the prison service. In practice, baseline costings assume half the full year cost of the staff recruited in that year. As the staff for Lindholme will be in place from the beginning of the year, the agreement already given on Lindholme entails extra costs for 1986-87 to cover the other half of the full year cost of those staff (£2.1m) - hence the reference to half-year cost in the Annex to the Home Secretary's letter. It would be illogical having agreed Lindholme for this year not to accept for discussion this element of the additional bid for next year, and we recommend that you accept it. Accepting the late bid for discussion does not of course mean agreeing that you will concede it at the bilateral.

Remainder of late bids

5. The Prison Service have reinspected the RAF camp more carefully and now judge that it can accommodate 750 inmates not 600 at no increased capital cost, but requiring a further 30 prison officers. Taken in the same way from the Prison Service's 'budget' of staff to be recruited to reduce overtime, the additional cost for 1986-87 is £0.3m. This is a small sum for which it should be easy to find offsetting savings but which would equally be conceded at the bilateral without much difficulty. It also stands up well on merits: allowing Lindholme to take an extra 150 places represents a more cost effective use of the capital expenditure recently agreed.

6. Admitting ~~the~~ this particular late bid now would however weaken the stance you have taken for the bilateral, which is to demand a moratorium on new prison building while alternatives are reviewed. You can legitimately stick on the agreement to 600 places at Lindholme. This was the most the Home Secretary felt it

appropriate to request by way of emergency additional places only one month ago; things can hardly have changed that dramatically since. The intrinsic merit of this bid for £0.3m ~~pushes~~ makes it ~~on~~ a useful bargaining counter for bilateral discussion, either as an acceptable substitute for another bid the Home Secretary presses you to concede (few if any bids could match 150 prison places at £2,000 each for value for money), or even as an outright concession if tactics suggest this is appropriate. Accordingly, we recommend that you refuse to accept the bid for discussion, but be prepared to concede it in the bilateral.

7. Most of the rest of the bid relates to the costs of "Lindholme Phase II". The capital cost of converting extra accommodation on the site to provide a further 250 places is £4m in 1986-87 and the cost of the extra 95 staff this would require is £0.8m, £2.1m, £2.1m for the three Survey years. As with the bid for 30 staff first discussed we judge that accepting these elements of the bids would cut across the PES strategy.

8. It is highly probable that Lindholme Phase II will be the cheapest way (short of measures such as doubling-up in cells unacceptable in the context of the commitment to end overcrowding) of providing an extra 250 places. But this makes it a worthwhile bargaining counter during PES discussions. Its worth will be the greater if you have not accepted the bid; it can then be accepted as an alternative to continuing part of the building programme without interruption, as the Home Secretary has indicated in this letter he is likely to insist. We therefore recommend that you refuse to accept these elements of the late bids.

9. The final element of the late bids ("Other" in the Annex) represents a 9% increase in those items of prison expenditure which respond directly to increases or decreases in the prison population (victualling, medical services, prisoners' mail and earnings, discharge grants, etc). The increase sought reflects the amount by which the population has grown ahead of Home Office projections. As it relates to future years rather than the current year, it too falls within the scope of the PES strategy of cutting these costs by cutting the number of prisoners. Accepting these bids would therefore cut across your strategy in just the same way as would accepting the Lindholme II bids, and we recommend that you refuse to accept them.

Conclusion

10. We recommend that:

(i) you accept the ~~elements~~ of the late bids that flow directly from the Lindholme proposals previously agreed (£2.1m in 1986-87);

(ii) but that you refuse to accept all the remaining late bids, leaving the Home Secretary to press the case for them at the bilateral, when agreeing to take them onto the table can be fitted into the negotiating strategy as it emerges.

11. A draft reply on these lines is attached.

T J SUTTON

CONFIDENTIAL

DRAFT LETTER FROM CHIEF SECRETARY TO
HOME SECRETARY

PES 1985: HOME OFFICE

In your letter of 15 August you propose substantial late additional bids for this year's PES round. It may be helpful if I let you know in advance of our bilateral discussions my reaction to these.

2. Ian Stewart's letter of 2 August conveyed our agreement to the conversion of RAF Lindholme into a prison of 600 inmate places subject to several provisions, one of which was that the net increase in your manpower ceiling needed to staff it was regarded as anticipating recruitment already allowed for in the PES baseline. I understand that the cost over existing provision

£2.1m

for 1986-87 of these staff is £2.1m, and as this is a direct consequence of the Lindholme project in the form already agreed, I am prepared despite the lateness of the bid, to agree that it should also be on the table at the bilateral.

3. However I cannot say the same for the other elements of the bids you put forward. I find it hard to believe that events can have moved on rapidly enough in the last month to justify 400 places more than you felt it appropriate to seek provision for in your letter of 29 July. In any case, as you acknowledge, these late bids and those for the other items of prisons expenditure which rise or fall as a direct consequence of changes in the prison population cut across the proposals in my bidding letter. I have proposed a set of options for reductions and a stock-taking of our policy in the light of the increase in the prison population. Our officials are preparing a paper about ways of reducing the population as a basis for our discussions at the bilateral. It would be premature for me to accept now bids which are based on the assumption that no alternative ways of alleviating the problems of the prison population will prove possible. Indeed, the fact that you now see a need for the staff for a further 150 places, and a second ~~place~~ phase of development at

Lindholme serves to underline the importance of a consideration of alternatives to the provision of ever-increasing numbers of prison places.

4. I am therefore unable to accept as bids for discussion any of your proposals beyond the £2.1m for 1986-87 which is a direct consequence of staffing Lindholme to provide the 600 extra places we have so recently agreed. I must also make quite clear that my accepting that the extra £2.1m can be included in our discussions implies no readiness to provide additional resources to meet the bid. Rather I shall expect us to pay proportionately more attention to the substantial offsetting savings which I have already indicated I shall be looking to you to find.

5. I am copying this letter to George Younger.

PRIME MINISTER

(1) 11

## 1985 SURVEY: SCOTLAND AND NORTHERN IRELAND

The Chief Secretary's minute of 22 August gives you the opportunity to veto now the starting position he has taken on Scotland and Northern Ireland. (It seems unlikely that any new Chief Secretary - if there is to be one - would want to change his predecessor's position.)

Last year, the Treasury proposed a "needs assessment study" to prove that Scotland and Northern Ireland were getting more than their fair share of public expenditure. You rejected that approach, because it offered the prospect of an almighty row, without immediate savings.

The Treasury are not proposing studies this time. Instead, they propose suspending the block formula. What this means is that Scottish expenditure next year would be held at the level already fixed in the White Paper for 1986 and 1987. We would be applying direct to Scotland and Northern Ireland the Cabinet decision to hold the base line overall. The Treasury expect to have to concede some additional bids in England but there would be no consequential increases in the Scottish allocation. The cash plans for Scotland would not be cut; they would simply not be increased.

This would still lead to a row. But doing nothing also has costs: the Chancellor would have to go for possibly more unpalatable options in other areas of expenditure.

The Policy Unit support the Treasury proposal as modest but ingenious.

Do you agree that the discussion may start in the terms the Chief Secretary has proposed to Mr. Younger and Mr. Hurd?

DBN

Yes mt

DAVID NORGROVE

28 August 1985

VC3AGT

cc DW

10A

FROM: CHIEF SECRETARY
DATE: 22 August 1985

PRIME MINISTER

1985 SURVEY : SCOTLAND AND NORTHERN IRELAND (NI)

I have been considering what could be done in the current Survey to tackle over-provision in the Scottish and Northern Ireland blocks.

2. You will recall that I last year identified, on the strength of internal work in the Treasury, over-provision roughly of the order of £900m in the Scottish block, and of £200m in the NI block. (I discounted a further £200m of over-provision in Northern Ireland, attributable to law and order.) The decision reached was that I should pursue only "invisible" savings on the Scottish block: these have so far yielded savings of £5-20m pa, with something similar in prospect this year.

3. Potentially, though, Scotland and NI have an important contribution to make to solving our wider problem on public expenditure. The inequity of Scottish over-provision in particular is attracting growing notice: Keith Joseph drew attention to its consequences for education at the Chequers Cabinet, and there has been critical comment in both Parliament and the press.

4. George Younger has never denied that over-provision exists. You were yourself, I know, struck by the ease with which he found offsets from his block for rates relief this spring; he has now told us that he is ready to do so again in future. This seems to me to undermine his earlier claim that the political and presentational problems of restraining his block totals were insuperable.

5. NI for its part now has the prospect of additional US funds as an "extra" to the deal we are negotiating with the Irish Republic, on top of the over-provision that already exists.

6. In all this we have to bear in mind that over-provision, in both territories, is enshrined in a purely automatic block budgeting system, involving no Treasury scrutiny whatever, which we inherited from the Labour Administration. Even our predecessors never saw it as any more than a stopgap arrangement on the road to political devolution, certainly not as the permanency it has now become. Be that as it may, the block system is now publicly construed, in the territories, as a political entitlement to public expenditure. The longer we let it run, the harder it becomes to challenge that perception, and the greater the risk of political repercussion when we do.

7. In the context of this year's difficult Survey I concluded that I could not disregard the possibility of savings from this quarter. I therefore wrote to George Younger and Douglas Hurd asking for reductions in the Scottish and Northern Irish provision for all years of the Survey. I thought however it might be helpful if I told you, before the bilateral discussions begin in September, how I intend to tackle the problem.

8. I have asked initially for reductions in the three Survey years, of £100m, £150m and £200m for Scotland, and £25m, £50m and £75m for NI. The outcome I am aiming for, which I think has some presentational advantage, is to secure reductions equivalent in effect to suspending the operation of the formula on block programmes(other than local authority current - this is explained in more detail in Annex A). Our best estimate is that this would mean asking for something of the order of £100m a year from the two territories together. The key presentational advantage is that while this would mean denying the Scottish and NI programmes the increases implied by the operation of the formula there would not be cash cuts in the block.

9. Inevitably, George Younger and Douglas Hurd will be concerned about my proposals and are likely to oppose them strongly. I thought I should therefore let you know how I am proceeding before the September bilaterals. I would of course be very ready to discuss if you wish.

10. As background, Annex B sets out some examples you have seen before of high standards of provision in Scotland and NI; and Annex C reminds you of the relatively prosperous state of the Scottish economy.

JB

fn PETER REES

[Approved by the Chief Secretary]

ANNEX A

1985 SURVEY : SCOTLAND AND NORTHERN IRELAND

The "fallback" approach to securing savings is to suspend the operation of the comparability formulae for the Scottish and Northern Ireland blocks - though not for Wales, where over-provision is not suspected. An explanation follows.

## The block system

2. The arrangements for determining territorial block provision are entirely automatic. They are designed to ensure that block programmes overall move broadly in line with comparable English programmes - although on the basis of an overall allocation of national resources which in general allows the territories a higher per capita level of spending, in recognition of their special needs.

3. Baseline provision is fixed as for the rest of public expenditure, ie provision for the new final year in each Survey is constructed by applying the normal uplift factor to the previous year's provision.

4. Marginal changes to the territorial blocks, up and down, are fixed by a population-based formula, as an automatic consequence of changes to comparable English programmes. For Scotland, the formula is 10/85, and for Wales 5/85; for NI, it is 2.75% of the resulting GB figure.

5. Within the block totals so determined, each territorial Secretary of State has a wide measure of discretion as to how he allocates resources to meet local needs.

## Suspending the formulae

6. Thus in a Survey such as 1985 where net additions are expected to comparable English programmes, suspending the formulae has the same effect as applying cuts to territorial block provision. It is proposed to exclude from this process

that half of the blocks which corresponds (in Scotland anyway) to local authority current expenditure.

7. A very rough prediction of what such savings in 1985 might amount to, based on a best guess of the outcome of the Survey for English programmes, is as follows:

| | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| | | | £m |
| Scotland | 70 | 70 | 90 |
| Northern Ireland | 20 | 20 | 30 |

Presentational advantages

8. This approach - suspending the formulae - has modest presentational advantages over the alternative method of cutting baselines. Increases foregone sound better than cuts. And the basis for the extent of the savings achieved can be explained publicly.

ANNEX B

## EXAMPLES OF HIGH STANDARDS OF PROVISION - SCOTLAND

| | Scotland | England |
|---|---|---|
| **Health:** | | |
| NHS spends: | £5 per head | £4 per head |
| Hospital beds per 1,000 people | 11.3 | 7.5 |
| General practitioners per 1,000 people | 6.6 | 5.3 |
| **Education:** | | |
| Pupil/teacher ratio | 17.3 (excluding Highlands & Islands) | 18.5 |
| Teacher training | Surplus capacity | |
| **Roads:** | | |
| Schemes with negative NPV | 28% | 14% |
| Urban motorways | Glasgow said to have highest per capita mileage in Europe | |
| **Housing:** | | |
| Dwellings lacking basic amenities | 2.8% | 5% |
| Dwellings statutorily unfit | 4.5% | 5% |
| Average weekly rents | £9.84 | £14.05 |

Continued/

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EXAMPLES OF HIGH STANDARDS OF PROVISION - NORTHERN IRELAND

| | NI | England |
|---|---|---|
| **Health:** | | |
| Hospital beds per 1000 people | 10.9 | 7.5 |
| General practitioners per 1000 people | 5.7 | 5.3 |
| Staff in health authorities relative to population | 35% above England | |
| Home helps per 1000 people over 65 | 19.4 (expenditure having risen by 91% in 5 years) | 6.5 (GB) |
| **Housing:** | | |
| Age of stock | Half is either less than 10 years old, or has been improved in last 10 years | |
| Crude surplus of dwellings over households | 12.3% (highest in UK) | 8.7% |
| Proportion of households in private rented accommodation (usually worst maintained) | 8% (lowest in UK) | 12% |

ANNEX C

# SCOTTISH ECONOMY

Blessed by oil, and excessive public expenditure (£2054 per capita on the latest figures; national average, £1706), Scotland's position has over a decade improved markedly reltive to the rest of the UK. On GDP per capita it now, at 96% of the national average, ranks behind only the SE and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95% of the national average, and on average earnings for male manuals 2% above the national average. On seasonally adjusted unemployment it has, at 14.7%, narrowed the gap with the UK average at 13%.

2. There is optimism in the manufacturing sector with end-1984 output up 6% on a year earlier, employment up, and orders (especially for export) increasing. Manufacturing productivity has risen above the trend of the UK as a whole, while pay settlements have kept in line, so competitiveness relative to the rest of the UK is strong. Prospects for electronics (where Scotland has been notably successful in attracting new firms) are said to be bright. There is also an upturn in oil-related work, which now (directly or indirectly) employs about 100,000. The number of new businesses is increasing. Outside manufacturing, there is buoyancy in distribution, particularly retailing, and strong growth in lending by the financial sector, although construction remains depressed.

3. Scotland's industrial structure is no longer a handicap, and now more closely resembles the national average. Its manufacturing sector now accounts for only some 25% of all employment, although Scotland still has an above average share of employment in the declining industries of textiles, clothing, and shipbuilding. Service employment accounts for 63%, but the earlier, unhealthily fast growth in public sector employment has slowed.

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02. VIII PM

MWBPM

AT 31/7

PRIME MINISTER 29 July 1985

EXPENDITURE ON SCOTLAND AND NORTHERN IRELAND

Scotland and Northern Ireland have their snouts well and truly in the public expenditure trough. The challenge is to find a politically acceptable way of putting them on the same diet as the English.

Last year, the Treasury proposed a "Needs Assessment Study" to prove that Scotland and Northern Ireland were getting more than their fair share. You rightly rejected that approach. It offered the worst of all possible worlds - an almighty row in Scotland, without any prospect of immediate savings. The Treasury have learnt their lesson. They aren't advocating more fancy studies - the figures we already have in the paper show clearly how well Scotland and Northern Ireland are doing. What we need to do is to hold expenditure in 1986-87 and beyond in a way that is politically defensible.

The Treasury propose suspending the block formula. What this means is that Scottish expenditure next year will be held at the level already fixed in the White Paper for 1986-87. We would be applying direct to Scotland the Cabinet decision to hold the baseline overall. The Treasury expect to have to concede some additional bids for health, roads etc in England, but there will be no consequential increases in the Scottish allocation. They estimate this may save around £90 million in 1986-87 and 1987-88, and £120 million in 1988-89. If applied to local authority current expenditure as well, it could save even more in the later years.

You may wish to discuss the politics of all this with the Chancellor at your meeting on Wednesday. There obviously will be a row. But not doing anything also has costs:

- the Chancellor will have to go for even more unpalatable options in other areas of expenditure;

- the growing resentment in the North East at the high levels of provision across the border will increase.

Under the guise of appearing to resist devolution, George Younger is in practice delivering it - your economic policies stop at the border. The Scottish opinion polls don't suggest that the Government is getting any credit for this high spending. So we support the Treasury's modest but ingenious attempt to restore the balance.

David Willetts

DAVID WILLETTS

SECRET

NBPM AT 31/7 cc DW cc Armes Dr's to TF

10

FROM: CHIEF SECRETARY
DATE: 26 July 1985

Note CST decided not to trouble the Prime Minister with this issue. He will send out bidding letter on his own authority. AT 31/7

PRIME MINISTER

1985 SURVEY : SCOTLAND AND NORTHERN IRELAND (NI)

I have been considering what could be done in the current Survey to tackle over-provision in the Scottish and Northern Ireland blocks.

2. You will recall that I last year identified, on the strength of internal work in the Treasury, over-provision roughly of the order of £900m in the Scottish block, and of £200m in the NI block. (I discounted a further £200m of over-provision in Northern Ireland, attributable to law and order.) The decision reached was that I should pursue only "invisible" savings on the Scottish block: these have so far yielded savings of £5-20m pa, with something similar in prospect this year.

3. Potentially, though, Scotland and NI have an important contribution to make to solving our wider problem on public expenditure. The inequity of Scottish over-provision in particular is attracting growing notice: Keith Joseph drew attention to its consequences for education at the Chequers Cabinet, and there has been critical comment in both Parliament and the press.

4. George Younger has never denied that over-provision exists. You were yourself, I know, struck by the ease with which he found offsets from his block for rates relief this spring; he has now told us that he is ready to do so again in future. This seems to me to undermine his earlier claim that the political and presentational problems of restraining his block totals were insuperable.

SECRET

5. NI for its part now has the prospect of additional US funds as an "extra" to the deal we are negotiating with the Irish Republic, on top of the over-provision that already exists.

6. In all this we have to bear in mind that over-provision, in both territories, is enshrined in a purely automatic block budgeting system, involving no Treasury scrutiny whatever, which we inherited from the Labour Administration. Even our predecessors never saw it as any more than a stopgap arrangement on the road to political devolution, certainly not as the permanency it has now become. Be that as it may, the block system is now publicly construed, in the territories, as a political entitlement to public expenditure. You will see that the longer we let it run, the harder it becomes to challenge that perception, and the greater the risk of political repercussion when we do. As time has moved on since we last discussed this, I wonder if we cannot now grasp this nettle of visible savings?

7. The way I would propose to tackle the problem, this year, is by asking for reductions in the Scottish and Northern Irish provision for all years of the Survey. My general argument would be that the Treasury has, to its own satisfaction, demonstrated that over-provision exists, and that it is for the Secretaries of State to prove that we are wrong. I would attempt to forestall political objections by deploying the arguments above.

8. I would propose to open the bidding with reductions in the three Survey years, of £100m, £150m and £200m for Scotland, and £25m, £50m and £75m for NI. The outcome I would be aiming for, which has the greatest presentational advantages, would be to secure reductions equivalent in effect to suspending the operation of the formula on block programmes(other than local authority current - this is explained in more detail in Annex A). Our best estimate is that this would mean asking for something of the order of £100m a year from the two territories together. The key presentational advantage is that while this would mean denying the Scottish and NI programmes the <u>increases</u> implied by the operation of

the formula , there would not be cash <u>cuts</u> in the block.

9. As soon as I send bidding letters in these terms, I would expect fierce opposition from the two Secretaries of State. I thought I should therefore let you know how I intend to proceed before embarking on this. I would of course be very ready to discuss if you wish.

10. As background, Annex B reminds you of some examples you have seen before of high standards of provision in Scotland and NI; and Annex C reminds you of the relatively prosperous state of the Scottish economy.

PR

PETER REES

ANNEX A

SURVEY : SCOTLAND AND NORTHERN IRELAND

fallback" approach to securing savings is to <u>suspend</u> <u>peration of the comparability formulae</u> for the Scottish orthern Ireland blocks - though not for Wales, where rovision is not suspected. An explanation follows.

<u>ock system</u>

he arrangements for determining territorial block sion are entirely automatic. They are designed to that block programmes overall move broadly in line comparable English programmes - although on the basis overall allocation of national resources which in l allows the territories a higher per capita level nding, in recognition of their special needs.

aseline provision is fixed as for the rest of public iture, ie provision for the new final year in each is constructed by applying the normal uplift factor previous year's provision.

arginal changes to the territorial blocks, up and are fixed by a population-based formula, as an tic consequence of changes to comparable English mmes. For Scotland, the formula is 10/85, and for 5/85; for NI, it is 2.75% of the resulting GB figure.

thin the block totals so determined, each territorial ary of State has a wide measure of discretion as he allocates resources to meet local needs.

<u>ding the formulae</u>

us in a Survey such as 1985 where net additions are ed to comparable English programmes, suspending the ae has the same effect as applying cuts to territorial provision. It is proposed to exclude from this process that half of the blocks which corresponds (in Scotland anyway) to local authority current expenditure.

7. A very rough prediction of what such savings in 1985 might amount to, based on a best guess of the outcome of the Survey for English programmes, is as follows:

£m

| | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| Scotland | 70 | 70 | 90 |
| Northern Ireland | 20 | 20 | 30 |

Presentational advantages

8. This approach - suspending the formulae - has modest presentational advantages over the alternative method of cutting baselines. Increases foregone sound better than cuts. And the basis for the extent of the savings achieved can be explained publicly.

ANNEX B

## EXAMPLES OF HIGH STANDARDS OF PROVISION - SCOTLAND

| | Scotland | England |
|---|---|---|
| **Health:** | | |
| NHS spends: | £5 per head | £4 per head |
| Hospital beds per 1,000 people | 11.3 | 7.5 |
| General practitioners per 1,000 people | 6.6 | 5.3 |
| **Education:** | | |
| Pupil/teacher ratio | 17.3 (excluding Highlands & Islands) | 18.5 |
| Teacher training | Surplus capacity | |
| **Roads:** | | |
| Schemes with negative NPV | 28% | 14% |
| Urban motorways | Glasgow said to have highest per capita mileage in Europe | |
| **Housing:** | | |
| Dwellings lacking basic amenities | 2.8% | 5% |
| Dwellings statutorily unfit | 4.5% | 5% |
| Average weekly rents | £9.84 | £14.05 |

Continued/

## EXAMPLES OF HIGH STANDARDS OF PROVISION - NORTHERN IRELAND

| | NI | England |
|---|---|---|
| **Health:** | | |
| Hospital beds per 1000 people | 10.9 | 7.5 |
| General practitioners per 1000 people | 5.7 | 5.3 |
| Staff in health authorities relative to population | 35% above England | |
| Home helps per 1000 people over 65 | 19.4 (expenditure having risen by 91% in 5 years) | 6.5 (GB) |
| **Housing:** | | |
| Age of stock | Half is either less than 10 years old, or has been improved in last 10 years | |
| Crude surplus of dwellings over households | 12.3% (highest in UK) | 8.7% |
| Proportion of households in private rented accommodation (usually worst maintained) | 8% (lowest in UK) | 12% |

ANNEX C

## SCOTTISH ECONOMY

Blessed by oil, and excessive public expenditure (£2054 per capita on the latest figures; national average, £1706), Scotland's position has over a decade improved markedly reltive to the rest of the UK. On GDP per capita it now, at 96% of the national average, ranks behind only the SE and East Anglia of UK economic planning regions; on personal disposable income per capita it scores 95% of the national average, and on average earnings for male manuals 2% above the national average. On seasonally adjusted unemployment it has, at 14.7%, narrowed the gap with the UK average at 13%.

2. There is optimism in the manufacturing sector with end-1984 output up 6% on a year earlier, employment up, and orders (especially for export) increasing. Manufacturing productivity has risen above the trend of the UK as a whole, while pay settlements have kept in line, so competitiveness relative to the rest of the UK is strong. Prospects for electronics (where Scotland has been notably successful in attracting new firms) are said to be bright. There is also an upturn in oil-related work, which now (directly or indirectly) employs about 100,000. The number of new businesses is increasing. Outside manufacturing, there is buoyancy in distribution, particularly retailing, and strong growth in lending by the financial sector, although construction remains depressed.

3. Scotland's industrial structure is no longer a handicap, and now more closely resembles the national average. Its manufacturing sector now accounts for only some 25% of all employment, although Scotland still has an above average share of employment in the declining industries of textiles, clothing, and shipbuilding. Service employment accounts for 63%, but the earlier, unhealthily fast growth in public sector employment has slowed.

Mr Turnbull
Fite

# 10 DOWNING STREET

*From the Press Secretary*

**LORD PRESIDENT**

**PUBLIC EXPENDITURE ROUND**

I promised you a note on the public relations aspects of the PESC exercise which separates expenditure from revenue by several months. This fact carries its own penalty, but we are stuck with it.

This year, there is already a sense around that while the total of £139.1m will be complied with, there will be a certain amount of sleight of hand with the contingency fund and sale of assets to accommodate greater expenditure. The problem here will be to avoid the charge of U-turn and there will be temptations to argue that the Government has gone some way towards critics.

The main liability of course lies in the extent to which Departments leak and rehearse their case and their successes - or the Treasury its case and success - to the public. We cannot control this, but the more a self denying ordinance is observed the better our presentational position. You might find it useful to spread this word around.

The real lesson we learn from last year, however, is the problem of identifying politically sensitive passes which we sold in the course of bilaterals (as distinct from Star Chamber where you are in command). In my view we need to institute a mechanism this year which obliges the Chief Secretary and Departments, jointly, to inform you of any politically sensitive decisions - of the scale, for example, of student grants - which arise from bilaterals.

You cannot be expected to carry the can for decisions reached without your knowledge. The media have very clearly in their minds the bananaskin potential of the public expenditure round, and we need to build in protection for you now.

Bernard

BERNARD INGHAM
19 July 1985

CO


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*From The Secretary of State for Wales*


NDPM
DT 16/7

CC

The Rt Hon Nicholas Edwards MP

16th July 1985

Dear Peter

**1985 PES REPORT: DTI CHAPTER**

will request if req'd.

I have seen a copy of George Younger's letter of 10 July to you protesting at the suggestion in the DTI Chapter of the public Expenditure Survey Report that the off-setting saving preferred by the DTI would be a reduction in regional expenditure, which is described as that Department's area of lowest priority. This appears in paragraph 3 on page 71 of the circulated Report. The paragraph concludes that this would have implications for the territorial departments. That is putting it mildly.

Now that responsibility for RDG in Wales and Scotland has been transferred to the territorial Departments the DTI suggestion can only be taken to apply to regional expenditure within England, of course. Nonetheless, as the text says, if adopted in England it would have implications for Scotland and Wales. At the meeting of the Public Expenditure Survey Committee which considered the final Report text my Principal Finance Officer made clear what my views were likely to be, and registered the claim that the two territorial Secretaries of State should be present or be represented at Norman Tebbit's bilateral with you if this sort of suggestion was to be on the table.

I agree strongly with the points George Younger has made in his letter. They apply equally in the three territories. The political effects in Wales as in Scotland would be most damaging. It is not acceptable for the matter to be discussed between you and Norman alone. I hope therefore that George and I will be invited to any such discussion.

/ I am copying this letter to the Prime Minister, George Younger and other members of E(A).

Yours ever,

Nick

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury

Public Expenditure file

(Please attach a copy of Chancellor's speech)

PERSONAL

FROM: H J DAVIES
DATE: 12 JULY 1985

AT 16/7

SIR T BURNS

cc FST
Mr Cropper
Mr Lord

AF

PUBLIC EXPENDITURE PRESENTATION

You might like to consider the following points in relation to the Chancellor's speech last weekend and the subsequent reaction:

i) It is usually better if policy presentation matches the underlying facts, unless there is a compelling reason to do otherwise.

ii) In the long run a presentation on the lines of the Oxford speech is more likely to capture public support.

iii) If the climate of opinion about the state of public spending can be changed, so that the argument that no further cuts can be made because we have already gone too deep is discredited, the Treasury's chances of success in the public spending round are increased.

iv) If the Treasury never admits that any public spending is worthwhile it is condemned to endless "Treasury defeated" stories. This is not simply a presentational point, since widespread perception that the Treasury is regularly defeated affects market confidence and makes our economic management task more difficult.

v) We were emphatically <u>not</u> trying to take credit for failure, as some have charged. The programmes where we attempted to take credit were ones which the Government has always said it would increase.

vi) If you are going to change presentation at all then you need to do it with a splash. The phrase "the middle way" attracted attention and ensured that the argument was put in the centre of public debate. Without this it would be a long uphill struggle to communicate the truth about our spending record.

vii) In the specific circumstances of last weekend it was better that the Chancellor should have been in the public arena explaining the public expenditure consequences of Brecon and Radnor than some other Ministers one could mention. Had the Treasury been silent the atmosphere could have been much worse this week.

viii)We have given the impression that the Treasury is not afraid to enter public debate, and indeed is still making the running on economic policy and policy presentation.

ix) There has been a resurgence of "Government must cut spending" stories. We have been attempting to inspire these recently to make our control task easier, though without success. We wanted to be in a position to say that there were others, not just the Treasury, arguing for spending controls. Now we can say that again.

2. I would be happy to discuss any of this with you if you wish. Some of the arguments are clearly post hoc rationalisations though some were advanced as we drafted the now infamous release.

HJD

**H J DAVIES**

SECRET

9

PRIME MINISTER

AT 12/7

12 July 1985

PUBLIC SPENDING: HOW TO HOLD THE BASELINE

Cabinet has agreed total public spending of £139 billion for 1986-87. This total already allows for increased spending on programmes financed by increased asset sales and a lower Contingency Reserve. If the Treasury is forced to give any more ground between now and the Autumn Statement, it will jeopardise the scope for tax cuts in the 1986 Budget. Yet the Chancellor's view (rightly) is that his next Budget is the crucial one for achieving tax cuts before the next Election.

How can the Total be Delivered?

The record of past spending rounds is dismal. Each year Ministers fight a war of attrition, using bilaterals as the focus for press leaks and back-bench campaigns. As a result, the underlying totals reached in the Autumn are consistently higher than those agreed at the July Cabinet and have to be generously fudged. Given the mood this year, there is a real risk of further drift.

There are two possible ways of avoiding a repetition of this:

- a tougher régime in bilaterals and Star Chamber; or
- a new shock tactic.

SECRET

Tougher Bilaterals

A problem with the bilaterals is that too much is given away too soon, so that by the time the Star Chamber convenes the baseline is already lost, unless a swingeing cut can be made into a pliant Minister's programme. This year, bilaterals should concede nothing (not even the "irresistible" bids) unless it is clear that the overall baseline will be met. Extra bids need to be matched by reductions elsewhere. If the Star Chamber cannot resolve this, the reconciliation of the bids and the baseline would come to Cabinet.

A New Shock Tactic

I think this is naive. Departments will immediately dispute their allocation and under this scheme Star Chamber is immediately engaged as Cabinet could not handle disputes on many fronts.

John Redwood's note of 13 June outlined an alternative approach. You could disorientate spending departments by making a sudden change in the rules for 1986-87.

The Treasury could produce a set of departmental totals adding up to the expenditure baseline and reflecting the Chequers landscaping discussions. These would need to be sensible numbers allowing, for example, Norman Fowler to uprate pensions fully in line with inflation. A Cabinet Meeting would, before the Summer holidays, then be asked to fine-tune the Treasury package. To minimise the risk of adverse publicity flowing from a failure to agree, the meeting would be billed merely as a more detailed landscaping exercise following Chequers and the agreement on the baseline.

If Cabinet were able to agree on a revised Treasury package for departmental totals, you could then announce that there was no need for bilaterals dragging on through the Summer and Autumn. Instead, each Minister would be asked to make suitable arrangements to deliver his total, as agreed by Cabinet, without any further interference from Treasury. The prospect of a reshuffle may concentrate minds.

If any Minister claimed that he was unable to deliver his total, he would be subjected to a new form of Star Chamber, playing very much the rôle of a receiver in a bankrupt business. It would review all of the department's programmes, with a view to making offsetting savings. Ministers would not want either to be "declared bankrupt" or to lose their new-found departmental autonomy to the Star Chamber receiver.

The trick is to change attitudes. Currently, Ministers are treated rather like council tenants - they occupy their house but are allowed to make no structural changes without Treasury permission. They behave like council tenants too: they can see it would be a good idea to install loft insulation (and politically sensible as well) but unless the

Treasury pay up, they won't do it. If, however, they are allowed to buy their council house, then their attitudes change overnight: in goes the loft insulation (they find a way, even though their income hasn't increased) and up goes the sign saying "council keep out". Ministers might pay quite a high price for such a buy-out.

## Concluding Remarks

Some degree of change is already in the air, with the Chequers "landscaping" meeting, and now the reporting session of Cabinet, in the midst of the spending round.

We have outlined two options. The tougher, bilaterals route, is less radical; the shock tactic is very much more so, and would change the expenditure rules substantially. Neither is a substitute for fundamental policy reviews, which alone can make major savings and shift the baseline itself. But we believe that it is necessary to adopt one of them, in order to deliver the baseline. The existing arrangements are too tolerant. They leave a residue of "irresistible" bids, without finding room to accommodate them.

The shock tactic is one which you could only use once; the new system of landscaping and block grants could continue. The Chancellor may not relish the risk of changing a system which restrains, even if it does not contain, expenditure. He may also fear a loss of Treasury control. The downside is that if a Cabinet dominated by spenders could not agree in July, expenditure restraint would suffer a setback. At least Star Chamber is chosen to give a majority for cuts.

You may wish to discuss these, or alternative ideas next week.

Nicholas Owen

NICHOLAS OWEN

SRWAFL
SUBJECT
cc Master

7



RECORD OF MEETING BETWEEN THE PRIME MINISTER AND LORD PRIVY SEAL, 11 JULY 1985

The Prime Minister hoped that, at the Cabinet meeting to follow, the Lord Privy Seal would give strong support for holding to the established expenditure figures, which she pointed out had already been increased by £2 billion in the budget. The public expenditure round was an occasion when the Cabinet must show both strength and coherence. She had been disturbed by the references the Lord Privy Seal had made at Chequers and in his Birmingham speech to "the planned growth of public expenditure". The Government should set itself a budget and arrange its priorities within it, achieving better delivery of services by improved value for money. She accepted that many of the programmes where there had been additional expenditure had been those to which the Government had given priority; in a sense one could speak of planned priorities.

The Lord Privy Seal said he was trying to show that the Government had increased expenditure where it had promised to do so. The Government should not deny itself the opportunity to take credit for its record. This should not be interpreted as meaning that he had joined the big spenders. He did not believe that the Government should use public expenditure as an instrument of economic and social policy. He did not, however, believe that the total of public expenditure should necessarily be held constant in real terms. He had taken the view that public expenditure had been sustained in the recession and that in the recovery it should not grow pari parssu with GDP. But this did not rule out some growth of public expenditure. A politically attractive balance had to be struck over the way in which the additional resources made available by growth were used - whether in lower taxes or better public services. He did not believe people were enslaved by transfer payments such as pensions or that there was now substantial resentment about the level of tax. By contrast there was a strong desire to see better public services, especially housing and education which had fared badly over the past five years.

The Prime Minister countered by saying that the burden of tax at the lower levels was still excessive. Ministers had not fully accepted that nominating new priorities meant that existing priorities had to be down-graded.

AT

(ANDREW TURNBULL)
11 July 1985

Public Exp. File (1985).

Econ File — July 1985.

## PRESS LINE AFTER CABINET

The Cabinet today had its usual July discussion of the next public expenditure review, for 1986-87 to 1988-89. It confirmed that ~~aggregate~~ total public expenditure in 1986-87 and 1987-88 should be held to the established plans as set out in red book: and agreed that the total for the new year, 1988-89, should be broadly at the 1987-88 level in real terms. The Chief Secretary will now embark on discussions with individual Departments in the light of this decision.

## SUBSIDIARY POINTS

1. Reaffirm the Government's commitment to the control of public expenditure;

2. Emphasise the scope for increased value for money from existing programmes as the Audit Commission and the Efficiency Unit have shown;

3. Reiterate the Government's commitment to the reduction of direct taxation; and

~~4. Note the uncertainty of the proceeds of privatisation.~~

5. Int. Rates — Borrowing requirement does not directly influence markets.

6

PRIME MINISTER

10 July 1985

## PUBLIC EXPENDITURE

### The record so far

Public expenditure (including debt interest) has risen by about £16 billion from £133 billion in 1978-79 to £149 billion in 1984-85 (all figures in 1984-85 prices). That is a real increase of one-eighth (12.7%) since the Government came to power. As a percentage of GDP, public expenditure has risen from just over 43% to almost 46% in the same period. So the tax burden has risen from 34½% of GDP in 1978-79 to 39% this year (excluding the North Sea).

The 1979 Manifesto stated:

> "Any future government which sets out honestly to reduce inflation and taxation will have to make substantial economies, and there should be no doubt about our intention to do so. We do not pretend that every saving can be made without change or complaint; but if the Government does not economise the sacrifices required of ordinary people will be all the greater."

And the 1983 Manifesto was equally clear:

> "We shall maintain firm control of public spending and borrowing. If Government borrows too much, interest rates rise, and so do mortgage payments. Less spending

by Government leaves more room to reduce taxes on families and businesses."

**Tactics**

The Chancellor has found more money for departmental programmes within the same base-line for 1986-87 by:

- Reducing the Contingency Reserve from £6 billion to £5 billion.

- Increasing asset sales from £2.25 billion to £4.5 billion.

There was a case for a tougher stance at this stage. The Treasury now has no further fallback position. But the Chancellor's tactical judgment was that he needed to reveal his hand in order to get colleagues' endorsement of the total (especially as Peter Walker can point to the large extra receipts from BGC). If colleagues are reluctant to endorse the base-line, you could point out that the Chancellor has moved a long way towards them.

**The major targets**

It is probably best to avoid picking on specific departments tomorrow. But there are some obvious themes for saving money which most colleagues could endorse:

- The administrative overhead is up by more than 9% in real terms since 1979. Running costs total £14 billion this year, and departments want £15 billion next year. That is 10% of all public spending. This is something the Chancellor is rightly gunning for.

- Under-used public sector assets. We need to attack the large land-hoarders - British Rail, PSA, the Water Boards - and sell off unused NHS accommodation. The Treasury paper refers to this.

- Government purchasing. We spent £7.6 billion on non-warlike goods and services in 1982. Too often, the public sector is a soft touch. A 5% cut in costs would save £400 million. Stocks worth £5 billion could be significantly reduced.

- Local authorities. The Audit Commission believes that something of the order of £500 million could be saved by the end of the Survey period.

- The nationalised industries. Excluding coal, the Treasury are aiming for a £500 million saving in 1986-87. In relation to total costs, that should be readily achievable.

SECRET

## Presentation

The Government has increased spending in some areas (health, education) and cut it in others (housing, nationalised industries). These choices may be good politics, but it is impossible to get the message across if all Ministers leak to the press their heroic resistance to mean-minded Treasury cuts. We don't want a parade of bleeding stumps across the front pages of all the newspapers. And the device of using Parliamentary Private Secretaries to leak the reports of Ministers' discussions - such as Chequers last month - is absolutely unacceptable.

Could we use the big increase in asset sales to present our achievements in infrastructure spending? How about linking particular projects (eg new roads, hospitals and schools) with receipts from asset sales? This would be particularly effective within programmes (selling BR land to buy rolling stock, unused nurses' accommodation to buy hospitals). We might be selling the family silver, but we are spending the proceeds on improving the home. Indeed, our capital spending is much greater than receipts from asset sales.

David Willetts

DAVID WILLETTS

SECRET

PRIME MINISTER 10 July 1985

People are confused abut the central aim of economic strategy. In the first Government it was clear - a moral and economic crusade against inflation.

In the second Government, is it:

Tax reduction

Growth

Better public services

Jobs

Even lower inflation?

Early in 1984, I posed this question and suggested going for tax reduction. It can be linked to Why Work? and jobs. But it needs firm control of PE.

With the Treasury now going for covert higher PE, tax reduction is less of an option.

Should you now discuss with colleagues uniting behind sustained low inflationary growth as the aim? This can help finance better public services and some tax cuts.

Whatever you decide to make the main aim, it should be deliverable, simple, and become a regular message for the next 2 years.

JOHN REDWOOD

5

Ref. A085/1875

PRIME MINISTER

## Economic Outlook and Public Expenditure
(C(85) 17 and 18)

BACKGROUND

On 11 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 two papers on the agenda:

Flag A – a. C(85) 17: the Chancellor of the Exchequer's memorandum on economic prospects;

Flag B. – b. C(85) 18: the Chief Secretary, Treasury's memorandum on the 1985 Public Expenditure Survey.

Economic Prospects

2. C(85) 17 shows relatively few changes from the forecast produced at the time of the Budget in March and published in the Financial Statement and Budget Report (FSBR). The temporary increase in United Kingdom inflation has gone about 1 per cent further than was contemplated at the time of the Budget, but the current balance looks somewhat stronger, and the prospects for output are a little better. Consumers' expenditure is now expected to grow a little more slowly this year, but fixed investment should be higher. Inflation is still expected to fall back in the second half of this year - to $5^3/_4$ per cent in the fourth quarter, as against the FSBR forecast of 5 per cent. Although the United Kingdom output growth is forecast to be



BRIAAL

slightly higher than the average of the other Economic Summit countries, United Kingdom inflation and unemployment remain significantly higher, while United Kingdom earnings are continuing to grow more rapidly. The comparisons for 1985 are:

| | United Kingdom | Other Economic Summit countries |
|---|---|---|
| Gross Domestic Product (per cent change on previous year) | 3½ | 3 |
| Unemployment (year average, per cent) | 13 | 7½ |
| Retail prices, fourth quarter (per cent change) | 5¾ | 4 |
| Average earnings, fourth quarter (per cent change) | 8½ | 5½ |

3. Major uncertainties remain about oil prices and the value of the United States dollar, with prospects of falls in both. Both would tend directly to reduce United Kingdom Government revenue. On the other hand slightly faster inflation and relatively buoyant output will tend to increase revenue, and the Chancellor of the Exchequer sees no need to change the FSBR forecast of £7 billion for the Public Sector Borrowing Requirement (PSBR) in the current financial year. But the financial markets are likely to remain cautious about United Kingdom prospects; although sterling is currently strong, United Kingdom interest rates are 2½ per cent above the average of the other Economic Summit countries (and unlikely to ease quickly in view of the latest adverse money supply figures,) and the Chancellor of the Exchequer sees no scope for financial relaxation. Against this background he urges the importance of

continued firm control of public expenditure, not least if the Government are to make further progress towards reducing the tax burden.

Public Expenditure Survey

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

| | £ billion | | |
|---|---|---|---|
| | 1986-87 | 1987-88 | 1988-89 |
| Planning total in Cmnd 9428 | 136.7 | 141.5 | |
| Increase in the Reserve (1985 Budget) | 2.0 | 2.0 | |
| Budget employment measures | 0.3 | 0.4 | |
| Survey baseline | 139.1 | 143.9 | 148.2* |

* assumes 3 per cent uplift on previous year's planning total, as against 2½ per cent uplift applied to individual programmes in Public Expenditure Survey Report.

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

| | | | |
|---|---|---|---|
| Departmental programmes | 4.4 | 5.4 | 6.6 |
| Local authority current expenditure (agreed by E(LA)) | 0.5 | 0.5 | 0.5 |
| Flag C Nationalised industries (see E(A)(85) 42) | 1.0 | 0.6 | 0.8 |
| Total | 5.9 | 6.5 | 7.9 |



BRIAAL

6. The Chief Secretary, Treasury proposes that the aim of the Survey should be to maintain the baseline figures for 1986-87 and 1987-88, despite the pressure for higher expenditure. In practice the overspend on local authority current expenditure is bound to exceed the £500,~~000~~ million agreed by E(LA), which was reported to you in the Lord President's minute of 1 July and further discussed the Secretary of State for Education's minute to you of 5 July; any further excess would be a charge on the Reserve.

Flag D
Flag E

7. The Chief Secretary, Treasury recognises that some of the additional bids will be very difficult to resist, although he does not indicate what proportion of them he thinks will have to be accepted. Those for social security, ECGD, civil superannuation and part of the housing bid simply reflect the higher price level or higher interest rates, and are inescapable, while that for the Intervention Board for Agricultural Products is outside the United Kingdom Government's direct control. Some increases on account of the National Health Service Pay Review Body awards and of higher expenditure on maintaining local authority housing are almost certainly inevitable, although there is still room for argument in the bilaterals on the amounts.

8. Against these increases the Chief Secretary, Treasury is ready to set the higher estimate of receipts from privatisation (now put at £4½ billion in 1986-87 and £3½ billion in 1987-88, as compared with the Cmnd 9428 figures of £2$^1/_4$ billion for each of the two years), and to allocate £1 billion of the Reserve to programmes in 1986-87 and 1987-88 (giving Reserves of £5 billion, £6 billion and £7 billion for the three Survey years). The effect of this treatment of the privatisation receipts is to make room for some increases in the gross total of the programmes, while adhering to the net planning total for public expenditure; but, as the Chief Secretary, Treasury implicitly recognises, such receipts have more of the character

of financing than of reducing the PSBR and do not warrant permanent reductions in taxation (or increases in expenditure). Despite this relaxation, it is clear that difficult decisions will be needed if the remaining gap between Departments' ambitions and the proposed planning totals is to be closed; the size of the problem will also depend on the position of nationalised industries, which is due to be discussed by E(A) on 17 July (on the basis of the Chief Secretary's paper circulated as E(A)(85) 42 on 9 July).

Running Costs and Manpower

9. This year for the first time running costs have been fully integrated into the Survey, as a stage in the process of ceasing to set separate control targets for manpower as well as expenditure after 1988-89. Departments were asked to propose cash targets for their running costs in each of the three Survey years, with the aim of holding the growth in the total of these costs ½ per cent below the level of inflation assumed in each of the years. Departments' bids, however, for 1986-87 show an aggregate cash increase of 6.3 per cent, as against the aim of 4 per cent; much of the difference is accounted for by the 7.3 per cent armed forces pay award. On manpower numbers Departments' proposals would absorb most of the contingency margin allowed for in setting the published targets.

10. On running costs, the Chief Secretary, Treasury proposes that reductions should be sought for 1986-87 which could be carried forward to the two subsequent years; in the light of this work tough but realistic targets would be agreed with each Department. On manpower he recognises the need to give higher priority to the staffing of services aimed at controlling fraud or whose costs are wholly recovered by fees; but he in effect reserves the right to ask Departments for offsetting reductions



BRIAAL

even where bids are of this character. He does not, however, commit himself to any specific new objectives on running costs or manpower.

Pay Assumption

11. In recent years assumptions about the growth of public service pay have been set each autumn somewhat below the uplift factor used in creating the Survey provision for the following year, and the difference has been subtracted from the cash provision for each programme. The Chief Secretary, Treasury suggests that the question of setting and publishing such an assumption should be considered in September; but he acknowledges that it could not credibly be set below the uplift factor of 3 per cent underlying the 1986-87 baseline, and that there should therefore be no question of reducing the programme figures for the first year of the Survey.

Surplus Land and Empty Housing

12. On the disposal of surplus land and empty housing the Chief Secretary, Treasury seeks his colleagues' co-operation in agreeing taut targets in the context of the Survey.

MAIN ISSUES

13. The main issues before the Cabinet arise on C(85) 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 endorse Reserves of £5 billion, £6 billion and £7 billion for the three Survey years?

iii. Do the Cabinet agree with the Chief Secretary's approach to running costs, manpower and surplus land and empty housing?

The Public Expenditure Survey

14. It seems unlikely that many members of the Cabinet will suggest that the Government should relax the adjusted planning totals published in the FSBR, given the Chief Secretary's willingness to relax the gross total of programmes by crediting the projected increase in privatisation receipts to those programmes. A number of points may, however, be made about the underlying difficulty of the situation:

a. The temporary acceleration of inflation, combined with the method of determining the size of social security upratings by reference to past inflation, means that cash expenditure on benefits will inevitably be substantially higher in 1986-87 and 1987-88 than allowed for in Cmnd 9428, even if inflation dips below its previously projected path and brings the price level back to what would be consistent with earlier plans.

b. The acceleration in inflation, combined with cash limits control, means a reduction in total public expenditure in cost terms below previous plans in both 1986-87 and 1987-88, and also implies a slightly larger real reduction in expenditure between 1985-86 and 1986-87 than previously expected (£1.2 billion as against £0.9 billion).

c. Local authorities' current expenditure is certain to make a claim on the Reserve next year over and above the £500 million which E(LA) have agreed that the Government should accept now. The emerging position on teachers' pay will add to the problems.

d. The proposed approach on public expenditure implies that pay in the public services sector will again increase less rapidly than average pay elsewhere in the economy. As the gap widens further, the risks of disruptive action in the public services sector are likely to increase.

The Reserve

15. The Chief Secretary, Treasury proposes Reserves of £5 billion, £6 billion and £7 billion for the three Survey years; this implies a reduction of £1 billion as compared with the FSBR in 1986-87 and 1987-88. Such Reserves are £2 billion higher than the comparable proposals last year. It would not, however, appear prudent to allocate more than the £1 billion now proposed to programmes in the first two years; the Reserve for the current year was increased from £3 billion to £5 billion in the 1985 Budget, and approaching £4 billion of this has already been committed.

Running Costs and Manpower

16. Separate controls over running costs and manpower run the risk of proving inconsistent with each other; in accordance with the objectives of the Government's Financial Management Initiative, emphasis is being switched to control over running costs as the preferred means of stimulating Departments to run their affairs in the most efficient and economical way. As the recent discussion of long-term unemployment showed, the case for arbitrary manpower constraints may be more difficult to sustain where it is clear that additional departmental employees can more than recover their costs and at the same time improve the service provided to the public. The Chief Secretary, Treasury does not ask for specific aggregate objectives to be endorsed, but rather that he should pursue possible reductions in discussion with spending Ministers. To the extent that

efficiency savings can be found to offset the costs of higher wage awards, there should be some help in terms of lower running costs and manpower numbers.

HANDLING

17. 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 with a more detailed account of his proposals on public expenditure. All members of the Cabinet will wish to contribute to the subsequent discussion, although you may wish to remind them that they had the opportunity of a lengthy discussion of priorities last month at Chequers. On this occasion there will not have been any opportunity for a prior discussion in E(A) of the nationalised industries' Investment and Financing Review; as a result, some sponsor Ministers might want also to comment on the implications of the Chief Secretary's figures for the additional bids in this area. You might discourage any extensive discussion of such points, since there will be an opportunity for this at E(A) on 17 July.

CONCLUSIONS

18. You will wish the Cabinet to reach conclusions on the following:

i. Do the Cabinet agree that the aim of the 1985 Public Expenditure Survey should be to arrive at planning totals of £139.1 billion, £143.9 billion and £148.2 billion respectively for the three years 1986-87 to 1988-89?

ii. Do the Cabinet agree that the Reserve should be set at £5 billion, £6 billion and £7 billion respectively for those three years?

iii. Are the Cabinet content with the approach proposed by the Chief Secretary, Treasury to targets for running costs, manpower and surplus land and empty housing?

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

ROBERT ARMSTRONG

10 July 1985



BRIAAL

CONFIDENTIAL

SUBJECT
cc Master

SRW

bcc . Mr Ingham (46)

# 10 DOWNING STREET

*From the Principal Private Secretary* 10 July 1985

The Prime Minister discussed with the Chancellor this evening the handling of tomorrow's Cabinet meeting and the press line to be taken after it.

On the latter aspect, the Prime Minister endorsed the main formula proposed in your letter of 9 July to Andrew Turnbull. But the Prime Minister was unhappy about going as far as the further response suggested for use if necessary in the last paragraph of your letter, lest this might lead to stories that the Government was relaxing on control of programmes at a time when mischief would be made out of such stories. The Prime Minister and the Chancellor therefore agreed that spokesmen should avoid being drawn into any discussion about the implications of the agreed aggregates of expenditure for programmes: they should confine themselves to the line that the Government's decision at this stage was simply about the aggregates of expenditure and the constituent parts remained to be worked out and negotiated during the summer and autumn.

The Chancellor also mentioned his plans to change the presentation of the autumn statement, so as to omit up-to-date targets of the PSBR and an estimate of the fiscal adjustment. He would propose to defend this by pointing out the unreliability of such an estimate as a basis for discussion of tax changes. The Prime Minister said that she fully supported the Chancellor's proposal.

Mrs. Rachel Lomax,
HM Treasury.

CONFIDENTIAL

SRW

## SPEAKING NOTE FOR PUBLIC EXPENDITURE CABINET

Restraint of public expenditure lay at the heart of our manifesto, and lies at the heart of our financial strategy. That restraint is essential not just to create room for reducing the burden of tax but also because we, as a Government, are committed to reducing the extent of state intervention.

Reduction of taxation which leaves people with the decision to spend and save as they wish is an essential element in developing a more responsible and enterprising society.

As we all know, controlling public expenditure is the most testing of all the tasks which a Government faces. It is a test both of its strength and of its coherence.

I urge Cabinet colleagues to reaffirm their commitment to the control of public expenditure; and to confirm that aggregate expenditure will be held to the establshed plans. I remind colleagues that, in his budget, the Chancellor was forced to add £2 billion to the Contingency Reserve in each year, and hence to the planning totals.

I do not believe we can afford to give further ground today. Our critics are seeking to portray us as a Government in retreat. We have to demonstrate convincingly that we still have confidence in our beliefs and that we are sticking to our plans, for if we do not do that, we will be in retreat.

Adherence to the established plans will, I know, put strong pressure on many programmes, though we are not deciding these today. But, as the Audit Commission demonstrated to us last week in local government, and as the Efficiency Unit is showing for central government, there is substantial scope for improving the service which our programmes deliver, without adding substantially to expenditure.

As Ministers, it is our task to see that the programmes for which we are responsible are made more effective. What we want is not more expenditure but better expenditure.

VC3AFX

cc: Mr Culpin (Treasury)
All Press Officers

**PRIME MINISTER**

You have already agreed with the Chancellor that the para Bernard dislikes should be taken out.
AT 10/7

**PRESS HANDLING OF CABINET**

1. Please see the attached minute from the Chancellor's private office to Andrew Turnbull.

2. I have no problems with paragraph X - ie repeating last year's formula, but I would suggest for ease of understanding we should add on to the fourth line the following:

> "The total for the new year 1988-89 - ie the new year which comes into the forward planning as the programe is rolled forward - should be broadly at 1987-88 level (in real terms)."

3. I am, however, very concerned about paragraph Y on proceeds of privatisation (of Britoil, B/Airways (we hope), British Gas etc).

4. Para Y as set out by the Treasury will fuel stories that the Cabinet yesterday:

   i. reaffirmed its determination to stick to its medium term financial strategy, having increased its contingency reserve by £2m at the last budget to cope with increased costs;

   ii. then, because proceeds of privatisation are regarded as offsetting public expenditure, agreed to the additional £2bn which is expected from these being allocated to additional Government spending;

   iii. so what the Government is doing, in spite of all its protestations about not being for turning, is now U-turning;

   iv. the extent of the U-turn is something like £4bn - £2bn increase on contingency and £2bn relaxation on asset sales;

E.R.



v. a £4bn boost in one year is more than even the Opposition parties would dare to advocate;

vi. so what this Government is doing is kidding you it is keeping public expenditure under control while, at the same time, it is pumping in more on contingency and spending asset sales (instead of cutting taxes);

vii. this Government is really in the business of U-turns.

5. The above states the extreme scenario. You can't stand that appearing in Friday's newspapers. You really have to present a rigorous face to the world.

6. The question is how? I suggest the following:

i. state the outcome as para X;

ii. reaffirm the Government's commitment to the control of public expenditure;

iii. emphasise that there is a ~~very cold wind blowing against increases over and above published programmes~~ scope for increased value for money from existing programmes as the Audit Commission & the Efficiency Unit have shown;

iv. reiterate the Government's commitment to the reduction of direct taxation; and

I would avoid being too specific here.

v. note the uncertainty of the proceeds of privatisation, ~~given B/Airways problems.~~

**Conclusion**

7. I hope you will agree to my speaking on the lines of para X of the attached Treasury letter, plus para 6 immediately above.

BIngham

BERNARD INGHAM

10 July 1985

R7.107 **CONFIDENTIAL**

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

9 July 1985

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

Dear Andrew,

**PRESS HANDLING AFTER CABINET**

It has become customary to agree a short line for press offices to take after the summer expenditure Cabinet. For Thursday's meeting, the Chancellor and Chief Secretary suggest repeating last year's formula, as follows:

X > The Cabinet today had its usual July discussion of the next public expenditure review, for 1986-87 to 1988-89. It confirmed that aggregate public expenditure in 1986-87 and 1987-88 should be held to the established plans: and agreed that the total for the new year, 1988-89, should be broadly at the 1987-88 level in real terms. The Chief Secretary will now embark on discussions with individual Departments in the light of this decision.

The message should be business as usual. The figures are in Table 2.2 of the FSBR.

Treasury Ministers suggest we stick to this so far as possible. But some journalists may ask about the prospects within the planning totals for special sales of assets on the one hand and departmental programmes on the other. If necessary, Treasury Ministers suggest the following response:

Y > Proceeds from privatisation are now expected to be somewhat higher than assumed in the Budget, and these count as negative public expenditure. Other expenditure programmes will be correspondingly higher within the unchanged cash totals. The overall target will be tough but realistic.

Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

R7.107

CONFIDENTIAL

CC BT

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

9 July 1985

Andrew Turnbull Esq
10 Downing Street
LONDON SW1

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Yours ever
Rachel

RACHEL LOMAX
Principal Private Secretary

001/109

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NB/PM
AG 8/7

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

8 July 1985

Dear Andrew

**CASH LIMITS FOR 1984-85**

We are now ready to publish the annual White Paper showing provisional outturn of expenditure against cash limits for 1984-85. The Chief Secretary proposes to publish it on Thursday, 11 July immediately after Question Time.

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

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

Yours ever

Richard

**R J BROADBENT**
**Private Secretary**

77 JOB F5918-0000-01 HMSO COVER D1-1 SIZE 52,6
REV:06-05 EXP:06-05 RT SIZ: 52.06

# CASH LIMITS 1984–85 PROVISIONAL OUTTURN

**(AND 1983–84 OUTTURN)**

*Presented to Parliament by the Chief Secretary to the Treasury by Command of Her Majesty*
*1985*

*LONDON*
HER MAJESTY'S STATIONERY OFFICE
£0.00 net

Cmnd.

# CASH LIMITS
# 1984–85 PROVISIONAL OUTTURN
# (AND 1983–84 OUTTURN)

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1984–85 and revised figures for 1983–84.

2. The cash limits for 1984–85 for central government voted expenditure were published in the Supply Estimates and listed in the Chief Secretary's Memorandum on the Supply Estimates 1984–85 (Cmnd 9161). The original cash limits relating to local authorities' capital expenditure and certain other expenditure were announced by written PQ on 13 March 1984.

3. Tables 1 and 2 give provisional outturn figures for 198~~3~~4–8~~4~~5 compared with final cash limits. These figures may be subject to some adjustment when the final accounts are available.

4. Table 3 shows changes to the original cash limits excluding token increases. Increases in cash limits due to the carry forward of end-year flexibility and reductions due to the abolition of the National Insurance Surcharge are separately identified.

10 5. On the current figures there were five breaches of cash limits. The Crown Agent (class IX, vote ~~9~~) overspent their £13.2 million cash limit by £0.1 million, the Property Services Agency (class XIV, vote 1) breached their cash limit of £532 million by £12.2 million and the Board of Trustees National Gallery of Scotland (class XV, vote 18) breached theirs (£2.8 million) by £0.002 million. Two cash limits relating to local authority capital expenditure were breached; 913.4 the Department of Environment non-voted cash block DOE/LA~~1~~ (£2,452.6 1 million) by ~~£887.4~~ million and the Welsh Office non-voted cash block WO/LA~~1~~ 1 .0 5 (£28~~0~~ million) by £17.~~1~~ million.

6. Table 4 gives original external financing limits (EFLs) of nationalised industries in 198~~3~~4–8~~4~~5, revised EFLs and provisional outturn for each industry.

7. Table 5 gives final outturn figures for central government cash limited expenditure in 1983–84. Table 6 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 1983–84 were published in July 1984 in the White Paper "Cash Limits 1983–84 Provisional Outturn" (Cmnd 9323).

## CASH LIMITS 1984–85: PROVISIONAL OUTTURN

## CENTRAL GOVERNMENT VOTES

**Table 1**

Provisional

| *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 | 6,343,622 | 6,398,015 | | |
| | 2 | Ministry of Defence | Defence procurement | 8,322,162 | 8,174,240 | −131,936 | −0.8(a) |
| | 4 | Ministry of Defence | Defence accommodation services | 1,078,476 | 1,055,087 | | |
| | 5 | Ministry of Defence | Dockyard services | 438,453 | 423,435 | | |
| II | 1 | Foreign and Commonwealth Office | Overseas representation: diplomatic, consular and other foreign and commonwealth services | 374,788 | 369,788 | −5,000 | −1.3 |
| | 3 | Foreign and Commonwealth Office | British Broadcasting Corporation external services | 79,744 | 79,673 | −71 | −0.1 |
| | 4 | Foreign and Commonwealth Office | British Council | 47,451 | 47,451 | 0 | 0.0 |
| | 6 | Cabinet Office | Secret Service | 76,000 | 75,093 | −907 | −1.2 |
| | 8 | Overseas Development Administration | Overseas aid | 1,061,563 | 1,030,000 | −31,563 | −3.0(b) |
| | 9 | Overseas Development Administration | Overseas aid administration | 25,920 | 24,562 | −1,358 | −5.2 |
| III | 2 | Intervention Board for Agricultural Produce | Central administration | 20,141 | 20,039 | −102 | −0.5 |
| | 4 | Ministry of Agriculture, Fisheries and Food | Other agricultural and food services and support for the fishing industry | 142,134 | 131,394 | −10,740 | −7.6 |
| | 5 | Ministry of Agriculture, Fisheries and Food | Departmental research, advisory services and administration | 199,522 | 193,720 | −5,802 | −2.9 |

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| *Class and vote* | | *Accounting department* | *Description of expenditure* | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* ‡ Provisional |
|---|---|---|---|---|---|---|---|
| | 6 | Forestry Commission | Forestry | 55,194 | 55,194 | 0 | 0.0 |
| IV | 2 | Department of Trade and Industry | Miscellaneous support services | 85,728 | 4 85,3~~1~~4 | 8 −3~~9~~4 | −0.5 |
| | 4 | Department of Trade and Industry | Export promotion, trade co-operation, corporative and consumer affairs | 49,292 | 47,410 | −1,882 | −3.8 |
| | 5 | Department of Energy | Industrial support | 162,869 | 158,915 | −3,954 | −2.4 |
| | 6 | Department of Trade and Industry | Scientific and technological assistance | 377,967 | 377,269 | −698 | −0.2 |
| | 7 | Department of Energy | Scientific and technological assistance: nuclear energy | 199,954 | 199,898 | −56 | 0.0 |
| | 9 | Exports Credits Guarantee Department | International trade: export credit services and insurance of investment overseas | 26,269 | 24,687 | −1,582 | −6.0 |
| | 11 | Registry of Friendly Societies | Pay and general administrative expenses | 2,197 | 1,960 | −237 | −10.8 |
| | 12 | Office of Fair Trading | Pay and general administrative expenses | 7,204 | 6,920 | −284 | −3.9 |
| | 13 | Department of Employment | Labour market services | 683,622 | 654,868 | −28,754 | −4.2 |
| | 15 | Department of Employment | Advisory Conciliation and Arbitration Service | 13,180 | 13,151 | −29 | −0.2 |
| | 16 | Department of Employment | Manpower Services Commission | 1,213,879 | 1,212,885 | −994 | −0.1 |
| | 17 | Department of Employment | Administration | 241,298 | 239,212 | −2,086 | −0.9 |
| | 18 | Department of Trade and Industry | Central and miscellaneous services | 140,547 | 137,067 | −3,480 | −2.5 |
| | 19 | Department of Energy | Administrative and miscellaneous services | 22,349 | 22,196 | −153 | −0.7 |
| | 21 | Department of Energy | Sale of British Gas Corporation's oil interest | 2 | 0 | −2 | −100.0 |

| Class and vote | | Accounting department | Description of expenditure | Cash limit £ thousand | Outturn £ thousand | Over-spend(+) or under-spend(−) £ thousand | Over-spend(+) or under-spend(−) % |
|---|---|---|---|---|---|---|---|
| | 22 | Department of Employment | Health and Safety Commission | 90,298 | 89,942 | −356 | −0.4 |
| | 24 | Department of Trade and Industry | Sale of shares in British Telecommunications plc | 2 | 0 | −2 | −100.0 |
| | 25 | Department of Energy | British Petroleum Company plc | 1,242 | 1,242 | 0 | 0.0 |
| | 26 | Department of Trade and Industry | Cable and Wireless plc | 536 | 440 | −96 | −17.9 |
| | 27 | Department of Trade and Industry | Office of Telecommunications | 1 | 0 | −1 | −100.0 |
| | 28 | Department of Trade and Industry | British Aerospace plc | 500 | 69 | −431 | −86.2 |
| V | 1 | Trustees of British Museum | British Museum | 12,865 | 12,785 | −80 | −0.6 |
| | 2 | Trustees of Imperial War Museum | Imperial War Museum | 4,383 | 4,068 | −315 | −7.2 |
| | 3 | Trustees of National Gallery | National Gallery | 7,024 | 6,992 | −32 | −0.5 |
| | 4 | Trustees of National Maritime Museum | National Maritime Museum | 4,304 | 4,290 | −14 | −0.3 |
| | 5 | Trustees of National Portrait Gallery | National Portrait Gallery | 1,866 | 1,866 | 0 | 0.0 |
| | 6 | Office of Arts and Libraries | Science Museum | 8,492 | 8,484 | −8 | −0.1 |
| | 7 | Trustees of Tate Gallery | Tate Gallery | 5,595 | 5,594 | −1 | −0.0 |
| | 8 | Office of Arts and Libraries | Victoria & Albert Museum | 11,397 | 11,339 | −58 | −0.5 |
| | 9 | Trustees of Wallace Collection | Wallace Collection | 823 | 822 | −1 | −0.1 |

≠ 'Provisional'

| Class and vote | | Accounting department | Description of expenditure | Cash limit £ thousand | Outturn £ thousand | Over-spend(+) or under-spend(−) £ thousand | Over-spend(+) or under-spend(−) % |
|---|---|---|---|---|---|---|---|
| | 10 | Office of Arts and Libraries | Arts, the Arts Council and other institutions, the national heritage and the government art collection | 124,141 | 124,141 | 0 | 0.0 |
| | 11 | Office of Arts and Libraries | Libraries, England | 47,300 | 47,300 | 0 | 0.0 |
| | 12 | Office of Arts and Libraries | Central administration | 1,049 | 890 | −159 | −15.2 |
| VI | 1 | Department of Transport | Roads etc.; England | 808,145 | 804,~~01~~2 20 | ~~−4,133~~ −3,943 | −0.5 |
| | 2 | Department of Transport | Transport services and central administration | 145,628 | ~~138,478~~ 136,255 | −7,150 −9,373 | ~~−4.9~~ −6.4 |
| | 4 | Department of Transport | Driver and vehicle licensing | 100,462 | 95,960 | −4,502 | −4.5 |
| | 5 | Department of Transport | Sale of shares in Associated British Ports | 114 | 99 | −15 | −13.2 |
| | 6 | Department of Transport | Sale of shares in British Airways plc | 1,509 | 1,012 | −497 | −32.9 |
| VIII | 2 | Department of Environment | Central environmental services, England | 129,437 | 128,137 | −1,300 | −1.0 |
| | 4 | Department of Environment | Royal palaces, royal parks, historic buildings, ancient monuments and the national heritage | 114,963 | 113,668 | −1,295 | −1.1 |
| | 5 | Department of Environment | Central administration and environmental research | 164,995 | ~~158,642~~ 161,038 | ~~−6,353~~ −3957 | ~~−3.9~~ −2.4 |
| IX | 1 | Lord Chancellor's Department | Administration of justice: England | 85,64~~0~~ 1 | 85,610 | −3~~0~~ 1 | 0.0 |
| | 2 | Northern Ireland Court Service | Administration of justice: Northern Ireland | 7,708 | 7,687 | −21 | −0.3 |
| | 7 | Home Office | Central administrative miscellaneous and community service and civil defence, England and Wales | 294,452 | 281,630 | −12,822 | −4.4 |
| | 8 | Home Office | Prisons, England and Wales | 585,288 | 574,06~~2~~ 6 | −11,22~~6~~ 2 | −1.9 |

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| Class and vote | | Accounting department | Description of expenditure | Cash limit £ thousand | Outturn £ thousand | Over-spend(+) or under-spend(−) £ thousand | Over-spend(+) or under-spend(−) % |
|---|---|---|---|---|---|---|---|
| | 9 | Treasury Solicitor's Department | Law charges, England and Wales | 13,357 | 12,731 | −626 | −4.7 |
| | 10 | Crown Agent | Law charges, Scotland | 13,168 | 13,292 | +124 | +0.9 |
| X | 1 | Department of Education and Science | Schools, futher education and other education services | 190,239 | 180,645 | −9,594 | −5.0 |
| | 3 | Department of Education and Science | Universities etc. | 1,464,070 | 1,461,512 | −2,558 | −0.2 |
| | 4 | Department of Education and Science | Central administration | 49,~~459~~ 569 | 47,899 | −1,670 | −3.4 |
| | 5 | Department of Education and Science | Agricultural and Food Research Council | 46,680 | 46,680 | 0 | 0.0 |
| | 6 | Department of Education and Science | Medical Research Council | 117,152 | 117,152 | 0 | 0.0 |
| | 7 | Department of Education and Science | Natural Environmental Research Council | 65,853 | 65,303 | −550 | −0.8 |
| | 8 | Department of Education and Science | Science and Engineering Research Council | 278,827 | 278,827 | 0 | 0.0 |
| | 9 | Department of Education and Science | Economic and Social Science Research Council | 21,979 | 21,979 | 0 | 0.0 |
| | 10 | Trustees of British Museum (Natural History) | British Museum (Natural History) | 9,751 | 9,731 | −20 | −0.2 |
| | 11 | Department of Education and Science | Research Councils etc: other science | 5,461 | 5,429 | −32 | −0.6 |
| XI | 1 | Department of Health and Social Security | Health and personal social services | 8,991,978 | 8,970,457 | −21,521 | −0.2 |
| XII | 5 | Department of Health and Social Security | Administration and miscellaneous services | 743,582 | 730,082 | −13,500 | −1.8 |
| XIII | 3 | Privy Council Office | Pay and general administrative expenses | 1,130 | 1,130 | 0 | 0.0 |
| | 4 | Her Majesty's Treasury | Economic and financial administration | 43,370 | 41,100 | −2,270 | −5.2 |

# Provisional

| *Class and vote* | *Accounting department* | *Description of expenditure* | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|
| 5 | Customs and Excise | Economic and financial administration | 342,202 | 341,099 | −1,103 | −0.3 |
| 6 | Inland Revenue | Economic and financial administration | 793,987 | 793,341 | −646 | −0.1 |
| 8 | Exchequer and Audit Department | Economic and financial administration | 7,207 | 7,190 | −17 | −0.2 |
| 9 | National Investment and Loans Office | Economic and financial administration | 1 | 0 | −1 | −100.0 |
| 10 | Department for National Savings | Economic and financial administration | 148,972 | 146,246 | −2,726 | −1.8 |
| 12 | Management and Personnel Office | Central management of the Civil service | 34,650 | 33,741 | −909 | −2.6 |
| 13 | Her Majesty's Treasury | Computers and telecommunications | 16,660 | 12,950 | −3,710 | −22.3 |
| 14 | Her Majesty's Treasury | Civil service catering services | 211 | 0 | −211 | 100.0 |
| 15 | Public Records Office | Pay and general administrative expenses | 9,355 | 9,052 | −303 | −3.2 |
| 16 | Office of Population Censuses and Surveys | Pay and general administrative expenses | 25,805 | 24,152 | −1,653 | −6.4 |
| 17 | Land Registry | Pay and general administrative expenses | 79,293 | 77,500 | −1,793 | −2.3 |
| 18 | Charity Commission | Pay and general administrative expenses | 4,836 | 4,729 | −107 | −2.2 |
| 19 | Cabinet Office | Pay and general administrative expenses | 14,871 | 14,489 | −382 | −2.6 |
| 20 | Office of Parliamentary Commissioner and Health Service Commissioners | Pay and general administrative expenses | 1,855 | 1,727 | −128 | −6.9 |
| 21 | Her Majesty's Stationery Office | Payments to the trading fund | 6,509 | 6,509 | 0 | 0.0 |
| 23 | Ordnance Survey | Pay and general administrative expenses | 16,519 | ~~13,395~~ 14,723 | ~~−3,124~~ -1,796 | ~~−18.9~~ -10.9 |

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| Class and vote | | Accounting department | Description of expenditure | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|---|
| XIV | 1 | Property Services Agency | Civil accommodation services | 531,981 | 544,203 | +12,222 | +2.3 |
| | 2 | Property Services Agency | Administration and miscellaneous services | 361,630 | 360,302 | −1,328 | −0.4 |
| | 3 | Central Office of Information | Publicity | 67,750 | 65,044 | −2,706 | −4.0 |
| | 6 | Government Actuary's Department | Pay and general administrative expenses | 1,145 | 1,061 | −84 | −7.3 |
| | 7 | Paymaster General's Office | Pay and general administrative expenses | 11,896 | 11,189 | −707 | −5.9 |
| XV | 2 | Department of Agriculture and Fisheries for Scotland | Agricultural services and fisheries, Scotland | 60,508 | 58,448 | −2,060 | −3.4 |
| | 3 | Industry Department for Scotland | Regional and general industrial support | 137,151 | 120,862 | −16,289 | −11.9 |
| | 4 | Industry Department for Scotland | Manpower Services Commission, Scotland | 138,134 | 127,400 | −10,734 | −7.8 |
| | 6 | Scottish Development Department | Roads, transport and environmental services, Scotland | 149,831 | 142,159 | −7,672 | −5.1 |
| | 11 | Scottish Courts Administration | Administration of justice, Scotland | 7,612 | 7,577 | −35 | −0.5 |
| | 14 | Scottish Home and Health Department | Prisons, hospitals and community health services etc., Scotland | 1,451,462 | 1,433,~~204~~ 319 | −18,~~258~~ 143 | −1.3 |
| | 15 | Scottish Education Department | Education, arts, libraries and social work, Scotland | 118,821 | 117,491 | −1,330 | −1.1 |
| | 17 | Trustees of National Library of Scotland | National Library of Scotland | 3,121 | 3,118 | −3 | −0.1 |
| | 18 | Board of Trustees National Galleries of Scotland | National Galleries of Scotland | 2,809 | 2,811 | +2 | +0.1 |
| | 19 | Board of Trustees National Museum of Antiquities, Scotland | National Museum of Antiquities, Scotland | 922 | 920 | −2 | −0.2 |

‡ Provisional

| 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 | Scottish Record Office | Pay and general administrative expenses | 1,655 | 1,453 | −202 | −12.2 |
| | 22 | General Register Office for Scotland | Pay and general administrative expenses | 2,925 | 2,362 | −563 | −19.2 |
| ‡ | 23 | Department for Registers Scotland | Pay and general administrative expenses | 2 | 0 | −2 | −100.0 |
| | 24 | Scottish Office | Pay and general administrative expenses | 97,272 | 95,593 | −1,679 | −1.7 |
| XVI | 1 | Welsh Office | Civil defence, tourism, roads and transport, housing, other environmental services, education and science, arts and libraries, health and personal social services, Wales | 738,490 | 730,697 | −7,793 | −1.1 |
| | 4 | Welsh Office | Manpower Services Commission in Wales | 81,378 | 75,000 | −6,378 | −7.8 |
| | 5 | Welsh Office | Agricultural services, support for the fishing industry, regional and industrial development, Wales | 46,487 | 45,3~~08~~ 83 | −1,1~~70~~ 04 | −2.~~3~~ 4 |
| | 7 | Welsh Office | Administration | 31,724 | 31,621 | −103 | −0.3 |
| XVII | 1 | Northern Ireland Office | Law, order, protective and miscellaneous services, Northern Ireland | 403,051 | 400,954 | −2,097 | −0.5 |
| XVIII | 1 | Department of the Environment | Rate support grant to local revenues, England | 8,869,001 | 8,869,000 | −1 | −0.0 |
| | 2 | Welsh Office | Rate support grant to local revenues, Wales | 803,351 | 797,596 | −5,755 | −0.7 |
| | 3 | Department of the Environment | National parks supplementary grants, England | 5,500 | 5,500 | 0 | 0.0 |
| | 4 | Welsh Office | National parks supplementary grants, Wales | 1,900 | 1,900 | 0 | 0.0 |
| | 5 | Scottish Office | Rate support grant to local revenues, Scotland | 1,713,200 | 1,659,000 | −54,~~0~~00 2 | −3.2 |

Provisional

| *Class and vote* | *Accounting department* | *Description of expenditure* | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|
| 15 | Crown Estate Office | Pay and general administrative expenses | 842 | 760 | −82 | −9.7 |
| 18 | Department of Transport | Transport supplementary grants, England | 400,000 | 400,000 | 0 | 0.0 |
| 19 | Welsh Office | Transport supplementary grants, Wales | 31,000 | 31,000 | 0 | 0.0 |
| TOTAL CASH-LIMITED VOTES | | | 54,083,33~~6~~ 7 | ~~53,602,326~~ | ~~−481,010~~ | ~~−0.9~~ A |

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

(b) Virtually all the underspending was necessary due to higher European Community budget spending on overseas aid, the U.K. share of which is attributed to the public expenditure allocation for the aid programme.

A 53,604,201 -479,136 -0.9

38 JOB F5918-0011-04 HMSO D1-1 SIZE 48,0
REV:06-27 EXP:06-07 PC SIZ: 48

# CASH LIMITS 1984–85: PROVISIONAL OUTTURN
# LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND CERTAIN OTHER EXPENDITURE

**TABLE 2**

| *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 | BoE 1 | Bank of England administration costs in respect of note issue, exchange equalisation account and debt management | 80.9 | 79.7 | −1.2 | −1.5 |
| Department of the Environment | DoE/LA 1 | Capital expenditure by local authorities on roads and transport and housing, schools, further education and teacher training, personal social services and other environmental services | 2,452.6 | 66<br>3,3~~40~~.0 | +913.4<br>~~+887.4~~ | 7<br>+3~~6~~.2 |
| Department of the Environment | DoE/NT 1 | Capital expenditure in England by new towns on housing, roads, and commercial and industrial investment and certain water services | 31.7 | −25.5 | −57.2 | −180.4 |
| Department of the Environment | DoE/HC 1 | Capital expenditure in England on housing financed through the Housing Corporation | 617.1 | 610.~~3~~5 | −6.~~8~~6 | −1.1 |
| Department of the Environment | DoE/UA 1 | External financing requirements of Urban Development Corporations, capital expenditure on the urban programme and derelict land reclamation | 376.3 | 351.7<br>~~326.8~~ | −24.6<br>~~−49.5~~ | −6.5<br>~~−13.2~~ |
| Home Office | HO/LA 1 | Capital expenditure by local authorities on police, courts and probation | 121.0 | 97.8 | −23.2 | −19.2 |

| *Department* | *Cash block* | *Description of expenditure* | *Cash limit £ million* | *Provisional outturn £ million* | *Over-spend(+) or under-spend(−) £ million* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|
| NORTHERN IRELAND | | | | | | |
| Northern Ireland Departments | NID 1 | Services analogous to Great Britain services covered by cash limits | 2,062.5 | 2,055.3 | −7.2 | −0.3 |
| SCOTLAND | | | | | | |
| Scottish Office | SO/LA 1 | Capital expenditure by local authorities in Scotland on roads and transport, water and sewerage, police, education, social work, general services, urban programme, river purification and civil defence | 387.7 | 381.6 | −6.1 | −1.6 |
| Scottish Office | SO/LA 2 | 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 | 428.5 | 417.1 | −11.4 | −2.7 |
| WALES | | | | | | |
| Welsh Office | WO/LA 1 | Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher training, personal social services and other environmental services and by the Land Authority for Wales | 280.0 | 297.5 | +17.5 | +6.3 |
| | | TOTAL | 6,838.3 | ~~7,580.6~~ 7,631.7 | ~~+742.3~~ +793.4 | ~~+10.9~~ +11.6 |

28 JOB F5918-0013-02 H.M.S.O. D1-1 SIZE 34,5

REV:06-27 EXP:06-11 KB SIZ: 34.05



## CHANGES TO 1984–85 CASH LIMITS EXCLUDING TOKEN INCREASES

**Table 3** **£ thousand**

| *Class and vote* | | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other changes* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|---|
| GENTRAL GOVERNMENT VOTES | | | | | | | |
| I | 1,2,4&5 | Ministry of Defence | –21,060 | 251,000 | –33,817 | 196,123 | Reduction of £12.997m reflects surrender of VAT refunds on services contracted-out before 1 September 1983 and of excess provision following lower than anticipated take-up of the armed forces youth training scheme. Transfer of £9.364m to vote I,3 (non cash-limited) in respect of increased expenditure on retired pay and pensions. Transfer of £1m to vote XII,1 (non cash-limited) towards improved age allowances for war widows. Transfers of £0.046m and £0.36m to votes X,2 and XII,2 (non cash-limited) towards changes in benefit disregard for unemployed UDR members and territorial reservists. Transfer of £0.15m to vote IX,3 (non cash-limited) towards the costs of British representation at the hearings of the Australian Royal Commission on British nuclear tests. Transfer of £10m to vote XIV,2 for increased expenditure on consultants' fees for the design of defence works projects. Transfer of £0.1m of agreed provision hitherto unallocated to votes. ~~AU~~ announced on 5 February 1985. of G ALL |
| II | 1 | Foreign and Commonwealth Office | –335 | — | 2,831 | 2,496 | Additional provision of £3.347m from vote IX,7 following the transfer of responsibility for the Passport Office, partly offset by reduced requirements of £0.136m. Announced on 22 May 1984. Transfer of £1.2m to vote II,3. Announced on 31 July, 1984. Increase of £0.82m to compensate for the effects of increases in overseas inflation and adverse exchange rate movements. Announced on 6 February 1985. |
| | 3 | Foreign and Commonwealth Office (BBC) | –153 | — | 1,200 | 1,047 | Transfer of £1.2m from vote II,1 to cover the rephasing of the BBC's audibility programme. Announced on 31 July 1984. |
| | 4 | Foreign and Commonwealth Office (British Council) | — | — | 3,430 | 3,430 | Additional provision of £2m to compensate for the effect of increases in overseas inflation and adverse exchange rate movements and an increase in rent on its Spring gardens premises. Announced on 31 July 1984. Increase of £1.43m for that portion of overseas risen costs not covered by the earlier cash limit increase. Announced on 6 February 1985. |

11 JOB F5918-0014-03 H.M.S.O. D1-1 SIZE 34,5

REV:06-28 EXP:06-11 MB SIZ: 34.05

£ thousand

| Class and vote | | Accounting department | NIS reductions | End year flexibility | Other changes | Total | Reason for "Other" changes |
|---|---|---|---|---|---|---|---|
| | 9 | Overseas Development Administration | –28 | | –28 | | |
| III | 2 | Intervention Board for Agricultural Produce | –50 | — | 1,090 | 1,040 | Transfer of £0.432m from vote III,5 resulting from the transfer of certain staff concerned with audit and verification and with the payment of beef and sheep premium. Partly offset by reduced requirements of £0.002m. Announced on 22 May 1984. Transfer of £0.66m from vote III,4 to cover the additional workload arising from the CAP price fixing settlement, the record cereals harvest and the need for inspection under the beef premium scheme. Announced on 12 November 1984. |
| | 4 | Ministry of Agriculture Fisheries and Food | –24 | — | –1 | –25 | Increase of £1.715m to cover the costs of the launching of the Sea Fish Industry Authority's market development programme. Partly offset by savings of £0.305m on the turnover of food stocks. Announced on 22 May 1984. Increase of £6.249m for the milk supplementary levy (outgoers) scheme to producers discontinuing milk production for sale. Transfer of £0.66m to vote III,2 to cover additional administrative expenditure by the Intervention Board for Agricultural Produce. Announced on 12 November 1984. Reduction of £7m to partly offset increased expenditure on vote III,3 (non cash-limited). Announced on 13 February, 1985. |
| | 5 | Ministry of Agriculture Fisheries and Food | –518 | — | –432 | –950 | Transfer of provision to vote III,2. Announced on 22 May 1984 |
| | 6 | Forestry Commission | –239 | — | — | –239 | |
| IV | 2 | Department of Trade and Industry | — | 1,467 | –1,467 | — | To offset in part the overspend on regional and selective assistance on vote IV,1 (non cash-limited). Announced on 12 November 1984. |

14 JOB F5918-0015-02 HMSO D1-1 SIZE 34,5

REV:06-28 EXP:06-11 JB SIZ: 34.05



£ thousand

| *Class and vote* | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other changes* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|
| 4 | Department of Trade and Industry | −211 | — | −1,283 | −1,494 | Transfer of £0.023m to vote XIV,6. Announced on 22 May 1984. Reduction of £1.26m reflects the net effect of additional staff for the companies registration offices which results in increased revenue accruing to these offices and an increased provision for the National Association of Citizens Advice Bureaux. Announced on 13 June 1984. |
| 5 | Department of Energy | — | — | 65,000 | — | Increase of £45m to provide for a grant to the British National Oil Corporation. Announced on 12 November 1984. Net increase of £20m for a further grant to the BNOC. Announced on 19 February 1985. |
| 6 | Department of Trade and Industry | −107 | — | −211 | −318 | Reduction of provision in respect of breach of cash limit. Announced on 12 November 1984. |
| 7 | Department of Energy | −441 | — | — | −441 | |
| 13 | Department of Employment | −900 | — | −9,000 | −9,900 | Transfer of provision to vote IV,17. Announced on 12 February 1985. |
| 16 | Department of Employment | −787 | 1,000 | — | 213 | |
| 17 | Department of Employment | −623 | — | 9,000 | 8,377 | Transfer of provision from vote IV, 13 to meet the cost of additional staff in the unemployment benefit service to cover the consequences of revised economic assumptions and of the industrial action by staff at the DHSS at Newcastle. Announced on 12 February 1985. |
| 18 | Department of Trade and Industry | −311 | — | — | −311 | |

£ thousand

| Class and vote | | Accounting department | NIS reductions | End year flexibility | Other changes | Total | Reason for "Other" changes |
|---|---|---|---|---|---|---|---|
| | 22 | Department of Employment | −170 | — | — | −170 | |
| | 25 | Department of Energy | — | — | 1,242 | 1,242 | To meet remanet expenses of the sale of BP shares in 1983-84. Announced on 14 June 1984. |
| | 26 | Department of Trade and Industry | — | — | 536 | 536 | To meet remanet expenses of the sale of Cable and Wireless shares in 1983-84. Announced on 14 June 1984. |
| | 28 | Department of Trade and Industry | — | — | 500 | 500 | To cover certain preliminary expenses in connection with the sale of government shares in British Aerospace. Announced on 15 January 1985. |
| V | 10 | Office of Arts and Libraries | | | 241 | 241 | To meet the cost of residual payments by the South Bank Theatre Board to its contractors and consultants in connection with erecting and equipping the National Theatre building. Announced on 1 February 1985. |

35 JOB F5918-0017-02 HMSO D1-1 SIZE 34,5

REV:06-27 EXP:06-11 JB SIZ: 34.05

£ thousand

| *Class and vote* | | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other changes* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|---|
| VI | 1 | Department of Transport | — | 1,357 | — | 1,357 | |
| | 2 | Department of Transport | −381 | — | 15 | −366 | Transfer from vote IX,7 reflecting the transfer of responsibility for taxis. Announced on 22 May 1984. |
| | 4 | Department of Transport | −169 | — | −1,674 | −1,843 | Reduced requirements. Announced on 22 May 1984. |
| | 6 | Department of Transport | — | — | 1,259 | 1,259 | To meet costs arising from preliminary work on the sale of shares in British Airways plc. Announced on 29 January 1985. |
| VIII | 2 | Department of Environment | −155 | | 2,550 | 2,395 | To cover an increase in the Nature Conservancy Council's grant-in-aid for work on habitat protection. Offset by a reduction in the DOE/NT1 cash block. Announced on 30 October 1984. |
| | 4 | Department of Environment | −134 | 322 | 21,843 | 22,031 | Reduced requirements of £0.157m. Announced on 22 May 1984. Additional provision of £22m to cover an increase of provision for the grant-in-aid to the National Heritage Memorial Fund. Offset by reductions in vote VIII,5 and the DOE/NT1 cash block. Announced on 21 February 1985. |
| | 5 | Department of Environment | −342 | — | −6,725 | −7,067 | Additional provision of £0.275m to cover the costs of the establishment of the London and Metropolitan Government Staff Commission. Announced on 22 May 1984. Transfer of £7m to vote VIII,4. Announced on 21 February 1985. |
| IX | 1 | Lord Chancellor's Department | −171 | — | — | −171 | |
| | 2 | Northern Ireland Court Service | — | 69 | — | 69 | |
| | 7 | Home Office | −440 | — | −13,362 | −13,802 | Transfer of £3.347m to vote II,1 and £0.015m to vote VI,2. Announced on 22 May 1984. Reduced requirements of £10m, mainly on capital expenditure on police technical services and training and accommodation. Announced on 1 March 1985. |
| | 8 | Home Office | −1,491 | 348 | — | −1,143 | |

15 JOB F5918-0018-03 HMSO D1-1 SIZE 34,5

REV:06-28 EXP:06-11 MB SIZ: 34.05

£ thousand

| *Class and vote* | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other changes* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|
| 9 | Treasury Solicitor's Department | −135 | — | 1,295 | 1,160 | Increase of £0.094m to pay for the establishment on 1 January 1985 of a fraud investigation group by the Director of Public Prosecutions. Increase of £1.22m is required as a result of the misallocation of the provision transferred from the Property Services Agency for the property repayment services. Partly offset by increased receipts of £0.019m and the transfer of £0.422m from vote X,4 where the Property Repayment Services was originally allocated. Announced on 12 November 1984. |
| 3 | Department of Education and Science | — | 831 | — | 831 | |
| 4 | Department of Education and Science | −105 | — | −422 | −527 | Transfer of provision to vote IX,9. Announced on 12 November 1984. |
| 5 | Department of Education and Science | — | 142 | — | 142 | |

16 JOB F5918-0019-04 H.M.S.O. D1-1 SIZE 34,5

REV:06-28 EXP:06-11 JB SIZ: 34.05

£ thousand

| Class and vote | | Accounting department | NIS reductions | End year flexibility | Other changes | Total | Reason for "Other" changes |
|---|---|---|---|---|---|---|---|
| XI | 1 | Department of Health and Social Security | −21,848 | — | 130,492 | 130,492 | Additional provision of £122.97m to take account of the pay awards to doctors, dentists, nurses, midwives,and professions allied to medicine. Announced on 31 July 1984. Increase of £29.37m to take account of the pay awards to staff who are not covered by pay review bodies. Announced on 12 November 1984. |
| XII | 5 | Department of Health and Social Security | −1,746 | — | 23,474 | 21,728 | To meet the net cost of the dispute at the Newcastle central office of the DHSS. Announced on 12 February. |
| XIII | 4 | Her Majesty's Treasury | −95 | — | — | −95 | |
| | 5 | Customs and Excise | −1,088 | — | 748 | −340 | Additional provision for the administration of tax changes announced in the Budget. Announced on 22 May 1984. |
| | 6 | Inland Revenue | −2,439 | 458 | — | −1,981 | |
| | 10 | Department for National Savings | −235 | — | — | −235 | |
| | 17 | Land Registry | −242 | — | — | −242 | |
| | 18 | Charity Commission | — | — | 74 | 74 | To provide principally for costs associated with the computer installation in the official custodians division. Announced on 12 November 1984. |

18 JOB F5918-0020-04 HMSO D1-1 SIZE 34,5
REV:06-28 EXP:06-11 MB SIZ: 34.05

£ thousand

| Class and vote | | Accounting department | NIS reductions | End year flexibility | Other changes | Total | Reason for "Other" changes |
|---|---|---|---|---|---|---|---|
| | 23 | Ordnance Survey | −103 | — | — | −103 | |
| XIV | 1 | Property Services Agency | −88 | — | — | −88 | |
| | 2 | Property Services Agency | −709 | — | 10,000 | 9,291 | Transfer from vote I,5 to pay for consultants' fees to meet the requirements of the defence works programme. Announced on 7 February 1985. |
| | 6 | Government Actuary's Department | −3 | — | 23 | 20 | Transfer from vote IV,4 reflecting the transfer of certain work on the supervision of insurance. Announced on 22 May 1984. |
| XV | 2 | Department of Agriculture and Fisheries for Scotland | — | — | −727 | −727 | Increase of £0.775m for the milk supplementary levy (outgoers) scheme to producers discontinuing milk production for sale. Partly offset by savings made following the abolition of the National Insurance Surcharge. Announced on 12 November 1984. Savings of £1.5m used to offset additional expenditure on agricultural support schemes on vote XV,1 (non cash-limited). Announced on13 February 1985. |
| | 3 | Industry Department for Scotland | — | 1,127 | −2,338 | −1,211 | Reduction to reflect an increase on vote XV,5 (non cash-limited). Announced on 12 November 1984. |
| | 4 | Industry Department for Scotland | −80 | — | — | −80 | |
| | 6 | Scottish Development Department | −4 | 4,910 | −61 | 4,845 | Reduced requirement. Announced on 12 November 1984. |
| | 11 | Scottish Courts Administration | — | — | −50 | −50 | Reduction of £0.05m in respect of the overspend on the 1983-84 cash limit. Announced on 1 April 1985. |

42 JOB F5918-0021-02 HMSO D1-1 SIZE 34.5

REV:06-27 EXP:06-11 KB SIZ: 34.05

£ thousand

| *Class and vote* | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other changes* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|
| 14 | Scottish Home and Health Department | −4,158 | 5,142 | 21,663 | 22,647 | Increase of £18.92m to take account of the pay awards to doctors, dentists, nurses, midwives and professions allied to medicine. Announced on 31 July 1984. Increase of £3.85m to take account of the pay awards to staff who are not covered by the pay review bodies. Announced on 12 November 1984. Savings of £1.107m used to offset additional expenditure on the family practitioner services in Scotland on vote XV,20 (non cash-limited). Announced on 13 February 1985. |
| 24 | Scottish Office | −328 | — | −145 | −473 | Reduced requirement. Announced on 22 May 1984. |
| XVI 1 | Welsh Office | −1,933 | — | −5,489 | −7,422 | Increase of £8.166m to take account of the pay awards to doctors, dentists, nurses, midwives and professions allied to medicine. Announced on 31 July 1984. Increase of £1.943m to take account of the pay awards to staff who are not covered by pay review bodies. Savings of £2.025m from the roads and transport programme used to offset overspend on selective financial assistance on vote XVI,3 (non cash-limited). Announced on 12 November 1984. Reduction of £10.573m to reflect decreased spending on the trunk programme, mainly on account of protracted negotiations on land aquisition and a lower rate of spend on schemes under construction than forecast. Announced on 13 February 1985. Reduction of £3m to offset an increase in the external financing limit of the Welsh Water Authority. Announced on 13 March 1985. |

17 JOB F5918-0022-02 HMSO D1-1 SIZE 34,5
REV:06-28 EXP:06-11 JB SIZ: 34.05

£ thousand

| Class and vote | Accounting department | NIS reductions | End year flexibility | Other changes | Total | Reason for "Other" changes |
|---|---|---|---|---|---|---|
| 4 | Welsh Office | −41 | — | — | −41 | |
| 5 | Welsh Office | ~~—~~ −17 | — | −2,492 | ~~−2,492~~ −2,509 | Net decrease of £1.22m. Incorporated increase of £1.26m for the milk supplementary levy (outgoers) scheme to producers discontinuing milk production for sale and savings of £2.5m of Welsh Development Agency's grant-in-aid required to offset additional expenditure on vote XVI,3 (non cash-limited). Announced on 12 November 1984. Reduction of £1.27m reflecting the transfer of resources to the Welsh Development Agency's borrowing facility. Announced on 13 February 1985. |
| 7 | Welsh Office | −172 | | | −172 | |
| XVII 1 | Northern Ireland Office | −1,000 | — | — | −1,000 | |
| XVIII 1 | Department of the Environment | — | — | −454,000 | −454,000 | Net reduction of £454m in respect of the abatement and recovery of block grant. Announced on 14 June 1984 and 12 November 1984. |
| 2 | Welsh Office | — | — | −13,800 | −13,800 | Block grant holdback. Announced on 13 June 1984. |
| | TOTAL VOTED | −65,~~792~~ 809 | 268,17~~1~~ 3 | −292,~~7~~ 1 42 | −89,~~864~~ 778 | |

19 JOB F5918-0023-03 HMSO D1-1 SIZE 34,5

REV:06-28 EXP:06-11 JB SIZ: 34.05

£ million

| *Cash block* | *Accounting department* | *NIS reductions* | *End year flexibility* | *Other* | *Total* | *Reason for "Other" changes* |
|---|---|---|---|---|---|---|
| NON VOTED CASH LIMITS 1984-85 | | | | | | |
| BOE1 | Bank of England | −0.1 | — | — | −0.1 | |
| DOE/NT1 | Department of the Environment | — | 3.1 | −17.6 | −14.5 | Transfer of £2.6m to vote VIII,2. Announced on 30 October 1984. Transfer of £15m to vote VIII,4. Annonuced on 21 February 1985. |
| DOE/~~UA1~~ HC1 | Department of the Environment | — | ~~6.8~~ 0.1 | — | ~~6.8~~ 0.1 | |
| HO/LA1 | Home Office | — | 2.2 | — | 2.2 | |
| NID1 | Northern Ireland Departments | −3.5 | 5.6 | 9.0 | 11.1 | Increase of £6m to take account of pay awards to doctors, dentists, nurses, midwives and professions allied to medicine. Announced on 31 July 1984. Increase of £1.3m to take account of the awards to staff who are not covered by pay review bodies. Increase of £1.7m for the milk supplementary (outgoers) scheme. Announced on 12 November 1984. |
| SO/LA1 | Scottish Office | — | — | −3.4 | −3.4 | Reduction is in respect of the overspend for the 1983-84 cash block. Announced on 21 March 1985. |
| SO/LA2 | Scottish Office | — | — | −38.3 | −38.3 | Reduction is in respect of housing expenditure limits, the overspend on 1983-84 cash block and to take account of supplementary provision required on vote XV,9. Announced on 21 March 1985. |
| ~~WO/LA1~~ | ~~Welsh Office~~ | | | | | |
| | TOTAL | −3.6 | ~~17.7~~ 11.0 | ~~−58.2~~ −50.3 | ~~−44.2~~ −42.9 | |

23

## NATIONALISED INDUSTRIES EXTERNAL FINANCING LIMITS 1984-85: ~~PRO-~~ PROVISIONAL OUTTURN

**Table 4**

| | *EFL for 1984-85* | | *£million* |
|---|---|---|---|
| | *As in Cmnd 9143* | *Revised (NIS and other changes)* | *Latest estimated outturn* |
| National Coal Board | 1103 | 1094 | 1720 |
| Electricity (England and Wales) | −740 | −746 | 523 |
| North of Scotland Hydro-Electric Board | −2 | −3 | 42 |
| South of Scotland Electricity Board | 261 | 261 | 285 |
| British Gas Corporation | −100 | −188 | −189 |
| British National Oil Corporation (2) | −4 | 66 | 43 |
| British Steel Corporation | 275 | 343 | 524 |
| British Telecom (3) (5) | −250 | −262 | ~~−335~~ −341 |
| Post Office | −52 | −60 | −70 |
| National Girobank | −1 | −1 | −1 |
| British Airways Board (5) | −160 | −162 | ~~−348~~ −335 |
| British Airports Authority | 10 | 10 | 10 |
| British Railways Board | 936 | 930 | 1045 |
| British Waterways Board | 43 | 43 | 43 |
| National Bus Company | 66 | 64 | 56 |
| Scottish Transport Group | 16 | 15 | 14 |
| British Shipbuilders (Merchant) | 175 | 137 | 158 |
| British Shipbuilders (Warships) | | 80 | 78 |
| Civil Aviation Authority | 20 | 19 | −10 |
| Water (England and Wales) | 286 | 287 | 286 |
| Enterprise Oil (4) (5) | — | — | −20 |
| Total Industries | 1881 | 1927 | 3859 |

*Notes*

1. All figures to nearest £ million
2. Because of uncertainties associated with oil trading, the BNOC External Financing Requirement is not expressed as a formal limit.
3. British Telecom was privatised on 28 November 1984. The outturn figure given is for 1984-85 up to that date.
4. Enterprise Oil was privatised on 27 June 1984. The outturn figure given is for 1984-85 up to that date.
5. Aggregate EFL's published in Cmnd 9143 made the same assumptions about Enterprise Oil, British Telecom and British Airways Board as the 1983 Autumn Statement but did not give individual EFL's for those industries. The Cmnd 9143 EFL's quoted above are as set out in the 1983 Autumn Statement.

## CASH LIMITS 1983-84: OUTTURN
## CENTRAL GOVERNMENT VOTES

**Table 5**

| *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 | 6,044,397 | 6,015,665 | | |
| | 2 | Ministry of Defence | Defence procurement | 7,370,029 | 7,137,979 | −225,139 | −1.5(a) |
| | 4 | Property Services Agency | Defence accommodation services etc | 933,000 | 933,536 | | |
| | 5 | Ministry of Defence | Dockyard services | 421,826 | 426,933 | | |
| II | 1 | Foreign and Commonwealth Office | Overseas representation: diplomatic, consular and other Foreign and Commonwealth services | 325,614 | 325,326 | −288 | −0.1 |
| | 3 | Foreign and Commonwealth Office | British Broadcasting Corporation: external services | 76,582 | 76,434 | −148 | −0.2 |
| | 4 | Foreign and Commonwealth Office | British Council | 41,795 | 41,795 | 0 | 0.0 |
| | 6 | Cabinet Office | Secret service | 70,785 | 70,645 | −140 | −0.2 |
| | 8 | Foreign and Commonwealth Office | Overseas aid | 1,007,674 | 1,005,207 | −2,467 | −0.2 |
| | 9 | Foreign and Commonwealth Office | Overseas aid administration | 25,234 | 24,591 | −643 | −2.5 |
| III | 3 | Ministry of Agriculture Fisheries and Food | Other agricultural and food services | 94,729 | 89,169 | −5,560 | −5.9 |
| | 4 | Intervention Board for Agricultural Produce | Central administration | 18,408 | 18,017 | −391 | −2.1 |
| | 5 | Ministry of Agriculture Fisheries and Food | Support for the fishing industry | 28,208 | 23,460 | −4,748 | −16.8 |

| *Class and vote* | | *Accounting department* | *Description of expenditure* | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|---|
| | 6 | Forestry Commission | Forestry | 58,482 | 58,482 | 0 | 0.0 |
| | 7 | Ministry of Agriculture Fisheries and Food | Departmental administration | 192,848 | 186,268 | −6,580 | −3.4 |
| IV | 2 | Department of Trade and Industry | Miscellaneous support services | 34,842 | 33,136 | −1,706 | −4.9 |
| | 4 | Department of Trade and Industry | Pay, general administrative expenses, export promotion, shipping services, etc. | 196,~~178~~ 606 | 192,233 | ~~−3,945~~ −4,373 | −2.~~0~~2 |
| | 5 | Department of Energy | Industrial support | 83,604 | 81,004 | −2,600 | −3.1 |
| | 6 | Department of Trade and Industry | Scientific and technological assistance | 322,320 | 322,532 | 212 | 0.1 |
| | 7 | Department of Energy | Scientific and technological assistance: nuclear energy | 207,441 | 206,968 | −473 | −0.2 |
| Ls | 9 | Export Credit Guarantee Department | International trade: export credit services and insurance of investment overseas (central services) | 25,632 | 24,973 | −659 | −2.6 |
| | 11 | Registry of Friendly Societies | Pay and general administrative expenses | 1,677 | 1,530 | −147 | −8.8 |
| | 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 | 516,402 | −2,879 | −0.6 |
| | 15 | Department of Employment | Advisory, Conciliation and Arbitration Service | 12,789 | 12,776 | −13 | −0.1 |
| | 16 | Department of Employment | Manpower Services Commission | 1,183,755 | 1,096,290 | −87,465 | −7.4 |
| | 17 | Department of Employment | Administration | 184,091 | 175,293 | −8,798 | −4.8 |
| | 18 | Department of Trade and Industry | Central and miscellaneous services | 75,504 | 74,193 | −1,311 | −1.7 |

| 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 Energy | Administrative and miscellaneous services | 23,840 | 22,767 | −1,073 | −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 | 85,651 | −2,122 | −2.4 |
| | 24 | H M Treasury | Administrative expenses of the sale of shares in British Petroleum plc | 1 | 0 | −1 | −100.0 |
| | 25 | Department of Trade and Industry | Administrative expenses of the sale of shares in British Telecommunications plc | 750 | 515 | −235 | −31.3 |
| | 26 | H M Treasury | Administrative expenses of the sale of shares in Cable and Wireless plc | 1 | 0 | −1 | −100.0 |
| VI | 1 | Department of Transport | Roads etc. England | 717,439 | 708,555 | −8,884 | −1.2 |
| | 2 | Department of Transport | Transport services and central administration | 113,083 | 100,213 | −12,870 | −11.4 |
| | 4 | Department of Transport | Driver and vehicle licensing | 98,810 | 95,411 | −3,399 | −3.4 |
| | 5 | Department of Transport | Administrative expenses of the sale of shares in Associated British Ports plc | 300 | 260 | −40 | −13.3 |
| | 6 | Department of Transport | Administrative expenses of the sale of shares in British Airways plc | 50 | 50 | 0 | 0.0 |
| | 2 | Department of the Environment | Central environmental services, etc | 118,702 | 117,698 | −1,004 | −0.8 |
| | 4 | Department of the Environment | Royal palaces, royal parks, historic buildings, ancient monuments, etc | 82,046 | 79,585 | −2,461 | −3.0 |

| Class and vote | | Accounting department | Description of expenditure | Cash limit £ thousand | Outturn £ thousand | Over-spend(+) or under-spend(−) £ thousand | Over-spend(+) or under-spend(−) % |
|---|---|---|---|---|---|---|---|
| VIII | 5 | Department of the Environment | Central administration and environmental research | 168,805 | 162,958 | −5,847 | −3.5 |
| | 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 | 84,205 | −1,482 | −1.7 |
| | 2 | Northern Ireland Court Service | Administration of justice: Northern Ireland | 7,821 | 7,711 | −110 | −1.4 |
| | 7 | Home Office | Services related to crime, treatment of offenders, community and miscellaneous services | ~~39,19~~ 39,199 | 37,788 | −1,411 | −3.6 |
| | 8 | Home Office | Prisons: England and Wales | 534,333 | 534,071 | −262 | 0.0 |
| | 9 | Home Office | General protective services and civil defence: England and Wales | 78,538 | 73,182 | −5,356 | −6.8 |
| | 11 | Home Office | Central and administrative services | 159,230 | 153,262 | −5,968 | −3.7 |
| | 2 | Treasury Solicitor's Department | 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 |
| | 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 |

| *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 | 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 | 12,350 | −61 | −0.5 |
| 13 | Office of Arts And Libraries | Science Museum | 7,651 | 7,642 | −9 | −0.1 |
| 14 | Office of Arts And Libraries | Victoria and Albert Museum | 10,315 | 10,299 | −16 | −0.2 |
| 15 | Trustees of Imperial War Museum | Imperial War Museum | 4,099 | 3,997 | −102 | −2.5 |
| 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 | 3,988 | −51 | −1.3 |
| 18 | Trustees of National Portrait Gallery | National Portrait Gallery | 1,771 | 1,757 | −14 | −0.8 |
| 19 | Trustees of Tate Gallery | Tate Gallery | 5,321 | 5,320 | −1 | 0.0 |
| 20 | Trustees of Wallace Collection | Wallace Collection | 783 | 781 | −2 | −0.3 |
| 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 |

| 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 | Office of Arts And Libraries | Central administration | 3 | 0 | −3 | |
| XI | 1 | Department of Health and Social Security | Health and personal social services | 8,454,143 | 8,447,106 | −7,037 | −0.1 |
| XII | 5 | Department of Health and Social Security | Administration and miscellaneous services | 711,022 | 701,317 | −9,705 | −1.4 |
| XIII | 3 | Privy Council Office | Pay and general administrative expenses | 909 | 847 | −62 | −6.8 |
| | 4 | H M Treasury | Economic and financial administration | 41,562 | 40,860 | −702 | −1.7 |
| | 5 | Customs and Excise | Economic and ~~financial 318,047~~ financial administration | ~~318,030~~ 318,047 | ~~−17~~ 318,030 | ~~0.0~~ −17 | 0.0 |
| | 6 | Inland Revenue | Pay and general administrative expenses | 748,015 | 747,179 | −836 | −0.1 |
| | 8 | Exchequer and Audit Department | Economic and financial administration | 11,237 | 10,387 | −850 | −7.6 |
| | 9 | National Investment and Loans Office | Pay and general administrative expenses | 1 | 0 | −1 | −100.0 |
| | 10 | Department for National Savings | Pay and general administrative expenses | 141,934 | 137,777 | −4,157 | −2.9 |
| | 12 | Management and Personnel Office | Central management of the Civil Service | 30,625 | 30,127 | −498 | −1.6 |
| | 13 | HM Treasury | Computer and telecommunications | 11,273 | 9,049 | −2,224 | −19.7 |
| | 14 | HM Treasury | Civil Service catering service | 295 | 86 | −209 | −70.8 |
| | 15 | Public Record Office | Pay and general administrative expenses | 8,458 | 8,277 | −181 | −2.1 |
| | 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 | 64,176 | −301 | −0.5 |
| | 18 | Charity Commission | Pay and general administrative expenses | 4,820 | 4,691 | −129 | −2.7 |

| *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 | Cabinet Office | Pay and general administrative expenses | 13,891 | 13,597 | −294 | −2.1 |
| | 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 | Ordance Survey | Pay and general administrative expenses on mapping services | 16,894 | 14,324 | −2,570 | −15.2 |
| XIV | 1 | Property Services Agency | Civil accommodation repayment services | 276,991 | 273,012 | −3,979 | −1.4 |
| | 2 | Property Services Agency | Administration and miscellaneous services | 320,305 | 318,444 | −1,861 | −0.6 |
| | 3 | Property Services Agency | Other civil accommodation services | 154,946 | 154,944 | −2 | 0.0 |
| | 4 | Central Office of Information | Publicity and departmental administration | 48,301 | 47,885 | −416 | −0.9 |
| | 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 | 9,817 | −434 | −4.2 |
| XV | 2 | Department of Agriculture and Fisheries for Scotland | Agricultural service and Fisheries: Scotland | 58,544 | 55,999 | −2,545 | −4.3 |
| | 3 | Industry Department for Scotland | Regional and general industrial support: Scotland | 129,800 | 128,673 | −1,127 | −0.9 |
| | 4 | 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 | 135,665 | −7,486 | −5.2 |
| | 11 | Scottish Courts administration | Administration of justice: Scotland | 7,617 | 7,667 | +50 | +0.7 |
| | 14 | Scottish Home and Health Department | Prisons, hospitals and community health services, etc, Scotland | 1,347,902 | 1,341,744 | −6,158 | −0.5 |

| *Class and vote* | | *Accounting department* | *Description of expenditure* | *Cash limit £ thousand* | *Outturn £ thousand* | *Over-spend(+) or under-spend(−) £ thousand* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|---|
| | 15 | Scottish Education Department | Education, libraries arts and social work: Scotland | 111,728 | 109,117 | −2,611 | −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 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 | 788 | 0 | 0.0 |
| | 21 | Scottish Record Office | Pay and general administrative expenses | 1,433 | 1,376 | −57 | −4.0 |
| | 22 | General Register Office for Scotland | Pay and general administrative expenses | 3,852 | 3,604 | −248 | −6.4 |
| | 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 | 92,570 | −1,145 | −1.2 |
| XVI | 1 | Welsh Office | Tourism, roads and transport, housing, other environmental services, education, libraries, arts, health and personal social services: Wales | 728,589 | 725,131 | −3,458 | −0.5 |
| | 4 | Welsh Office | Manpower Services Commission: Wales | 71,142 | 61,674 | −9,468 | −13.3 |
| | 5 | Welsh Office | Agriculture services, support for fishing industry, industrial development: Wales | 46,948 | 46,499 | −449 | −1.0 |
| | 7 | Welsh Office | Other services | 30,506 | 30,319 | −187 | −0.6 |
| XVII | 1 | Northern Ireland Office | Law order and protective services: Northern Ireland | 384,717 | 372,136 | −12,581 | −3.3 |
| XVIII | 1 | Department of the Environment | Rate support grant to local revenues: England | 9,416,002 | 9,192,000 | −224,002 | −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(−) %* |
|---|---|---|---|---|---|---|
| 2 | Welsh Office | Rate support grants to local revenues: Wales | 827,502 | 815,042 | −12,460 | −1.5 |
| 3 | Department of the Environment | National parks supplementary grants: England | 5,265 | 5,265 | 0 | 0.0 |
| 4 | Welsh Office | National parks supplementary grants: Wales | 1,800 | 1,800 | 0 | 0.0 |
| 5 | Scottish Office | Rate support grants 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 | 1,642 | −25 | −1.5 |
| 18 | Department of Transport | Transport supplementary grants: England | 450,000 | 450,000 | 0 | 0.0 |
| 19 | Welsh Office | Transport supplemenatry grants: Wales | 31,000 | 31,000 | 0 | 0.0 |
| | | TOTAL | ~~51,567,445~~ | ~~50,729,187~~ | ~~838,258~~ | ~~−1.6~~ |

A 51,567,873 50,706,187 −861,686 −1.7

NOTES

~~Notes~~

(a) The four cash are each seperate cash limits, but by, agreement with the Treasury they are managed as a global cash limit.

# CASH LIMITS 1983–84: OUTTURN
# LOCAL AUTHORITIES' CAPITAL EXPENDITURE BLOCKS AND CERTAIN OTHER EXPENDITURE

**Table 6**

| *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 | BoE 1 | 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 | −0.1 | −0.0 |
| Department of the Environment | DoE/LA1 | Capital expenditure by local authorities on roads and transport, ~~and~~ housing, schools, further education and teacher training, personal social services and other Environmental services | 2,935.4 | 3,350.4 | +415.0 | +14.1 |
| Department of the Environment | DoE/NT1 | Capital expenditure in England by new towns on housing, roads, sewerage, and commercial and industrial investment | 62.0 | 35.2 | −26.8 | −43.2 |
| Home Office | HO/LA1 | Capital expenditure by local authorities on police, courts and probation | 110.5 | 69.4 | −41.1 | −37.2 |
| SCOTLAND Scottish Office | SO/LA1 | Capital expenditure by local authorities in Scotland on roads and transport, water and sewerage, police, education, social work, general services, urban programme, river purification and civil defence. | 385.3 | 388.8 | +3.5 | +0.9 |

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| *Department* | *Cash block* | *Description of expenditure* | *Cash limit £ million* | *Provisional outturn £ million* | *Over-spend(+) or under-spend(−) £ million* | *Over-spend(+) or under-spend(−) %* |
|---|---|---|---|---|---|---|
| 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 | 484.8 | +17.5 | +3.7 |
| WALES Welsh Office | WO/LA1 | Capital expenditure in Wales by local authorities, new towns and the Housing Corporation on roads and transport, housing, schools, further education and teacher and teacher training, personal social services and other environmental services and by the Land Authority for Wales | 348.6 | 356.9 | +8.3 | +2.4 |
| NORTHERN IRELAND Northern Ireland Departments | NID 1 | Services analagous to Great Britain services covered by cash limits | 1,972.4 | 1,963.0 | −9.4 | −0.5 |
| | | TOTAL | 6,982.7 | 7348.7 | +366.0 | +5.2 |



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CHIEF SECRETARY TO THE TREASURY

Andrew

The timing - 11 July - is deliberate: Cabinet should drown out what (minimal) noise this announcement makes.

The press briefing below tells you which are the points which could be raised.

JB 8/7

007/955

**BRIEFING FOR THE PUBLICATION ON THURSDAY 11 JULY AT 3.30pm OF CASH LIMITS PROVISIONAL 1984-85 OUTTURN WHITE PAPER**

**A. FACTUAL**

i. As usual, there was in aggregate some underspending on cash limits. For cash limits on voted expenditure, there was shortfall of £480 million (0.9 per cent). The largest underspend was on defence (£130 million). Underspending on the Manpower Services Commission group (£18 million) much lower than in previous years, partly owing to improved take-up of the Youth Training Scheme (YTS). Excluding these and the RSG votes, underspending on votes subject to cash limits low but still greater than in 1983-84 (see Annex A), mainly because the 1983-84 underspend was affected by the reduced cash limits announced on 7 July 1983.

ii. The outturn on non-voted cash limits dominated by the significant overspend on two local authority capital expenditure blocks. The other non-voted expenditure was within the cash limits.

iii. Five cash limits out of 130 exceeded (see Annex B for comparison with earlier years). Two were on local authority capital expenditure [DOE/LA1, £913 million or 37.2 per cent, and WO/LA1, £17.5 million or 62 per cent]. The other three were:

a. Crown Office (Class IX, vote 10). The excess of £0.1m due to higher than expected salary and accommodation costs. The excess represents less than 1 per cent of the cash limit.

b. Property Services Agency (Class XIV, vote 1). Rents and other receipts proved to have been overestimated. Offsetting shortfalls on expenditure subheads not on scale forecast as projects progressed faster than expected. The excess of £12.2m represents 2.3 per cent of the cash limit.

c. National Galleries of Scotland (Class XV, vote 18). The extra expenses of moving the Gallery of Modern Art to new premises could not, in the event, be accommodated within the cash limit, despite expectations at the time that it would. The excess represents less than ¼ per cent of the cash limit.

iv. If a cash limit is exceeded, there is an investigation into the causes which usually includes an examination of the financial procedures of the department concerned. It remains the Government's policy to deduct the overspend from the following year's cash limit though the application of the policy has been modified this year in relation to local authorities, see Section C. The other cash limit reductions will be announced in due course.

v. The figures in Table 1 of the White Paper are provisional until departments have finalised their Appropriation Accounts. Subsequent changes are, however, usually fairly small.

vi. Approximately £200m of the total underspend will be carried over into 1985-86 cash limits under the end-year flexibility scheme for capital expenditure (mainly on defence votes). [Cash limit increases will be announced in due course.]

B. POINTS TO MAKE

i. Almost all the cash limits correctly observed, as have vast majority since cash limits were introduced in 1976-77. The cash limit system continues to be highly effective.

ii. The Government remains committed to the use of cash limits and is determined that they should be a firm and effective control on spending.

iii. Underspending on cash limits a natural consequence of treating them as limits and not as targets. The extent of underspending on individual cash limits governed by a range of factors which can differ markedly from one cash limit to another and from one year to another. The end-year flexibility scheme enables some carryforward of capital underspend, thereby improving management of capital programmes.

C. DEFENSIVE

1. <u>Cash limit reductions this year for the breaches</u>?

Deductions in all three of the breaches on voted cash limits [see below for LA breaches].

2. <u>Breaches indicate public expenditure out of control</u>?

The central government breaches were all for small amounts (about £12m in total) and insignificant in the context of overall public expenditure control. Only three out of 123 voted cash limits were breached. Detailed improvements to departmental financial control systems will be made as necessary. [See below for LA breaches.]

3. <u>LA capital spending out of control</u>?

i. The likelihood of overspending on two LA capital cash limits (DOE/LA1 in England and WO/LA1 in Wales) was recognised from statistical returns made early in 1984-85. That is why LAs were asked for voluntary restraint in their 1984-85 capital spending. Without that call, the £905 million overspend would probably have been larger.

ii. The basic cause of the overspend is the flexibility that the legislation gives LAs to determine their spending levels at the local level, which is not adequately reflected at the national level. This is one of the reasons why the LA capital control system in England and Wales is currently under review.

iii. Because of the way the existing LA capital control system works, [and the size of the overspend], it may not always be possible, to deduct any overspending from the cash limit in the year immediately following the overspend. (The 1983-84 overspend was taken into account in the 1985-86 cash limits.) Nevertheless, the latest overspend will be taken into account when spending levels are discussed in the Survey.

iv. Any detailed questions about specific cash limits: refer to DOE or WO as appropriate.

## ANNEX A : UNDERSPENDS ON CASH LIMITS

| | 1980-81 % | 1981-82 % | 1982-83 % | 1983-84 % | 1984-85 % |
|---|---|---|---|---|---|
| Defence | (0.6)* | 0.0 | 0.2 | 1.7 | 0.8 |
| MSC | 1.1 | 5.8 | 19.9 | 8.3 | 1.3 |
| RSG | 1.8 | 0.7 | 3.6 | 2.3 | 0.5 |
| Other | 1.7 | 3.2 | 1.4 | 0.8 | 1.0 |
| Total | 1.1 | 1.8 | 2.1 | 1.6 | 0.8 |

* = overspend

## ANNEX B

The number of breaches of cash limits in recent years:-

| | | (of which non-voted) |
|---|---|---|
| 1978-79 | 3 | 2 |
| 1979-80 | 11 | 2 |
| 1980-81 | 5 | 2 |
| 1981-82 | 2 | 1 |
| 1982-83 | 4 | - |
| 1983-84 | 6 | 3 |
| 1984-85 | 5 | 2 |

Public Exp.

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RT. HON. NIGEL LAWSON, M.P.

Extract from a speech by the Rt. Hon. Nigel LAWSON, M.P., (Blaby), Chancellor of the Exchequer to the Conservative Political Centre Summer School at Oxford on Saturday, 6th July, 1985.

Public spending is - once again - high on the political agenda. How much should the Government take out of peoples incomes to spend on public services?

The Opposition choose the easy option. Spend more on everything.

Labour and Liberals (with their junior partners in tow) vie with each other for the title 'Last of the big spenders'.

Labour, given the chance, would spend until they were forced to stop. That was the story of the last Labour government. Spend, spend, spend until the IMF bailiffs come in. Then slash, slash, slash.

For them winning an election is like winning the pools. And just about as likely.

When the cash runs out there are savage cuts. Boom and bust.

The Liberals - true to their Lib-Lab ancestry - are now on the same course. They say they will increase spending everywhere.

A cheap way to win a by-election. A disastrously expensive way to run a country.

/They try

They try to pretend we are at the other extreme. That we have cut back everywhere.

Not so.

We have made savings.

We spend less on council house building - because more and more people want to own their own homes.

We spend less on handouts to the nationalised industries - privatising some and getting the others to become more efficient.

We spend less on the Common Market budget - having negotiated a fairer share where Labour failed.

And we have cut red tape.

But we do spend more where it is needed. On doctors. On nurses.On each pupil at school. On the police. On defence.

Our public spending record is a good one.

It is the middle way.

Governments have to be careful about where they spend other people's money. To govern, as someone once said, is to choose.

Unlike an irresponsible Opposition, a Government has to recognise that there is a limit to the nation's capacity to pay.

That is what Governments are elected to do. That is what we are doing - and will continue to do.

ENDS

R7.91 **SECRET** Top copy of covering note on Econ Pol: Strategy Pt 26

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

2 July 1985

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1

Dear Andrew,

I attach drafts of the two papers for the Cabinet discussion of public expenditure on 11 July: the Chancellor's paper on economic prospects and the Chief Secretary's paper on the Survey. I am also enclosing a draft of the Chief Secretary's memorandum for the E(A) discussion of the review of nationalised industries investment and financing.

The Prime Minister will have an opportunity to discuss these papers with the Chancellor and Chief Secretary at her 5.30pm meeting tomorrow. She may also have views on the timing of the E(A) discussion of the nationalised industries IFR. Possible meeting dates this year are 10 and 17 July. In the past the position of nationalised industries has usually been discussed a day or two before Cabinet. In view of the difficult background set out in the E(A) paper, there may be some advantage this year in delaying the E(A) meeting until after Cabinet has discussed the aggregate figures.

Yours ever
Rachel.

RACHEL LOMAX
Principal Private Secretary

022/77

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Pay / L.A's

**DRAFT PAPER FROM CHIEF SECRETARY TO CABINET**

**1985 PUBLIC EXPENDITURE SURVEY**

With the circulation of the 1985 Public Expenditure Survey Report the first stage of the 1985 Survey is now completed. Once again, the principal characteristic of this stage in the Survey has been the submission of large bids for higher spending by virtually every department.

2. This paper summarises the position reached and makes proposals for the public expenditure planning totals, running costs and manpower in the three years 1986-87 to 1988-89.

Expenditure Baseline

3. The starting point is the Survey baseline. For 1986-87 and 1987-88 the baseline equals the figures in the 1985 Public Expenditure White Paper (Cmnd 9428) plus the changes announced in the Budget - additional employment measures and higher Reserves - together with a few minor adjustments.

?

4. For 1988-89 we agreed to construct the baseline for individual programmes by adding 2½% to the provision for 1987-88 (except in the case of Falklands costs); but consideration of the **aggregate** planning total figure was left until now.

Departmental Expenditure Bids

5. Although we agreed that additional bids should be made

only in exceptional circumstances Departments have, as I have indicated, put forward substantial bids for extra provision on their programmes. These are summarised in Annex A. In total (net of reduced requirements) they rise from £4½ billion in 1986-87 to £6½ billion in 1988-89. In addition nationalised industries' bids for additional external finance in the Investment and Financing Review - which will be discussed in E(A) very soon - total £1 billion in 1986-87 and between £½ and £¾ billion in the two later years. And proposals for additional provision for local authority current expenditure in England have now been agreed which will require an addition of over £½ billion to GB provision in 1986-87, and probably of similar sums in the two later years.

Proposals for expenditure totals

6. Firm control of public spending is central to our economic strategy, and essential if we are to maintain any prospect of reducing the tax burden. Our discussion at Chequers of public spending priorities was conducted on the basis of this fundamental premise.

7. I recognise that some bids for additional provision will be very difficult to resist. Notwithstanding these pressures I believe it to be essential for the success and credibility of our policies that we should hold the planning totals in 1986-87 and 1987-88 to the baseline levels.

8. For 1988-89 the baseline uplift for individual programmes of 2½% was deliberately set somewhat below the expected rate of inflation to allow a margin for the adjustment of priorities between programmes. I propose we now agree that the aggregate planning total for that year should rise by 3% above the level of the preceding year, in line with the MTFS assumption for the rate of inflation in 1988-89. This gives planning totals of:

£ billion

| 1986-87 | 1987-88 | 1988-89 |
|---|---|---|
| 139.1 | 143.9 | 148.2 |

9. I have carefully considered whether any additional bids we may eventually agree to accept can be financed other than by securing offsetting reductions in spending programmes. There are two main possibilities. First, we could allocate part of the Reserves to programmes. Second, higher proceeds from privatisation ("special sales of assets") are in prospect; these score as a negative item within the planning total.

The Reserve

10. At Budget time we raised the Reserves for the three forward years, then starting with 1985-86, to £5 billion, £6 billion and £7 billion respectively. Now we are rolling the process forward, with 1986-87 (for which the present Reserve provision is £6 billion) becoming the first year.

11. It is too soon to say with confidence how much of the £5 billion Reserve for 1985-86 will be spent. But it is already

clear that we cannot hope for significant underspending; and that we must continue to limit access to cases where it is quite unavoidable.

12. Given what we said at the time of the Budget about the need for adequate Reserves, and in the light of what has happened so far since then, I do not think that we could prudently publish plans for the new forward years with Reserves of less than £5 billion, £6 billion and £7 billion. This means no more than £1 billion in 1986-87 and 1987-88 is now available to allocate from the Reserve to programmes.

Special Sales of Assets

13. Successful completion of the enlarged privatisation programme that we now envisage should mean that the existing planned figures for special sales of assets are exceeded, but we are a long way from knowing precisely by how much. The timing of sales is still to be settled and depends on market conditions and other factors outside our control. But I propose we should assume sales totalling £4½ billion, £3½ billion and £3½ billion over the three years of the Survey.

14. While we have always accepted that receipts from privatisation and asset sales (which are of course desirable for their own sake) count towards achieving the public expenditure control total, it is important to recognise - as the markets and commentators undoubtedly will - that they do not enable us to reduce the tax burden on anything like a £-for-£

basis. This is partly because of their essentially non-recurring nature and partly because they add to the demands on the financial markets, with obvious implications for interest rates. Thus asset sales in no way diminish the need to maintain the tightest practicable control of public expenditure proper.

15. Moreover, even allowing for some additional room for manoeuvre from higher asset sales as well as from the reallocation from the Reserve, I must warn colleagues that we will face very considerable difficulties in holding public expenditure to the totals I propose. Some of the additional bids will, as I have indicated, be very hard to resist, and the options available to make room for them are limited. This year's Survey will, I am afraid, be another difficult one.

Running Costs and Manpower

16. Improving the efficiency and economy with which Departments conduct themselves must continue to be a vital objective of policy, as the CBI have recently observed. This year for the first time running costs are fully integrated into the Survey. Departments were asked to propose cash targets for their running costs over the three Survey years against the background of our aim that the growth in these costs in aggregate should be held ½ per cent below the assumed level of inflation in each of the three years. On manpower, departments were asked to examine the scope for further savings and to propose an indicative planning total for 1 April 1989, a year beyond the latest published manpower targets.

17. The provision sought for running costs by departments, compared with the targets proposed, is:

| | 1986/87 | 1987/88 | 1988/89 |
|---|---|---|---|
| Provision sought by departments | + 6.3% | + 3.0% | + 2.5% |
| Assumed GDP deflator less ½% | + 4.0% | + 3.0% | + 2.5% |

18. The details are set out in Annex B. The overall increase of 6.3% in 1986-87 proposed is unacceptably high, and the later year figures will only remain satisfactory if we are able to carry forward first year reductions into the later years.

19. The manpower bids - which, clearly, are an important determinant of the running costs bids - are also set out at Annex B. Those for 1987, 1988 and 1989 are uncomfortably large, given the need for a substantial contingency margin, and the Treasury will be looking for savings wherever possible as part of its scrutiny of departments' proposed running costs provision.

20. Discussions at official level are already in train to clarify the running costs figures, to seek reductions in provision wherever possible, and to reach agreement on tough but realistic targets for each department. In the light of the conclusion reached at the Prime Minister's 11 June meeting on long-term unemployment, I have asked Treasury officials to look carefully at any running costs and manpower bids which

relate specifically to the control of fraud and to the staffing of services whose cost is wholly recovered by fees, with a view to ensuring that these areas are now given a higher priority within overall totals for running costs. I intend to press departments during the Survey to find offsetting manpower and running costs savings elsewhere wherever possible.

Pay assumption

21. In recent years we have considered in the early autumn the public service pay factor or pay assumption for the following financial year. And spending programmes have been reduced ("clawback") by the difference between the figure agreed and the uplift factor originally used to create the Survey provision for that year.

22. I suggest that once again we consider in September this year whether to adopt a pay assumption for 1986-87, taking account of any new or revised factors such as the introduction of running costs targets. But, even if we do then decide to adopt and publish a pay assumption, I am now clear that it could not credibly be less than the cash uplift factor of 3% underlying the 1986-87 baseline. So I propose that we agree now that there will be no "clawback" exercise during this year's Survey.

Surplus Land and Empty Housing

23. We have already set in hand action to make a success of our surplus land and empty housing initiative. This depends

on departments drawing up realistic plans to dispose of almost all of their present surplus holdings by the end of 1987-88. I look to colleagues for their full co-operation in agreeing taut targets for disposal in the Survey.

Conclusion

24. I invite colleagues to agree:

(a) public expenditure planning totals of £139.1 billion, £143.9 billion and £148.2 billion respectively for the three years 1986-87 to 1988-89;

(b) Reserves of £5 billion, £6 billion and £7 billion respectively for those three years;

(c) that we should adopt the approach to the targets for running costs, manpower, surplus land and empty housing set out in paragraphs 16-23 above;

(d) that I should report back to the Cabinet in early autumn when I have completed discussions with colleagues on their individual public expenditure programmes, and on their targets as in (c) above.

(PR)

Treasury Chambers
4 July 1985

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ANNEX A

BASELINE AND BIDS ON DEPARTMENTAL PROGRAMMES
(excluding local authority relevant current, nationalised industries and territorial consequences)

| | 1986-87 | | 1987-88 | | 1988-89 | |
|---|---|---|---|---|---|---|
| | Baseline | Add Bids less Red Req | Baseline | Add Bids less Red Req | Baseline | Add Bids less Red Req |
| MOD | 18,558 | 424.0 | 18,861 | 594.0 | 19,033 | 905.0 |
| FCO - ODA | 1,296 | 64.5 | 1,317 | 83.1 | 1,350 | 98.3 |
| FCO - Other | 603 | 49.3 | 619 | 50.1 | 635 | 71.8 |
| EC | 640 | 60.0 | 830 | 170.0 | 850 | 100.0 |
| IBAP | 1,277 | 524.2 | 1,304 | 535.0 | 1,337 | 539.7 |
| Domestic Agric | 713 | 32.0 | 699 | 46.1 | 717 | 26.3 |
| Forestry | 53 | 2.3 | 54 | 2.2 | 56 | 1.3 |
| DTI | 1,162 | 57.4 | 980 | 56.8 | 1,004 | 55.8 |
| ECGD | 78 | 163.6 | -43 | 135.9 | -44 | 45.2 |
| Energy | 294 | -0.5 | 293 | 0.5 | 300 | 0.0 |
| Employment | 3,704 | -19.8 | 3,901 | -24.3 | 3,999 | 87.9 |
| Transport | 1,955 | 134.0 | 1,995 | 158.0 | 2,045 | 222.0 |
| DOE - Housing | 2,424 | 728.0 | 2,526 | 1,013.0 | 2,589 | 900.0 |
| DOE - PSA | -120 | 13.5 | -128 | 23.5 | -131 | 33.5 |
| DOE - Other | 848 | 125.2 | 860 | 125.9 | 882 | 121.6 |
| Home Office | 1,061 | 56.9 | 1,104 | 53.8 | 1,131 | 69.2 |
| LCD | 574 | 60.1 | 610 | 80.7 | 625 | 117.6 |
| DES | 3,418 | 96.5 | 3,505 | 109.5 | 3,593 | 104.0 |
| OAL | 333 | 17.5 | 342 | 27.3 | 350 | 37.9 |
| DHSS - Health(1) | 14,945 | 473.0 | 15,622 | 525.8 | 16,012 | 958.4 |
| DHSS - Soc Sec | 41,547 | 1,006.4 | 43,553 | 1,266.3 | 44,642 | 1,711.5 |
| Civil Super | 1,114 | 52.0 | 1,226 | 74.5 | 1,257 | 135.3 |
| Scotland | 4,300 | 16.4 | 4,373 | 27.4 | 4,482 | 0.3 |
| Wales | 1,708 | 2.8 | 1,735 | 2.1 | 1,779 | 0.0 |
| Northern Ireland | 4,464 | 40.0 | 4,603 | 63.5 | 4,717 | 93.0 |
| Chancellor's Depts | 1,825 | 148.4 | 1,842 | 153.0 | 1,888 | 114.1 |
| Other Departments | 366 | 49.9 | 396 | 46.1 | 406 | 44.5 |
| TOTAL BIDS | | 4,377.6 | | 5,399.8 | | 6,594.2 |

(1) includes late bid for NHS pay

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ANNEX B

## RUNNING COSTS AND MANPOWER BIDS - OVERALL POSITION

### RUNNING COSTS

| | 1985-86 | 1986-87 | | 1987-88 | | 1988-89 | |
|---|---|---|---|---|---|---|---|
| | £m | £m | | £m | | £m | |
| Chief Secretary's proposed targets | 14,068 | 14,631 | (+4.0%) | 15,070 | (+3%) | 15,446 | (+2.5%) |
| Departments' proposals | 14,068 | 14,958 | (+6.3%) | 15,414 | (+3%) | 15,808 | (+2.5%) |
| Differences | - | +327 | - | +344 | - | +326 | |

### MANPOWER

| | 1986-87 | 1987-88 | 1988-89 | 1989-90 |
|---|---|---|---|---|
| (1) Cmnd 9428 Departments' manpower plans (excluding contingency margin) | 598,925 | 591,939 | 580,447 | - |
| (2) Contingency margin | 6,000 | 8,500 | 10,000 | - |
| (3) Departments' proposals (excluding contingency margin) | 596,793 | 595,430 | 588,554 | 589,784 |
| Difference (3-1) | -2,132 | +3,491 | +8,107 | |
| Residual Contingency Margin (if all bids are conceded) | 8,132 | 5,009 | 1,893 | |

File

DSG 42

MR. REDWOOD

cc: Mr. Alison

During her meeting with colleagues this morning, the Prime Minister, building on Mr. Gummer's contribution to the Public Expenditure Meeting yesterday evening, said that one way in which parents might be encouraged to contribute to education was by repealing the provision in the Education Acts which prevents them from taking over (if they so choose) village schools due for closure. The Prime Minister thought that this might be a suitable provision for a Private Members Bill.

The Prime Minister did not ask us to take any immediate action on it beyond noting it for future reference. I do so by sending this minute to you, with the suggestion that Mr. Letwin might like to comment to the Prime Minister on the merits of the idea and advise on whether it would be timely to take it up with the DES.

FERB

24 June 1985

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Copy No 1 of 4 3

RECORD OF A MEETING OF THE CABINET HELD AT CHEQUERS ON SUNDAY 23 JUNE 1985 AT 1630 HOURS TO DISCUSS PUBLIC EXPENDITURE PRIORITIES

---

PRESENT:

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Viscount Whitelaw
Lord President of the Council

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

THe Rt Hon Michael Heseltine MP
Secretary of State for Defence

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon John Biffen MP
Lord Privy Seal

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and Industry

The Rt Hon Michael Jopling MP
Ministry of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Earl of Gowrie
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Secretary

The Rt Hon Sir Keith Joseph MP
Secretary of State for Education and Science

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

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

The Rt Hon Tom King MP
Secretary of State for Employment

The Rt Hon Peter Rees QC MP
Chief Secretary, Treasury

The Rt Hon Douglas Hurd MP
Secretary of State for Northern Ireland

The Rt Hon Lord Young of Graffham
Minister without Portfolio

The following were also present:

The Rt Hon John Wakeham MP
Chief Whip

John Selwyn Gummer MP
Paymaster General

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E.R.

Sir Robert Armstrong, GCB, CVO )
Mr Brian Unwin ) Cabinet Office

Mr. Alan Bailey )
Mr. Michael Scholar) H M Treasury

Mr. John Redwood Policy Unit
Mr. Robin Butler Private Secretary
Mr. Andrew Turnbull Private Secretary

SECRET

PUBLIC EXPENDITURE PRIORITIES

Opening the discussion the Prime Minister said the suggestion for the meeting had arisen from discussion after last year's public expenditure round when it was agreed that it would be useful for Cabinet to meet in a more informal atmosphere, outside the public expenditure round, to take a longer term look at trends and priorities in public expenditure. The meeting was not intended to be a pre-run of the Chief Secretary's bilaterals and should not go into the details of individual programmes. She asked colleagues to approach the discussion from the stand-point of the Government as a whole and not as departmental advocates. The discussion should centre on public expenditure priorities over the timescale of the 1984 Green Paper, the Next Ten Years. The aim must be for changes in priorities to take place within the total for public expenditure which should be held down as far as possible.

The Prime Minister said the Cabinet were meeting against the background that despite all its efforts public expenditure had continued to rise in real terms and as a proportion of GDP. In consequence, the tax burden had risen. For example, a State Registered Nurse, whose pay was being taken up to £140 a week next February would pay £40 (28.5%) in income tax and national insurance contributions. A married man on average earnings (£194 pw) was also paying around 29%.

The Government had come into office with two priorities - defence and law and order. These promises had been delivered but it was now right to look again at priorities into the next Parliament.

The Prime Minister drew attention to the £15 billion of administrative costs of central government which were rising faster than inflation. The forthcoming report on public expenditure by the CBI drew attention to the relationship between the growth of GDP and the growth of public expenditure for a number of industrial countries. This relationship was particularly adverse in the UK.

The Chief Secretary gave a presentation of the main trends and prospects for public expenditure. His first slide showed that public expenditure had continued to grow in real terms since 1979. All that had been achieved was that the rate of growth had been cut from the 3% seen on average in the 1960s and 1970s to 2%. If debt interest were included and asset sales were excluded, as many observers argued, there was no change in trend. Nothing had been achieved comparable to the cuts Labour had made in 1976-1978. The second slide showed public expenditure as a proportion of GDP. This had reached a peak in 1982-1983 and had been declining since then though this downward movement was temporarily interrupted in 1984-1985 by expenditure on the coal strike. Nevertheless the ratio was still higher than when the Government came into office. Many other countries had shown greater determination in tackling rising public expenditure, especially in the field of social security.

The Chief Secretary said the Green Paper had proposed that the objective be to hold public expenditure broadly constant in real terms. He believed this should remain the objective, with changes in priorities taking place within this total. Slide 3 showed the changes in priorities which had taken place since 1979. Some, such as law and order and defence, had been consciously sought, while others such as local authority current expenditure and social security had been the result of unwanted pressures. Housing had suffered the largest decline, though this had been identified in Opposition as a programme where greater private provision could take over from the public sector. Slide 4 showed the changes in priorities over the next three years as indicated in the White Paper. Health, social security and defence were expected to increase still further in real terms though less rapidly than in the previous six years. Slide 5 showed that nearly 80% of expenditure was represented by programmes which were difficult to control such as debt interest or local authority expenditure, or programmes which the Government was committed to maintaining or expanding such as health, social security and defence. Unless savings could be made in these programmes the pressure on the remaining 20% would be intolerable. Finally, Slide 6 showed that tax plus national insurance contributions had also risen as a proportion of GDP since 1979-80, although there had been significant changes in composition.

The Chancellor of the Exchequer said that between now and the election the Government could deliver:

(i) low and falling inflation. He believed 3% by 1988 could still be achieved though this could not be guaranteed;

(ii) sustained economic growth and rising living standards;

(iii) significant tax cuts which he regarded as both economically desirable and politically essential.

The Chancellor said the Government's record on taxation was a very modest one. Although changes in the structure of taxation had been achieved the level of taxes had risen. The last Labour Government had inherited the ratio of tax to GDP of 33% and had left office with the ratio at 34%. Under the Conservatives this had risen to 39% (37% if North Sea oil taxes were excluded). If the bids for extra public expenditure were accepted all hope of tax cuts for the remainder of the Parliament would be extinguished.

The Chancellor thought it unlikely that unemployment would move sharply in either direction over the next two years. The best contribution the Government could make to improving employment prospects was to keep the recovery going on a sound basis.

The Chancellor then turned to the areas where he thought savings could be made. The changes proposed in the Social Security Green Paper were helpful but more was needed in this area. The Government was hamstrung by a number of pledges and it was essential that it should enter the next Parliament with more freedom for manoeuvre. In the NHS there was still scope for greater efficiency. The new system of local authority finance must be designed to deliver a greater degree of restraint. In defence the priority was to look for better value for money. Some of Britain's commitments would also have to be re-examined. The growth of expenditure on agriculture, particularly that arising from the CAP, must be reined back. He emphasised that the Government was not seeking to cut public expenditure in total but to hold it steady. He stressed the need also to pay more attention to output for the money spent.

The Secretary of State for Education and Science questioned whether the phrase "tax cuts" was the right one. The Government's priority on taxation was to raise tax thresholds and ease the position of those whose incomes were just above the poverty level. Use of the term tax cuts did not always make this clear.

The Secretary of State for Education and Science said the Government had done well in reducing expenditure arising from the nationalised industries though more could be done. Savings could be made on the substantial expenditure of the MSC. He believed Scotland was very much better provided for in terms of public expenditure than the North of England. He believed defence and law and order were now over provided for.

He would devote any savings made to the encouragement of enterprise and the easing of the poverty trap and the "Why Work?" syndrome. He believed Britain had been extremely successful in scientific research, though the country was continuing to suffer a brain drain. Basic research should not be neglected and centres of excellence should continue to be supported.

He recognised that additional resources would not automatically deliver better education but he was extremely worried about the low quality of education in Britain. All the elements for an increase in standards were either in place or had been announced and were awaiting implementation. The last remaining obstacle was an improvement in the performance and management of the teaching force for which appraisal and better in service training were essential.

The Secretary of State for Scotland said he very much welcomed the opportunity to discuss public expenditure priorities. Ministers needed a system which enabled them to make changes in programmes without these being fought out bilaterally. He supported the emphasis on better quality of education and the emphasis on securing better value for money. He suggested that, in calculating running costs there should be an assumption that productivity would be raised by 3% a year. This would require managers of programmes, as a matter of course, to seek more output each year from the resources they had available.

The Lord Privy Seal said the Green Paper objectives sounded reasonable but if increases in defence, law and order and social security were to be accommodated there would be a severe squeeze on the remaining programmes. The Environment and Education programmes were suffering severely through this process. He believed there was a major task of rehabilitation in these two areas. He believed it was mistaken to be talking of cuts when the Government was in practice in the business of the planned growth of public expenditure. While the emphasis should be on wealth creation this should not allow the Environment and Education programmes to be denigrated. A change of rhetoric was needed.

He thought it was unfair to represent the discussion as a dispute between those who wanted tax cuts and those who wanted growth of public expenditure. He believed the emphasis should be on producing a fairer tax system through higher tax thresholds. This had more appeal than calling for tax cuts to release entrepreneurial initiative.

The Foreign Secretary said the first priority must be to control borrowing. He believed the Government had gone as far as it could in easing the burden of taxation on entrepreneurs. The priority should now be for raising the taxation threshold. He, therefore, agreed with those who advised against presenting this as "tax cuts".

He suggested that Ministers should identify those changes in expenditure which could be made before the election and those which could only be made after it. He agreed on the importance of avoiding too many pledges.

The problem of pay in the public sector arose from the fact that pay in the private sector was rising too fast. This made it all the more essential to get across the relationship between pay and employment, though this was difficult when the Government was seeking to take credit from rising living standards.

The Government must look again at the issue of indexation of pensions, which other countries had been more successful in tackling. The growth in the defence and law and order programmes should come to an end. He welcomed the emphasis on competitive tendering and collaboration as a way of reducing defence procurement costs but he was worried about the size of the defence R&D effort. This represented a quarter of the country's total R&D. There was still more to be done on nationalised industries. Agriculture should be looked at in a longer term context. Twenty-five years ago it had been expected that the countries of Asia would have difficulty in feeding themselves but the only areas where food supply was a problem were the Soviet Union and Africa. He believed the production of surpluses in the developed world was damaging to the Third World. There was no point in seeking still further production through capital grants and subsidised research.

On health, the Government should consider the privatisation of the general dental service and reduce the very wide exemptions from prescription charges. He said the MSC had failed to use the money set aside for the community programme in the way he, as Chancellor of the Exchequer, had originally intended in the 1982 Budget. The number of jobs created had been lower and the programme had not contributed to lower wages.

The Chancellor of the Duchy of Lancaster accepted the analysis of the Chancellor and the Chief Secretary. He suggested the tax objective could be presented in terms of greater take home pay which was helpful both in promoting lower wage settlements and in improving work incentives. He agreed with the Lord Privy Seal that the Government faced a difficult problem over public services. It was getting the worst of two worlds - spending more but being seen as hostile. The way through was to stress value for money. The public would respond favourably to this as, although the public services were valued, people were aware of their shortcomings.

He noted that spending on unemployment benefit had risen rapidly while that on housing had declined sharply. He wondered whether there was some mechanism which would allow expenditure on unemployment benefit to be channelled into the housing programme.

The Secretary of State for the Environment argued for a shift of emphasis from a pure cost per job assessment of individual programmes to one which included an allowance for assets created or repaired. Work in the Manpower Group showed that the ranking of different programmes was significantly changed if assets were allowed for. He drew attention to the very sharp reduction in public sector construction expenditure.

He questioned whether the Government's record on controlling local government expenditure was as poor as it had been represented. In the current year expenditure was likely to increase by less than 1% in real terms compared with 3½% in the 1970s. He believed this had contributed to the Government's loss of control of the Association of County Councils.

The scope for savings from Value for Money initiatives remained enormous. The Audit Commission had identified seven areas where savings of £665-860 million a year could be made by bringing the more extravagant local authorities into line with the rest. He would be putting proposals to colleagues for ways in which the Commission's recommendations could be followed up. He shared the concern of others about the excessive size of defence R&D which was substantially out of line with experience in other countries.

Asset sales must remain an important part of the Government's policy and should be undertaken even when some pump priming expenditure was needed to help the transfer to the private sector. Instruments such as urban development grant could make an important contribution in helping private sector developers to take over and refurbish local authority assets.

The Lord President endorsed the objectives set out by the Chancellor and the Chief Secretary. He believed particular attention should be paid to the problem of controlling local authority expenditure. Experience had shown that local authorities would defend themselves ruthlessly against anything which challenged their interests. He said that successive Governments had sought improvements by changing the structure of local government but this had been disappointing in its results and he hoped changes in the structure would not be pursued further.

Changes were, however, needed in the system of local government finance which was excessively complex. Any new system must put pressure on local authorities to be more financially responsible. He was prepared to contemplate greater centralisation if central Government could genuinely provide the services better. In the field of education he believed the balance of advantage now favoured more centralisation though, on balance, he continued to oppose a national police force.

The Minister for Agriculture agreed that expenditure on agriculture was growing too fast but he drew a distinction between the domestic budget which was declining and European expenditure which was still not under proper control.

He believed there was not enough political input into the process of decision making. A distinction needed to be made between the beginning and end of a Parliament. Difficult decisions were more easily taken in the first half of a Parliament (he wondered whether the Social Security Reviews would have been better introduced a year earlier). Work should soon be set in hand to prepare for the difficult decisions at the start of the next Parliament.

The Secretary of State for Trade and Industry said the discussion about what could be afforded within the nation's resources was difficult because the country's record of wealth creation was so poor. The first priority must be to improve the performance of the economy. Although the Government had delivered on its promises it had received very little credit for this. The Government could take some satisfaction from its record in reducing public expenditure arising from the nationalised industries.

Looking at priorities ahead he noted that in 1979 the housing and Scotland programmes were the same size but the Scotland programme was now twice as big. The trade and industry programme had started three times larger than agriculture and was now slightly smaller. The rapid rise in debt interest provided an effective rejoinder to those who advocated higher borrowing.

The Government's priorities must be for the creation of wealth and for policies which were politically attractive. This led to the conclusion that the tax burden must be reduced as this scored on both counts.

The Secretary of State for Northern Ireland said some other countries, even with weaker Governments, had been more successful in tackling public expenditure. It would be helpful for Ministers to have a note setting out what had been achieved abroad.

He agreed with the Lord Privy Seal that the Government needed to distinguish more between different programmes. The Government's current unpopularity was not on account of unemployment but because people were worried about the erosion of standards in the health and education services. The Government must publicise its achievements and show that it had remedies. He agreed that the current dissatisfaction over education was dangerous politically.

He welcomed the opportunity for a broad discussion of public expenditure and hoped it could be repeated more frequently. This would be helpful to the Star Chamber and the Treasury in their discussions on individual programmes.

The Secretary of State for Defence said the Government's scope for manoeuvre on public expenditure this side of the election was very limited. The emphasis must be on the creation of wealth and he regretted that despite asset sales and substantial revenue from North Sea oil the Government had cut capital expenditure and increased current expenditure. He suggested that a change in the machinery of Government was needed to redress this balance. Inevitably the Treasury was driven to find savings wherever it could, which usually meant capital spending, but an expanded role for the Department of Trade and Industry would provide a counter-balance to the interests of the Treasury.

Priority should be given to urban stress areas. The development agencies in Scotland and Wales had been very successful in bringing in private sector money and in bypassing the obstructions posed by the local authorities. He believed more use could be made of agencies in the cities and regions in England.

The Government should look again at the Hardman proposals on dispersal. Decision making was little by little being concentrated in the south of the country because the decision takers preferred to live there.

The Government should break away from automatic indexation of social security benefits, though this protection might be retained for the poorest members of the community.

In the south of England an unemployment rate of 7-8% now represented full employment. Jobs were available if people were prepared to change their assumptions about the nature of work they were prepared to undertake. The Government should toughen up on the administration of unemployment benefit in these areas but this initiative would backfire if applied to those regions where unemployment was genuinely a problem.

He supported the efforts being made to improve the quality of education and training and regretted the fact that over the years the public sector's role in providing training had increased. The privatisation programme should be pressed forward. This was an area where the Government had succeeded in winning the intellectual arguments.

On defence he was not arguing for an increase but a programme which was static in real terms. Defence R&D was largely development rather than basic research; the private sector drew substantial spin-off benefits from it.

On taxation, enough had been done for entrepreneurs. Tax cuts were not needed either for small scale businessmen and the self-employed who were thriving in the black economy. He doubted, however, whether tax cuts produced much response in terms of greater work or lower pay settlements for employees in the middle. The politics of tax cuts were not so attractive as had been claimed.

The strength of the Audit Commission was that it was not appointed by the local authorities. In time the same principle should come to apply for public companies. So long as the auditors were appointed by the management they would not be able to take a genuinely independent line.
The <u>Secretary of State for Social Services</u> supported the general strategey as set out by the Chancellor. He had noted

the latter's remarks about unemployment but was worried about the implications for Government held marginal seats in the Midlands where male unemployment approached 30%. Unemployment amongst ethnic minorities was even higher and the potential for social conflict this created needed to be watched carefully. He supported the view that the priority was the creation of wealth and the reduction in costs imposed on industry.

He did not accept that the Social Security Reviews had come too late. In fact, the Government had done well to bring back social security back on to the agenda after the difficulties created by the CPRS Report in 1982. He said 60% of the social security budget was currently pledged. De-indexation would be difficult to achieve especially as the ending of SERPS would put more pressure on demands for improvements in the basic pension. It was very difficult at an election to escape making pledges.

On health the Government had not been successful in getting across the message about improvements in efficiency. This year health authorities would be producing savings of £150 million. But for these, the nurses' pay award would have swallowed up all the money for improved services. The Government must switch the debate away from the structure of the health service to improved management and must establish in the public's mind that the Government was concerned with the quality of service.

If the proposals for tax allowances in the Chancellor's Green Paper were implemented on a no loser basis there would be a substantial cost. The claim for this would have to be balanced against other demands.

The Minister Without Portfolio said the top priority was to raise tax thresholds. It was essential to improve the relativity between working and being on benefit. This was the only way to stop the drift into the black economy, which was absorbing vacancies and preventing the unemployment figures from improving.

He endorsed the view that the Government should improve the quality of its spending and was prepared to see more centralisation in education if it was necessary to achieve this. He accepted that the community programme was not working as well as had originally been hoped.

The Secretary of State for Wales endorsed the importance of securing better value for money in the social programmes. In the health services it might be better to talk about contracting in private sector resources rather than contracting out services. He gave the example of a health authority which had brought in the private sector to operate renal dialysis. He shared the concern about the quality of education.

There was a need to think again about the way pay assumptions were set. It was important to give managers an incentive to make the savings but one of the results of the nurses' pay award was that improvements in service which health managers were hoping to introduce as a result of improvements they had made had now been postponed as the money was required to finance higher pay. This had been damaging for managerial morale.

The lesson of development agencies from Wales was that a small amount of public money could have a multiplier effect on the amount of private sector money, e.g. in urban areas.

He recognised that asset sales were not equivalent to other savings on expenditure. Nevertheless, there was a case for using the proceeds from such sales to lift tax thresholds. This would improve the functioning of the economy and would enable the lower level of taxation to be sustained in the long run.

The Secretary of State for Energy said the next election would be different from any preceding one. The Government would face two major opponents with the Alliance being the principal opponent in one area and Labour in the other. Labour would court the working class vote over such issues as lower health charges and council house rents, while the Alliance would go for the management vote.

Commenting on the Chancellor's account of economic prospects, he pointed out that inflation was vulnerable to outside factors such as the exchange rate and the growth of wages. The record of sustained growth had to be seen in perspective; it came after a very major fall in output.

He believed that the tax system in Britain provided excellent rewards for proprietors but inadequate rewards for management. Proprietors were able to convert future earnings into capital which was relatively lowly taxed, while managers could not convert future income into capital. Further improvements in capital taxes were a low priority.

Spending on education and health commanded a substantial amount of support from Conservative voters. He noted that other countries spent more on these services both in the public and private sectors. The country needed more wealth creation but as part of a better life in general. The rhetoric of public expenditure cuts and tax cuts was unattractive and the emphasis should be on increasing wealth as a means to better social services.

He pointed out that increases in the tax threshold were poorly directed as the benefit went all the way up the income scale.

The <u>Secretary of State for Transport</u> thought that the meeting had generated more bids for additional expenditure than proposals for savings. He believed the Government should be much more selective in its public expenditure. Too many benefits were provided to people of all income levels. For example £300 million was paid as a subsidy to wealthy London commuters, £300 million to subsidies for London Transport and £300 million on bus passes for pensioners regardless of their income. He therefore welcomed the decision not to uprate child benefit fully and hoped that the principle of restricting universal benefits would be applied more widely. Mortgage interest relief was a major example of a tax relief that was inadequately targetted. By reducing these general subsidies and benefits people would keep more of their own income and would be able to augment from their own pockets the publicly provided services of health and education.

The Secretary of State for Employment said the Government inherited an economy which was high on expectation and low on performance; wealth creation was rightly made a priority. He warned that the population of working age would increase by half a million by 1990 and the activity rate would add another 370,000 to the labour force. This would imply 870,000 extra jobs by 1991 to hold unemployment constant.

On unemployment, he believed there were sharp differences between the north and south of the country. In the south there was virtually no unemployment in the sense of people available for work who could not find work. His Department had set in hand work to analyse the labour market in the south of England.

He suggested also that the Treasury accounting conventions on current and capital expenditure and annuality should be reconsidered.

The Paymaster General believed the Government had not lost control of the ACC because of general restraint on local authority expenditure but because people believed the Government was putting pressure on particular services. The sharp distinction between public and private sector provision was damaging. In education and health there was no mechanism whereby people could finance improvements in service from their own pockets. This explained the high level of expenditure in Britain on consumer durables. He contrasted this with housing. One of the merits of council house sales was that it enabled the new owner occupiers to spend their own money in a way which took the pressure off the Government. With health and education all the pressure was on the Government to improve the basic publicly provided service. He believed the public perception of the Government's record on the health service was improving but in education the local authorities had been allowed to exploit the dispute to the Government's disadvantage.

He agreed with those who said there was little true unemployment in the south. He believed that complaints about unemployment there were frequently a cover-up for other complaints, e.g. about education or the health services. Unemployment was however a genuine problem in the north of the country.

He pointed out that if the Government held all the seats where the Alliance came second it could win an overall majority while losing all the seats where Labour came second.

The <u>Home Secretary</u> agreed that the Government had done enough to improve tax incentives at the top but had as yet not done enough at the bottom end. While it was important to raise tax thresholds, reducing taxation was a secondary priority to keeping borrowing under control.

He agreed with the importance of creating more wealth but was disturbed that some colleagues believed this could be achieved through increases in certain kinds of public expenditure. Defence R&D was too high; it was not spin-off which the private sector needed but direct involvement in research. He shared the disappointment that, in the face of union opposition, Community Programme had been forced to pay "the rate for the job". He agreed that the law and order programme should not be increased further except possibly in relation to drugs. There was scope for further expenditure savings on nationalised industries, especially through privatisation.

The <u>Prime Minister</u> said that a number of themes had emerged from the discussion. There was substantial agreement on the need to continue restraint of public expenditure and to learn to live within a disciplined budget. On taxation the priority was to raise thresholds rather than provide further incentives at the top end. The tax burden should not be so high that people could not provide for themselves in areas such as housing, health and education.

There was agreement that wealth creation must precede improvements in social services. A number of colleagues had identified defence research, the Scottish programme, MSC programmes, agriculture and nationalised industries as meriting critical scrutiny. It was generally felt that an improvement in educational standards was essential, though it was recognised that this could not be achieved simply by an increase in public expenditure. A number of colleagues had made useful suggestions about ways in which the Government's presentation could be improved. In particular, the need to stress Value for Money had been noted.

The Chancellor of the Exchequer agreed that better presentation was necessary. He pointed out that during the course of the public expenditure round, there was adverse publicity about cuts. In practice Ministers were frequently arguing about additional bids. The lesson was that additional bids should be avoided and that the confidentiality of discussions should be maintained.

He referred to the threat to unemployment of excessive private sector pay increases, which put pressure in turn on the public sector, and suggested that it might be worth considering whether a different definition of unemployment could be employed, along the lines of the approach in the Department of Employment's Labour Force Survey. He also drew attention to the disappointing return from the large sums spent on education, although the fault was primarily that of the local authorities.

At the conclusion of the meeting, the Prime Minister proposed the terms in which the No. 10 Press Office should brief the media on the outcome of the meeting. A copy of the statement is attached.

PRESS LINE

The Cabinet this evening held an informal meeting at Chequers under the Prime Minister's chairmanship to discuss the Government's priorities for public expenditure in the longer term. It arose from a discussion last year after the annual public expenditure round. It was then agreed it would be useful for the Cabinet to meet in a more informal and relaxed atmosphere, entirely divorced from the PES round to take a longer term look at trends and priorities in public expenditure reaching into the 1990s. In the discussion at tonight's meeting Ministers looked at the subject as a Government with collective responsibility for the thrust of policy rather than as individual Departmental Ministers each with his own Departmental budget in mind.

The discussion will assist the Cabinet and individual Ministers when they turn next month to the PES round covering 1986-87 to 1988-89.

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Reference No: P 01555



PRIME MINISTER

CHEQUERS MEETING ON PUBLIC EXPENDITURE, 23 JUNE 1985.

BACKGROUND

You have invited members of the Cabinet to a meeting at Chequers on Sunday, 23 June to discuss public expenditure priorities before the main Public Expenditure Survey Round (with a first Cabinet discussion on 11 July). No papers are being circulated, but you have invited those attending to look again at the Green Paper on Public Expenditure and Taxation into the 1990s (Cmnd 9189) published at the time of the 1984 Budget. This considered the longer-term fiscal prospects up to 1993-94.

2. You made it clear at Cabinet on 20 June that this occasion was not intended to be the opening discussion of the 1985 Public Expenditure Survey, nor to anticipate the bilaterals which the Chief Secretary would be having with his departmental colleagues about the programmes for 1986-87 and the two following years. It was therefore not an opportunity for Ministers to put forward particular departmental bids or advocate departmental programmes. The intention was to provide an opportunity for the Cabinet collectively to discuss what should be the Government's public expenditure priorities over the medium term, within whatever total was available.

RECENT HISTORY AND FUTURE PROSPECTS

3. The Chief Secretary will give a short presentation of expenditure trends in the recent past and of general future prospects. This is likely to show that public expenditure has on average grown by about 2 per cent a year in real terms since 1979, compared with an average of some 3 per cent a year over the past 20 years. This measure of public spending, however, excludes debt interest (now running at

about £18 billion a year) and also takes credit for asset sales (up from about £½ billion in 1978-79 to about £4 billion this year). Thus, while the Government have checked the measured growth rate, they have not stopped it growing, let alone actually cut it. At the same time the overall burden of taxation (albeit with changes in composition) has increased from some 35 per cent of GDP in 1979 to an estimated 39 per cent in 1984-85.

4. The Treasury have not yet circulated details of the Survey figures for the new Public Expenditure Round and will not do so at this meeting. I understand, however, that the 1985 Survey is likely to reveal additional bids by departments of some £7 billion, £7½ billion and £8½ billion for the years 1986-87, 1987-88, and 1988-89 respectively. This means that the task of containing public expenditure this year may well be even more difficult than it was in 1984. Among the main reasons are:-

(i) the current 'blip' in inflation represents the first instance in recent years of a major adverse variation under cash planning between actual and assumed inflation. As a result of this expenditure on social security benefits will be £1-2 billion higher each year than allowed for in the baseline;

(ii) the squeeze on the real volume of expenditure implied by the inflation 'blip' will make other programmes (particularly those of local authorities, which account for about a quarter of public expenditure) more difficult to restrain. Cash plans for discretionary programmes have been built on the basis of "uplift factors" below anticipated inflation (eg 3 per cent for 1986-87 and 2½ per cent for 1987-88);

(iii) with private sector pay settlements now running at some 6 per cent (earnings 7½ per cent) strong pay pressures are also likely to emerge in the Survey. Although the additional bids submitted to the Treasury by departments include the pay review body consequentials, they do not allow for pay elsewhere in the public services (some £40 billion in total) exceeding the cash "uplift factors" of 3 per cent or less included in the baseline;

(iv) the rigorous public expenditure exercises of the recent past have squeezed a lot of the obvious "fat" out of spending programmes.

THE SUBSTANCE OF THE DISCUSSION

5. The Chancellor and Chief Secretary will no doubt emphasise the importance of achieving the Green Paper objective of holding expenditure level in real terms so that it declines as a proportion of the Gross Domestic Product, and so opens the way to real reductions in taxation. As indicated above, the Government have secured some reduction in the real rate of growth in public expenditure, despite the impact on social security expenditure of increased unemployment and other pressures. But taxation as a proportion of GDP remains 3-4 per cent above the level of the later 1970s, and the prospective decline of N. Sea oil revenues (now probably at their peak) will put more of the burden on traditional income and expenditure taxes. A very cautious view therefore needs to be taken about the scope for future public expenditure if the virtuous circle of lower taxes and higher real growth is to be established.

6. Departmental Ministers will no doubt be preoccupied by the constraints that apply to their own programmes, and may seek in the discussion to establish some degree of presumption that specially favoured treatment will be given to those programmes. You may therefore wish to make clear again at the outset that they should stand back from their immediate Departmental concerns, and instead

approach the overall issue of priorities from the standpoint of the Government as a whole.

7. The following are among the specific topics which may be raised in the discussion:

(a) Arguments for higher public expenditure to counter unemployment.

These could take a number of forms:

(i) it is reasonable to accept a higher PSBR at a time of cyclically high unemployment;

(ii) now is the time to give greater emphasis to the backlog of desirable/essential capital expenditure;

(iii) the net impact on the PSBR of increases in expenditure on Community Programmes, etc is very small;

(iv) expenditure designed to make UK industry more efficient and competitive has exceptionally high priority.

All these points of view can, of course, be argued. But there are a number of strong grounds for approaching them with great caution. Much unemployment is not cyclical, but structural, reflecting the need for change in industrial structure and in labour market behaviour; palliative measures risk obstructing essential long-term change; programmes once undertaken develop a momentum which is difficult to stop; and what the Government can do has to take into account how the financial markets and other parts of the economy are likely to react.

(b) Questions about the treatment of particular programmes

The Chief Secretary is likely to point out that part of the difficulty reflects the limited scope the Government have, for a variety of reasons, to cut back on particular major programmes, so throwing more of the burden of adjustment onto the rest:

(i) local authority expenditure - the difficult problems in this area are under study by E(LF). The scope for reductions in the short-run is likely to be limited. But there must by scope for LAs to make more effective use of the resources they already have, as the Audit Commission are beginning to make clear;

(ii) social security - the Green Paper and the decisions on this year's uprating represents the first steps towards curbing the long-term upward trend in expenditure. There is obvious advantage in any move which proves politically feasible to limit the commitment to the maintenance of the real value of benefits - the more so when the Government are seeking changes in the labour market to facilitate more lower paid employment in services, etc;

(iii) health services - expenditure on the NHS has roughly tripled in real terms since the early 1950s, and the health and personal social services programme has grown by some 20 per cent in real terms since 1978-79. The introduction of stronger professional management into the NHS is helping to counter the upward pressures of higher relative pay for nurses, improving technology/rising expectations, and the rapid growth in the numbers of the very old. An open mind will be needed to all suggestions for making more efficient use of the NHS resources or drawing in additional resources from the private sector;

(iv) defence - higher priority for defence (and in particular theprovision of better equipment) has been an important element in the Government's overall public expenditure planning. The defence equipment programme is now some 50 per cent higher in real terms than in May 1979. However, the NATO commitment to 3 per cent a year real growth expires this year, and it should be possible to maintain/improve defence capability in future without constantly growing expenditure on equipment. An interdepartmental study is under way of the wider impact of defence research and development on the UK economy; it will be important to take every available step to increase the contribution made by scarce resources in this area to the performance of UK industry.

(c) Treatment of privatisation receipts

By convention privatisation receipts count as negative public expenditure (and so reduce thepublished overall totals.) In principle, however, such receipts should not serve as the basis for commitments to continuing expenditure programmes, and should be regarded as financing rather than reducing the PSBR. An increase in privatisation receipts (eg from the sale of BGC) would not, therefore, warrant acceptance of higher than planned continuing expenditure on the Government's main programmes. Nevertheless there may be strong practical and political arguments for using extra privatisation receipts to permit some increase in underlying cash expenditure, particularly since the higher price level which is now putting pressure on the public expenditure cash totals should also produce more cash revenue. This is, however, very difficult ground which will need delicate treatment later in the discussions; so far as 23 June is concerned, it would seem to be a mistake to allow any conclusion to be reached about the implications of any projected change in privatisation receipts.

HANDLING

8. You will wish to open the discussion yourself, making clear again how you see the purpose of the occasion, and how you wish your colleagues to tackle the issues (I understand that the Treasury will be offering some material for this purpose). Thereafter the Chief Secretary, Treasury will make his general presentation, with the aid of a few slides. Other Cabinet members will then want an opportunity to speak about their own concerns, and state their views on priorities. The Chancellor of the Exchequer will wish to contribute to the discussion on the wider economic background to the Public Expenditure Round, and both he and the Chief Secretary may wish to respond to points made in the discussion. You will wish to sum up the discussion, reemphasising that this is not the occasion for reaching any specific conclusions or for anticipating the 1985 Survey Round.

Enclosed

CONCLUSIONS

9. You may be able to draw some or all of the following general conclusions from the discussion:

(i) it remains of fundamental importance to the Government to reduce the relative burden of the public sector on the rest of the economy;

(ii) the need for restraint and a "cultural" change in the approach to future public expenditure planning and priorities is greater than ever, given the pressures that seem likely to develop;

(iii) all Departments should continue to make every effort to increase the 'output' from public expenditure programmes with the same or less input of resources;

(iv) all the Ministers concerned should be ready to approach all suggestions for changes/reductions in programmes with an open mind, and no programmes should be exempted for the indefinite future from proposals for changes on grounds of previous commitments;

(v) the Treasury will take Cabinet members' views into account in preparing for the discussion at Cabinet (on 11 July) about the wider public expenditure position and the Chief Secretary's subsequent bilaterals with spending Ministers.

J B UNWIN

Cabinet Office
21 June 1985

Value for Money — Audit Commission

Policy Research

Don't get locked on pledges

Lord Rothschild — ruthlessly using levers

Audit Commission "Keeps up the pressure" Dangerous policies.

Lamentable performance in wealth creation

Taken decisions?

Training — Edn

~~Lord President~~

Central Purchasing Unit £1 billion.

~~Not spending more~~

More output for £

rather than spending more £.

✓ ~~D.S.~~

✓ ~~C.P.S.~~

✓ ~~F.S.~~

✓ ~~Chancellor of the Duchy~~

✓ ~~Employment~~

✓ Min. ~~Agriculture~~

✓ ~~Industry~~

✓ ~~N. Ireland~~.

✓ ~~Defence~~

✓ Soc. Services.

~~Defence~~

✓ ~~Portfolio~~.

~~Wales~~.

Wealth creation policies.

Edn

— ~~Energy~~

✓ ~~Transport~~.

Environment

Red^n of Tax burden

O. Sch. Home

Home Sec

PRIME MINISTER

21 June 1985

PUBLIC EXPENDITURE

There should be two objectives for Sunday's meeting. To hold the line on public spending, so that the Government does not lose control of its economic and fiscal strategy. And to get away from the reputation for endless cuts. These are not incompatible.

Since 1979, the total tax burden on an individual member of the public has risen, to say nothing of the hidden increases through public sector charges. (Tax alone, excluding the North Sea, has risen from 35% of GDP in 1979-80 to 39% this year.) The public is not impressed. The small business community and the self-employed are particularly irate, as they feel that little has been done to restrain the worst enthusiasms of the Inland Revenue. Spending has risen from £117 billion in 1979-80 to £130 billion this year (same prices): 2% per annum, not much slower growth than in the previous 20 years.

The Government is unlikely to recapture lost ground by espousing SDP-type spending policies of just a few billion more. This will not seem credible, and the electorate is more inclined to say the SDP would do it with a better smile.

Options for Reducing Spending

There are many areas where the Government has a poor record at control. Could you get agreement on some of these propositions for controlling costs?

1. No more nationalisation. Taking over JMB, Alphasteel, Edmunds Walker, and parts of the private sector steel industry through the Phoenix programmes have been costly. It does not do to say "oh well, this was Bank of England money, or it comes through British Steel's EFL" - public money was spent, and it was on things that formed no proper part of this Government's strategy. The expenditure was avoidable, undesirable, and difficult to explain.

2. The administrative overhead. This has been one of the faster-growing public expenditure programmes under this Government, with costs up by more than 9% in real terms since 1979 - despite the apparent drop in the head count. £15 billion of administration is an enormous sum of money. Defence, DHSS, Inland Revenue and Customs are the big areas. The FMI needs bite to control administration.

3. The interest rate programme. This has been the fastest growing programme under this Government. In part it reflects overshoots on the Borrowing Requirement caused

by other factors. In part it reflects the difficulties of keeping money supply under control, so that interest rates have remained all too high. In part it reflects funding techniques, with continued reliance on conventional stocks. This shows the need to control borrowing.

4. Defence. We have recognised for some time that defence procurement is an area for substantial reductions in costs. And Peter Levene is beginning to identify them. Some of these have to be passed back to the centre and not spent on a growing volume of armaments, although there must be some incentive for the Defence Department to pocket some of their own savings.

5. Under-utilised public assets. There is common agreement that more land should be sold. Housebuilding land, particularly in the South East, is far too expensive, and the public sector has urban land that it could release to help bring down the price of housing plots. There has been some quickening of pace at the DoE. But the PSA is still loitering with intent and making little effort to sell the property which it possesses. And the MMC Report shows that British Rail has a painfully slow disposal programme. Isn't it time to send in private estate agents to the large land hoarders - British Rail, PSA, the Water Boards - to

identify the sites and put them into an auction in the space of 3-6 months?

6. ECGD. One of the larger supplementary estimates approved by Parliament this week was an increase in resources for ECGD, reflecting difficulties in their loan portfolio. ECGD cries out for tougher management. It has cost us £600 million in 2 years. You need new management to halt the haemorrhage. (See David Hobson's Annex A attached.)

7. Nationalised industry programmes. The National Coal Board is still too expensive; and the figures from British Steel, British Rail and others are still large in relation to public expenditure totals. Tougher targets should be set; the industries should be given every encouragement to make more attacks upon their unit costs and to generate more sales revenue and asset sales. It is not good politics to generate a whole series of above average price increases in the energy industries in despair of doing anything else. It's costs that people want down, and sales that they want up. The targets should reflect this.

8. Grants to larger industrial companies. Could you put a moratorium on them for a year or so, to reflect the very satisfactory growth in corporate profits and

corporate liquidity which is such a striking characteristic of the last 3 years' economic progress?

9. Bus subsidies. As the new régime comes in, can more rapid progress be made in winding down the large totals of bus subsidies distributed through central and local government sources?

10. Local authority efficiency and contracting-out. The Audit Commission regularly identifies hundreds of millions of pounds of waste within the local authority sector. The DoE should consider how it can follow up those audit reports more rapidly and, along with the Audit Commission, make sure that savings are delivered as a result of pursuing contracting-out or better management within the local authority sector.

11. Northern Ireland. Northern Ireland has no Conservative MPs, a very high level of public spending per head in relation to its wealth-generation, and enormously expensive industrial support programmes that don't work. Why not make a substantial cut in the Industry, Energy, Trade and Employment programmes (£350 million in 1986/87)? And shouldn't the electricity industry make money, as it does in England?

Agreement on some of these themes could produce good savings in future years that would be politically easier than many of the ideas in circulation.

Handling PE in the Future

The present system cannot deliver easily. Departments have to be driven hard by Ministers, the press and the Public Accounts Committee, all at the same time, for something to happen. The FMI is a dead letter as a management tool. Departments play games with each other and the Treasury during the long and protracted public spending round, in the interests of maximising their take of cash as a symbol of success. In the process, the leaks about "cuts" do the Government enormous damage.

Why not discuss new ways of overcoming this problem in future? Could you have one big meeting to settle the totals; give Ministers reasonable powers to determine their own budgets; and remind Ministers that the purpose of the exercise is to find politically attractive ways of delivering targets, and not politically difficult ways. The press and Parliament will judge the spending Ministers accordingly.

You may find the growth in programmes at Annex B useful in the landscaping discussions.

JOHN REDWOOD

ANNEX A

ECGD

An additional £158.5 million appears in the Expenditure Survey for 1986-87, for interest support costs arising from the impact of higher interest rates than estimated being paid to the banks, exchange rates, and business levels.

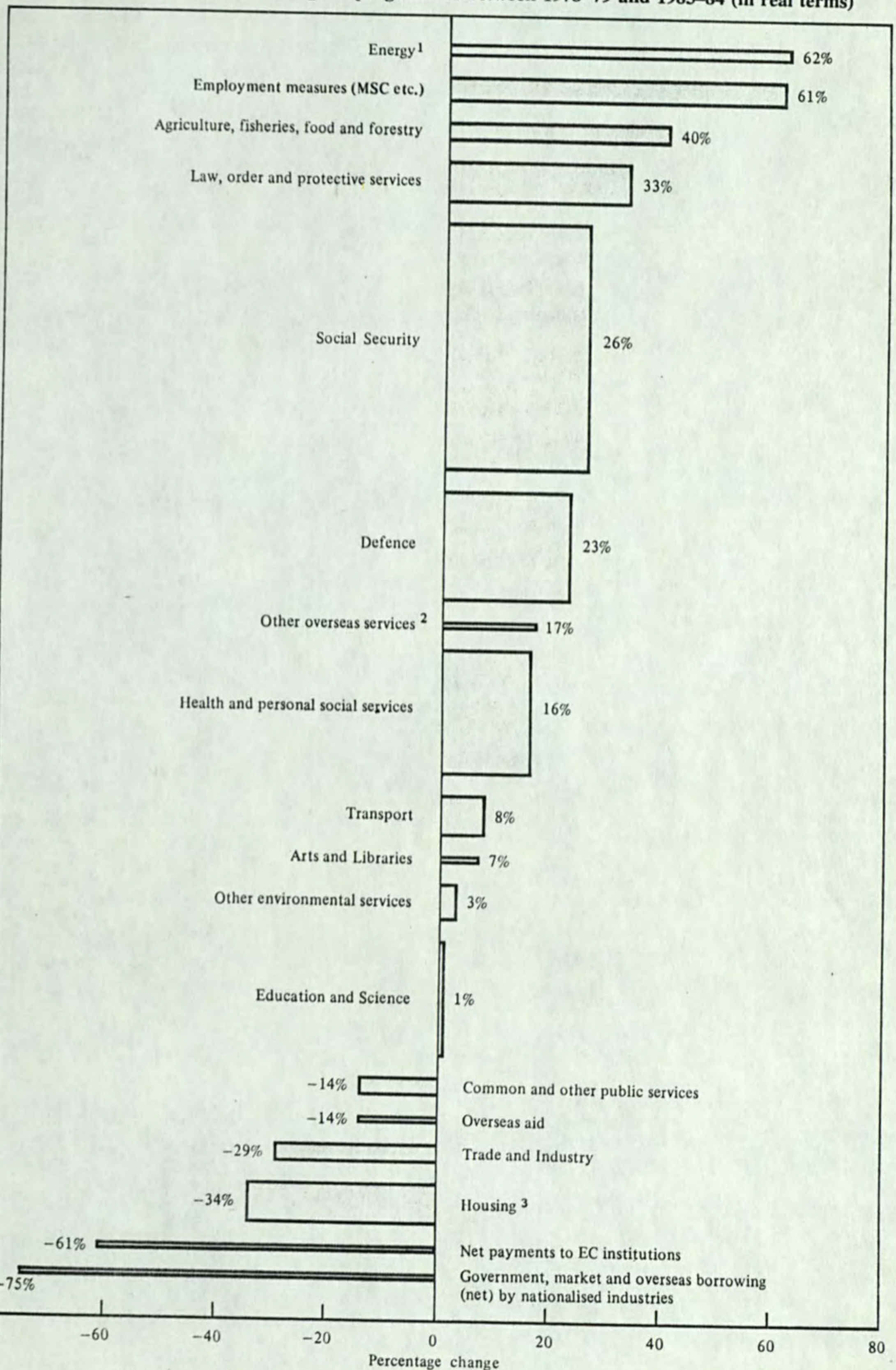
The chief cause for concern is the sovereign risk element of the portfolio. Potentially recoverable sovereign claims amounted to £2.1 billion at the end of 1983-84, including £1.1 billion of claims expected to be paid in respect of markets where debt payments were in arrear or rescheduled. The loss provision by ECGD for that year was £118.8 million, and may well not be adequate (the accounts were qualified by the Comptroller & Auditor General); the annual cost to PSBR is over £300 million, and how much will ever be recovered is uncertain.

The recent interdepartmental management review of ECGD recommends setting up a Board of part-time outsiders, with the secretary as Chief Executive. The Board would take strategic decisions, and would be responsible for submitting and monitoring the business plan and seeing that there are adequate systems for controlling the business. They would also be responsible for making proposals to the Minister for improving services to exporters and implementing such proposals as are agreed.

The Report indicated that there is a "vacuum at the top" of ECGD, with consequent administrative inefficiency. Many weaknesses have been identified in the fields of underwriting, risk management, claims settlement, service to customers, and management information. The Report suggests how these could be put right - many of them within a 12 month period. Monitoring of this programme of work is vital if it is to be carried out on a timely basis, and the recommendation that a Board should be established would seem the best way of achieving this, together with the ability to take strategic and high-level policy decisions - which is now lacking.

Leaving things as they are at present will lead to a continuing poor service to exporters, loss of market share, and probably increasing losses.

**CHART 4 Total percentage change in programmes between 1978–79 and 1983–84 (in real terms)**




Notes:

The width of each bar on the vertical axis is proportional to expenditure on the programme concerned in 1983–84

Expenditure in Scotland, Wales and Northern Ireland has been allocated to functional programmes

(1) Largely assistance to the coal industry.

(2) Includes a wide variety of items: the Diplomatic Service is about 40 per cent and has not grown in real terms.

(3) Housing figures are calculated before any deduction for council house sales.

## INDEX OF GENERAL BRIEFS

①

# REVENUE EFFECTS OF ILLUSTRATIVE TAX CHANGES

£m at 1986-7 price and income levels

Full year cost/yield

| | |
|---|---|
| **Income tax Rates** | |
| Change basic rate by 1p | 1260 |
| Change all higher rates by 1p | 110 |
| **Personal Allowances and Higher Rate Thresholds** | |
| Change single and wife's earned income allowance by £100: | 360 |
| Change married allowance by £100: | 320 |
| Change all main personal allowances by 1%: | 205 |
| Change all higher rate thresholds by 1%: | 30 |
| **Corporation Tax** | |
| Change rate by 1 percentage point | 250 |
| **Indirect taxes** | |
| Change tax (duty plus VAT) by 1p: | |
| Beer (pint) | 80 |
| Spirits (bottle) | 1 |
| Tobacco (20 kingsize cigarettes) | 35 |
| Petrol (gallon) | 55 |
| Change VED rate by £1 | 20 |
| Change VAT rate by 1 percentage point | 900 |
| **National Insurance Contributions** | |
| Change employers' main rate by 1 percentage point | 1500 |
| Change employees' main rate by 1 percentage point | 1500 |

Income Tax changes are from levels of allowances which assume indexation in 1986.

Main person allowances are married man's allowance single and wife's earned income allowance and the age allowances.

(a) Tax burden

Tax and NICs as a share of GDP rose sharply between 1978-79 and 1981-82 to 39 per cent, the highest level in last twenty years; since 1981-82 share broadly stable.

Tax and NICs paid by a married couple on average earnings about 29 per cent of earnings each year since 1981-82. This higher than in 1978-79 and double the share at the end of the 1950s.

| | Total taxation (incl. LA rates) and NICs as a percentage of GDP at market prices[1] | Percentage of earnings of married man on average earnings taken in tax and NICs |
|---|---|---|
| 1959-60 | N.A | 14.3 |
| 1973-74 | 33.1 | 25.6 |
| 1974-75 | 35.7 | 28.5 |
| 1978-79 | 33.9 | 27.8 |
| 1979-80 | 35.2 | 26.3 |
| 1981-82 | 39.1 | 29.3 |
| 1982-83 | 39.0 | 29.8 |
| 1983-84 | 38.9 | 29.6 |
| 1984-85 | 39.1 (FSBR est.) | 29.2 |
| 1985-86 | 39.0 (FSBR forecast) | 28.9 |

1 Figures include North Sea; excluding North Sea, burden has fallen slightly from 38.6 per cent in 1981-82 to a FSBR forecast of 37.7 in 1985-86.

## Income tax and NICs - representative cases

Income tax and NIC payments

£ per week with 1985-86 tax rates

| | Earnings | Income tax | NICs | Total | Percent of Earnings |
|---|---|---|---|---|---|
| Primary School teacher (single; contracted out) | 184 | 42.5 | 13.4 | 56<br>£55.9 | 30 |
| Registered nurse (single; contracted out) | 140 | 29.3 | 10.4 | £39.7 | 28 |
| Underground miner (married; contracted out) | 175 | 32.6 | 12.8 | £45.4 | 26 |
| Average male earnings (single; contracted in) | 194 | 45.5 | 17.5 | 63.0 | 32 |
| Average male earnings (married; contracted in) | £194 | 38.3 | 17.5 | £55.8 | 29 |

Figures relate to estimated average earnings in April 1985 except that for a nurse which includes the pay award payable in February 1986.

Income tax and NIC payments for a married man

£ per year with 1985-86 tax rates

| Earnings (£ per year) | Income tax | NICs | Total | Percent of earnings |
|---|---|---|---|---|
| 6,000 | 763.5 | 540 | 1303.5 | 22 |
| 8,000 | 1363.5 | 720 | 2083.5 | 26 |
| 10,000 | 1963.5 | 900 | 2863.5 | 29 |

[£10,000 is approximately average male earnings]

(c) Starting point for tax

Has increased relative to earnings since 1981-82, but still lower than in 1973-74 and 1977-78:

Tax threshold as a percentage of average male earnings

| | Single | Married (without children) |
|---|---|---|
| 1973-74 | 26.4 | 34.3 |
| 1974-75 | 22.7 | 31.4 |
| 1977-78 | 22.5 | 34.7 |
| 1978-79 | 20.4 | 31.8 |
| 1981-82 | 18.1 | 28.3 |
| 1982-83 | 19.1 | 29.9 |
| 1983-84 | 20.1 | 31.4 |
| 1984-85 | 20.8 | 32.8 |
| 1985-86 | 21.4 | 33.5 |

(d) International comparisons

(i) Overall burden

UK burden of tax and social security contributions slightly below average for EEC countries, but well above those in US and Japan, countries with excellent growth records in recent years.

| | Total tax and social security contributions as a percentage of GDP at market prices, 1983 |
|---|---|
| UK | 37.8 |
| Denmark | 46.1 |
| France | 44.1 |
| Germany | 37.2 |
| Italy (1982) | 38.3 |
| Netherlands | 47.0 |
| Japan (1982) | 27.2 |
| US (1982) | 30.5 |

Source: OECD Revenue Statistics.

(ii) Income tax and social security contributions

UK staring point for tax around middle of range for developed countries. UK starting rate of income tax is high, but combined onset rate of income tax and social security contributions about average after Budget cut in initial social security contribution rate.

Married couple (without children)

| | Starting tax rate (including social security contributions) | | Threshold (£s) at February 1985 exchange rates (converted using purchasing power parities [1]) | |
|---|---|---|---|---|
| Denmark | 41 | (47) | 3660 | (2950) |
| France | 7 | (19) | 4785 | (4365) |
| Germany | 22 | (36) | 3565 | (3065) |
| Italy | 18 | (25) | 2275 | (2325) |
| Netherlands | 16 | (35) | 4550 | (4110) |
| Japan | 15 | (24) | 4885 | (3590) |
| US (Federal only) | 11 | (18) | 5205 | (3090) |
| UK | 30 | (39) | 3455 | (3455) |
| (from 1.10.85) | 30 | (35) | 3455 | (3455) |

Source: Inland Revenue

[1] Purchasing power parities give a better picture of real values of thresholds because they are based on compar ing prices of the same basket of commodities in different countries.

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2

**THE SURVEY SYSTEM**

Points to make on criticisms of system eg "odium of economy without achieving savings." (FT 19/6/85):

(i) Tough Surveys and reviews **not** a waste of time. Planning total ex-coal strike has fallen as percentage of GDP; important decisions on defence, re-shaping of social security, savings eg on housing, regional policy, agriculture.

(ii) Stresses in recent Surveys caused **not** because Treasury worked to cut totals but because of **pressures for increases** some colleagues considered irresistible. Massive additional bids every year. If **all** colleagues would accept principle of consuming their own smoke there would be no problem.

(iii) Adverse **publicity on cuts** mainly because of **leaks**; must try harder to avoid press stories.

GEP1 Division

3

## EXAMPLES OF RECENT EXPENDITURE CUTS IN OTHER COUNTRIES

(a) In the United States the Senate's budget resolution for FY 1986, passed in May, included plans for a freeze in social security cost of living adjustments and a proposal that further savings be found from the Medicare programme. Among the proposals there is also a real freeze on defence budget authority and a 20 per cent decrease in urban development grants. Between FY 1986-88 proposals also save US$2.5 billion through reductions in expenditure on agricultural price support and credit programmes, and US$2.5 billion by eliminating direct loans to small businesses. In addition, there is to be a 40 per cent reduction in subsidies to Amtrak by FY 1988.

(b) In Japan unemployment benefits were cut from August 1984, and since October 1984 insured workers have been required to pay 10% of health costs. Health care insurance premiums are now levied on a substantially larger portion of taxable income.

(c) In Germany pensioners' contributions to health insurance, introduced in 1984, will rise by a further 1½% in 1985 with no offsetting increase in pensions. Pensioner contributions to social security benefits were increased again on 1 January 1985. Cuts in subsidies to industry of DM1 billion in 1986 to be included in the July Budget were announced at the beginning of June 1985.

(d) In the Netherlands the 1985 Budget proposed reductions in unemployment and disability benefits and a shift in health expenditure from the public to the private sector, with 600,000 people now being required to obtain private medical insurance.

(e) In Italy, in 1984, savings in pension expenditure were made by, among other things, cutting entitlement for those with other sources of income. Family allowances for higher income earners are being progressively withdrawn and the availability of old age and invalid pensions has been reduced. Prescription charges have been introduced for drugs unless they are for essential or for emergency treatment: the 1985 Budget proposed a further 30% increase.

(f) In Canada the 1985 Budget included proposals to index age security payments and family allowances only for the annual increase in the consumer price index greater than 3%. [Note: the real cut in family allowance is partly offset by an increase in child tax credit.] The Government has also announced that it intends to limit growth in transfer payments to provincial governments in order to effect savings of about C$2 billion by 1990-91.

(g) In Australia the Government introduced an "assets" test from March 1985 for retirement pensions (which are already subject to an income test). On 14 May the Government announced a A$1¼ million package of expenditure cuts (ahead of the usual Budget in August). Included in the savings package were tight restrictions on eligibility for disability pensions and family allowances. Patient contributions for pharmaceutical benefits were also raised by 25% (ie, from A$4 to A$5 per prescription for the general patient). Included in the austerity package was a real cut in defence spending and savings of over A$200 million in industry assistance and development - mainly from reductions in subsidy and grant levels.

(h) In Belgium both subsidies to industry and educational expenditure were cut in real terms in the 1985 Budget and the subsidy to the national airline was removed.

(4)

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CHEQUERS

**BRIEF ON PAY**

**Private sector pay**

This is currently becoming a serious problem. The rate of increase fell satisfactorily early in the decade, but has now flattened out. Settlements are edging up, and average earnings growth has been stuck at 7½ - 8 per cent since early 1983.

In the longer term, policies to free up the labour market should make wages more responsive to the general excess supply in the labour market. But will need a willingness by employers to be much more robust in controlling labour costs. The evidence of the last year is worrying on this score: manufacturing unit wage and salary costs were growing at 1 per cent a year at the end of 1983. The latest estimates give figures of over 6 per cent.

Even if pay became more flexible now, it would take some years for major reductions to be made in unemployment. And the longer pay remains stubbornly on its recent path (rising at 2 to 3 per cent a year in real terms before taking account of what income tax changes have done to increase take-home pay), the longer the pressure on public expenditure will continue from support for the unemployed and the various employment measures.

**Public service pay**

This is a key element in public expenditure: about 30 per cent of the total. Performance has been good since 1981, when comparability was swept away, leaving three-quarters of the public sector collectively bargained. Both settlements and earnings growth for this group have been

.../

significantly below the private sector's for the last four years. This has been achieved despite the special treatment given to the rest of the public services (Review Body groups; plus policemen and firemen who have index-linked pay). And the government has taken a robust attitude here too: witness willingness to modify Review Body awards.

But gap cannot widen indefinitely. There are clear signs (teachers, local authority manuals, civil service strike ballot this year) that further ratchetting down relative to the private sector (and relative to the Review Body and index-linked groups) cannot continue for much longer, without running the risk of costly industrial action, and some sort of catching up exercise. Even if that judgment were wrong, recruitment and retention difficulties will eventually require allowing public service pay to grow at close to the private sector rate, although a general jump to private sector levels should be avoidable.

This is not a recipe for "letting up" on public service pay. A robust line will be needed in all negotiations, because of cost and the need - in fairness to the taxpayer - to pay no more to public servants than is required to recruit, retain and motivate. But in the longer term, it is unavoidable that movements in the average pay per head in the public services will be broadly in line with the private sector: the labour market will force that on us. Satisfactory long term arrangements for pay negotiations, such as are to be explored for the non-industrial civil service, may ease the transition period, and, taking one year with another, minimise the public expenditure costs. But in the long run, reducing public expenditure by squeezing public service pay relative to the private sector is not a feasible option.

.../

**The Survey Period**

Colleagues will argue that public service pay growth will be a serious problem for them in the survey period, and that some allowance should be made in this year's survey, if the Reserve is not to be raided, and cash limits are not to be broken. In particular, they may argue that the running cost targets need to be set at much more generous levels than you have in mind.

You may be able to set these points aside, because the meeting is about the longer term. But if not, you might make the following counterpoints:

(a) best way to guarantee rising pay settlements is to signal that extra money is being provided to finance them.

(b) still scope for manpower savings, especially in local authorities. (Running cost targets for central government designed, in particular, to make these trade-offs more obvious.)

(c) if needed to stick to plans, service levels will have to be cut back to make room for pay.

**The Longer Term**

Points (b) and (c) also apply in the longer term. But you might add to that:

(d) We intend to press on with policies to free up the labour market. But union resistance and lack of management steel, suggest that average pay growth will not moderate for some time. This has serious implications for unemployment and public service pay and therefore, for the long run. Could more be done without going down the incomes policy cul-de-sac?

5

PUBLIC EXPENDITURE PRIORITIES CABINET: 23 JUNE

Background brief on Capital Expenditure

Factual

1. Pressures for increased capital and maintenance spending likely to remain strong for number of years [as emphasised in your presentation, para 13 and Green Paper, para 42].

2. Capital spending in PEWP baseline presently planned to stabilise at around £22 billion (cash) a year throughout survey period (broad definition, Table 1.13 of PEWP; details in Annex D of Survey report).

3. Substantial additional capital bids received in Survey. Details in Annex E of Survey report, summarised as follows:

Gross capital spending plus capital grants* £ million

| | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|
| IBAP | 460 | 470 | 480 |
| DTp | 130 | 150 | 210 |
| DOE Housing | 600 | 900 | 900 |
| DOE Other | 120 | 120 | 120 |
| DES | 50 | 60 | 80 |
| DHSS Health | 60 | 70 | 100 |
| Other | 140 | 160 | 200 |
| Total | 1560 | 1930 | 2070 |

*There will be some further bids for maintenance (classified as current)

4. [NOT FOR USE] GEP's assessment of Survey outcome allows

for net additions to capital expenditure of only £0.4 billion, £0.5 billion and £0.3 billion in each of the Survey years. Most of this is accounted for by IBAP intervention. Small additions are allowed for roads expenditure, but none for housing; there is assessed to be scope for cutting some capital programmes.

**Positive**

1. Long term perspective, should focus on relative roles of public and private sector. Policies aimed at moving activity, including provision of infrastructure in some areas, to private sectors, and private sector investment currently at record levels.

2. Must ensure that projects are properly assessed and properly justified. Too much capital spending in past wasted resources. All capital bids must be justified by rates of return, as Survey guidelines asked. Accept need to take account of wider economic and social benefits.

3. If colleagues have worthwhile projects must try to find room for them within programmes. Make sure that projects with inadequate returns are squeezed out; more importantly, emphasises need to continue search for savings in current expenditure, whether from increased efficiency on other reductions.

**Defensive**

1. Although aggregate capital spending declining in real terms, little evidence that a significant queue of worthwhile projects being squeezed out by pressure on totals. [Accept, if pressed, that may be examples in some areas, but these would be for discussion in Survey].

2. Work on public sector built infrastructure in NEDO interesting. No doubt Departments had mutually instructive dialogue with CBI and TUC. Clearly there has been much misunderstanding of just how much the Government does; for example CBI criticisms of DTp programme have been largely confined to relatively narrow areas of cost benefit techniques, and timing and procedures. Figures NEDO quoted for backlogs etc not been borne out [although accept that there are some black spots].

4. Recognise that needs of one year funding cycle, and annual expenditure and borrowing targets can cause problems for longer term planning of capital programmes. Problems not unique to public sector, but must maintain control of aggregate expenditure in short term if long term plans are to be credible. Markets' reaction would make achievement of our objectives more difficult. Subject to this, and Parliamentary constraints, accept that should explore scope for flexibility in planning and controls system, and have introduced innovations (especially end year flexibility scheme).

5. CBI recommending greater spending on infrastructure, especially roads [in report to be published on 24 June, and possibly advanced to colleagues]. Nothing new in these recommendations, which reflect industrial make-up of CBI working party. Most of the roads schemes concerned already in DTp's programme, and tripartite discussions (see 2. above) suggest very little difference between us and CBI.

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EFFICIENCY IMPROVEMENTS

Points to Make:

(i) Must assess how much public spending we can afford by looking at the **cash inputs** relative to other claims on resources.

(ii) But mistake to judge **results** and degree of **success/failure** of our spending policies by just looking at inputs. Have too often done so in the past. But what matters to consumers of public services is **outputs** - what we actually achieve with the resources we put in.

(iii) So answer to relentless demands for more and better public spending is **not** pumping in more and more inputs. Inputs will always have to be restrained. We must try to get more out of what we already put in - improved **efficiency, value for money** etc. Holding public spending **inputs constant** should mean **increasing outputs.**

(iv) Have already done a good deal - Rayner/Ibbs scrutinies, reviews etc. But must do more. Hence for example:

(a) **Running costs control;** will sharpen up our control over **total** administrative costs.

(b) **Purchasing;** welcome targets set by Levene and by director of the new CUP (Willacy). Scope for both immediate and continuing savings.

(c) **More efficient general management** of large public sector organisations eg NHS under Paige.

(d) **Improved budgetting and management practices** with more individual accountability - FMI etc.

Good private sector organisations already do all these things and work for **continuing efficiency improvements** each year - we must do same.

(v) Must also get away ourselves in **speeches and publications** from highlighting level of inputs as a measure of achievement. That is bound to make us vulnerable to critics. Must instead focus on outputs and value for money. Have already started, eg in PEWP, but must go further.

GEP1 Division

(7)

## NATIONALISED INDUSTRIES/PRIVATISATION

| | 1985-86 | 1986-87 | 1987-88 | £ million 1988-89 |
|---|---|---|---|---|
| EFLs Baseline | 1318 | 83* | 185** | 192** |
| Bids | +330*** | +897 | +550 | +734 |

* excluding BA
** excluding BGC, BAA, NBC
*** industries' latest estimated outturn

| | 1985-86 | 1986-87 | 1987-88 | 1988-89 |
|---|---|---|---|---|
| Special sales of assets baseline | 2,500 | 2,250 | 2,250 | 2,250 |

Factual/Points to Make:

1. Longer-term priorities for nationalised industry expenditure are closely bound up with the pace of the privatisation programme:

   (i) To the extent that profitable industries with negative EFLs are sold, public expenditure increases although future investment requirements will no longer affect public expenditure.

   (ii) PSBR may benefit from increased tax revenues from the privatised companies and dividend payments in cases where the Government retain a minority shareholding for the time being.

   (iii) To the extent that equity substitutes for gilts, future interest payments fall.

2. The overall future effect of these factors is very difficult to quantify. The privatisation programme planned for the next 3 years will certainly increase above figures but impossible to forecast by how much. Many decisions yet to be taken and future market conditions cannot be predicted. Present problems with BA show how easily things can go wrong.

3. In any event wrong in principle to finance continuing additional public expenditure by one-off asset sales. Controlling gross public expenditure is key element in overall strategy. The fact that accounting conventions allow asset sales to finance increased expenditure and offset it within the planning total cannot be allowed to distort medium-term objectives.

4. E(A) has commissioned a review of privatisation prospects and colleagues are meant to bring forward their proposals for the next Parliament by the Recess.

5. Future priorities for nationalised industries remain the same as now:

   (i) Industries will need to be pressed to improve productivity and reduce operating costs and increase efficiency and profitability.

   (ii) Prices need to be increased to economic levels where appropriate and subsidies reduced or eliminated.

Achieving these objectives not only will reduce the financial demands of those industries remaining in the public sector but will increase the scope for privatisation.

PE2 Division

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## THE PROSPECTIVE DECLINE IN NORTH SEA PRODUCTION AND REVENUE

Margins of error surrounding forecasts of North Sea production are enormous. But the current projections, consistent with the 1985 MTFS, for output and revenues are as follows.

| | 1984 | 1985 | 1986 | 1987 | 1988 | 1993 |
|---|---|---|---|---|---|---|
| North Sea Oil and NGL Production (million tonnes) | 125.9 | 120-135 | 110-130 | 95-125 | 85-120 | 40-90 |
| | 1984-85 | 1985-86 | 1986-87 | 1987-88 | 1988-89 | 1993-94 |
| Total North Sea Oil and Gas Revenues | | | | | | |
| - £bn, cash | 12 | 13½ | 11½ | 9½ | 8½ | 6 |
| - £bn, 1984-85 prices | 12 | 13 | 10½ | 8½ | 7 | 4½ |

2. Revenue forecasts assume some fall in real sterling oil prices. Real demand is taken to leave real dollar oil prices soft and sterling is assumed to rise further against the dollar.

3. Salient points of the projections are:

a) production will decline in future years - perhaps by 10 per cent or more by 1988-89 compared to current levels. By 1993-94 production could be down to half present rates;

b) revenue will decline along with production. By 1988-89, cash revenues could be running at only two-thirds of the present rate.

c) In real terms, the revenue decline would be greater:

- 1988-89 little more than half current level.
- 1993-94 only about a third current level.

4. In spite of large margins of error, it would be unwise to bank on a more favourable revenue outcome. A less favouable situation is just as likely.

5. Recent developments in the oil market suggest that the MTFS revenue projections may be too optimistic. The internal June forecast just completed projects lower revenues up to 1988-89.

Sensitivity

For unchanged exchange rate, 1 per cent rise in the dollar oil price raises North Sea revenues by £150 million in the first year and by £180 million in a full year.

For unchanged dollar oil price, 1 per cent rise in the sterling exchange rate against the dollar reduces revenues by £150 million in first year and by £180 million in full year.

At present prices and exchange rates [Brent Spot price $26.25/barrel; Exchange rate $1.2780 = £1]

| | Effect on Revenues (£ billion) | |
|---|---|---|
| Exchange Rate | First Year | Full Year |
| + 5 cents | -0.6 | -0.7 |
| - 5 cents | +0.6 | +0.7 |
| $ Oil Price | | |
| +$1 / barrel | +0.6 | +0.7 |
| -$1 / barrel | -0.6 | -0.7 |

MP1 Division

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cc DW.
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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London SW1

19 June 1985

Dear Andrew

**PUBLIC EXPENDITURE PRIORITIES**

Many thanks for your letter of 17 June about Sunday's Cabinet meeting.

I attach a draft speaking note (approved by the Chief Secretary) which the Prime Minister may wish to draw on at Cabinet tomorrow ( and perhaps also on Sunday) in letting members of the Cabinet know what framework she envisages for the discussion on public expenditure priorities.

Yours sincerely

Richard

**R J BROADBENT**
**Private Secretary**

CONFIDENTIAL

**SPEAKING NOTE ON PUBLIC EXPENDITURE PRIORITIES CABINET**

(1) We are meeting at Chequers on Sunday afternoon for a discussion of public expenditure priorities. I want to say something now about the discussion rather than have papers and briefs sent round which will leak.

(2) We have had an enormous problem on public expenditure - not just this year but every year, keeping its growth under control, keeping the lid on. A number of colleagues have said that it would be helpful to have a discussion, outside the usual Survey machinery, about our public expenditure priorities within a given total, and over a reasonable time horizon. I agree with this. But the last thing we want (3) is a pre-run of the Chief Secretary's bilaterals, hearing that this or that individual item of spending is vital or not, as the case may be.

(4) So I hope that each member of the Cabinet will approach the discussion from the standpoint of the government as a whole, and not as departmental advocates. We should be thinking about how we want to adjust the balance between programmes over the time-scale of last year's Green Paper, The Next Ten Years, standing back from individual issues which arise in this year's expenditure round. We might even think of setting ourselves the ground-rule for the discussion that anyone who proposes an increase in a particular area should also propose a specific offsetting decrease somewhere else.

(5) So I hope that you will not allow your departments to do a lot of unnecessary briefing. It will be a meeting without papers (except the long-term Green Paper); and I hope it will help us clear our minds about our priorities within the public expenditure objectives we have set ourselves.

Econ Pol: Public Expenditure Pt32

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bc D. Willetts

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# 10 DOWNING STREET

*From the Private Secretary*

17 June 1985

**PUBLIC EXPENDITURE PRIORITIES**

The Prime Minister has seen the Chief Secretary's minute of 14 June. She has noted the suggestion that a letter be circulated setting out more fully the guidelines for the discussion at Chequers on Sunday. The Prime Minister prefers, however, to do this in her opening remarks to the meeting. I would be grateful if a speaking note could be prepared making the following points:

(i) Ministers should approach the discussion as members of the Government not as departmental advocates.

(ii) The discussion should range over the prospects into the 1990s rather than centring on the survey period.

(iii) The discussion should not be about details of particular programmes.

Could this reach me by lunchtime on Friday.

(Andrew Turnbull)

Richard Broadbent, Esq.,
H.M. Treasury.

**CONFIDENTIAL**

PRIME MINISTER

## MEETING WITH THE CHANCELLOR AND CHIEF SECRETARY

### I. Chief Secretary

The Chief Secretary is coming at 1200 to talk about the Chequers meeting and his presentation. There are three procedural points you could agree:-

i) An introduction by yourself to set the discussion off on the right track. I have asked the Treasury to prepare a speaking note making three points.

- that Ministers should speak as members of a Government not as departmental advocates.
- that the discussion should focus on longer term priorities rather than the survey period.
- that the discussion should not go into detailed issues of individual programmes.

ii) The content of the Chief Secretary's presentation - Flag A. He can go through what he has in mind.

iii) How the discussion is recorded. While we will want to prepare a note for the record for ourselves, I suggest that only a summary of action points is circulated.

### II Chancellor and Chief Secretary

The Chancellor will join the meeting at 1215 and will want to brief you on the prospects for the public expenditure round. The picture is even grimer than usual at this stage with very large excesses over the planning total. You will need to consider what objectives should be proposed for the Cabinet on 4 July. To secure the best possible outcome, tough but realistic targets should be set. A complicated factor is the sale of BGC which will raise several £b. Colleagues may argue that this, rather than cuts in public expenditure, should be used to finance tax cuts. In reality asset sales are more akin to financing the deficit and should not be the basis of permanent reductions in the level of taxation.

If there is time you might like to discuss the implementation of the Keith Report in the Inland Revenue field. Attached is a note - Flag B - setting out the proposals. As with VAT, the intention is to strike a balance between toughening up on abuses and improving safeguards for the taxpayer; the danger is that a more intrusive administration of tax could result. When you discussed the Keith Report's proposals for VAT you asked for a note on the degree to which there is asymmetry between late payments of tax and delays in making refunds. This is attached at Flag C.

AG

17 June 1985

PRIME MINISTER

cc: Mr. Willetts

## PUBLIC EXPENDITURE PRIORITIES

The Chief Secretary is coming to see you on Tuesday to discuss the handling of the Cabinet meeting at Chequers. The Treasury wish you to issue in advance some guidelines about the nature of the discussion and have provided a draft letter.

You need to make three things clear:

(i) Ministers should approach the discussion as members of a Government not as Departmental advocates.

(ii) The discussion is not simply about tne next three years but about longer-term prospects.

(iii) The discussion is not about details of particular programmes.

In my view, the Treasury draft goes too far in limiting the scope of the discussion. The second sentence of paragraph 3 tells Ministers they can discuss priorities five years hence, but nothing relevant to the survey. I do not believe that it is possible, in practice, to constrain discussion in this way. Ministers will want to raise the choices that must be faced in the rest of this Parliament and if the balance between programmes is to be changed a start has to be made in this survey.

/The Treasury

rather

The Treasury fear Ministers will gang up to press for higher spending limits or will succeed in getting certain options closed off before the survey round has even started and have therefore sought to confine the discussion to safe areas. But by limiting the discussion, the Treasury lose the opportunity of setting spending Ministers against one another and of getting questions raised about certain programmes.

I have marked on the draft amendments which make the three points suggested above, but without giving the impression that Ministers are being gagged. An alternative, however, would be to turn the letter into a speaking note for you to use when opening the meeting.

- Do you want a letter to be sent?

- If so, what form should it take?

No - it will only leak.

I can warn them orally on Thursday.

M

ANDREW TURNBULL

14 June 1985

010/1283



CE DW

(A)

FROM: CHIEF SECRETARY
DATE: 14 June 1985

PRIME MINISTER

**CABINET ON SUNDAY, 23 JUNE:**

**PUBLIC EXPENDITURE PRIORITIES**

Before our discussion on Tuesday of the handling of Sunday's Cabinet meeting I thought it would be helpful to give you an indication of the kind of presentation I would like to give as an introduction to the discussion.

2 The presentation would last about 10 - 15 minutes and would be illustrated by four or five slides (charts and graphs). It would begin with the policy objectives which public expenditure control is designed to serve, and an assessment of the government's record so far in control of total spending. There might then be an analysis of changes in priorities between individual programmes since 1979, and a forward look at further changes into the next decade. The presentation would end with an attempt to point to the nature of the task ahead in holding public spending constant in real terms, as in last year's Green Paper, The Next Ten years.

3 My aim would be to set the discussion off on the right track, and to point up the dilemmas we will face in the years ahead - but not, of course, in such a way as to make our task in this year's Survey even more difficult than it will be. I do not think it would be helpful to attempt overtly at the outset to direct the course of the discussion. But since there will be no agenda or new papers for the meeting you may think it would be helpful to prepare colleagues in advance

by a letter from your private office outlining what is in mind. A draft letter is attached. If it would help I will, of course, let you have an advance copy of the text of my presentation before our discussion on Tuesday.

for PETER REES

[Approved by the Chief Secretary]

DRAFT LETTER FROM MR TURNBULL

TO: MISS JANET LEWIS-JONES
PRIVATE SECRETARY TO LORD WHITELAW

Although there will be no formal agenda the Prime Minister thinks that it may assist Sunday evening's discussion of public expenditure priorities if her colleagues are given notice of the scope of the discussion as she sees it.

The Prime Minister has asked the Chief Secretary to open the discussion with a presentation on public expenditure background and priorities. This will indicate the policy objectives which public expenditure control is intended to serve, and assess the government's record so far in control of total spending; analyse changes in priorities between individual programmes since 1979 and into the next decade; and point to the nature of the task ahead in holding public spending constant in real terms, as envisaged in last year's Green Paper, The Next Ten Years.

The Prime Minister has asked me to say that she hopes that colleagues will approach the discussion from the standpoint of the government as a whole, rather than with the objectives of their individual Departments in mind. She hopes, ~~too that~~



the discussion will centre on priorities and on the broad political choices between areas of expenditure which the Government must make given the constraints which it will inevitably face. She hopes therefore omit?

the discussion will centre upon public expenditure priorities and prospects into the next Parliament and beyond, and not on individual issues which arise in this year's Public Expenditure Survey.] She has, accordingly, as my letter of 6 June recorded requested that no agenda or papers (other than the Green Paper) be before the meeting, so that the discussion may be unconstrained by particular issues of the present Survey and may range widely over the prospects into the 1990s.

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

ANDREW TURNBULL

E.R.

13 June 1985

PRIME MINISTER

I would like to raise the following with you tomorrow:

Public Expenditure

The prospects for Economic Policy for the next 3 years

Follow-up work on local government finance.

John Redwood

JOHN REDWOOD

13 June 1985

PRIME MINISTER

PUBLIC EXPENDITURE

In previous rounds, the pattern has been a series of agonising bilaterals between the Treasury and spending departments. Leak and counter-leak has ensured the maximum damage to the Government's case, and has underwritten the Government's reputation for cutting everything in sight. There is a tendency for Ministers to bring forward the politically most sensitive areas to cut, and for the Treasury in desperation to agree to some of them.

More damage follows from announcing, over a three month period, all the bad news: prescription charges, dental charges, local authority grants, other grant reductions, water rates, etc. Then come the supplementary estimates; the pay assumption; interest rates; rate increases in Scotland; or nationalised industry losses which have been underestimated. So the totals are not delivered, the cuts are not made, real expenditure goes up, and yet the Government has a reputation for endless cutting.

This agony might be worthwhile if it achieved a reshaping of the pattern of government expenditure: but policy objectives are largely realised by spending more in the target areas, seldom less in the undesirable ones.

Is there a better way?

There may not be a better way, given the way in which Ministers get most of their briefing from strongly placed departments keen to voice a departmental line without reference to the wider political interest.

More block budgets may or may not be a good idea, but the method by which they are set is not adequately spelt out'. Is this a recipe for freezing the pattern of expenditure according to current priorities.

However, you could try a new approach. Why not have just one meeting at Cabinet level to settle the totals as at present, and to divide them into aggregate blocks of expenditure allocated department by department? Then tell each Minister to deliver his total as best he can.

Ministers will still try and bring forward some bleeding stumps: these must be ignored. If necessary, the first Minister to take this line should be allowed to carry his threatened cut through. Others should then think twice.

Good FMI systems should eliminate most budgetary surprises during the year. Why then so many supplementary bids? The new approach fixes the total for a department. Individual Ministers should decide how they spend it: any supplementary bids are therefore unnecessary. If there is a genuine problem, then a Cabinet star chamber should review the whole of a department's programme and the budgeting record for the year, before offering any new money.

The Treasury may object to this, seeing it as a relaxation of the grip of their expenditure division over particular public spending. But given that we have not delivered the totals in recent years, and given the political damage we have incurred, is it not time to try something else - at least for this year? We cannot afford another damaging public expenditure round where both the politics are bad <u>and</u> the totals are not delivered. It is sometimes a good idea for the Treasury to change the rules.

I agree. Ministers are increasingly fighting their case at higher levels, leaving Star Chamber with too much to do.

<u>JOHN REDWOOD</u>

CONFIDENTIAL

file

LPO

# 10 DOWNING STREET

*From the Private Secretary*

6 June 1985

Dear Janet,

## PUBLIC EXPENDITURE

The Prime Minister proposes to hold a meeting at Chequers for Cabinet Ministers to discuss public expenditure. This has been arranged for 1630 hours on Sunday, 23 June.

The purpose of the meeting is to allow a discussion, before the Public Expenditure Round starts, of the main issues facing the Government on public expenditure and on priorities between programmes. No new papers are being commissioned for the meeting though Ministers may want to look again at the Green Paper on Public Expenditure published in March 1984.

The Chief Secretary will open the meeting by making a presentation on the main issues and an open discussion will follow until around 2000 hours when supper will be served. The discussion may continue briefly after supper and the meeting is expected to finish around 2130 hours.

I am copying this letter to the Private Secretaries to members of Cabinet and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

Miss Janet Lewis-Jones,
Lord President's Office.

CONFIDENTIAL

PRIME MINISTER

CHEQUERS PUBLIC EXPENDITURE DISCUSSION

Ministers will find it helpful to know how you propose to conduct the 23 June meeting. I suggest a minute be circulated saying:

(i) Ministers to convene around 1630.

(ii) No new papers but Ministers should look again at the Green Paper on Public Expenditure published in 1984 (Treasury advise against circulating an annotated agenda which would be difficult to draft covering both the issues they want raised and those which colleagues want raised).

(iii) The Chief Secretary to give the presentation on public expenditure trends and the issues facing Ministers.

(iv) Open discussion thereafter until supper at around 2000.

(v) Discussion to continue over supper and briefly after it.

(vi) The meeting to wind up at around 2130.

Content?

AT

Yes

ANDREW TURNBULL

5 June 1985

018/104

SECRET

2
C

Prime Minister

A gloomy preview

AT 23/5

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

MO

21 May 1985

Dear Andrew

**PUBLIC EXPENDITURE: 1985 SURVEY PROSPECTS**

The Chief Secretary thinks that the Prime Minister would find it useful to have a brief and preliminary appraisal of the prospects for this year's Public Expenditure Survey, as background for Wednesday's discussion of social security upratings.

Most departments have now sent to the Treasury the bulk of the material requested in the PES Guidelines, and Treasury officials have carried out a quick first appraisal of the position. Departments' bids for additional money rise from £4½ billion in 1986-87 to nearly £7 billion in 1988-89. The DHSS, when it has finally settled its social security bid, will certainly be the largest single contributor to these totals, with bids reflecting revised forecasting assumptions (not policy changes) of more than £1 billion in 1986- 87.

In addition to this, there is strong pressure (which the Chief Secretary is resisting) in current Ministerial discussions to relax the target and holdback regime applied to local authority current expenditure. This could lead to an additional requirement of upwards of £½ billion a year. For 1986-87 about the same may need to be added for nationalised industries. On the assumption that Ministers take tough decisions to reject or offset discretionary additional bids wherever possible (and do not imagine the problem can be solved by asset sales) total cuts in programmes of perhaps £3 billion a year will need to be found if the Cabinet is to stick to the totals announced by the Chancellor on Budget day, and to retain credible Reserves for contingencies.

The Chief Secretary believes that it will require very difficult decisions indeed to get back to these expenditure totals. The present analysis suggests, for example, that there will be no scope for additions to capital spending programmes - indeed, some further cuts in capital spending seem inevitable. Without a large contribution from social security, in order to limit the unavoidable increases in this programme flowing from higher inflation in May 1985, there seems little or no prospect of achieving total cuts of the order of magnitude required. The alternatives to such savings on social security current spending would have to be similarly difficult cuts in such areas as housing capital, the roads programme, defence equipment, prison capital and so on.

The Chief Secretary has asked me to emphasise the preliminary and provisional nature of this analysis. He recognises that its conclusions rest on a number of assumptions on which Ministers have yet to take decisions. But enough is already known, in his view, to indicate that the government faces a rough ride if spending is to be held to plan; and that every opportunity for savings must be assiduously pursued.

Yours ever

Richard Broadbent

R J BROADBENT
Private Secretary

| | | 1986-87 | | 1987-88 | | 1988-89 | |
|---|---|---|---|---|---|---|---|
| | | Baseline | DEPT bids | Baseline | DEPT bids | Baseline | DEPT bids |
| EX | | 999,999 | 999999 | 999,999 | 999999 | 999,999 | 999999 |
| | Survey baseline and proposed changes | | | | | | |
| + | MOD | 18,557 | 394 | 18,861 | 564 | 19,039 | 875 |
| + | FCO-ODA | 1,296 | 65 | 1,317 | 83 | 1,349 | 98 |
| + | FCO-OTHER | 603 | 49 | 619 | 50 | 635 | 71 |
| + | EC | 640 | 55 | 829 | 171 | 850 | 100 |
| + | IBAP/AFF CAP | 1,277 | 491 | 1,304 | 501 | 1,337 | 505 |
| + | AFF domestic | 713 | 36 | 699 | 47 | 717 | 32 |
| + | FORESTRY | 53 | 2 | 54 | 2 | 56 | 3 |
| + | TRADE/INDUSTRY | 1,162 | 61 | 980 | 65 | 1,007 | 92 |
| + | ECGD | 78 | 163 | -43 | 138 | -44 | 46 |
| + | ENERGY | 296 | 0 | 295 | 0 | 300 | 0 |
| + | EMPLOYMENT | 3,704 | 73 | 3,901 | 74 | 3,999 | 167 |
| + | TRANSPORT | 1,955 | 135 | 1,996 | 159 | 2,046 | 223 |
| + | DOE-HOUSING | 2,424 | 828 | 2,526 | 1113 | 2,589 | 900 |
| + | DOE-PSA | -120 | 14 | -128 | 24 | -131 | 34 |
| + | DOE-OTHER | 847 | 135 | 860 | 130 | 881 | 128 |
| + | HOME OFFICE | 1,061 | 79 | 1,104 | 84 | 1,130 | 108 |
| + | LCD | 574 | 60 | 610 | 81 | 625 | 118 |
| + | DES | 3,418 | 74 | 3,505 | 85 | 3,593 | 90 |
| + | OAL | 332 | 22 | 342 | 27 | 353 | 38 |
| + | HEALTH & PSS | 14,947 | 319 | 15,624 | 359 | 16,015 | 762 |
| + | SOCIAL SEC. | 41,547 | 1209 | 43,553 | 1385 | 44,642 | 1949 |
| + | CIVIL SUPER. | 1,115 | 72 | 1,226 | 75 | 1,258 | 135 |
| + | SCOTLAND | 4,300 | 0 | 4,373 | 0 | 4,482 | 0 |
| + | WALES | 1,708 | 0 | 1,735 | 0 | 1,779 | 0 |
| + | N. IRELAND | 4,464 | 29 | 4,603 | 56 | 4,717 | 90 |
| + | CHANCELLOR'S DEPT | 1,825 | 153 | 1,842 | 212 | 1,888 | 132 |
| + | OTHER DEPTS | 365 | 62 | 396 | 67 | 406 | 69 |
| = | TOTALS (1) | 139,060 | 4580 | 143,890 | 5552 | 147,080 | 6765 |

(1) Baseline totals include LA relevant current, NIEFLs, Reserves and special sales of assets

17/5/85

21 MAY [illegible]5

JCK

PRIME MINISTER

**SEMINAR AT CHEQUERS FOR CABINET COLLEAGUES TO DISCUSS PUBLIC EXPENDITURE**

I was asked to ascertain the availability of colleagues for a Seminar at Chequers on either Sunday 16 June or Sunday 23 June.

To refresh your memory as to your own personal commitments for these two weekends, they are as follows:

Saturday 15 June
Trooping the Colour

Sunday 16 June
No commitments

Saturday 22 June
Welsh Conference
Supper with Lord President at Dorneywood

Sunday 23 June
Buffet lunch.

I set out below colleagues who are not able to be present on the two respective Sundays.

| Sunday 16 June | Sunday 23 June |
|---|---|
| Lord President | Lord Chancellor |
| Secretary of State for Environment | Foreign Secretary |
| Minister of Agriculture | S/S for Scotland |
| S/S for Northern Ireland | Chief Secretary |
| Lord Gowrie | |

Which of these Sundays would you prefer? If you go for Sunday 23 June we would obviously have to cancel the buffet lunch as Vera could not do both.

Shall I confirm for Sunday 16 or Sunday 23 June?

21 May 1985

LIST TO BE USED WHEN DOING THE TUESDAY RING ROUND
CONFIRMING MINISTERS' ATTENDANCE AT THE NEXT CABINET MEETING

MESSAGE: SEMINAR FOR ALL MEMBERS OF THE CABINET ON PUBLIC EXPENDITURE

VENUE CHEQUERS

| NAME | Federal or CBX no | SUNDAY 16 JUNE 4.30pm - Evening | SUNDAY 23 JUNE 4.30pm - Evening |
|---|---|---|---|
| Viscount Whitelaw (Lord President of the Council) | 2839 | ✗ Guests staying for the W/E very difficult | ✓ |
| Lord Hailsham of St Marylebone (Lord Chancellor) | 2618 | ✓ Luck will Sir George Boll | ✓ Hoping to go away to Sussex |
| Sir Geoffrey Howe (Secretary of State for Foreign and Commonwealth Affairs) | 2422 | ✓ Prefer | ✗ DIFFICULT CONSTITUENCY engagements |
| Mr Leon Brittan (Secretary of State for the Home Department) | 2012 (or 2524) | ✓ Yorkshire | ✓ Yorkshire |
| Mr Nigel Lawson (Chancellor of the Exchequer) | 1869 | ✓ | ✓ |
| Sir Keith Joseph (Secretary of State for Education and Science) ✗ will contact Private office if any changes | 2095 | ✓ | ✓ |
| Mr Peter Walker (Secretary of State for Energy) ✗ will contact P.O if any changes | 2788 | ✓ | ✓ |
| Mr Michael Heseltine (Secretary of State for Defence) will contact Private office if any changes | 2188 (or 2876) | ✓ | ✓ |
| Mr George Younger (Secretary of State for Scotland) | 2314 | ✓ | ✗ AT ST ANDREWS MAKING SPEECH DIFFICULT TO POSTPONE |
| Mr Nicholas Edwards (Secretary of State for Wales) | 2223 | ✓ | ✓ |
| Mr Patrick Jenkin (Secretary of State for the Environment) | 2488 (or 2028) | ✗ Relative from abroad staying Difficult | ✓ |

| NAME | Federal or CBX no | SUNDAY 16 JUNE 4.30pm - Evening | SUNDAY 23 JUNE 4.30pm - Evening |
|---|---|---|---|
| Mr John Biffen (Lord Privy Seal) | 2620 | ✓ | ✓ |
| Mr Norman Fowler (Secretary of State for Social Services) | 1687 | ✓ | ✓ |
| Mr Norman Tebbit (Secretary of State for Trade and Industry) | 2765<br>2873 | ✓ | ✓ would prefer |
| Mr Tom King (Secretary of State for Employment) | 2590 | ✓ | ✓ |
| Mr Michael Jopling (Minister of Agriculture, Fisheries and Food) will contact Private office if any changes. | 2386 | In Portugal<br>x | ✓ |
| Mr Peter Rees (Chief Secretary, Treasury) contact P.O if any changes. | 2187 | ✓ | x 'Guests staying' for wife |
| Mr Nicholas Ridley (Secretary of State for Transport) | 1693 | ✓ | ✓ |
| Mr Douglas Hurd (Secretary of State for Northern Ireland) BRIAN PORTER | 2037<br>CR 273 4321 | IN NORTHERN IRELAND<br>x. Important Dinner with LORD MAYOR OF LONDONDERRY | ✓ |
| Earl of Gowrie (Chancellor of the Duchy of Lancaster) | 3030<br>233 8610 | SCOTLAND - HOSTING ARTS<br>x RECEPTION AND ATTENDING BALLET. EMBARASSING TO PUT OFF. | ✓ |
| Lord Young of Graffham (Minister without Portfolio) will contact P.O if any changes. | 2305<br>~~233 7471~~<br>~~233 7182~~ | ✓ | ✓ |
| *Mr John Wakeham (Chief Whip) | ~~2807~~<br>2812<br>(or 2410) | ✓ | ✓ |
| *Mr John Gummer (Paymaster General) | ~~233 3540~~<br>2281 | ✓ | ✓ |

Absentees | CDL NI AFF PJ LP LC | LC FS Scot CST

* NOT IN CABINET BUT TO BE NOTIFIED OF CABINET MEETINGS

September 1984

003/104

CONFIDENTIAL

Told Richard Broadbent PM was content AT 22/5 cc NO

Prime Minister (1)

Content?

AT 20/5

Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

Dear Andrew

20 May 1985

**RUNNING COSTS TARGETS**

Now that the new arrangements in the Public Expenditure Survey for dealing with Departments' running costs have been agreed the Chief Secretary has been considering how and when best the new targets regime should be made public.

Ideally, in his view, nothing would be said until the new targets are agreed by the Cabinet, so that the Government is in a position to make a full announcement, with the numbers to which Departments will be committed. That points to an announcement at the time of the Autumn Statement with details in the Public Expenditure White Paper. But we have recently learned that the Civil Service unions know what has been agreed; and there has also been an enquiry from the press which suggests that they, too, know what is in prospect. In the event of publicity in the press and in various union journals there would be little option but to make an early announcement - at a time which might well look defensive and probably would not be of the Government's choosing.

The Chief Secretary believes that, in these circumstances, the best course is to make an early, low-key, announcement - with no reference to the proposed overall target increases ½ per cent below forecast in inflation; - followed by a fuller and more positive announcement in the autumn when there is more to say. If the Prime Minister agrees, the Chief Secretary will make an announcement by written Answer next week, on the lines of the attached draft.

Yours ever

Richard

R J BROADBENT
Private Secretary

CONFIDENTIAL

1516/3

DRAFT

CONFIDENTIAL

**PQ AND ANSWER**

Q. To ask the Chancellor of the Exchequer whether he is satisfied with the control of expenditure on the running costs of Government Departments, and whether he will make a statement.

A. Successive scrutinies of the running costs of Government Departments have shown that in aggregate these costs have been rising more quickly than costs in the economy generally. The Government intends to improve the arrangements for controlling running costs. Targets will therefore be set in the forthcoming Public Expenditure Survey, to cover the running costs, including manpower costs, of each Department. These targets will be published in the 1986 Public Expenditure White Paper.

Agreed MS

SUBJECT.
cc Master.

SECRET

fle RC

DC John Redwood

10 DOWNING STREET

*From the Private Secretary*

16 May 1985

Dear Rachel.

PUBLIC EXPENDITURE PRIORITIES

The Prime Minister and the Chancellor discussed today the proposal for a meeting of Cabinet members to discuss public expenditure priorities. The Chancellor said he remained sceptical that such a meeting would, in practice, make it easier to reach difficult decisions on public expenditure. Such a meeting could be used by departmental Ministers to advance the demands of their programmes. However, a number of colleagues had pressed for such a meeting and there might be advantage in holding one provided it was carefully structured. He suggested that:

(i) it should be held in an informal atmosphere at Chequers.

(ii) It should be held outside the normal run of public expenditure business.

(iii) It should concentrate on the balance of public expenditure in the medium term, ie up to the election and beyond, rather than on the immediate negotiations which would take place in the public expenditure round.

(iv) There should be no papers other than an annotated agenda from the Treasury and circulation of the 1984 Green Paper.

The Prime Minister agreed that such a meeting should be held this year. She suggested a Sunday evening at Chequers, with Ministers being invited to assemble around 1630. Two possibilities, 16 and 23 June, should be investigated.

I am copying this letter to Richard Hatfield (Cabinet Office).

Yours sincerely
Andrew

ANDREW TURNBULL

Mrs Rachel Lomax
HM Treasury

CST

SECRET

CONFIDENTIAL

cc NO

SECRETARY OF STATE FOR THE ENVIRONMENT

NBPM

AF 14/5

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

13 May 1985

Dear Chief Secretary

COST EFFECTIVENESS OF PUBLIC EXPENDITURE MEASURES RELATED TO EMPLOYMENT

I have seen your letter of 18 April, David Young's letter of 24 April and the letter to your Private Secretary from the Prime Minister's Office dated 26 April.

I entirely appreciate the reasons for the proposal that job-creating effects of different programmes should be measured as far as possible on a consistent basis; and I have asked my officials to prepare a paper for the Manpower Group which will update the work on DOE expenditure programmes relevant to employment on which an interdepartmental group reported last August.

I must emphasise at the outset however that job creation is not the whole purpose of any of my programmes. They are directed primarily to other economic and social objectives. Some of them incidentally have very useful and important effects in creating jobs. But it would be wrong to seek to settle spending priorities between any of my programmes on the basis solely of the relative cost per job created, and still less to seek to evaluate them against other Departments' programmes on that basis alone. In the DOE area it is only one criterion of evaluation of spending programmes amongst several others.

I do not know how far the Manpower Group could or should take account of these wider considerations. But we shall certainly need to have them in mind when we come to look at their findings.

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

Yours sincerely

AH Davis

for PATRICK JENKIN
Approved by the Secretary of State and signed in his absence

The Rt Hon Peter Rees QC MP

Econ. Pol. : Public Expenditure Pt 32

01 211 6402

CONFIDENTIAL

The Rt Hon Tom King MP
Secretary of State for Employment
Caxton House
Tothill Street
London
SW1H 9NF

10 May 1985

COST EFFECTIVENESS OF PUBLIC EXPENDITURE MEASURES RELATED TO EMPLOYMENT

I have seen Peter Rees's and David Young's letters of 18 and 24 April respectively and also the letter of 26 April from the Prime Minister's Private Secretary.

I agree that the interdepartmental Manpower Group should consider the cost per job created of Departmental projects and industrial support programmes where the effect on jobs is advanced as a significant argument in their favour.

I do,however, think it important that:

a. decisions on projects and programmes whose specific objectives are other than employment creation (or the reduction of unemployment) should be based on their specific objectives;

b. the difficulty of comparing schemes not specifically designed to help employment and the cost of obtaining the necessary information, is fully recognised.

My officials, who are not represented on the Manpower Group will, of course, need to be consulted in advance and fully involved if any of my Department's programmes are proposed for evaluation.

Copies of this letter go to the Prime Minister, Leon Brittan, Keith Joseph, Michael Heseltine, George Younger, Nicholas Edwards, Patrick Jenkin, Norman Fowler, Normam Tebbit, Michael Jopling, Peter Rees, Nicholas Ridley, Douglas Hurd and David Young.

PETER WALKER

Econ Pol : Public Exp Pt 32

10 MAY 1985

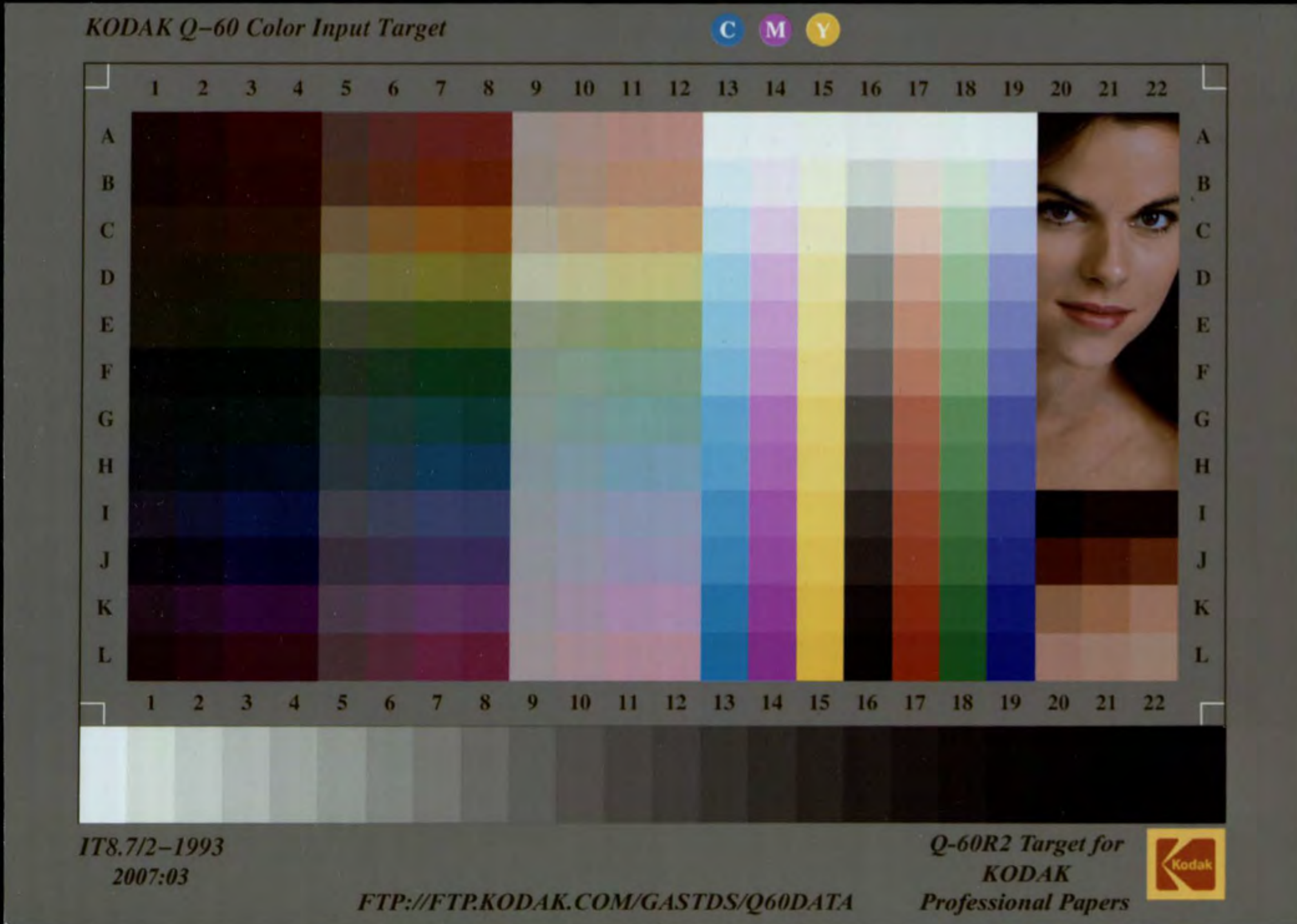
PART 31 ends:-

HMT to CSO 30.4.85

PART 32 begins:-

S/S Energy to S/S Emp.

10.5.85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